

28 October 2021

ASX and MEDIA RELEASE

STRAKER Q2 FY22 REVENUE STRONG DRIVEN BY ORGANIC GROWTH

Straker scales up to deliver on IBM strategic translation agreement, delivering strong organic growth. The company continues to see organic growth and consolidation opportunities in the highly fragmented US\$55¹ billion localisation sector.

Q2 FY 2022 FINANCIAL HIGHLIGHTS²

- Unaudited revenue of \$11.9 million up 66% (73% in constant currency³) on the same period a year ago;
- Gross margins improved to 56% ahead of the 54% in Q2 FY2021;
- Positive unaudited adjusted EBITDA in September, highest revenue month in Straker's history;
- Total operating cash outflow of \$2.5m due to the upfront investment to service the IBM contract and investment in new sales and marketing capability;
- Strong balance sheet with no debt and cash of \$18.2 million; and
- FY2022 guidance reaffirmed for revenue of greater than \$50 million, an improvement of more than 60% year-on-year, and an increase in Gross Margin.

Q2 FY 2022 OPERATING HIGHLIGHTS:

- IBM strategic translations contract delivering a sharp rise in translation content with volume rising to more than 10 million words per month from 1 million in January;
- Sales team expands to 48 with new sales offices in the Netherlands and Australia helping to generate increasing leads and a strong sales pipeline;
- Technology development team successfully links Straker and IBM systems, with more than 80% of translations requests automated on the Ray Platform;
- Integration of Lingotek progressing well strengthening the sales proposition of both companies; and
- Advanced discussion with several potential bolt on acquisitions continue as Straker continues to drive the disruption and the consolidation of the US\$55 billion localisation industry.

¹ <https://www.nimdzi.com/nimdzi-100-top-lsp/#market-size-growth>

² All figures are in NZ\$ unless stated

³ Constant currency comparisons are based on average exchange rates for the corresponding prior period.

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

Auckland, New Zealand – Straker Translations (ASX: STG), the leading AI technology-driven translations provider today reports strong growth in revenue for the Q2 FY 2022 as it reaps the benefits of its global strategic translation partnership with IBM.

Revenue up 66% as IBM ramps up content volumes

Revenue for the three months to September 2021 rose 66% versus pcp to \$11.9 million from \$7.2 million. The rise reflected both the surge in translation volumes flowing from its strategic alliance with IBM and the contribution of the US-based Lingotek acquired in February of this year. Revenue was also up 5% on the first quarter of the current financial year.

Over the last six months we have increased our workforce by 8, including 5 in the last quarter, taking the total to 228. They have included 7 in Sales and 3 in R&D, with other departments staying steady or reducing. We continue to see growth in the sales pipeline. Meanwhile as the IBM contract is bedded down these resources will become available to focus on further automation and improvement to our product stack.

Margins remain strong highlighting Straker's technology advantage

Straker's unique RAY and Lingotek technology platforms continue to provide a competitive advantage and to drive a 200bp improvement in gross margins for the quarter to 56% from 54% in Q2 FY 2021 and in line with the 57% achieved in the first quarter of the current financial year.

Lingotek's high margin Software as a Service (SaaS) revenue was responsible for most of the uplift when compared to the prior corresponding period. SaaS revenue was steady on the first quarter but has declined slightly as a share of total revenue due to the growing contribution of IBM related revenue to the group.

CEO and Co-Founder Grant Straker said: "Over the last quarter we have been intensely focussed on scaling up to deliver on the surge in translation volumes from IBM. At the start of the year after the contract went live, we were processing around a million words. But since then, through most of the last quarter we have been processing more than 10 million words a month and volumes continue to rise.

"We are very pleased with the progress we have made with IBM. We are now delivering translations in 90 languages from the 55 languages we initially expected with several languages such as Spanish and German in high demand.

"We are particularly pleased with our success integrating IBM's systems with ours to deliver seamless translation ordering and delivery. At the end of the quarter more than 80% of IBM's translation requests were delivered directly into our systems and we are working towards further automating the process by the end of the year.

"As we mentioned in the first quarter, the success with IBM continues to validate the advantages of our technology and our trans-national reach with a globally-significant

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customer and a leader in AI-technologies. This contract is driving industry interest amongst potential large scale enterprise customers in our solutions.

"We have prioritised scaling up to meet this demand – even though, in the short term, this has come at the expense of greater sales growth in other markets – as the deft execution on this contract will generate greater value for Straker than just its revenue contribution to the group.

"As the contract beds down and we progressively reduce those translations requiring manual processing, we expect to have greater capacity to service new customers.

"In anticipation of this shift, we have begun to progressively pivot away from a transactional sales model to putting in place sales and marketing strategies to drive deeper engagement with the multitude of enterprises that now use our services and targeting new enterprises. Notwithstanding this, our FY2022 guidance for revenue of greater than \$50 million, an improvement of more than 60% year-on-year, and an increase in Gross Margin is reaffirmed.

"We are seeing an improving sales pipeline. The sales cycle in the enterprise sector is longer and it's our expectation that these initiatives will increasingly drive top line revenue heading into FY2023.

