

30 October 2023

ASX RELEASE

Strong Profitability and Free Cash Flow continues in Q2 FY24 with inaugural Share Buyback announced

Technology-led, next generation language and localisation services provider Straker (ASX: STG) today reports strong cash receipts, ongoing improvement in profitability and strong Free Cash Flow which further underpins the planned share buyback.

FINANCIAL HIGHLIGHTS¹:

- Q2 FY24 Cash receipts \$15.87m up 34% versus the preceding Quarter and substantially ahead of Revenue as cash collections were extremely strong
- Revenue of \$12.4m, down 5% vs the preceding Quarter as cautious market conditions persist
- Strong Gross Margin of 63.3%, up 458 basis points (bp) versus the preceding Quarter and up 780bp versus the prior corresponding period (pcp)
- Profitability continued with Adjusted EBITDA² (unaudited) of \$1.2m compared to loss of (\$1.0m) in the pcp and \$0.5m profit in the preceding Quarter
- High cash collections and record Gross Margins saw Operating Cash Flow of \$2.8m whilst Free Cash Flow generation was a record \$1.95m
- Balance sheet continues to strengthen with cash of \$14.3m up from \$12.5m a year ago, with nil debt, providing ample capacity for the pending share buyback announced during the Quarter
- Due to market conditions, we now anticipate a single-digit percentage decline in FY24 revenue compared to FY23, compared to prior expectation of modest growth
- Gross Margin is now expected to improve versus FY23 rather than stay flat and we continue to expect to deliver positive Operating Cash Flow and EBITDA for FY24

OPERATING HIGHLIGHTS:

- Exhibiting at key AI conferences in London and Paris confirms a strong product and market fit for the evolution of the business into the AI language space

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

Quarterly Activities Report



- The LanguageCloud offering soft market launch occurred early in the Quarter July 1, 2023, on the Slack & MS Teams platforms
- Large Enterprise customer looking to go live with 2,000 users moving on to the LanguageCloud Slack workplace app in Q3
- New managed services division created to manage implementation of new localisation services delivers over \$500k in revenue
- Total automation of the LanguageCloud production platform, live from Aug 1, on selected customer projects. So far has resulted in \$300-400k in annualised savings where project managers were not required in the process.

Revenue

Straker's revenue for the September Quarter was \$12.4m, down 5.1% vs Q1 and 12.5% lower than the pcp. The Company's sales pipeline remains solid but an increased lead time to closing new wins was observed during the Quarter as an element of caution amongst customers persists.

As in Q1 Straker continues to see variability across the market with weakness in some regions but strength in others. We saw an improvement in North America and, as in Q1, this was driven mainly by increased momentum in the performance of the Lingotek business. Europe was flat vs Q1 but after a stellar preceding Quarter the IDEST business was softer in Q2. Sales from Asia Pacific were also lower versus the preceding Quarter.

With respect to IBM, revenue for the Quarter was slightly down versus Q1 but remains elevated compared to the second half of FY23. For the first time Revenue from IBM during the Quarter included higher margin revenue from a managed services offering for localisation management.

Margins and earnings

Gross Margins in Q2 FY24 continued to trend higher at an exceptionally robust 63.3%. This was 780bp higher than a year ago and materially higher even versus the preceding Quarter's result of 58.7%. High margin revenue derived from IBM was a key contributor to the expansion of margins this Quarter. The Company continues to expect Gross Margin to remain materially elevated versus historical reported levels ~55%.

The Company's focus on costs during FY23 continues to yield positive results in Q1 as the Company's cost base has been reset at a lower level in aggregate. Adjusted EBITDA (unaudited) in Q1 FY24 was \$1.2m, compared to a loss of \$1m in the pcp. Overall opex was lower vs Q1 partly reflecting lower Revenue. Again, the Adjusted EBITDA result was achieved without sacrificing product development with R&D expense remaining stable versus recent quarterly levels.

Research and Development

Straker (STG)

NZ Company no. 1008867
ARBN: 628 707 399

Registered Address

Level 2, 49 Parkway Drive
Rosedale, Auckland 0632

www.straker.ai

investors@straker.ai

Quarterly Activities Report



R&D continues to be focused on new channel opportunities such as the evolution of our workplace apps with Slack and Teams, and in advancing our offering with AI enabled services. Feedback from exhibiting at AI conferences in London and Paris, combined with conversations with existing customers has given strong insights into how our assets and platforms are well placed to capitalise on AI and LLMs.

