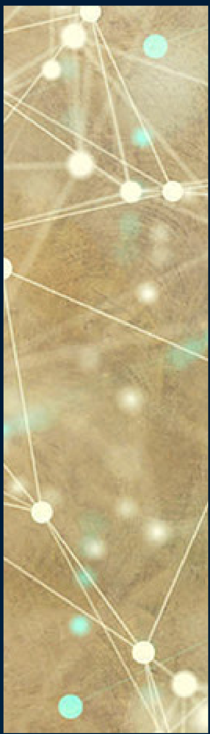
2024

INTERIM REPORT

ASX : STG

STRAKER



About Straker

Straker provides next generation language services supported by a state of the art technology stack and robust AI layers to clients around the world. By combining the latest available technologies with linguistic expertise, Straker's solutions are scalable, cost-effective and accurate. Through technical innovation and data analytics, Straker is a proven partner in future-proofing global communications.

Straker is a world leading AI data driven language translation platform powering the global growth of businesses

Contents

Highlights

$3.6m
Operating Cash

$1.7m
Adj EBITDA
up from $0.6m in PCP

60.8%
Gross Margins an increase of 530bp

$14.3m
Cash Balance up from $12.4m

$2.4m
Reduction in OPEX

108%
Adj Cash Conversion

Straker at a glance

- Leading AI driven language services provider globally; **more than 9,000 customers** across the globe
- **Best in class platform** providing automation, productivity and human in the loop process with more than 20,000 domain and language experts in our crowd
- Increasing use of **AI driving productivity gains** and industry leading high margins
- Successfully **acquired 9 companies** since 2016
- Adapting our platform to **take advantage of LLMs and new opportunities for AI** and human in the loop processes
- 200 staff in **offices across 10 countries**
- Revenue split across Europe, USA and Asia Pacific
- **95%** of revenue is **repeating revenue**

Chairman and Chief Executive's Review

Heith Mackay-Cruise
Chairman

Grant Straker
Chief Executive Officer

Ours is a US$65bn industry and we remain confident in its long-term prospects.

Dear shareholders,

The Board of Straker is pleased to report to Shareholders on a solid financial result for the six months to September 30, 2023, characterised by improved margins, strong cash generation and the announcement of our inaugural share buyback. Whilst our Revenue is lower year on year, tempering our expectations for the Full Year, our sense is that the negative top-line momentum is moderating.

Financial Results

Revenue for the six months to 30 September 2023 was $25.5m, down 23% versus the pcp. This Half was up against a very tough comparative period given the robust 42% Revenue growth to $33m recorded in the pcp, thanks partly to extremely strong results from IBM in Q1 FY23. However, compared to the immediate preceding Half, 2H FY23, the Revenue decline was more moderate, at 3.2%.

Chairman and Chief Executive’s Review

Continued

Throughout the period we continued to see variable trends across geographies and business lines. Whilst lower year on year we have benefitted from a stabilisation in North America this Half versus 2HFY23 as Lingotek delivers ongoing Quarter on Quarter improvement. IBM revenues remain elevated vs 2H FY23, up a healthy 31%, but were weaker year on year. The IDEST business delivered solid mid-teens Revenue growth versus the pcp and 2H FY23.

A standout feature of this result was a dramatic lift in Gross Margin for the half year to 60.8%, up 530bp compared to the pcp as the decline in our Cost of Sales outpaced the fall in Revenue during the period. Higher margin revenue derived from IBM was a key contributor to the expansion of margins this Half. The Company continues to expect Gross Margin to remain materially elevated versus historical reported levels ~55%.

With costs remaining relatively stable versus 2H FY23 improved Gross Margins were a key driver of an excellent Adjusted EBITDA result for 1H FY24. Straker delivered Adjusted EBITDA of $1.7m for the period, more than triple the result reported in the pcp with a particularly strong 2Q FY24.

Despite the decline in Cash Receipts, Operating Cash Flow in 1H FY24 was $3.6m, up dramatically from the ($0.56m) recorded in the pcp. Free Cash Flow (FCF) generation was another key feature of this result with a $4m turnaround year on year as Straker delivered $2.1m in FCF for the Half. This outcome saw Straker’s already healthy balance sheet continue to improve with cash of $14.3m at period end versus $12.4m as at 30 September 2022.

