

25 January 2024

ASX RELEASE

Stable Revenue, record Gross Margins and ongoing Profitability in Q3 FY24 continues to underpin Share Buyback

AI-driven language and content services provider Straker (ASX: STG) today reports stable revenue, continued profitability, and record Gross Margins; supporting the continued execution of its capital management initiative.

FINANCIAL HIGHLIGHTS¹:

- Revenue of \$12.87m, down year on year but pleasingly up 3.5% vs the preceding Quarter as market conditions largely stabilised
- Gross Margin continues to exceed expectations coming in at 65.4%, up another 240bp versus the preceding Quarter and up 790bp versus the prior corresponding period (pcp)
- Managed Services offering continues to gain traction, helping drive Gross Margin expansion
- Profitability was robust with Adjusted EBITDA² (unaudited) of \$1.356m (\$3.0m YTD) compared to (\$0.195m) in the pcp and \$1.21m in the preceding Quarter.
- Straker continues to be Free Cash Flow³ positive, delivering \$0.025m in Q3
- Balance sheet remains strong with cash of \$13.074m after cash outflow of \$1.08m on the share buyback, with nil debt.

OPERATING HIGHLIGHTS:

- LanguageCloud 2.0 made ready for launch in current Quarter
- Generative AI based Compliance / Verification product launch anticipated in current Quarter
- Sales pipeline, particularly of Enterprise customers, for pending product launches continues to expand as high tempo of participation in leading global industry events drives customer interest
- IBM going live with 2,000 users moving on to the LanguageCloud Slack workplace app this Quarter

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.

³ Free Cash Flow is the sum of operating and investing net cash flows.

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NZ Company no. 1008867
ARBN: 628 707 399

Registered Address
Level 2, 49 Parkway Drive
Rosedale, Auckland 0632

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- Technology driven automation efficiencies in service delivery continues to enhance productivity and lower translation production costs.

Revenue

Straker's revenue for the December Quarter was \$12.87m, up 3.5% vs Q2 FY24 but 4.7% lower than the pcp.

In the first half of FY24 Straker experienced variability across the market with weakness in some regions but strength in others. However, in Q3 stability and improvement were more evident. Europe saw a marked improvement with Revenue up almost 12% versus the preceding Quarter. After declining quarter on quarter in Q2 FY24 IDEST revenues stabilised in Q3. Asia Pacific was stable as was North America although Lingotek revenue remained volatile.

With respect to IBM, revenue for the Q3 FY24 was stable versus Q2 but was materially higher than the pcp. Revenue from IBM again included a material contribution from a managed services offering for localisation management. This source of revenue grew over 60% quarter on quarter.

Margins and earnings

Gross Margins in Q3 FY24 continued to trend higher at a record 65.4%, up 790bp versus 12 months ago and up another 240bp versus Q2 FY24. High margin revenue from managed services remains a key contributor to the expansion of margins this Quarter. Straker continues to expect Gross Margin to remain materially elevated versus historical reported levels ~55%.

Having reset the Company's cost base during FY23, expenses in Q3 remained contained overall. Pleasingly while revenue grew this Quarter versus Q2 FY24, production costs fell almost 7%. Adjusted EBITDA (unaudited) in Q3 FY24 was \$1.365m, the highest result achieved in 6 Quarters, and compares to a loss of \$0.195m in the pcp. It was also higher versus the preceding Quarter despite lower capitalised R&D this Quarter. Expensed R&D was marginally lower this Quarter compared to the preceding Q2 FY24.

Research and Development

Straker's generative AI-based R&D is aimed at Enterprise-grade use cases. During the December Quarter work focused on our Compliance / Verification product leveraging generative AI which is due to be launched in the March Quarter. The Verification component will allow customers to run checks on their content, including for factual accuracy. The Compliance offering is designed to reduce internal and external costs for audit and compliance teams. This new offering has been built to support both self-serve and sales-led approaches.

