30 May 2023

ASX RELEASE

AUDITED FINANCIAL RESULTS FOR THE YEAR TO 31 MARCH 2023

Straker delivers on margin guidance & a consecutive year of profitability[1]

AUCKLAND, 30 May 2023 – Straker Translations (ASX: STG) today reports its results for the year ended March 31, 2023 (FY23), demonstrating ongoing revenue growth, improved Gross Margin and significant cost control as customers continue to embrace our market leading product offerings.

HIGHLIGHTS[2]

- Revenue rose 6% to $59.4m up from $55.9m in the prior corresponding period (pcp) with very strong cash collections for the year of $62m, up 23% vs pcp.
- EBITDA profitable for FY23 and delivered a consecutive year of positive Adj EBITDA.
- Gross Margin of 57%, ahead of our guidance and 300bp up on FY22.
- 27% reduction in Quarterly opex over the year due to rigorous cost focus and further integration of previous acquisitions.
- Strong focus retained on R&D to maintain Straker's market leadership despite expense focus.
- Adjusted EBITDA of $1.4m with a particularly strong result in Q4 and a material increase vs $0.2m delivered in the pcp.
- Record Free Cash Flow generation in the final Quarter of FY23 delivering $1.7m in Q4.
- Strong balance sheet, with cash of $12.5m and no debt.
- Signed a 3-year extension to the IBM strategic partnership.
- Launch of the RAY Language Cloud offering in the second Half.

Grant Straker, Co-founder and Chief Executive Officer said: "Straker delivered key financial and operational achievements in 2023 and continued to grow, notwithstanding a market characterised by well documented macroeconomic turbulence and a degree of caution from customers. In some respects, it was a tale of two halves this year, with the second half characterised by softer revenue versus the first half but superior profitability and cash generation as management's opex focus bore fruit, particularly in Q4."

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[1] Defined as Adjusted EBITDA

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

A key feature of FY23 was IBM's decision to extend our strategic translation partnership by a further three years, a year longer than the extension option originally envisaged. The extension encompasses an expanded scope versus the original partnership signed in November 2020. Effective Jan 1, 2023, Straker is now providing IBM with translations 'around the clock' for any language combination that IBM might request versus the 55 languages envisaged in the initial partnership. In exercising this extension option and expanding its scope IBM has highlighted the technical superiority of Straker's translation offering. IBM noted that Straker's translation solutions had yielded "significant productivity and efficiency gains".

From a product perspective, this second Half saw the launch of Ray Language Cloud, the first frictionless Language Cloud product in the market, plus its integration with workplace super apps like Slack and MS Teams. This aligns with our strategy "to be where the customer works", an approach designed to allow clients to order and manage translations within their normal workflow - IBM was our launch customer for this application.

We expect RAY Language Cloud to be available in the current Quarter in the MS Teams App store. Straker anticipates this sales channel to yield a noticeable reduction in customer acquisition costs.

Mr Straker said, "The exponential growth in content volumes resulting from the surge in generative AI presents a substantial expansion of our market opportunity. In light of this trend, customers are increasingly seeking secure validation processes that combine the power of AI-generated content with human oversight." He emphasized that our Language Cloud offering is perfectly tailored to meet these demands, making it an ideal solution for such processes.

FINANCIAL PERFORMANCE

Compounding a very strong revenue performance in FY22, in FY23 annual revenue increased 6% to $59.4m from $55.9m in the pcp. Straker's revenue has now nearly doubled in the last 2 years. Tougher market conditions contributed to a slowdown in customer orders and a need for translations into fewer languages with this impacting in the second half of the year. Pleasingly, cash collections for the full year were extremely strong and exceeded revenue, coming in at $62m, up 23% vs pcp.

The Company continued to win new business over the year and across geographies, with noteworthy success in Asia Pacific especially. Revenue in North America showed stability across the year, but Europe remained weak as our focus on large Enterprise clients saw the relinquishment of some smaller, lower margin clients, although IDEST delivered consistently throughout FY23.

As a consequence of general economic conditions, the revenue contribution from IBM in FY23 was below the robust $14.8m delivered in FY22. After a record Quarterly contribution in Q1 IBM revenue declined in the following Quarters but began to recover in Q4, albeit still below peak levels.

Gross Profit was $33.9m, up 13% vs the $30.4m in the pcp and rose faster than revenue thanks to an improved Gross Margin performance. The Company had guided to an FY23 Gross Margin of over 54% and this was exceeded by 300bp, coming in at 57%, with an especially strong margin performance in Q4. The increase reflected ongoing technology gains and the benefit of integrating lower margin revenue onto the RAY platform from the IDEST business acquired at the end of FY22.

After turning Adjusted EBITDA positive in the second half of FY22 the business continued to deliver profitability, across both halves of FY23. Softer market conditions in the second half were offset by the impact of cost savings. For the full year Adj EBITDA was $1.4m vs $0.2m in the pcp.

Cognisant of market conditions management was proactive during the year to manage costs as well as complete the previously envisaged integration of prior acquisitions. This resulted in material savings achieved during the year with the Company's opex in Q4 FY23 approximately 27% lower than Q1 FY23. Contributing to this result were efficiency gains across almost every part of the business. In Q4 versus Q1 FY23 Production costs fell 16%; Sales & Marketing costs more than halved, with particular improvement in the Lingotek business; and Administration costs fell 51%. Importantly, however, the Company's investment in R&D remained fairly stable throughout the year.

Straker remains very well-funded. In FY23 the company saw a strong improvement in operating cash flow Half on Half and a general trend of improving Free Cash Flow (FCF) on a Quarterly basis as the year progressed. Straker generated FCF of $1.7m in Q4. Straker ended the year with cash and cash equivalents at $12.5m and debt free.

Mr Straker said the profit and margin outcomes in FY23 highlighted the Company's ability to endure a softening of market conditions yet still deliver revenue growth, as well as deliver benefits from historical acquisitions.

"Whilst our revenue growth rate this financial year was lower than the stellar performance achieved in FY22 I am very pleased with the results we have delivered. Despite 'the macro' we have grown the top line even while we materially improved our Gross Margin, cut opex almost across the board but maintained a focus on R&D. The business is in remarkable shape to leverage an improvement in economic conditions when it occurs", Mr Straker said. "We look forward to updating shareholders further at our Annual General Meeting in August."

For further detail on Straker's financial performance in the year to 31 March 2023 please refer to the company's Annual Report released to the ASX today.

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

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About Straker Translations
As an AI language tech pioneer, Straker is well-positioned to be a leading player as AI continues to disrupt the language industry. As a Top 100 company with unique technology and a global services reach, Straker is capable of delivering an AI-enhanced human-in-the-loop platform at scale to meet the changing needs of the market.

For more information visit: www.strakertranslations.com