FY2024 Results

28 May 2024

ASX RELEASE

AUDITED FINANCIAL RESULTS FOR THE YEAR TO 31 MARCH 2024

FY24 sees record profitability and Free Cash Flow delivered

AI-driven language and content services provider Straker Ltd (ASX: STG) today reports a solid FY24 financial result, despite market cyclicality, and highlighted by outstanding profitability and positive free cash flow, as per guidance.

FINANCIAL HIGHLIGHTS[1]:

- Revenue of $50m, with cash receipts slightly higher at $52.2m
- Third consecutive year of positive and improved YOY Adj EBITDA[2]
- Gross Margin (GM) of 63.8%, well ahead of guidance and up ~ 1,000bp in the last 2 years
- Adj EBITDA of $4.5m, triple the $1.4m delivered in the prior corresponding period (pcp)
- Free Cash Flow[3] (FCF) of $2.3m, a $3.2m improvement versus the pcp
- Strong balance sheet with no debt and cash of $12.2m, net of the $2m impact of the share buyback completed in the period
- In FY25 Straker expects GM above FY24 levels, continued positive EBITDA and FCF generation, with our new AI app product suite, 'AI Cloud', contributing to our ARR revenue base.

OPERATING HIGHLIGHTS:

- Name change to 'Straker Ltd' signifying the broadening utility of our technology to markets beyond our historic focus on translations
- Managed Services (MS) division created in early FY24 demonstrated outstanding and accelerating growth and is a key driver of GM expansion
- MS contributed to a stability in overall IBM revenue throughout the year, at a materially higher level versus 2H FY23
- V2.0 of our LanguageCloud offering via Slack / MS Teams has been rebranded 'AI Cloud' and is expected to be a key contributor to an increase in SaaS revenue

[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
[3] Free Cash Flow is the sum of Operating and Investing Cash Flow

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- Generative AI based product, 'AI Verify,' launched and also presents a sizable ARR opportunity
- Material investment in R&D continues, but primarily focused on new app development

Grant Straker, Co–Founder and Chief Executive Officer, said: "As a management team we are immensely proud of the step change in the profitability of Straker, as demonstrated by this set of results. We dramatically expanded margins, continued to be EBITDA positive, generated cash, bought back 5% of the Company and maintained enviable balance sheet strength."

"On the Revenue side, however, there was no escaping the fact that conditions were tougher than expected, particularly as clients moderated the tempo of their commercial engagement with technology suppliers as they assessed the implications of generative AI, among other factors. We embrace generative AI wholeheartedly and leveraging this technology has been a core element of our product development strategy to support future top-line growth, exemplified by the recent launch of our Verify product. Early indications from customers regarding AI Verify are extremely encouraging."

Key Business Highlights

Company Name Change

During the period the Company dropped 'Translations' from its name and rebranded simply as 'Straker'. As we noted at the time, the name change, whilst modest in scope is, nonetheless, symbolic. Initially focused on translations, the change signifies the evolution of the Straker's technology and its applicability to adjacent and fast-growing markets such as the verification of AI driven content. The name ensures the company is still known as Straker to clients and keeps the association with our core business of translation and localisation but highlights the company's focus on technology and AI driven solutions for clients.

Managed Services

In Q2 Straker launched the Managed Services (MS) division for localisation management, with IBM as the key customer. The MS division provides translation request management and localisation infrastructure services. This innovation has further strengthened the already healthy partnership between IBM and Straker. The business has grown very quickly in FY24 and has had an accretive impact on our Gross Margin.

New Products

On the product side, demand for verification of AI driven content is exploding and this represents lucrative opportunities for Straker. During the year development was completed on a new Compliance / Verification product leveraging generative AI. It was launched before year end as 'AI Verify'. The Verification component will allow customers to run checks on their content, including for factual accuracy. The Compliance offering is designed to reduce internal and external costs for audit and compliance teams.

