Straker Translations

H1-FY21
Results Presentation

26 November 2020

straker TRANSLATIONS

Disclosure Statement

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Information in this presentation:

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- Due to rounding, numbers in this presentation may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

All information in this presentation is current at 26 November 2020, unless otherwise stated.

All currency amounts are in NZ dollars, unless otherwise stated.

H1-FY21

Straker Translations' acquisitions and synergies drive earnings improvements

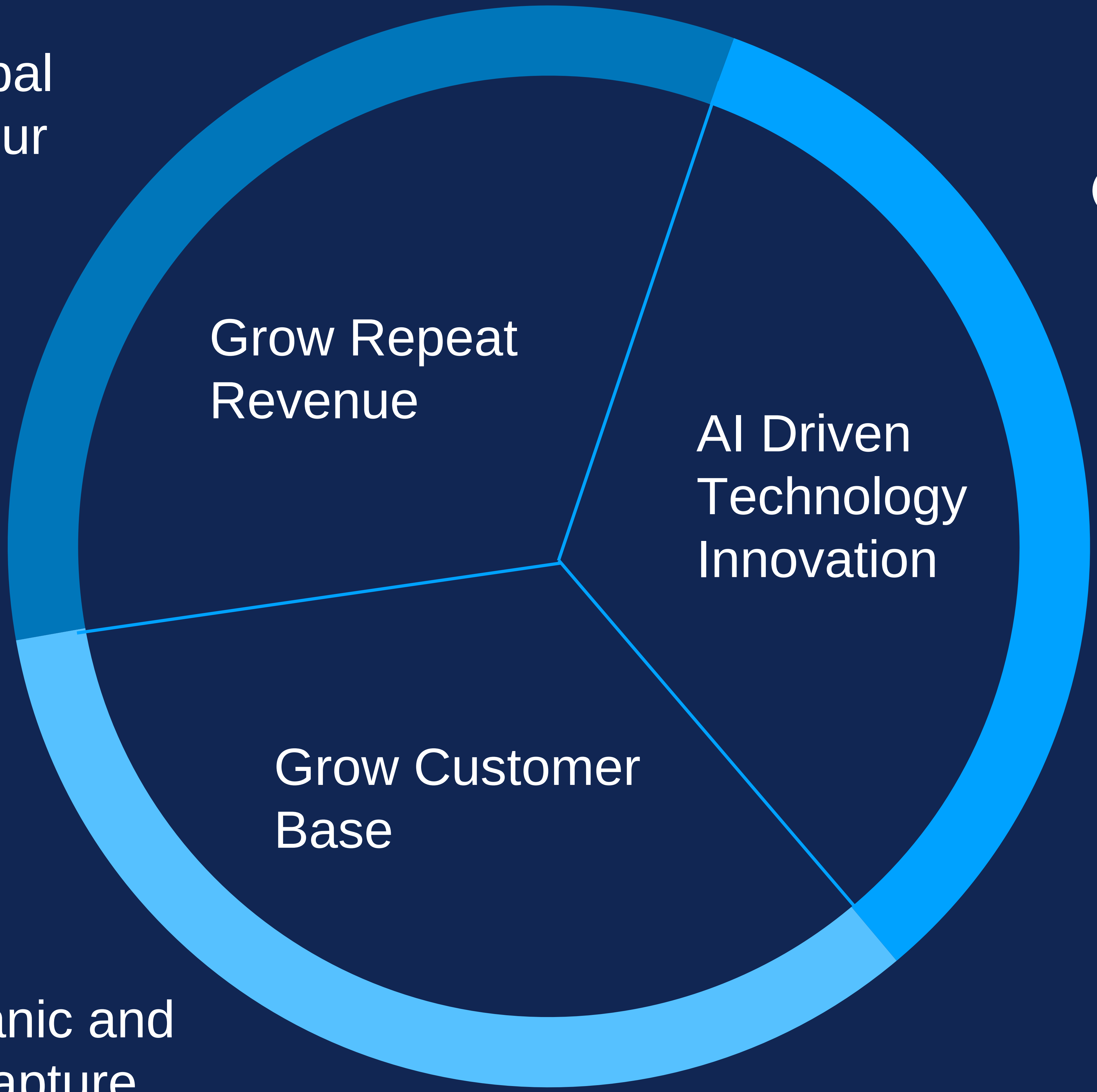
HALF-YEAR HIGHLIGHTS (All figures are NZ$ unless otherwise stated)