Capital Management

As noted above Straker continued to accumulate cash in the Half, whilst the valuation assigned by the market to the Company’s shares declined. The combination of these factors, as well as our confidence in Straker’s commercial outlook, led the Board to approve the return of excess capital to shareholders by way of an inaugural buy back of ordinary shares.

The on-market buy back of up to a maximum of 3.5m shares, equates to approximately 5% of the Company’s Issued Capital. The Board considers that Straker’s current share price falls well short of reflecting the underlying value of the Company and this represents a sensible opportunity for Straker to deploy a material portion of its cash reserves to repurchase shares in a value accretive manner.

The size of the Buy Back was determined after due consideration of the trading liquidity of Straker’s shares and the Board’s priority to retain a strong and flexible balance sheet for future acquisitions and/or new business initiatives.

Research and Development

The opportunities created by the latest advances in AI mean Research and Development remains a strong focus of the Company, as it will enable future growth by providing value to customers that our competitors cannot match.

Our development philosophy is to evolve and leverage our existing technology base and knowledge around AI, to deliver new offerings to customers. We have exhibited at AI conferences around the world in Q2 and into Q3 and the feedback from these events has informed our roadmap.

Chairman and Chief Executive's Review

Continued

We seek to use our investment in R&D to lead the world in high productivity AI driven with human in-the-loop translations at scale. We have a proven model with IBM and we see many other organisations looking for this type of solution.

We hired a new Head of Product earlier this year so that we can focus on being a product-led business. Our team have been working on our LanguageCloud platform version 2, which is due for release in January 2024 which offers new and ground-breaking features integrating AI and productivity enhancements for customers.

Customers are inquiring about the ways in which AI can enhance productivity in the translation process and its potential applications in various facets of their business. For instance, if our platform can leverage AI to create content and ensure its quality through human validation in translation, could a similar approach be employed for other tasks within their business operations? We are set to unveil some compelling new applications in H2, highlighting the innovative work accomplished by our development team in this domain.

Summary and Outlook

The company remains optimistic in its long-term outlook and the commercial opportunity presented by generative AI. Straker is confident that our continued investment in R&D will continue to drive innovation and help us achieve our long-term revenue objectives.

Despite a challenging economic environment currently, Straker continues to demonstrate its resilience and ability to adapt to changing market conditions by continuing to deliver strong free cash flow and Adjusted EBITDA. However, our Revenue in FY24 YTD has not met our projections, a situation not unique to our industry as broad-based customer caution persists.

We note that there are signs evident in the Company's recent Quarterlies that Straker's Revenue is stabilising. Furthermore, the Company's sales pipeline remains solid but an increased lead time to closing new wins was observed during the Half as an element of caution amongst customers persists.

Accordingly, we now expect a single-digit percentage decline in Revenue on FY23. Pleasingly, Gross Margin in FY24 is now expected to improve over FY23 rather than remain flat and we continue to expect to deliver positive Operating Cash Flow and EBITDA for FY24.

We wish all our shareholders well for the upcoming festive season and a productive start for the new year.

Heith Mackay-Cruise
Chair

Grant Straker
Chief Executive Officer

Industry Insight

Nimdzi

Navigating the Current Landscape: Insights for Investors in the Language Services and Localization Industry

It is crucial for investors in the language services industry to understand the current market dynamics and the impact of Large Language Models (LLMs) and Artificial Intelligence (AI). Our recent industry research and interactions provide valuable insights into the challenges and opportunities that define the landscape.

LSP/Localization Market Dynamics:

The industry has been experiencing a slowdown in demand, with a cautious approach from buyers. Economic uncertainties and the evolving capabilities of AI contribute to this trend. While the overall market might see negative growth for the first time, specific sectors like healthcare and life sciences are thriving, contrasting with a downturn in media and entertainment due to strikes in Hollywood.

Despite the challenges, there is an optimistic notion that the demand for language services, which may have experienced a dip in the last few quarters, is now bouncing back. This rebound is driven by resilience within the industry, adaptability to emerging technologies, and the identification of new growth sectors.

Impact of LLMs and AI:

AI's impact on demand is still in its early stages. AI is viewed as a feature enhancement rather than a job replacement. Some technology companies are experimenting with GenAI, but tangible results are limited. Buyers feel pressured to adopt LLMs like ChatGPT for innovation signaling, though AI has not yet matched the depth of human nuanced understanding. The industry is grappling with the integration of AI into operations, impacting the traditional role of localization managers.