After a soft launch in Q2, version 2.0 of the enterprise grade Language Cloud platform was released just before year end and continues to build on the base of the Slack and Microsoft Teams platforms. It has been rebranded as 'AI Cloud' Use cases have been broadened beyond just supporting translation workflows (management, ordering, monitoring jobs), to now cover instant translation via MT and querying data / reporting insights directly inside customers' workplace apps. The AI Cloud platform channel serves as a strategic foundation for expanding SaaS style revenue streams inside our existing client base. Increasing SaaS revenue is a key objective for FY25 and beyond and Straker's growing suite of AI app products is key to our ambitions to move more of our Revenue from 'Repeat' to 'Recurring'

Revenue

The softer market conditions experienced in the second half of FY23 were a more prominent feature in FY24. Market conditions deteriorated in the second half and thus, we continued to refine our Revenue expectations throughout the year. Revenue for the year was $50m, down 15.8% whilst cash receipts were slightly higher at $52.2m.

Europe demonstrated the best relative performance, even with a softer final Quarter. North America ex-Lingotek was also reasonably stable but, after a solid performance for most of the year Lingotek also experienced a softer final Quarter as companies constrained their spending.

A standout positive was the Revenue from our MS division deployed to IBM and inaugurated in Q2 FY24, contributing to a stability in overall IBM revenue throughout the year, and at a materially higher level versus 2H FY23. After a standing start in Q2 MS has ended the year as one of Straker's most important contributors.

Profitability

Gross Profit was $31.9m, only marginally lower than the pcp despite the double digit decline in revenue and buoyed by continued improvement in Gross Margin (GM). The GM was 63.8% for year, after reaching 68.8% in the final Quarter of the FY24, and is now 1,000bp higher than 2 years ago, on a full year basis. This dramatic improvement has been driven by technology gains, the integration of acquired businesses onto Straker's technology platform as well as, more recently, rapid growth in the MS business line.

Adjusted EBITDA was particularly strong at $4.5m versus $1.4m generated in FY23. Importantly, this was due to a $4.3m reduction in opex, year on year and only a modest increase in capitalised R&D. EBITDA was $4.3m, well up on the $1m achieved in FY23. The FY24 Result highlighted the benefits of management's strong focus on costs in the prior year, which saw major reductions in opex due, in part, to a reduction in FTE headcount of 66 over the last 18 months. The largest tranche of these reductions was in the Production Dept where headcount fell 29%.

During the period we impaired IDEST's goodwill by $2.7m, a non-cash charge, impacted by an institutional contract ending. Despite this setback, we remain optimistic about IDEST's prospects, with several significant tenders currently in market.

The Company believes that as top-line strength returns the full benefit of the cost reductions will become even more apparent as the business' cost base has been configured to support materially higher revenues.

Cash Flow and Balance Sheet

Operating Cash Flow was $5.0m for the year, versus $1.4m in the pcp, with another year of robust cash collections experienced in FY24. Consistent with management's focus on cash generation, Free Cash Flow was a key feature of this year's result, improving by $3.2m versus the pcp to $2.3m in FY24 thanks to the surge in Operating Cash Flow.

This resilient cash flow performance continues to underpin the consistent strength of Straker's balance sheet. The Company remains debt free and holds cash of $12.2m, net of $2m spent buying back 5% of the Company's Issued Capital during the second half of the financial year. The Company's net cash position and our expectations for further Free Cash Flow generation in FY25 give Straker strong flexibility to respond to opportunities as they arise.

Outlook

Straker is pleased to provide the following expectations with respect to various key financial metrics for FY25:

- Revenue is expected to return to topline growth
- Gross Margin is expected to maintain mid-60%,
- Straker will continue to be Adjusted EBITDA positive
- Straker will continue to generate Free Cash Flow
- Our new AI app product suite, 'AI Cloud' to contribute to our ARR base.

A further update on the Outlook will be provided at the Company's AGM on 27th August 2024.

Regarding FY25 Mr Straker noted: "We are pleased to be able to give the market guidance on a number of key metrics. We believe that the work we have done on the business in the last two years has set it up extraordinarily well for a return to more exuberant market conditions and burgeoning customer demand for product offerings that leverage the tremendous benefits of generative AI."

"We are punching above our weight in terms of the size of capital deployed to R&D and this investment is firmly focused on further AI innovations. Our Gross Margin has undergone a step change in recent years and as our guidance indicates, and we expect this to be sustained, with the help of our future AI app product releases."

"In particular, we are optimistic on the impact of our AI Cloud offering in FY25 and beyond. This, as well as AI Verify and future AI app product releases, are expected to have a material impact on revenue quality by increasing SaaS revenue."

For further detail on Straker's financial performance in the year to March 31, 2024, 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 Limited.

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About Straker

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.straker.ai