Version 2.0 of the Straker Language Cloud platform continues to build on the base of the Slack and Microsoft Teams platforms and has been made ready for launch in the March Quarter. Use cases

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have been broadened beyond just supporting translation workflows (management, ordering, monitoring jobs), to now cover instant translation via MT and querying data / reporting insights directly inside customers' workplace apps. Our workplace apps and LanguageCloud platform channels also serve as a strategic foundation for expanding revenue streams inside our existing client base.

Cash flows and funding

Cash collections in Q2 FY24 were abnormally high, driving a very strong Operating Cash Flow (OCF) result in that Quarter. In Q3 FY24 cash collections versus revenue normalised, as we foreshadowed in the Q2 FY24 Quarterly report. Cash receipts for the December Quarter were \$11.86m versus Revenue of \$12.87m. Notwithstanding this, the recent trend of positive Quarterly Operating cash flow (OCF) continued in Q3 FY24 with OCF of \$0.682m, below the record result in Q2 FY24 but much improved vs an outflow of \$0.171m in the pcq.

A key focus of Straker remains generation of Free Cash Flow (FCF) and for the 4th Quarter in a row the Company has delivered on this metric, albeit modestly, yielding a further \$0.025m in FCF in Q3 FY24.

With positive OCF and FCF Straker's balance sheet remains rock solid with cash of \$13.07m and nil debt. This represents a decline of \$1.25m compared to prior Quarter but this is attributable to cash outflow of \$1.08m on the share buyback. The buyback, authorised for a period of 12 months, has acquired STG shares in the market during the Quarter, having commenced immediately following the release of the FY24 Interim Result on November 28, 2023. The share buyback has progressed to approximately 51% of its maximum allowance and will recommence following this release.

Summary and outlook

CEO and Co-founder Grant Straker said: "We are pleased to be seeing some evidence of general stability in the marketplace, which has allowed us to report a Quarter of sequential Revenue growth. Our Gross Margin result was a standout for me this Quarter. These two factors have again seen us deliver positive Operating Cash Flow and Free Cash Flow as well as a record Adj EBITDA profit. Our continued financial strength underpins our share buyback which we believe, especially at the current share price, is enormously accretive to shareholder value.

Related party transactions

An amount of \$70k was paid to Directors in fees during Q3 FY2024.

Authorisation

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

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Quarterly Activities Report



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About Straker

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.straker.ai

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

Name of entity

Straker Limited

ABN

628 707 399

Quarter ended ("current quarter")

Q3 31 December 2023

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	11,806	39,513
1.2 Payments for		
(a) research and development	(1,237)	(3,862)
(b) product manufacturing and operating costs	(5,217)	(17,362)
(c) advertising and marketing	(310)	(746)
(d) leased assets	-	-
(e) staff costs	(3,892)	(12,261)
(f) administration and corporate costs	(494)	(1,426)
1.3 Dividends received (see note 3)		
1.4 Interest received	75	210
1.5 Interest and other costs of finance paid	(3)	(3)
1.6 Income taxes paid	(19)	(54)
1.7 Government grants and tax incentives	-	317
1.8 Other (provide details if material)		
Restructure costs	(27)	(30)
1.9 Net cash from / (used in) operating activities	682	4,296
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(15)	(41)
(d) investments	-	-
(e) intellectual property	(642)	(2,129)
(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	(657)	(2,170)
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)	-	-
Buyback of share capital	(1,080)	(1,080)
Lease payments	(127)	(415)
3.10 Net cash from / (used in) financing activities	(1,207)	(1,495)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	14,330	12,505
4.2	Net cash from / (used in) operating activities (item 1.9 above)	682	4,296
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(657)	(2,170)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,207)	(1,495)
4.5	Effect of movement in exchange rates on cash held	(74)	(62)
4.6	Cash and cash equivalents at end of period	13,074	13,074

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	10,009	11,101
5.2	Call deposits	3,065	3,229
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)	13,074	14,330

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	70
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
-	-
-	-
-	-
-	-

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)	682
8.2 Cash and cash equivalents at quarter end (Item 4.6)	13,074
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	13,074
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: 25-Jan-24

Authorised by: By the Board of Directors

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.

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.
2. 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.
3. 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".
4. 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.
- 5.