Nevertheless, the promise of and hype around LLMs is strong enough to gauge interest of top management and the pressure for implementation. Buyer-side localization managers face the challenge of pushing back on this pressure, while the AI revolution within the language industry has already happened, starting with the advent of neural machine translation more than six years ago.

Source: Nimdzi, a market research company, specialising in the language industry, was commissioned by Straker in November 2023 to present a paper discussing the latest industry landscape.

Industry Insight

Continued

Nimdzi

Relation to Overall Tech Downturn:

The slowdown is not solely AI-related but reflects broader economic trends. Labor struggles in the media and automation impacting data annotation services contribute to the challenges. Regulated industries and healthcare, however, see increased demand.

Both the US and European tech markets face challenges, with the intensity varying by segment and region. European-based LSPs have a presence in the US market, influencing the dynamics on both continents.

However, the current challenges are perceived as temporary, akin to a pause for breath instead of a stop. While structural changes are expected, the overall pattern of growth is anticipated to return, driven by industry adaptation and evolving client needs.

Changing Buyer Behaviors:

A noticeable increase in cost-consciousness is observed, with companies leveraging Request for Proposals (RFPs) to ensure competitive pricing and value. This trend may persist as firms explore market offerings and demand transparency.

An emerging trend is the entry of a few specialized enterprise clients offering (machine) translation as a service, viewing this strategic in-house capability as potential opportunity within their portfolio.

The introduction of new platforms like VisionPro and Ai Pin is generating fresh demand for localization services, creating additional avenues for growth and market expansion.

Looking Ahead:

While challenges persist, the language services and localization industry is still resilient. The current landscape presents opportunities for innovation, adaptation to AI integration, and the exploration of new markets through emerging platforms. With the rebound in demand observed in recent quarters, there is a positive outlook for the industry, signaling a renewed period of growth and prosperity for current and future investors willing to navigate and capitalize on the evolving landscape.

IFRS to Non-IFRS Reconciliation

To ensure that the presentation of results reflects the underlying performance of the business, the Straker Group publishes its key metrics on a non-IFRS basis as well as on an IFRS basis. For transparency purposes, Straker also publishes a full reconciliation between IFRS and non-IFRS measures. IFRS refers to NZ IFRS.

Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA")

Six months ended 30 September	**2023** **$'000**	**2022** **$'000**	**Change** **%**
Operating loss before net finance income	(3,119)	(2,766)	13%
Add:			
Depreciation & amortisation	3,388	3,310	2%
EBITDA	**269**	**544**	**-51%**
EBITDA Margin	1.1%	1.6%	-36%
Add:			
Acquisition & restructure costs	(8)	15	-153%
Goodwill impairment	1,410	-	100%
Adjusted EBITDA	**1,671**	**559**	**199%**
Adjusted EBITDA margin	6.5%	1.7%	

Interim Financial Statements

Independent Auditor’s Review Report

BDO AUCKLAND

INDEPENDENT REVIEW REPORT

TO THE SHAREHOLDERS OF STRAKER LIMITED

Report on the Condensed Interim Consolidated Financial Statements

We have reviewed the accompanying condensed interim consolidated financial statements for the six month period (the “period”) of Straker Limited and its subsidiaries (collectively, the “Group”), which comprise the condensed consolidated statement of financial position as at 30 September 2023, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information.

Directors’ Responsibilities for the Condensed Interim Consolidated Financial Statements

The Directors of the Group are responsible for the preparation and fair presentation of the consolidated condensed interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* and for such internal control as they determine is necessary to enable the preparation and fair presentation of the consolidated condensed interim financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibilities

Our responsibility is to express a conclusion on the condensed interim consolidated financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the condensed interim consolidated financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting. As the auditor of Straker Limited, NZ SRE 2410 (Revised) requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of condensed interim consolidated financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on those financial statements.

Our firm carries out other assignments for the Group in the areas of taxation advice and taxation compliance services. The firm has no other relationship with, or interests in, the Company or any of its subsidiaries.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these condensed interim consolidated financial statements of Straker Limited do not present fairly, in all material respects the financial position of the Group as at 30 September 2023, and of its financial performance and its cash flows for the period ended on that date, in accordance with NZ IAS 34 *Interim Financial Reporting*.

The engagement partner on the review resulting in this independent auditor’s review report is Richard Croucher.

