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ASX ANNOUNCEMENT **26 NOVEMBER 2020**

RESULTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2020

Straker Translations' acquisitions and synergies drive earnings improvements

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

- Revenue increased 9% to $14.8 million from $13.6 million
- Annualised repeat revenues at 30 September 2020 up 32% to $28.1 million (representing 93% of total revenue) from $21.3 million at the same time a year ago
- Enterprise customers generated 59% of total revenues
- Statutory gross margin of 51.1% falls from 54.4% amid COVID-19 induced pricing pressures and the dilutionary effect of recent acquisitions
- Adjusted EBITDA[1] profit at $0.04 million, up from the prior year's $0.24 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

Straker Translations (ASX:STG) today reports revenue and earnings improvements for the September Half as the recent acquisitions of NZTC in New Zealand and On-Global in Spain contribute to group sales and benefit from the roll out of the company's world-leading Ai-powered RAY language translation platform.

Straker also reports progress on its plan to build on the successful integration of these companies with the resumption of discussions over several potential acquisitions. The company is aiming to complete at least one material transaction by the end of the financial year.

FINANCIAL RESULTS

Revenue for the half year to 30 September 2020 increased 9% to a record $14.8 million from $13.6 million in the prior corresponding period. The increase was driven largely by the contribution of recent acquisitions and a strong performance securing new contracts in the enterprise and media sectors. These gains were offset by COVID-19 related trading disruptions.

[1] Adjusted EBITDA is a non-IFRIS measure of financial performance. Please refer to page 11 of the interim report released with this announcement for an explanation of this measure and a reconciliation to IFRIS

Annualised repeat revenues – an indicator of core revenue for the year ahead - rose 32% to $28.1 million from $21.3 million in the same period a year ago. Repeat revenue now represents 93% of total revenue, with enterprise customers accounting for 59% of all revenues.

Gross margins rose to $7.6 million from $7.4 million in the prior year reflecting the contribution of acquisitions. However, it 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.

We expect over time that these margins will increase as we progressively migrate acquired companies onto the RAY platform, which produces gross margins closer to 60%. We also saw some encouraging margin improvements towards the end of the second quarter.

Adjusted EBITDA profit at $0.04 million was achieved, up from a $0.24 million loss in the prior corresponding period. The improvement in profitability was due to cost savings and acquisition synergies, including the introduction of the RAY translation platform into acquired businesses and pre-emptive COVID-19 cutbacks. Some $0.42 million of other income, of which the majority was government COVID-19 related grants, and an increase in capitalised development costs also assisted with the improvement.

Operating cash outflow narrowed significantly to $0.37 million down from $1.48 million in the same period last year reflecting increased revenue and cost reductions including the benefit of synergies resulting from the integration of acquisitions.

Cash outflow for the half year was $3.2 million, an improvement on the prior year's $4.5 million cash outflow and included $1.9 million of performance related payments to the vendors of companies we acquired. In the prior year we made $0.64 million of these payments and also invested $1.3 million for acquisitions. Straker's funding position remains strong with $7.7 million of cash on hand and it remains in a position to deliver on its organic growth and merger and acquisition strategies.

CEO and Co-Founder Grant Straker said: "We are very pleased with the progress we have made over the last half year. Although the COVID-19 pandemic disrupted momentum and margins in the first quarter, we have over the last few months seen a resumption of growth and this culminated in September with our largest ever sales month.

"COVID-19 is accelerating the transition of the translation industry to an outsourced and automated model and we are benefitting from this trend. Our technology and service proposition continues to gain recognition around the world, as our recently announced contract with IBM highlights and this interest is filling the sales pipeline. We are seeing particularly strong engagement with global enterprise customers who value our global reach as much as they value the speed, accuracy and service that our platform delivers."

STRATEGIC PRIORITIES

Straker Translations has three strategic priorities: achieve organic and acquisition growth; build repeat revenues; and enhance its technological leadership of the translation process. We have made strong progress in all three areas over the last year and delivered tangible improvements in shareholder value.

"Our recent acquisitions, NZTC in New Zealand and On-Global in Spain, are seeing substantial gains from the integration of the Ai-powered RAY translation platform into their businesses. The platform is driving improvements in margins, while our global reach and capacity is also helping to drive an uplift in sales," Mr Straker said.