Management will demonstrate our latest AI technology at the half year presentation.

Cash flows and funding

Operating cash flow (OCF) for Q2 FY24 was \$2.8m, a continuation of the recent trend of positive results, and in our view a standout feature of our results this Quarter. Again, we saw strong improvement Year on Year and Quarter on Quarter with an almost \$2m increase compared to Q1 FY24. Similar to our experience in the final Quarter of FY23 cash collections were excellent and outpaced Revenue substantially, assisting OCF. We would expect the delta between cash collections and Revenue to return more normal levels in the current Quarter.

A key focus of Straker is generation of Free Cash Flow (FCF) and for the 3rd Quarter in a row the Company has delivered on this metric, yielding a further \$1.95m in Q2 - the best Quarterly result in a number of years. Over the last three Quarters Straker has generated \$3.8m in FCF.

As a result, Straker's balance sheet continues to strengthen with cash rising to \$14.3m versus \$12.5m at June 30, 2023 and nil debt. This outcome and a business that is delivering positive cash flow saw Straker announce a ~5% capped share buyback during Q2. The Company continues to expect the buyback to commence after the release of Straker's interim FY23/24 result, currently scheduled for 29 November 2023. Once commenced, the buyback will be in operation for a period of 12 months.

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, 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.

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.

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Quarterly Activities Report



CEO and Co-founder, Grant Straker, said: "Whilst we would have liked to have delivered yet another consecutive Quarter of Revenue growth, we saw an element of caution by customers particularly for the IDEST business in Q2. Margins and EBITDA were both up and we are particularly pleased to have delivered record Free Cash Flow.

"We remain excited about the commercial prospects for the recently launched LanguageCloud product offering on the Slack and MS Teams platforms with a large Enterprise customer going live with 2000 users in the Slack channel in the near term. We anticipate more good news regarding customer appetite for LanguageCloud in the coming Quarters."

Related party transactions

An amount of \$180k was paid to Directors in fees during Q2 FY2024.

Authorisation

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

Corporate:

Grant Straker, CEO and Co-Founder

E: grant@straker.ai

P: +64 21 512 484

Investors:

Ben Henri

M&C Partners

M: 0473 246 040

E: ben.henri@mcpartners.com.au

OR

David Ingram, CFO

E: david.ingram@straker.ai

P: +64 21 591 984

Media:

Mel Hamilton

M: 0417 750 274

E: melissa.hamilton@mcpartners.com.au

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")

Q2 30 September 2023

Consolidated statement of cash flows	Current quarter \$NZD'000	Year to date (6 months) \$NZD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	15,871	27,707
1.2 Payments for		
(a) research and development	(1,152)	(2,625)
(b) product manufacturing and operating costs	(7,249)	(12,145)
(c) advertising and marketing	(278)	(436)
(d) leased assets	-	-
(e) staff costs	(4,080)	(8,369)
(f) administration and corporate costs	(414)	(932)
1.3 Dividends received (see note 3)		
1.4 Interest received	99	135
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(25)	(35)
1.7 Government grants and tax incentives	-	317
1.8 Other (provide details if material)		
Restructure costs	-	(3)
1.9 Net cash from / (used in) operating activities	2,772	3,614

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(12)	(26)
(d) investments	-	-
(e) intellectual property	(809)	(1,487)
(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	(821)	(1,513)
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)	-	-
Lease Payments	(145)	(288)
3.10 Net cash from / (used in) financing activities	(145)	(288)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	12,439	12,505
4.2	Net cash from / (used in) operating activities (item 1.9 above)	2,772	3,614
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(821)	(1,513)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(145)	(288)
4.5	Effect of movement in exchange rates on cash held	85	12
4.6	Cash and cash equivalents at end of period	14,330	14,330

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	11,101	5,430
5.2	Call deposits	3,229	7,009
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)	14,330	12,439

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	180
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.*

	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)	2,772
8.2 Cash and cash equivalents at quarter end (Item 4.6)	14,330
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	14,330
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: 30-Oct-23

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.