- Revenue increases 9% to a record $14.8 million from $13.6 million, lifted by the contribution of acquisitions of NZTC in New Zealand and On-Global in Spain
- Annualised repeat revenues at 30 September 2020 up 32% to $28.1 million (representing 95% of total revenue) from $21.3 million at the same time a year ago
- Enterprise customers generate 59% of all revenues
- Statutory gross margin of 51.1% falls from 54.4% amid COVID-19 induced pricing pressures and the dilutionary effect of recent acquisitions - Margins are expected to return to pre COVID-19 results going forward
- Adjusted EBITDA profit at $0.04 million, up from the prior year's $0.243 million loss due to acquisition synergies and COVID-19 related cost reductions
- Cash used in operating activities of $0.4 million falls from the prior year's $1.5 million cash outflow reflecting the improved operating performance of the business
- Cash on hand of $7.7 million provides capital to fund operations
- Very key major contract win post period end with transformational strategic agreement with IBM

Ai POWERED RAY

H1-FY21 continuing a strategy built on innovation and growth

- Use our technology and global services capability to grow our repeat revenue base while maintaining high margins

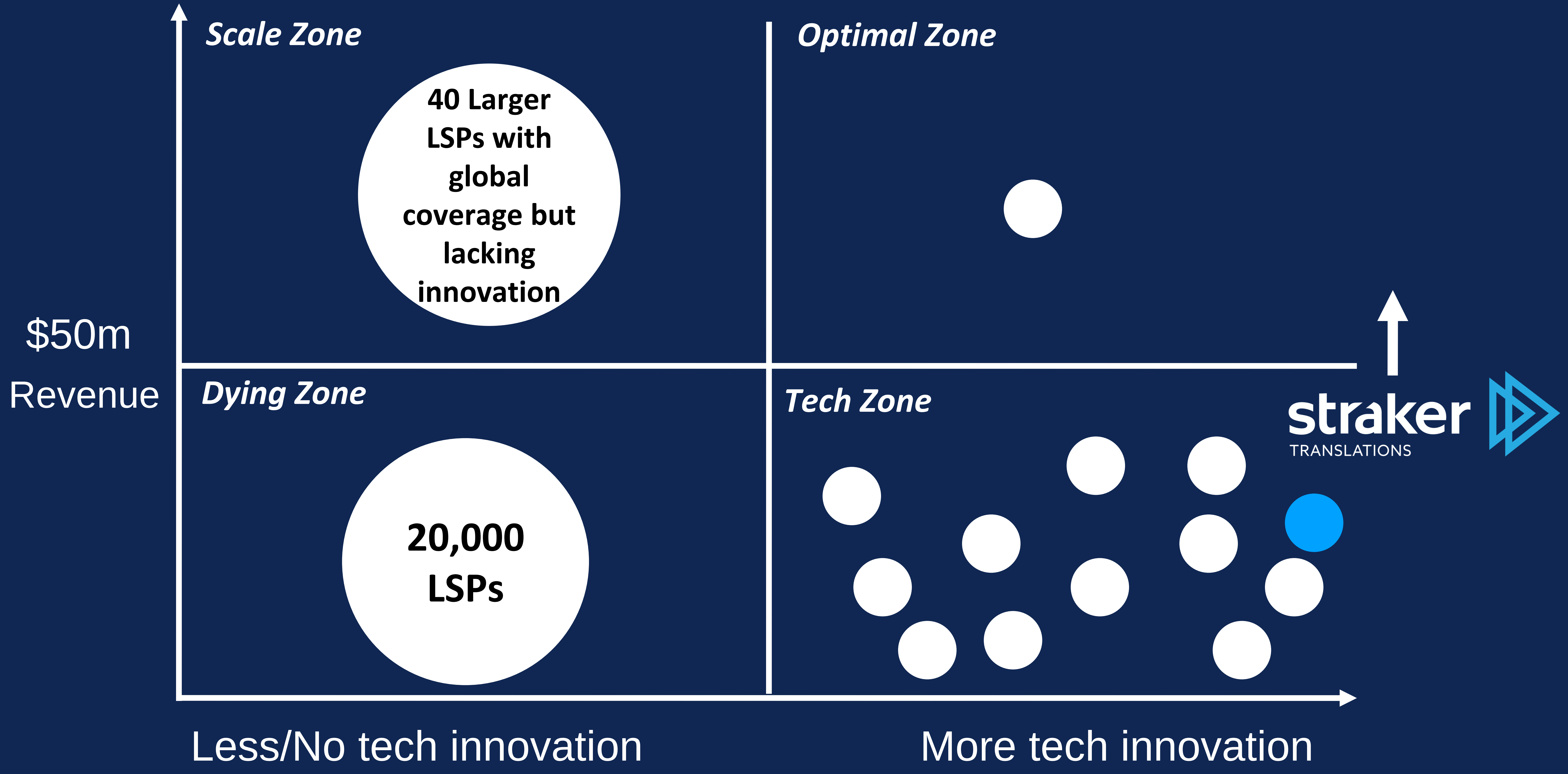


- Be world leaders in using AI, humans and automation in the translation process

- Expand through organic and acquired growth to capture opportunities and value as the translation industry consolidates

During H1-FY21, despite COVID-19 disruption we made significant inroads with our strategy to be a scale disruptor in the US$57 billion translation industry

Innovation Index



- Increased our repeat revenue by size and percentage
- Closed a significant enterprise deal to validate both our technology advantage and strategy
- Achieved consolidation benefits from recent acquisitions through our technology