BDO Auckland

BDO Auckland
Auckland
New Zealand
28 November 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the half-year ended 30 September 2023

Six months ended 30 September	Notes	2023 $'000	2022 $'000
Revenue	3	25,526	33,027
Cost of sales	4	(10,012)	(14,703)
Gross profit		**15,514**	**18,324**
Operating expenses			
Selling and distribution		(7,590)	(9,243)
Product design and development		(4,156)	(5,119)
General and administration		(7,000)	(6,811)
Total operating expenses	4	**(18,746)**	**(21,173)**
Other income		113	83
Loss before net finance income		**(3,119)**	**(2,766)**
Finance income		2,350	5,216
Finance expense		(221)	(123)
Net finance income	5	**2,129**	**5,093**
Profit/(loss) before income tax		**(990)**	**2,327**
Income tax (expense)/credit		65	(216)
Profit/(loss) for the half-year after tax attributable to shareholders		**(925)**	**2,111**
Other comprehensive income			
Items that may be reclassified to profit or loss, net of tax			
Foreign currency translation differences		(308)	401
Total comprehensive income for the half-year attributable to shareholders		**(1,233)**	**2,512**
Earnings per share for the period			
Basic earnings per share (cents)	6	(1.36)	3.11
Diluted earnings per share (cents)	6	(1.36)	3.03

The above statement should be read in conjunction with the notes to and forming part of the financial statements.

Consolidated Statement of Financial Position

as at 30 September 2023

Current assets	Notes	At 30 September 2023 $'000	At 31 March 2023 $'000
Cash and cash equivalents		14,330	12,505
Trade receivables		8,038	9,715
Other assets and prepayments		3,748	4,049
Total current assets		**26,116**	**26,269**
Non-current assets			
Intangible assets	7	25,792	28,505
Plant and equipment		285	323
Right-of-use assets		1,177	1,246
Total non-current assets		**27,254**	**30,074**
Total assets		**53,370**	**56,343**
Current liabilities			
Trade payables		2,401	2,606
Sundry creditors and accruals		6,491	4,545
Contract liability		4,241	6,403
Employee benefits liability		750	812
Contingent consideration	8	606	-
Lease liabilities		521	438
Total current liabilities		**15,010**	**14,804**
Non-current liabilities			
Contingent consideration	8	-	1,711
Lease liabilities		850	1,031
Deferred tax liability		543	739
Total non-current liabilities		**1,393**	**3,481**
Total liabilities		**16,403**	**18,285**
Net assets		**36,967**	**38,058**
Equity			
Share capital		68,804	68,804
Foreign currency translation reserve		(1,183)	(875)
Share option reserve		1,245	1,103
Accumulated losses		(31,899)	(30,974)
Total equity		**36,967**	**38,058**

The above statement should be read in conjunction with the notes to and forming part of the financial statements.

Consolidated Statement of Changes to Equity

for the half-year ended 30 September 2023

30 September 2023	Share Capital $'000	Accumulated Losses $'000	Share Option Reserve $'000	Foreign Currency Translation Reserve $'000	Total Equity $'000
Balance 1 April 2023	**68,804**	**(30,974)**	**1,103**	**(875)**	**38,058**
Loss for the half-year	-	(925)	-	-	(925)
Foreign currency translation differences	-	-	-	(308)	(308)
Total comprehensive income for the half-year	**-**	**(925)**	**-**	**(308)**	**(1,233)**
Transactions with owners in their capacity as owners					
Share option cost expensed	-	-	142	-	142
Balance 30 September 2023	**68,804**	**(31,899)**	**1,245**	**(1,183)**	**36,967**

30 September 2022	$'000	$'000	$'000	$'000	$'000
Balance 1 April 2022	**68,796**	**(28,217)**	**830**	**(222)**	**41,187**
Profit for the half-year	-	2,111	-	-	2,111
Foreign currency translation differences	-	-	-	(1,073)	(1,073)
Total comprehensive income for the half-year	**-**	**2,111**	**-**	**(1,073)**	**1,038**
Transactions with owners in their capacity as owners					
Share option cost expensed	-	-	128	-	128
Balance 30 September 2022	**68,796**	**(26,106)**	**958**	**(1,295)**	**42,353**

The above statement should be read in conjunction with the notes to and forming part of the financial statements.

