Quarterly Activities Report

27 July 2023

ASX and MEDIA RELEASE

FY24 starts with stable revenue as well as continued profitability in Q1

Technology-led, next generation language and localisation services provider Straker Translations (ASX: STG) today reports a stable start to FY24 with Revenue slightly higher, Gross Margins elevated, continued EBITDA profitability and Free Cash Flow generation.

FINANCIAL HIGHLIGHTS[1]:

- Q1 FY24 Revenue of $13.1m vs $12.88m in Q4 FY23, reflecting the benefits of Straker's diverse geographical exposure and breadth of clients amidst variable market conditions
- First Quarter of sequential quarterly revenue growth since Q1 FY23
- Continued strength in Gross Margin which came in at 59%, 400bp higher than the previous corresponding period (pcp)
- A consecutive Quarter of profitability with Adjusted EBITDA[2] of $0.462m
- While cash collections were modestly lower than revenue the business delivered Operating Cash Flow of $0.842m in Q1 as well as Free Cash Flow generation of $0.15m
- Balance sheet remains stable vs the preceding Quarter with cash of $12.4m at 30 June 2023, up from $11.4m a year ago, with nil debt

OPERATING HIGHLIGHTS:

- The IDEST business, continued to outperform market conditions and had its strongest Quarterly result since March 2022
- IBM volumes continued to recover quarter on quarter, delivering the best Quarterly result in 12 months
- The LanguageCloud offering was made ready for its soft market launch on July 1, 2023 on the Slack & MS Teams platforms, 2 potentially high margin sales channels for Straker

Revenue

Straker Translations' revenue for the June Quarter was $13.1m, up a modest 2% versus the preceding Quarter but the result was the Company's first sequential improvement in Revenue since Q1 FY23. After a slow start to the Quarter Straker experienced improving momentum into June 30.

[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

Straker Translations (STG)
NZ Company no. 1008867
ARBN: 628 707 399

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

www.strakertranslations.com
investors@strakertranslations.com

The result was down versus the pcp but this was due to a highly exceptional revenue result from IBM in particular in Q1 FY23.

The overall revenue stability in Q1 reflected the benefits of Straker's diverse geographic exposure and breadth of clients. The Company continues to see variability across the market with weakness in some regions but strength in others. The North America market remains challenging, however the North American based Lingotek business delivered growth versus the preceding Quarter. Straker continues to endure revenue headwinds in the APAC/Asia business units and combined they were the main 'handbrake' on stronger growth this Quarter. Momentum in Europe increased strongly, up 25% versus Q4 FY23 helped by strong demand from our institutional clients.

With respect to IBM, the Company continues to experience solid momentum. For a consecutive Quarter we enjoyed >20% quarter on quarter Revenue growth. Although it remains below peak levels reported in the pcp this Quarter's revenue result was the highest in 12 months and was the highest revenue contributor to Straker's overall Quarterly result.

Margins and earnings

Gross Margins in Q1 FY24 were 59%, 400bp up on the pcp but slightly lower than the unusually robust level achieved in the preceding Quarter. High margin SaaS revenue contribution was flat this Quarter vs the preceding Quarter. The Company continues to expect Gross Margin to remain elevated versus historical reported levels ~55%.

The Company's focus on costs continues to yield positive, but fluctuating, results. Adjusted EBITDA in Q1 FY24 was $0.462m, compared to $1.061m in Q4 FY2023. Thanks to a relatively clean Quarter, free of non-recurring items, EBITDA was $0.47m. While overall opex was higher in Q1 vs the preceding Quarter due to noncash adjustments related to sales team expense in Q4 FY23 not being carried into Q1, total opex was 18% lower than the pcp. The result was achieved without sacrificing product development with R&D expense remaining stable versus recent quarterly levels, however, capitalised R&D returned to more normal levels.

Research and development

Straker has continued to invest in AI based R&D including new features for fact-validation and verification of AI generated content.

After much work over preceding Quarters Straker has successfully launched the Straker Language Cloud platform on both the Slack and Microsoft Teams platforms. It is now approved and available in their respective app stores.