IBM

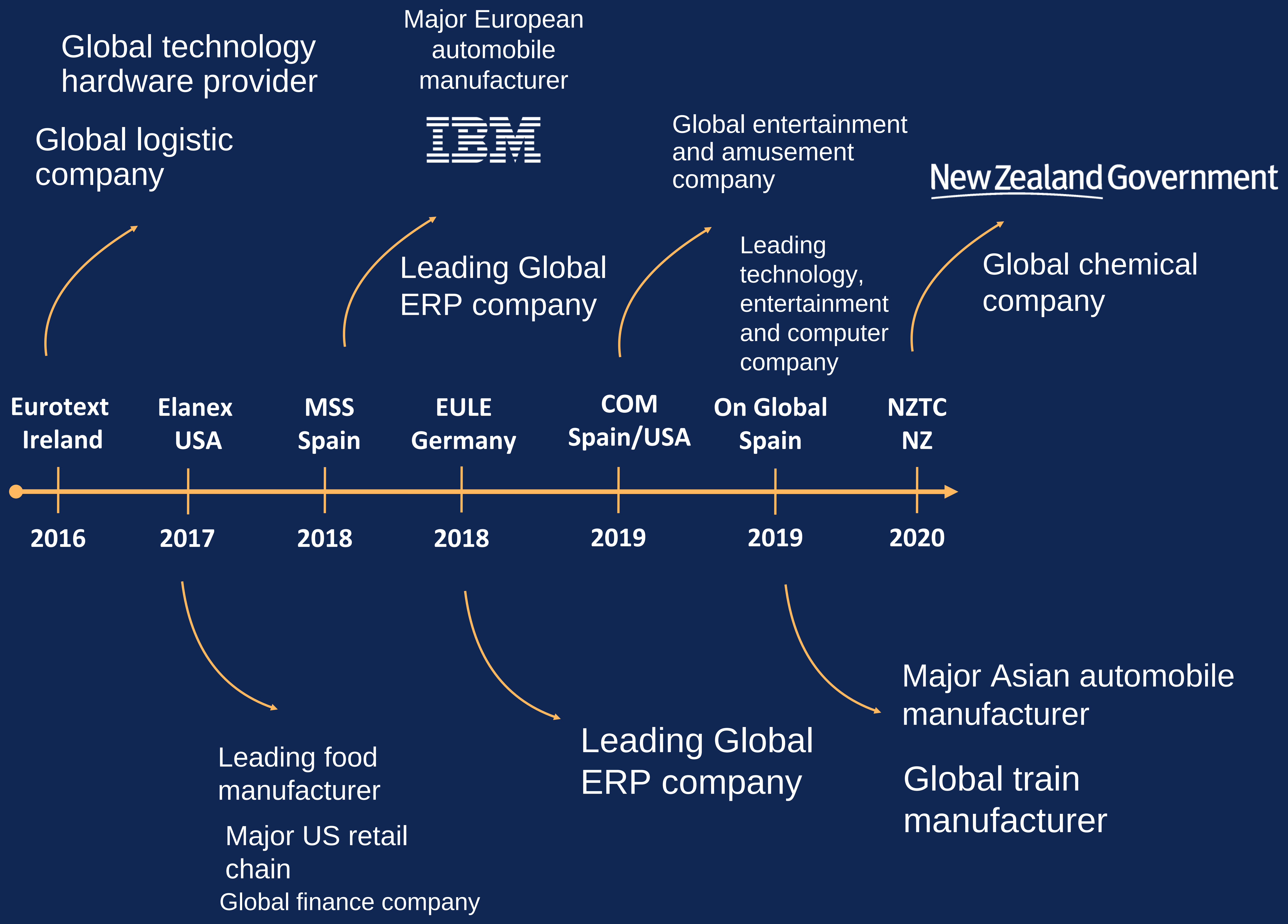
Ai POWERED RAY

Signed transformational strategic partnership with IBM

- ✓ Confirms our strategy of focusing on Enterprise customers
- ✓ Confirms our strategy of acquiring regional relationships with global enterprises through the acquisition of other language service providers
- ✓ Validation that our RAY Ai platform is industry leading given the long evaluation process with IBM, the world's leading artificial intelligence and cognitive computing company
- ✓ Has a material impact on revenue going forward

Acquisitions driving enterprise growth

Completed 7 successful acquisitions and gained access to significant global accounts since 2016



- As we complete acquisitions we are gaining trusted supplier relationships with leading global companies and opening doors to access more of the available customer wallet
- Most acquisitions have 5-10 major customers in this category
- It can take 12-24 months to work our way to a head office relationship where we change the nature of our supplier relationship from regional to global

H1-FY21

Strong Revenue

32%

Annualised repeat revenue increased to $28.1m

$14.8m

Revenue increases 9% to a record $14.8 million from $13.6 million in pcp

Solid Cashflows

$0.4m

Cash used in operating activities of $0.4m improved by $1.1m vs pcp

$7.7m

Cash on hand of $7.7 million provides capital to fund operations

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51.1%

Statutory gross margin of 51.1% falls from 54.4% amid COVID-19 induced pricing pressures and the dilutionary effect of recent acquisitions

