Quarterly Activities Report

28 July 2022

ASX and MEDIA RELEASE

Straker reports positive start to FY 2023

Technology-led, next generation language and localisation services provider Straker Translations (ASX: STG) reports strong and profitable Q1 FY23 revenue growth. The result is underpinned by growing sales to multinational organisations and the contribution from the Belgium-based translation provider IDEST Communications, acquired in Q4 FY22.

The outlook remains strong supported by latent opportunities in recent acquisitions, including IDEST, a strong sales pipeline among global enterprise customers and governance organisations, the company's technological leadership, and the strength of its reputation as a change maker in the global translations sector.

FINANCIAL HIGHLIGHTS[1]

- Q1 FY23 revenue of $18.8m up 66% on Q1 FY22 and 8% on Q4 FY22.
- Adjusted EBITDA2[2] of $1.5m, positive for the third consecutive quarter.
- Operating cash outflow of $2.3m following two quarters of positive inflow impacted by an increase in working capital and the timing of customer receipts. Straker expects a return to positive operating cashflow in Q2 FY23.
- Q1 FY23 total cash outflow of $4.3m up from Q4 FY22 cash outflow of $2.2m following earn out payments on IDEST Communications and NZTC.
- Strong balance sheet with no debt and cash of $11.4m.
- Robust sales pipeline driven by customers looking for technology-led global localisation solutions.
- On track to deliver on May 2022 guidance for profitable growth in revenue for the 12 months to the end of March 2023 of 20% with gross margins exceeding the 54% achieved in FY22.

OPERATING HIGHLIGHTS:

- IDEST continues to perform well and in line with expectations. Integration programme reinforces the latent potential to come from cross selling Straker's global language translation capabilities.
- IBM translation volumes continue in line with expectations, system integration mostly completed and new partnership opportunities developing.

[1] All figures are in NZ$ unless stated.

[2] Adjusted EBITDA excludes non-recurring acquisition, integration and other non-operating costs. Non-operating costs include costs of restructuring activities and non-recurring consulting costs.

- First audit under ISO27001 – the gold standard for information security – underscores the strengths of Straker's information infrastructure and its commitment to continuous improvement.
- Easing of COVID-related travel restrictions is enabling the Straker's sales team to again engage customers at industry conferences and face-to-face with customers. This trend is expected to support ongoing organic growth.

Q1 FY23 Revenue Growth

Straker Translations has made a strong start to the new financial year with revenue in the three months to the end of June 2023 of $18.8m, a 66% improvement on the $11.4m in the same period in FY22 and a 8% improvement on the $17.4m achieved in Q4 FY22.

The quarter-on-quarter result benefitted from strong growth across the APAC and European operations (excluding IDEST) and the continuing success and expansion of Straker's strategic translations service agreement with IBM.

The growth was moderated by IDEST Communications cycling off an extremely strong run in Q4 FY22. IDEST, which was acquired in January 2022 and offers the Group new relationships with global governance organisations, including the European Commission and Parliament, continues to perform ahead of expectations.

The year-on-year quarter growth reflected the contribution of IDEST and the success of the IBM contract, including the elimination of a backlog of IBM work that had accumulated during the ramp up of the partnership over the last few months. In the same period a year ago the IBM contract was only in the early stages of development.

Our European operations have seen some weakness relative to the same period a year ago as we ceased engagement with Russian clients following the outbreak of war in the Ukraine. Meanwhile, the ongoing refocus on large global enterprise clients has seen the relinquishment of some smaller, lower margin customers. The company's US operations including Lingotek have delivered a steady performance.

Margins remain a strong focus

Gross Margins in the quarter were in line with the 54% achieved in FY22. Straker continues to focus on driving margin improvements, recognising that incremental gains can deliver a significant uplift in EBITDA given the Group's scale.

We continue to see considerable potential to drive margin improvements in the coming quarters as we integrate IDEST on to the RAY platform and continue to transition IBM translation jobs from third parties to our systems.

One of the biggest drivers for increased margins going forward will be the rate of innovation, which we believe can deliver gains in productivity through technology. This remains a core focus for our development teams.

In the last quarter we benefited from savings that followed from the creation of the lower cost resource centre in the Philippines. Meanwhile, Straker is actively driving the integration of its six European offices. It is also benefitting from synergies through closer integration of development teams in New Zealand and the US (see below).

Q1FY23 adjusted EBITDA[2] was $1.5m up from the $471k in Q4 FY22. It is the third consecutive quarter of positive adjusted EBITDA, and this reflects our increasing economies of scale and the benefits we are seeing from integration.

During the quarter Straker delivered earn out payments to the former owners of NZTC and IDEST totalling $1.1m reflecting the strong performances of these businesses.

Research and development – increasing our speed of innovation
We are focusing part of our research and development team on a new innovation cycle aimed at increasing our technology lead over the competition.