The Straker Language Cloud is an Enterprise-grade PaaS (Platform as a Service) based model, enabling customers to order, manage, and monitor translation projects directly inside the tools they use every day.

Cash flows and funding

Operating cash flow (OCF) for Q1 FY24 was $0.842m, a continuation of recent trend of positive results. This result demonstrates strong improvement year on year and compares to an negative OCF of -$2.3m reported in the pcp. The Q1 OCF result was lower than the preceding Quarter, which benefited from extremely strong cash collections with cash receipts materially exceeding Revenue. In Q1, however, cash receipts vs Revenue returned to more normal levels.

A key focus of Straker is generation of Free Cash Flow (FCF). Notwithstanding lower cash receipts and thus lower OCF, the Company delivered again on this front, albeit at a more modest level compared to the preceding quarter. For Q1 FCF was $0.15m.

Straker's balance sheet remains in outstanding shape, with no debt and cash of $12.4m, flat vs the preceding Quarter and up strongly versus the pcp.

Summary and outlook

CEO and Co-founder Grant Straker said: "We are pleased with the result this Quarter. Market conditions remain highly variable, however, the Company's customer diversification has seen us deliver stable revenue, as well as continued Adj EBITDA profitability and Free Cash Flow generation. Strong momentum in the IBM business and institutional clients were the standouts this Quarter and we remain optimistic about their future direction."

"A focus for the Company during this and prior quarters has been the development and rollout of the LanguageCloud product offering on the Slack and MS Teams platforms. The soft launch on these platforms took place early in the current Quarter and we are excited about their potential impact on revenue as FY24 progresses."

Related party transactions

An amount of $53k was paid to Directors in fees during Q1 FY24, with a further $7k paid to a director in relation to consulting services provided.

AGM

Straker's 2023 Annual General will be held on Wednesday 23 August 2023 at 02.00 pm Canberra, Melbourne and Sydney / 04.00 pm NZST at its Auckland office 49 Parkway Drive, Rosedale.

Shareholders can also attend virtually via Zoom. You will need to register in advance for this webinar at the link below.

https://strakertranslations.zoom.us/webinar/register/WN_6gkBWMVMR6OB5nJgFV087w

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

Corporate:
Grant Straker, CEO & Co-Founder
E: grant@strakertranslations.com
P: +64 21 512 484

David Ingram, CFO
E: david.ingram@strakertranslations.com
P: +64 21 591 984

Investors:
Ben Henri
E: ben.henri@mcpartners.com.au
P: +61 473 246 040

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 2023

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	11,836	11,836
1.2 Payments for		
(a) research and development	(1,473)	(1,473)
(b) product manufacturing and operating costs	(4,896)	(4,896)
(c) advertising and marketing	(158)	(158)
(d) leased assets	-	-
(e) staff costs	(4,289)	(4,289)
(f) administration and corporate costs	(518)	(518)
1.3 Dividends received (see note 3)		
1.4 Interest received	36	36
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(10)	(10)
1.7 Government grants and tax incentives	317	317
1.8 Other (provide details if material)		
Restructure costs	(3)	(3)
1.9 Net cash from / (used in) operating activities	**842**	**842**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(14)	(14)
	(d) investments	-	-
	(e) intellectual property	(678)	(678)
	(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**	**(692)**	**(692)**

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	(143)	(143)
3.10	**Net cash from / (used in) financing activities**	**(143)**	**(143)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	12,505	12,505
4.2	Net cash from / (used in) operating activities (item 1.9 above)	842	842
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(692)	(692)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(143)	(143)
4.5	Effect of movement in exchange rates on cash held	(73)	(73)
4.6	**Cash and cash equivalents at end of period**	**12,439**	**12,439**

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	5,430	12,505
5.2	Call deposits	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)**	**12,439**	**12,505**

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	60
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)	842
8.2	Cash and cash equivalents at quarter end (Item 4.6)	12,439
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	12,439
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: 27-Jul-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.

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.