Gross Margins

COVID-19 related margin dip which recovered back to usual strong range of mid 50%'s towards the end of H1

Margins are expected to return to pre COVID-19 results going forward

Profit and Loss

	For the half-year ended 30 September 2020 $'000	For the half-year ended 30 September 2019 $'000
Revenue	14,805	13,586
Cost of sales (translator contractor costs)	(7,241)	(6,194)
Gross margin	7,564	7,392
Other income	415	27
	7,979	7,419
Selling and distribution expenses	(4,189)	(4,564)
Administration expenses	(4,744)	(3,987)
Loss from trading operations before amortisation of acquired intangibles, acquisition and integration costs, finance expense and tax	(954)	(1,132)
Amortisation of acquired intangibles	(644)	(442)
Acquisition and integration costs	(165)	(468)
Operating loss before net finance expense and tax	(1,763)	(2,042)
Finance income	13	1,816
Finance expense	(855)	(34)
Net finance (expense)/income	(842)	1,782
Loss before income tax	(2,605)	(260)
Income tax credit	108	62
Loss for the half-year after tax	(2,497)	(198)

- Growth in revenue of $1.2m or 9.0% YOY (7% in constant currency) was driven by a strong performances from our recent acquisitions, NZTC and On-Global, offset by COVID-19 relating trading disruptions

- Gross margin increased $0.2m, however fell as a proportion of total revenue from 54.4% to 51.1% reflecting the short-term dilutionary impact that acquisitions have on group margins

- EBITDA improved $0.5m YOY, resulting in a 4.3pp increase in EBITDA margin over the period as a result of responsive expense management and acquisition synergies