Based on some projects with major customers, we have seen how the world of localisation is evolving and how customers are looking for eco-system providers that are integrated into customer processes. This cycle of innovation should also open up more SaaS revenue opportunities. We expect these efforts to start contributing to revenue in the second half of the year.

Meanwhile, Straker recently underwent its first ISO 27001 information security audit following certification under the standard last year. The audit against the industry's gold standard for information security confirmed the strengths of the company's security protocols and noted our commitment to continuous improvement.

We have continued to advance our vision of delivering a technology stack to meet the differing needs of our customers. Our RAY translation platform meets the needs of those that want minimal involvement in the translation process, while the Lingotek subscription platform is directly targeted at those customers who wish to manage the translation process internally.

We are accelerating our progress and driving efficiencies by leveraging the software engineering expertise across the broader organisation. We have for instance integrated more closely the development teams working on the RAY translation and Lingotek platforms.

This has seen the launch of a new management structure to oversee the development teams in both organisations. It has also seen the sharing of code and avoiding duplication of efforts where the two platforms undertake similar translation processes such as document parsing.

We meanwhile continue to advance the application programming interfaces that link IBM systems and other enterprises with Straker systems. We continue to see improvements in productivity as a result.

Now well over 80% of the translations submitted by IBM are being completed automatically, a figure ahead of our service commitments. Meanwhile, operating revenue per project manager (the people who shepherd translations through the RAY translation platform) increased to $69k per month up from $67K per manager in the March quarter and $49k per month in the same period a year ago.

Cash flows and funding

Operating cash outflow for the quarter was $2.3m down from the $919k inflow in Q4 FY22 impacted by an increase in working capital and the timing of customer receipts. We expect to see a return to operating cash inflow in the second quarter.

The company recorded a total cash outflow during the quarter of $4.3m reflecting $1.1m in earnout payments and $0.7m in R&D capitalisation. Cash reserves at the end of the quarter stood at $11.4m down from the $15.1m at the end of the fourth quarter.

Summary and outlook

CEO and Co-founder Grant Straker said the company was pleased with the progress it had made and remained confident about its ability to realise the growth opportunities it sees across the organisation.

"We have a strong balance sheet, are well funded and are on track to deliver on the guidance issued at the end of May 2022 for profitable growth in revenue for the 12 months to the end of March 2023 of 20% and gross margins exceeding the 54% achieved in FY 2022.

"This outlook is supported by the latent opportunities in recent acquisitions, including IDEST, a strong sales pipeline among global enterprise customers and governance organisations, the company's technological leadership, and the strength of its reputation as a change maker in the global translations sector.

"We also believe growth will be assisted by the easing of COVID-related travel restrictions as our sales teams are once again able to engage customers at industry conferences and face-to-face. We look forward to providing a further update at our Annual Shareholders Meeting at the end of August."

Related party transactions

An amount of $84k was paid to Directors in fees during Q4 FY2022, with a further $7k paid to a director in relation to consulting services provided.

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 provides next generation language services supported by a state-of-the-art technology stack and robust AI layer 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.

For more information visit: www.strakertranslations.com

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity	
Straker Translations Limited	
ABN	**Quarter ended ("current quarter")**
628 707 399	Q1 30 June 2022

Consolidated statement of cash flows		Current quarter $NZD'000	Year to date (3 months) $NZD'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	13,274	13,274
1.2	Payments for		
	(a) research and development	(1,483)	(1,483)
	(b) product manufacturing and operating costs	(6,834)	(6,834)
	(c) advertising and marketing	(320)	(320)
	(d) leased assets	-	-
	(e) staff costs	(6,032)	(6,032)
	(f) administration and corporate costs	(954)	(954)
1.3	Dividends received (see note 3)		
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	2	2
1.7	Government grants and tax incentives	87	87
1.8	Other (provide details if material)		
	Acquisition/integration payments	-	-
1.9	**Net cash from / (used in) operating activities**	**(2,260)**	**(2,260)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(63)	(63)
	(d) investments	-	-
	(e) intellectual property	(733)	(733)
	(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**	**(796)**	**(796)**

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	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)		
	Deferred consideration	(1,136)	(1,136)
	Lease Payments	(144)	(144)
3.10	**Net cash from / (used in) financing activities**	**(1,280)**	**(1,280)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	15,131	15,131
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,260)	(2,260)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(796)	(796)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,280)	(1,280)
4.5	Effect of movement in exchange rates on cash held	640	640
4.6	**Cash and cash equivalents at end of period**	**11,435**	**11,435**

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	11,435	15,131
5.2	Call deposits	-	-
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)**	**11,435**	**15,131**

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	91
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

	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.*	Total facility amount at quarter end $NZD'000	Amount drawn at quarter end $NZD'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	**-**	**-**

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.

8.	**Estimated cash available for future operating activities**	**$NZD'000**
8.1	Net cash from / (used in) operating activities (Item 1.9)	(2,260)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	11,435
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	11,435
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	5

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-Jul-22

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.