Consolidated Statement of Cash Flows

for the half-year ended 30 September 2023

Six months ended 30 September	Notes	2023 $'000	2022 $'000
Cash flows from operating activities			
Receipts from customers		27,892	31,991
Government grants and tax incentives		317	205
Interest received		135	1
Payments to suppliers and employees		(24,730)	(32,753)
Interest paid		-	(1)
Net cash from / (used) in operating activities	9	**3,614**	**(557)**
Cash flow from investing activities			
Payments for capitalised software development		(1,487)	(1,277)
Payments for plant & equipment		(26)	(99)
Net cash used in investing activities		**(1,513)**	**(1,376)**
Cash flow from financing activities			
Lease liability payments		(288)	(247)
Payment of contingent consideration		-	(300)
Payment of deferred consideration		-	(1,363)
Net cash (used) / from financing activities		**(288)**	**(1,910)**
Net (decrease) / increase in cash and cash equivalents		**1,813**	**(3,843)**
Effect of exchange rate on foreign currency balances		12	1,160
Cash and cash equivalents at beginning of the period		**12,505**	**15,131**
Cash and cash equivalents at end of the period		**14,330**	**12,448**

The above statement should be read in conjunction with the notes to and forming part of the financial statements.

Notes to and forming part of the Condensed Interim Financial Report

for the half-year ended 30 September 2023

1. Basis of preparation

These condensed interim consolidated financial statements of Straker Limited (the "Company") and its subsidiaries (together the "Group") for the half-year ended 30 September 2023 have been prepared in accordance with the requirements of NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the audited 2023 Annual Report. For the purposes of complying with generally accepted accounting practice in New Zealand, the Group is a for-profit entity.

The condensed interim consolidated financial statements are presented in New Zealand dollars, rounded to the nearest thousand.

The Company is registered in New Zealand under the Companies Act 1993 and listed on the Australian Securities Exchange. The Company is domiciled in New Zealand.

The unaudited condensed interim consolidated financial statements for the Group for the Six months ended 30 September were authorised for issue on 28 November 2023 by the Board of Directors.

There is no effect of seasonality or cyclicality of interim operations.

a. Accounting policies

The preparation of condensed interim consolidated financial statements in compliance with NZ IAS 34 requires the use of certain critical accounting estimates.

Straker Limited has applied the same accounting policies and methods of computation in its condensed interim consolidated financial statements as in its 2023 annual financial statements.

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except as noted in the accounting policies to the 2023 Annual Report.

b. New standards, interpretations and amendments effective from 1 April 2023

There are no new financial reporting standards that have been applied for the first time in these interim financial statements.

c. Use of estimates and judgements

The preparation of the financial statements in conformity with NZ IAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Notes to and forming part of the Condensed Interim Financial Report

for the half-year ended 30 September 2023

2. Segment reporting

The Group provides translation services to its clients.

The Group's operating segments are each of the Company and its subsidiaries, and these are grouped as territories by geographical region as reportable segments as there are regional managers responsible for the performance of the Group entities within their territories. The geographical regions are Asia Pacific (APAC), Europe, Middle East and Africa (EMEA) and North America (NAM).

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Board of Directors, Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer.

Segment financial performance is evaluated based on profit or loss and is measured consistently with profit or loss in the condensed interim consolidated financial statements.

Inter-segment sales are minimal.

Reports provided to the chief operating decision maker do not identify assets and liabilities per segment. Assets and liabilities are instead presented on a consolidated basis as they are throughout this half-year report. Also, the Group's financing (including finance costs and finance income), amortisation of intangible assets, acquisition and integration costs and income taxes are managed on a Group basis and are not provided to the chief operating decision makers at the operating segment level.

	APAC	EMEA	NAM	TOTAL
Six months ended 30 September 2023	**$'000**	**$'000**	**$'000**	**$'000**
Income				
Language services	9,233	7,655	4,848	21,736
Subscriptions	3	27	2,812	2,842
Managed services	737	-	-	737
Professional services	198	-	13	211
Other income	113	-	-	113
Total income	**10,284**	**7,682**	**7,673**	**25,639**
Expenses	(12,370)	(8,564)	(7,824)	(28,758)
Segment contribution	**(2,086)**	**(882)**	**(151)**	**(3,119)**
Six months ended 30 September 2022				
Income				
Language services	14,271	8,963	6,606	29,840
Subscriptions	-	-	3,146	3,146
Managed services	-	-	-	-
Professional services	-	-	41	41
Other income	93	(10)	-	83
Total income	**14,364**	**8,953**	**9,793**	**33,110**
Expenses	(14,960)	(9,745)	(11,171)	(35,876)
Segment contribution	**(596)**	**(792)**	**(1,378)**	**(2,766)**