- There were no impairments recorded in the period

Balance Sheet

	30 September 2020 $'000	31 March 2020 $'000
Current Assets		
Cash and cash equivalents	7,735	11,228
Trade receivables	4,872	5,854
Other assets and prepayments	2,027	1,518
Total Current Assets	14,634	18,600
Non–current Assets		
Intangible assets	13,195	13,391
Plant and equipment	246	289
Right-of-use assets	847	1,049
Total Non–current Assets	14,288	14,729
Total Assets	28,922	33,329
Current Liabilities		
Trade payables	1,828	682
Sundry creditors and accruals	2,234	3,718
Employee provisions	497	529
Deferred consideration liabilities	-	561
Contingent consideration liabilities	816	1,419
Lease liabilities	371	402
Total Current Liabilities	5,746	7,311
Non-current Liabilities		
Contingent consideration liabilities	268	872
Lease liabilities	595	738
Deferred tax liability	764	943
Total Non-current Liabilities	1,627	2,553
Total Liabilities	7,373	9,864
NET ASSETS	21,549	23,465

- Trade receivables and other assets: Effective credit management with receivables (including accrued revenue) reduced by 6.4% year on year despite 9% revenue increase.
- Trade payables increase is linked to the decrease in accrued translator costs included in Sundry creditors and accruals at 30 September 2020 compared to 31 March 2020. This is a result of the automation of vendor invoice processing.
- Acquisition related liabilities have decreased due to revenue targets being met, resulting in earn out payments. Additional $ 0.225m liability recognised in relation to the purchase of NZTC due to robust revenue performance in H1 FY21.

Cash Flow	For the half-year ended 30 September 2020 $'000	For the half-year ended 30 September 2019 $'000
Cash flows from operating activities		
Receipts from customers	14,725	13,327
Government grants received	371	-
Interest received	13	41
Payments for acquisition and integration costs	(165)	(482)
Payments to suppliers and employees	(15,316)	(14,363)
Net cash used in operating activities	(372)	(1,477)
Cash flows from investing activities		
Proceeds from sale of plant and equipment	-	10
Payments for capitalised software development	(630)	(571)
Payments for plant and equipment	(39)	(139)
Payments for acquisition of subsidiaries, net of cash acquired	-	(1,266)
Net cash used in investing activities	(669)	(1,966)
Cash flows from financing activities		
Proceeds from issue of shares	25	47
Cost of share issue	(38)	(9)
IPO related costs	-	(162)
Lease liability payments	(260)	(266)
Payment of contingent consideration	(1,907)	(636)
Net cash used in financing activities	(2,180)	(1,026)
Net decrease in cash and cash equivalents	(3,221)	(4,469)
Effect of exchange rate on foreign currency balances	(272)	761
Cash and cash equivalents at start of period (1 April)	11,228	17,669
Cash and cash equivalents at end of the period	7,735	13,961

- Operating cash flow increased by 75% to -$0.04m, an improvement of $1.1m from -$1.5m

- Operating cash was helped by a 10.5% increase in customer receipts, $0.4m in government grants, and a reduction in acquisition/integration related costs.

- Free cash flow in H1 FY21 of -$1,0m, equivalent to -7.1% of operating income.

- Net cash position at 30 September 2020 was $7.7m compared to $14.0m at 30 September 2019

Ai POWERED RAY

- ✓ Focus on integrating and onboarding IBM – revenue impact begins in Q4 FY21 and materially so in FY22
- ✓ Continued focus on taking advantage of new industry M&A opportunities post COVID-19. Remain confident of closing one deal before the end of FY21.
- ✓ Marketing and sales campaigns to drive message around platform benefits for Enterprise customers as more companies look for technology and automation in the translation process
- ✓ Investment in R&D as we look to accelerate our competitive advantage through RAY Ai

Adjusted EBITDA

Adjusted EBITDA is earnings before depreciation, amortisation, impairments and non-operating expenses. EBITDA is a non-IFRS measure of financial performance. Please refer to the interim report released with this announcement for a reconciliation to reported operating loss before net finance expense and tax.

Constant currency

Constant currency comparisons for revenue are based on average exchange rates for the 6 months ended 30 September 2019.

Free cash flow

Free cash flow is defined as cash flows from operating activities less cash flows used for investing activities excluding cash used for acquisitions of, and investments into, businesses and strategic assets.

Repeat revenue

Repeat revenue is defined as sales from customers who have previously ordered.

Thank You

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