"Lingotek, meanwhile, continues to deliver on our expectations. Its results have been underpinned by new contract wins announced in the first quarter, notably including Panasonic as a SaaS customer and broad improvement in market conditions as the US economy slowly emerges from the pandemic. We also expect Lingotek to benefit from the enhanced enterprise sales programme.

"We are making good progress integrating Lingotek and Straker teams across quality assurance, engineering and product and translations services to drive alignment between processes and tool sets. We are taking the best from both organisations, which has meant an improved capability across both companies. We expect the integration of Lingotek to be complete in Q1 FY2023."

Research and development

Our research and development team remains focussed on further linking IBM's systems and linking Lingotek's powerful suite of translation connectors with the RAY platform.

The application programming interface (API) that allows IBM to directly link its systems to the RAY platform was deployed earlier this month replacing a patch work of legacy systems. The API has significantly accelerated the speed and efficiency of IBM translations, further contributing to margin improvements and service responsiveness.

Our focus is now on increasing the automation of the workflow from IBM through to the RAY platform. A key aim is to bring our artificial intelligence capabilities to bear on tasks such as the selection of the best translators to correct initial machine translations.

We have also deployed the first Lingotek translation connector that will give customers the choice to either link with the Ray translation platform or continue to use Lingotek's platform. This connector, for website software WordPress, is working well and we are now turning our attention to other connectors such as those that connect our clients' CRM and e-commerce platforms.

We also continue work on building SaaS functionality into the RAY platform. The aim continues to be to offer our customers the benefits that come from subscription translation services, including high value features such as advanced connectors and our validation platform.

Cash flows and funding

We recorded a total cash outflow during the quarter of \$3.9 million reflecting the investment we have made in the business to meet the needs of IBM and the costs of scaling up our sales and marketing efforts. With the majority of the investment in IBM now behind us, we expect an improving business as usual cash flow.

Cash reserves at the end of the quarter stood at \$18.2 million down from \$22.1 million at the end of the first quarter and \$7.7 million at the same time a year ago.

Operating cash outflow for the quarter was \$2.5m, up from \$826k in Q1 FY2022. The majority of this is an increase in trade debtors reflecting new contract terms and increased business. Investing cash outflows of \$664k mainly reflected the company's investment in Research and Development. Net financing cash outflows were \$699k which included a \$400k loan repayment.

Summary and outlook

Straker is well positioned to continue its organic growth path and to pursue M&A opportunities as they arise.

"We have market leading technology, a global footprint and offer our customers opportunities to automate and consolidate their global translation requirements with a single provider delivering significant productivity benefits and cost savings," Mr Straker said.

"Our strategic translation alliance with IBM is providing a high-profile validation of these capabilities and we are confident that its endorsement will, over time, bring more large enterprise accounts to Straker, especially as our new sales and marketing strategy gains traction.

"The US\$55 billion localisation market in which we operate is highly fragmented with over 20,000 providers operating in the sector, the majority of which rely on outdated and cumbersome manual process of translations. The sector is therefore ripe for the disruption our RAY platform delivers as well as consolidation.

"With our strong balance sheet, we believe we can continue to be a change maker in the sector, and we continue to explore bolt-on acquisitions that will benefit from our technologies, extend our reach into key markets and establish relationships with new global enterprise customers.

"We believe we are on track to deliver on our aspirational target \$100 million in high margin revenue through the combination of organic and inorganic growth in the medium term.

"Meanwhile, we continue to forecast sales for FY2022 to exceed \$50 million with a margin exceeding the 53.4% recorded in the FY2021 year. We look forward to further updating shareholders when we release our interim results in November."

Related party transactions

An amount of \$83k was paid to Directors in fees during Q1 FY2022, with a further \$27k 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.

Corporate:

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

Investors:

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

David Ingram, CFO

E: david.ingram@strakertranslations.com
P: +64 21 591 984

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

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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")

Q2 30 September 2021

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	10,176	20,261
1.2 Payments for		
(a) research and development	(1,592)	(3,087)
(b) product manufacturing and operating costs	(5,582)	(10,009)
(c) advertising and marketing	(325)	(581)
(d) leased assets	(3)	(5)
(e) staff costs	(4,317)	(8,086)
(f) administration and corporate costs	(849)	(1,811)
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	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)		
Acquisition/integration payments	-	-
1.9 Net cash from / (used in) operating activities	(2,492)	(3,318)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(37)	(96)
(d) investments	-	-
(e) intellectual property	(627)	(1,259)
(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	(664)	(1,355)
3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	26,962
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	6	6
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(122)	(1,138)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(400)	(8,400)
3.7 Transaction costs related to loans and borrowings	(8)	(687)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)		
Deferred consideration	-	(649)
Lease Payments	(175)	(370)
3.10 Net cash from / (used in) financing activities	(699)	15,724

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	22,120	7,175
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,492)	(3,318)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(664)	(1,355)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(699)	15,724
4.5	Effect of movement in exchange rates on cash held	(60)	(21)
4.6	Cash and cash equivalents at end of period	18,205	18,205

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	18,205	22,120
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)	18,205	22,120

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	110
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.*

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	Amount drawn at quarter end
\$NZD'000	\$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.

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8. Estimated cash available for future operating activities	\$NZD'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(2,492)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	18,205
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	18,205
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	7

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-Oct-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.