

ASX ANNOUNCEMENT

28 January 2021

Quarterly Activities Report for Quarter ended 31 December 2020

STRAKER COMPLETES TRANSFORMATIONAL QUARTER

Q3 FY2021 HIGHLIGHTS:

- Acquisition of US-based Lingotek (effective February 2021) and a strategic translation alliance with IBM (effective January 2021) positions Straker as a leading tech challenger in the rapidly evolving translation sector
- Sales orders for Q3 FY2021 increased 24% to \$7.7 million from \$6.2 million at the end of the same period a year ago and 3% ahead of the \$7.5 million in Q2 FY2021
- Q3 FY2021 revenue at NZ\$7.6 million (unaudited), up 5% on last quarter, despite a strengthening New Zealand dollar and further COVID-19 lockdowns in Europe
- Cash outflow narrows to \$46k from cash outflow of \$1.0 million in Q2 FY2021; operating cash inflow was \$40k, significantly ahead of the \$314k cash outflow in the same period a year ago
- Customer receipts increased 10% to \$7.7 million from \$7.0 million in Q3 FY2020, but slightly lower than the \$7.8 million received in Q2 FY2021 with the timing of customer payments also masking underlying performance
- Financing cashflows benefited from a \$400k government research and development loan
- Straker remains well funded with net cash of \$7.3 million and \$8.0 million of new loan facilities advanced by shareholders in Q4 FY2021 to help fund the acquisition of Lingotek.

Auckland, New Zealand – Straker Translations (ASX: STG), a leading technology-driven translations provider, reports activities on the three months to the end of December 2020, a quarter that has seen it position itself as a global change maker in the US\$50 billion translations industry.

Over the three-month period Straker negotiated the acquisition of the US-based Lingotek, extending its position in the US translations market. The acquisition, which was completed in January 2021, adds more than \$11 million in incremental annual revenue, establishes new relationships with 20 significant enterprise customers and gives Straker access to strategic translation connector technology.

Straker was also appointed as the strategic translation provider to International Business Machines Corp (IBM) in the period, with the deal effective from 1 January 2021. The agreement extends Straker's existing relationship with IBM from one language to 55 languages and directly links its Ai-powered Ray translation platform to IBM's technology platforms.

Meanwhile, the Group extended its sales orders for the quarter by 24% to \$7.7 million from \$6.2 million at the end of the same period a year ago and 2.7% ahead of the \$7.5 million achieved in Q2 FY2021.

Unaudited revenue increased 5% to \$7.6 million from \$7.2 million in the second quarter despite a strengthening New Zealand dollar and the continuing disruptions to global markets caused by the ongoing COVID-19 pandemic.

CEO and Co-Founder Grant Straker said: "The third quarter of this financial year, a period when we negotiated two transformational deals, is perhaps the most significant yet in Straker Translations' history.

"Our four-year deal with IBM, effective January 2021, has validated the advantages of our technology with a globally significant user of translation services.

"Meanwhile, our acquisition of Lingotek, effective February 2021, significantly builds out our presence in the US and adds more than \$11 million in incremental annual revenue. It establishes new relationships with multi-national enterprises such as Oracle, Nike and Acquia, all of whom are major consumers of translation services.

"Additionally, Lingotek offers strong synergies with Straker's Ai-powered Ray translation platform. Notably, Lingotek's significant investments in advanced connector technology will allow Straker to dramatically increase the number of customers to which we can seamlessly connect our systems.

"We have achieved all of this over a three-month period while delivering a resilient operating performance. We have expanded our order book and continued to drive cost reductions. We have harvested the synergies from recent acquisitions and carefully managed our cost base in the face of COVID-19 disruptions."

Cash flows

Total cash outflow for the period was \$46k narrowing the \$1.0 million cash outflow in Q2 FY2021 and the \$1.3 million outflow in the same period a year ago. The outcome reflected a resilient operating performance in the face of the challenges of adverse currency movements and the COVID-19 pandemic. Financing cashflows benefitted from Straker securing a \$400k research and development loan from the New Zealand Government.