Notes to and forming part of the Condensed Interim Financial Report

for the half-year ended 30 September 2023

Reconciliation from segment contribution to net profit/(loss) before income tax

Six months ended 30 September 2023	**2023** **$'000**	**2022** **$'000**
Segment contribution	(3,119)	(2,766)
Net finance income/(expense)	2,129	5,093
Net profit/(loss) before income tax	**(990)**	**2,327**

3. Revenue

Types of goods and services *Six months ended 30 September*	**2023** **$'000**	**2022** **$'000**
Language services	21,736	29,840
Subscriptions	2,842	3,146
Managed services	737	-
Professional services	211	41
Revenue from contracts with customers	**25,526**	**33,027**

Language services revenue comprises translation and localisation services recognised over time.

Subscriptions revenue is derived from software platform access and support services contracts with customers recognised evenly over the period of the underlying contracts.

Managed services revenue comprises fees charged for translation request management and infrastructure services recognised over time.

Professional services revenue comprises fees charged for value-add services which are one-off charges recognised based on input hours.

Revenue disaggregation by segment is disclosed in Note 2.

Notes to and forming part of the Condensed Interim Financial Report

for the half-year ended 30 September 2023

4. Expenses

Cost of sales and operating expenses *Six months ended 30 September*	**Note**	**2023** **$'000**	**2022** **$'000**
Advertising and marketing		231	700
Employee entitlements		10,654	12,885
Recruitment and other personnel costs		466	559
Superannuation contributions		204	205
Share option expenses		142	126
Consultants and contractors		10,831	15,843
Bad debts written off/(recovered)		(41)	(11)
Capitalised development costs	7	(1,487)	(1,202)
Communication, insurance and office administration		381	374
Computer equipment and software		804	982
Platform costs		764	871
Short term and low value leases		109	164
Travel-related costs		280	336
Other operating expenses		630	719
Acquistion and restructure costs		(8)	15
Goodwill impairment	7	1,410	-
Total cost of sales and operating expenses excl. depreciation and amortisation		**25,370**	**32,566**

Depreciation and amortisation

Six months ended 30 September		**2023** **$'000**	**2022** **$'000**
Amortisation of customer relationship	7	703	908
Amortisation of software development	7	872	593
Amortisation of of acquired software	7	1,529	1,482
Amortisation of right of use assets		213	233
Depreciation of plant and equipment		71	94
Total depreciation and amortisation		**3,388**	**3,310**
Total cost of sales and operating expenses		**28,758**	**35,876**

Notes to and forming part of the Condensed Interim Financial Report

for the half-year ended 30 September 2023

5. Net finance income and expenses

Six months ended 30 September	Note	2023 $'000	2022 $'000
Finance income			
Interest received on financial assets at amortised cost		135	1
Foreign exchange gain		898	4,434
Gain on fair value adjustment to consideration liability	8	1,317	781
Total finance income		**2,350**	**5,216**
Finance expense			
Interest expense on leases		(33)	(45)
Imputed interest on contingent consideration liability		(188)	(78)
Total finance expense		**(221)**	**(123)**
Net finance income		**2,129**	**5,093**

During the period, the Group reported a foreign exchange gain of $0.898m, of which $0.882m is unrealised and predominately arising on the revaluation of inter-company loans. Strengthening of the Euro and the United States Dollar against the New Zealand Dollar has significantly contributed to unrealised gains during the period.

6. Earnings per share

Six months ended 30 September	2023	2022
Numerator	**$'000**	**$'000**
Profit/(loss) for the half-year after tax ("N")	(925)	2,111
Denominator	**'000**	**'000**
Weighted average number of ordinary shares used in basic EPS ("D1")	67,839	67,797
Weighted average number of ordinary shares used in diluted EPS ("D2")	67,839	69,702
	Cents	**Cents**
Basic earnings per share (N/D1 x 100)	(1.36)	3.11
Diluted earnings per share (N/D2 x 100)	(1.36)	3.03

Share options are considered anti-dilutive as the Group is loss making and are thus not taken into account in the calculation of diluted earnings per share.