"Our pipeline of acquisition opportunities is strong. In the wake of the COVID-19 outbreak, we scaled back our discussions with several parties because of the uncertain outlook to global markets. However, customer demand for translation services remains robust, while - as mentioned earlier - the pandemic has highlighted the merits of our approach.

"Accordingly, we have resumed discussions with a number of parties that offer the characteristics Straker seeks, including: a strategic geographic location; a wide spread of customers with a strong cohort of enterprise customers; strong in-market sales resources; potential for synergies and a good cultural fit. We expect to conclude at least one such acquisition before the end of March 2021.

"Enterprise relationships are a crucial quality we seek in any target as these customers offer the strongest potential for accelerated revenue growth in future years, furthering our goal to grow organically and build repeat revenues.

"Indeed, we estimate the enterprise customers with whom we are already transacting collectively spend upwards of $500 million each year on translation services. As these customers become more aware of our global capability, our speed, cost advantages, and our service proposition, we believe we can continue to earn more of their business.

"Our sales performance over the last half year shows this approach is delivering results, particularly our strong improvements in recurring revenues and the increasing proportion of sales to large enterprise customers.

"The strongest evidence in the current financial year came early this month, when we announced a strategic alliance with IBM to provide language translation services across 55 languages starting in January 2021. "The relationship emerged out of Straker's acquisition of MSS in Spain in 2018. MSS was providing only Spanish translation services to IBM. However, soon after MSS was integrated with Straker and implemented the RAY translation platform, it became clear that we could offer IBM more. This deal is significant, although at present we are not able to quantify the impact on revenue.

"The growing use of our platform globally has seen an 81% increase in the volume of data we processed, compared to the same period a year ago, incrementally increasing the power of our RAY platform. Higher volumes drive increases in the speed and accuracy of our machine translation processes. The improved efficiency results in a reduction of input from our human translators and drives improvements in margin.

"We have meanwhile continued investment to extend our technological leadership. Key developments over the period have included upgrades to the RAY Application Programming Interface to make it easier for customers to integrate their systems with ours, thereby increasing the automation of the translation process.

"We have updated the speech-recognition module for RAY's subtitling workbench and new modules to simplify payments to our network of crowd-sourced translators. And we have moved to increase the capacity of RAY to deliver on the growing demand for subtitling from key media clients and to assist us with our drive into advanced dubbing technology.

OUTLOOK

"Straker is well placed to continue to grow for the remainder of the current financial year and beyond. Core repeat revenue is strong. The relationships we have established with new enterprise customers through acquisitions and through the follow up by our sales teams positions us for organic growth," Mr

Straker said. “We continue to expect revenue from the recently announced IBM agreement to positively impact the Q4FY21 financial results and expect it to yield a significant contribution in FY22.”

“Meanwhile, with COVID-19 accelerating the consolidation of the global translation industry, we have resumed talks with several potential acquisition targets where we can drive immediate margin improvements as we integrate our technology and share support office costs. We are looking ahead with confidence and look forward to providing an update at the end of the third quarter, if not before.”

EARNINGS WEBCAST

Straker’s H1 FY21 earnings webcast at 11.00am AEDT/1:00pm NZDT on 26 November can be accessed by pre-registering at:
https://us02web.zoom.us/webinar/register/WN_SHbOJ08YSS28ssnPBJ-7EQ.

After registering, you will receive a confirmation email containing information about joining the webinar. Investors must pre-register in order to participate.

This announcement has been approved for release to the ASX by the Board of Straker Translations Limited.

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About Straker Translations

Based in New Zealand, Straker Translations has established itself as a world leading Ai data driven translation platform powering the global growth of businesses. Straker Translations has developed a hybrid translation platform that utilises a combination of Ai, machine-learning, and a crowd-sourced pool of freelance translators. The company’s cloud-based platform manages the end-to-end translation process, leveraging Ai and machine-learning to create a first draft translation and subsequently matching the customer’s content with one or more of the approximately 13,000 crowd-sourced human freelance translators for refinement. This process is managed using Straker’s proprietary “RAY Translation Platform”, which has been developed over eight years and is an enterprise grade, end-to-end, cloud-based platform. By leveraging machine translations and its big data assets, the RAY Translation Platform enables the delivery of faster and more accurate translations, lowering the time and cost to deliver versus traditional translation services. The platform can be integrated directly into customers’ systems and consists of a customer dashboard, machine translation integration and modules for assisting and managing translators. For more information www.strakertranslations.com