Operating cash inflows for the quarter were \$40k, improving on the outflow of \$44k in the second quarter and significantly ahead of the \$314k cash outflow in the same period a year ago.

The resilient performance reflected the ongoing benefits that come from the synergies of previous acquisitions of NZTC in Wellington and OnGlobal in Spain. The synergistic gains accrued largely from the introduction of the Ray platform into acquired businesses, while costs savings introduced to manage the disruptions of the COVID-19 pandemic also helped.

Q3 FY2021 customer receipts increased 10% to \$7.7 million from \$7.0 million in the same period a year ago. However, receipts were down slightly on the \$7.8 million in the second quarter of the year, with the timing of customer payments also masking the underlying performance of the business.

Cash reserves at the end of the period stood at \$7.3 million, down from \$7.7 million at the end of the second quarter.

Straker Translations remains well funded.

"At the end of the quarter, we had \$7.3 million of cash on hand, a figure that is largely unchanged from the reserves at the end of the second quarter. We have also subsequently secured \$8 million in shareholder loans to finance the acquisition of Lingotek" Mr Straker said.

"We have meanwhile continued to drive innovation and improvements in our technology, further enhancing Straker's leadership in the sector. We have enhanced the Ray platform's subtitling capabilities,

further optimised the translation workbench, introduced a multi-term glossary functionality and integrated the platform with IBM's application user interface.

"Our focus now is to build on the significant opportunities that have emerged through recent acquisitions, including Lingotek, and delivering on our partnership with IBM.

"We are now hiring 40 new people to deliver on our commitments to IBM and we are on track. The majority of Straker's technology staff are working with IBM's global technical team on automation of content flows. Meanwhile, several existing translation providers for IBM have reached out to Straker having been given notice that their existing contracts are ending. We are also moving quickly to integrate Lingotek into the Straker Translations family of companies.

"We are delighted with the progress we have made over the last three months. Straker Translations is driving disruption and consolidation in global translation markets. Our leading technology, the growing recognition of our global reach, the speed and accuracy of our translations and our superior service proposition is resonating with customers around the world.

"We are confident that we can leverage this reputation to recruit new customers and deepen the relationships we have established with new multinational customers through recent acquisitions.

"We expect success in these efforts to drive increases in repeating revenues and shareholder value and we look forward to reporting our progress for the fourth quarter in April."

Related party transactions

An amount of NZ\$121,000 was paid to Directors in fees during Q3 FY2021 and a further NZ\$27,000 was paid to a Director in relation to consulting services provided. A further NZ\$14,000 was paid to an entity associated with a Director, as part of a good faith deposit for a loan facility subsequently taken out in Q4 FY2021.

FOR FURTHER INFORMATION:

An interview with Lingotek founder and Chief Executive Jeff Labrum in which he discusses the opportunities emerging from his company's integration with Straker Translations is available by clicking <https://www.strakertranslations.com/about-us/investors/>.



Authorisation

This announcement has been authorised for release by the Board of Straker Translations Limited.

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About Straker Translations

Based in New Zealand, Straker Translations has established itself as a world leading Ai data driven translation platform powering the global growth of businesses. Straker Translations has developed a hybrid translation platform that utilises a combination of Ai, machine-learning, and a crowd-sourced pool of freelance translators. The company's cloud-based platform manages the end-to-end translation process, leveraging Ai and machine-learning to create a first draft translation and subsequently matching the customer's content with one or more of the approximately 13,000 crowd-sourced human freelance translators for refinement. This process is managed using Straker's proprietary "RAY Translation Platform", which has been developed over eight years and is an enterprise grade, end-to-end, cloud-based platform. By leveraging machine translations and its big data assets, the RAY Translation Platform enables the delivery of faster and more accurate translations, lowering the time and cost to deliver versus traditional translation services. The platform can be integrated directly into customers' systems and consists of a customer dashboard, machine translation integration and modules for assisting and managing translators. For more information www.strakertranslations.com

Appendix to Quarterly Activity Report Quarter Ended 31 December 2020

Use of Funds Statement

Pursuant to ASX listing rule 4.7C.2, the Quarterly Use of Funds Report below sets out a comparison of actual expenditure on individual line items in the Use of Funds Statement since the date of admission to the ASX, against the prospectus, which was lodged with ASIC in October 2018.