Notes to and forming part of the Condensed Interim Financial Report

for the half-year ended 30 September 2023

7. Intangible assets

Six months ended 30 September	Note	Software development $'000	Acquired software $'000	Customer relationship $'000	Goodwill $'000	Total $'000
Opening net book value		**5,546**	**5,047**	**2,670**	**15,242**	**28,505**
Additions in the half-year		1,487	-	-	-	1,487
Amortisation expense		(872)	(1,529)	(703)	-	(3,104)
Impairments	4	-	-	-	(1,410)	(1,410)
Foreign exchange adjustment		101	209	4	-	314
Closing net book value		**6,262**	**3,727**	**1,971**	**13,832**	**25,792**
At 30 September 2023						
Cost		11,392	12,298	10,497	16,041	50,228
Accumulated amortisation		(5,130)	(8,571)	(8,526)	(2,209)	(24,436)
Closing net book value		**6,262**	**3,727**	**1,971**	**13,832**	**25,792**
At 31 March 2023						
Cost		9,771	11,790	10,383	16,041	47,985
Accumulated amortisation		(4,225)	(6,743)	(7,713)	(799)	(19,480)
Closing net book value		**5,546**	**5,047**	**2,670**	**15,242**	**28,505**

Cash generating units (CGU)

There has been a change in the CGUs in the period with Lingotek CGU merged into NAM CGU following a business reorganisation at the conclusion of Lingotek's earn-out period.

The allocation of goodwill to the CGUs at 30 September 2023 is as follows:

	Note	Europe[1] $'000	IDEST[2] $'000	NAM[3] $'000	NZ[4] $'000	Total $'000
31 March 2023 (restated)		**2,971**	**4,425**	**5,127**	**2,719**	**15,242**
Impairment	4	-	(1,410)	-	-	(1,410)
30 September 2023		**2,971**	**3,015**	**5,127**	**2,719**	**13,832**
Segment	2	EMEA	EMEA	NAM	APAC	

[1] Europe – made up of subsidiaries located in Europe, excluding IDEST which is separately identified
[2] IDEST – made up of IDEST, a Belgium subsidiary
[3] NAM – made up of North American subsidiaries
[4] NZ – made up of the NZ entity

Notes to and forming part of the Condensed Interim Financial Report

for the half-year ended 30 September 2023

Impairment considerations

An indicator of impairment was identified for the IDEST CGU, due to lower revenue than forecast for the IDEST business post 31 March 2023. As a result, an impairment test was performed over the IDEST CGU.

The recoverable amount of the IDEST CGU of $3.9 million at 30 September 2023 was calculated based on a value in use valuation using a discounted cash flow model.

The major inputs and assumptions used in performing the assessment that require judgement include cash flow forecasts, discount rate, and terminal growth rate. Future cash flows are projected for a period of five years, the average annual cash flow growth rate over the forecast period was 7.5% for revenue and 5.3% for expenditure. Growth in cash flows reflects the fact that revenues are expected to increase at a higher rate than expenses as economies of scale are achieved. The forecast financial information is based on both past experience and future expectations of CGU performance. A terminal growth rate of 2.1% and a post-tax discount rate of 12.6% were applied. The terminal growth rate is determined based on the long-term anticipated growth rate of the business. A sensitivity analysis was performed over the key inputs to the value in use valuation being the discount rate, terminal growth rate and cash flow forecasts. With all other variables held constant a 1 percentage point increase in discount rate, or a 1 percentage point decrease in terminal growth rate would result in an additional impairment of $0.2 million and $0.1 million respectively. A 10% reduction in forecasted cash flows would result in an additional $0.2 million impairment.

As the recoverable amount determined using the value in use valuation methodology is less than the carrying amount of the IDEST CGU of $5.3 million, an impairment of $1.4 million has been recognised against goodwill in the current period. The impairment charge is recorded in the profit or loss within expenses for the period ended 30 September 2023.

For the year ended 31 March 2023, the recoverable amount of the IDEST CGU was calculated based on a value in use valuation using a discounted cash flow model.

Notes to and forming part of the Condensed Interim Financial Report

for the half-year ended 30 September 2023

8. Contingent consideration liabilities	2023	2022
Six months ended 30 September	**$'000**	**$'000**
Opening balance	1,711	2,578
Paid in year	-	(300)
Reclassified to deferred consideration liabilities	-	(31)
Gain on fair value adjustment to contingent consideration liability (finance income)	(1,317)	(767)
Unwinding of imputed interest on contingent consideration	188	78
Foreign exchange adjustment	24	182
Closing balance	**606**	**1,740**
Due within one year	606	159
Due after more than one year	-	1,581
Total	**606**	**1,740**

IDEST

Contingent consideration liability due on 29 April 2024
Due to re-measurement of forecast earnings, a contingent consideration liability of EUR 0.128m (NZD 0.225m) has been de-recognised in the current period, with the corresponding impact recorded in profit or loss as finance income. The remaining liability of EUR 0.128m (NZD 0.225m) is payable for IDEST on 29 April 2024, upon achieving revenue and gross margin targets.