Part 7.4 of Prospectus	Prospectus Use of Funds	Funds Used to 31 Dec 2020
	NZ\$ '000	NZ\$ '000
Payments of proceeds to selling shareholders	3,043	3,072
Investment in sales and marketing, product development, general corporate purposes and customer acquisition, including potential additional acquisitions	14,674	7,609
Working capital	1,957	1,957
Cost of the offer	3,370	3,461
Total Use of Funds	23,043	16,099

Proceeds from the IPO have been utilised in line with Part 7.4 of the Prospectus. Significant investment in product development and three completed acquisitions are clear indicators of the Company's commitment to its growth strategy.

The Company has successfully retained funds through difficult global economic circumstances to enable it to continue to carry out its stated business objectives and to act quickly to take advantage of opportunities as they arise.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Straker Translations Limited

ABN

628 707 399

Quarter ended ("current quarter")

Q3 31 December 2020

Consolidated statement of cash flows	Current quarter \$NZD'000	Year to date (9 months) \$NZD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	7,705	22,430
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(3,833)	(11,446)
(c) advertising and marketing	(177)	(573)
(d) leased assets	(4)	(13)
(e) staff costs	(2,779)	(8,138)
(f) administration and corporate costs	(781)	(2,720)
1.3 Dividends received (see note 3)		
1.4 Interest received	-	13
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives	-	371
1.8 Other (provide details if material)		
Acquisition/integration payments	(91)	(256)
1.9 Net cash from / (used in) operating activities	40	(332)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses		
(c) property, plant and equipment	(55)	(94)
(d) investments		
(e) intellectual property	(300)	(930)
(f) other non-current assets		
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
2.6 Net cash from / (used in) investing activities	(355)	(1,024)
3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options	64	89
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(2)	(40)
3.5 Proceeds from borrowings	400	400
3.6 Repayment of borrowings	-	(1,907)
3.7 Transaction costs related to loans and borrowings	(88)	(116)
3.8 Dividends paid		
3.9 Other (provide details if material)		
Lease Payments	(105)	(337)
3.10 Net cash from / (used in) financing activities	269	(1,911)

4. Net increase / (decrease) in cash and cash equivalents for the period			
4.1	Cash and cash equivalents at beginning of period	7,735	11,228
4.2	Net cash from / (used in) operating activities (item 1.9 above)	40	(332)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(355)	(1,024)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	269	(1,911)
4.5	Effect of movement in exchange rates on cash held	(354)	(626)
4.6	Cash and cash equivalents at end of period	7,335	7,335

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts			
	Current quarter \$NZD'000	Previous quarter \$NZD'000	
5.1	Bank balances	7,317	6,247
5.2	Call deposits	18	1,488
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,335	7,735

6. Payments to related parties of the entity and their associates		Current quarter \$NZD'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	148
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<p>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</p>		

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.
Add notes as necessary for an understanding of the sources of finance available to the entity.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

7.4 Total financing facilities

Total facility amount at quarter end \$NZD'000	Amount drawn at quarter end \$NZD'000
400	400
-	-
-	-
400	400

7.5 Unused financing facilities available at quarter end

-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

1) NZ\$400k unsecured NZ government loan for up to 10 years to support planned R&D activity, interest free if paid back within the first year, otherwise 3% p.a.
2) The following loan facilities were entered into in January 2021 to help fund the acquisition of Lingotek Inc.:
i) A secured simple 12 month term facility of NZ\$6.5m provided by a syndicate of high-net-worth investors, with an interest rate of 10.5% p.a.;
ii) A unsecured simple 12 month term facility of NZ\$1.5m provided by an entity associated with Steve Donovan, a Straker non-executive director, with an interest rate of 11.50% p.a.

8. Estimated cash available for future operating activities	\$NZD'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	40
8.2 Cash and cash equivalents at quarter end (Item 4.6)	7,335
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	7,335
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	N/A

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

1. This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
2. This statement gives a true and fair view of the matters disclosed.

Date: 28-Jan-21

Authorised by: By the Board

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.