Contingent consideration liability due on 30 April 2024
A further contingent consideration liability of EUR 0.25m (NZD 0.441m) is payable for IDEST upon successful renewal of a material institutional contract on or before 30 April 2024 on terms and conditions similar to or better than the current terms and conditions.

The total discounted liability of NZD 0.606m, in relation to contingent consideration payable in April 2024, is included in the current liability.

Notes to and forming part of the Condensed Interim Financial Report

for the half-year ended 30 September 2023

9. Reconciliation of operating cash flows

Six months ended 30 September	**2023** **$'000**	**2022** **$'000**
Net profit/(loss)	(925)	2,111
Adjusted for:		
Non-cash items		
Amortisation of capitalised software development	872	593
Amortisation of computer software	1,529	1,482
Amortisation of acquired intangibles	703	908
Amortisation of right of use assets	213	233
Depreciation of plant and equipment	71	94
Impairment loss on trade receivables	167	200
Impairment loss on goodwill	1,410	-
Imputed interest on deferred consideration liability	188	78
Fair value of contingent consideration liability on acquisition	(1,317)	(781)
Share options	142	128
Taxation	(197)	(249)
Unrealised foreign currency (gain)/loss	(882)	(3,979)
Non-operating expenses		
Interest expense on lease liability	33	45
Impact of changes in working capital items		
Movement in debtors, prepayments and other debtors	1,514	(1,994)
Movement in creditors, accruals and other payables	(4)	237
Movement in tax provisions	97	337
Net cash flow from operating activities	**3,614**	**(557)**

10. Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial statements.

The fair value hierarchy of financial instruments measured at fair value is provided below.

Details of the contingent consideration liability have been provided in Note 8.

There are no Level 1 or Level 2 financial instruments. There were no transfers between levels during the period.

Quantitative information on significant unobservable inputs – Level 3

The fair value of the Level 3 contingent consideration liability has been determined by the discounted cash flow valuation technique.

The fair value of the Level 3 contingent consideration liability has been determined with reference to cost of equity.

There was no change to the valuation technique used during the half-year.

11. Events after the reporting date

There were no reported significant events between reporting date and the date these financial statements were authorised for issue.

In September 2023, Straker announced a share repurchase program. Under the program, the company will repurchase up to 3,500,000 shares, representing 5.16% of its issued capital. The Buy Back will be funded from Straker's existing cash reserves and will run for no longer than 12 months, starting from the 29th November 2023.

Directors' Declaration

The unaudited interim financial statements of Straker Limited and its subsidiaries ('the Group') for the six months ended 30 September 2023 were authorised for issue on 28 November 2023 in accordance with a resolution of the directors. In accordance with ASX Listing Rule 4.2A.2A, the directors declare that, as at that date, and in the directors' opinion:

1. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

2. the relevant interim financial statements and notes comply with accepted accounting standards in New Zealand.

For and on behalf of the Board.

Heith Mackay-Cruise
Chair
28 November 2023

Grant Straker
Chief Executive Officer
28 November 2023

Directory

Company Numbers	New Zealand 1008867 Australia 628 707 399
Registered office	New Zealand Level 2, 49 Parkway Drive Rosedale, Auckland 0632 Australia C/o Boardroom Pty Limited Level 8 210 George Street Sydney, NSW 2000
Head Office Address and Principal Place of Business	Level 2, 49 Parkway Drive Rosedale Auckland 0632 New Zealand
Directors	Heith Mackay-Cruise (Chair) Grant Straker (Managing Director and Chief Executive Officer) Stephen Donovan James Johnstone Amanda Cribb Steven Bayliss

Auditor	BDO, Auckland
Share Registrar	Link Market Services Limited Level 12 680 George Street Sydney, NSW 2000 Australia Phone: +61 2 8280 7100
Stock Exchange	Straker's shares are listed on the Australian Securities Exchange (ASX code: STG)
Company website	www.straker.ai

ASX : STG
STRAKER