

Straker Translations Ltd

Translating words into success

Straker Translations (ASX:STG) is a New Zealand-based company engaged in providing cloud-enabled translation services. The company has created a technology platform which enables the automated translation of more than 100 language pairs. The company does this using machine learning (AI) to speed up a crowd-sourced group of 13,000 freelance translators around the globe. Straker listed on the ASX in October 2018 after raising \$21.2m at \$1.51/share to deliver a market capitalisation at the time of listing of \$79.4m. Subsequently Straker has acquired several companies, including media localisation specialist COM from Spain, On-Global Language Marketing Services also from Spain, the New Zealand Translation Centre and in January 2021 LingoTek which expands the company's footprint in the US translations market. This last acquisition was the most transformational for Straker delivering annualized revenues of NZ\$11.2m and 20 new enterprise relationships to the company. The LingoTek acquisition also delivered complementary technology to automate the translation process which Straker is incorporating to drive faster and greater volumes of content into its Ai engine RAY.

Business model

Straker services a range of sectors with its translation services including leading e-commerce sites, financial institutions, global brands, and media companies. The company has more than 2,650 corporate customers using its Ai-powered RAY translation platform and now has more than 90 enterprise customers, 20 of those secured in the LingoTek acquisition. Straker's aim is to grow its SaaS recurring revenues with its acquisition strategy central to the drive to gain these customers quickly. Each of its acquisitions, 8 in total since 2016 and 6 since listing, have delivered at least 5-10 enterprise customers, speeding up a process which ordinarily takes 12-24 months to execute.

Q3 FY21 was a transformational quarter

Straker completed a transformational quarter in Q3 FY21 which included a 4-year strategic translation alliance with International Business Machines Corporation (NYSE:IBM) and the acquisition of US-based LingoTek which extended its position in the US translations market, added NZ\$11.2m in incremental annual revenue and brought new relationships with multinationals including Oracle, Acquia and Nike. The alliance with IBM, effective 1 January 2021 extends Straker's existing relationship from one language to 55 and directly links Straker's AI-powered Ray translation platform to IBM's technology platforms. In addition to these developments, Straker delivered a 24% increase year-on-year (Y-o-Y) in sales orders for the quarter to NZ\$7.7m and a 5% Y-o-Y in revenue to NZ\$7.5m. Cash receipts for the first nine months of FY21 were NZ\$22.4m with operating cash outflows of NZ\$0.33m.

Trading at a discount to considered peer group

We consider Access Innovation Holdings which trades as AI-Media (ASX:AIM) one of the closest peers to STG in terms of business category (captioning) and business model, largely enterprise deals. We also look to Freelancer Ltd (ASX:FLN) on the basis that it manages a cohort of freelancers working on often times small projects. We consider Damstra Holdings (ASX:DTC) a peer due to the SaaS like nature of its enterprise agreements. Based on last reported full year revenues, this group is trading on a median EV/Revenue multiple of 5.9x, which is at a premium to Straker's 3.3x EV/Sales FY20 multiple.

Historical earnings and ratios

Year end	Revenue (NZ\$m)	EBITDA Adj (NZ\$m)	NPAT Adj (NZ\$m)	NPAT Rep. (NZ\$m)	EPS Adj (c)	EPS Rep (c)	EV/Sales (x)
03/18a	17.026	(1.400)	(0.853)	(1.524)	na	na	na
03/19a	24.594	(0.159)	(0.929)	(4.329)	(1.69)	(7.87)	3.7
03/20a	27.736	(0.581)	(0.417)	(2.522)	(0.78)	(4.73)	3.3
03/21e*	32.920	(0.996)	(3.268)	(3.268)	(5.90)	(5.90)	2.8

Source: Company data *Consensus derived from Refinitiv used for FY21

Software & Services

12th March 2021

Share details

ASX Code	STG
Share price	\$1.82
Market Capitalisation	A\$98.9M
Shares on issue	54.3M
Net cash at 31 Dec '20	~NZ\$7.3M
Free float	~61%

Share performance (12 months)



Upside Case

- Strategic alliance with IBM yet to be reflected in Straker's results
- Repeat business now at 93%
- Enterprise customers are increasing, delivering Longer-term engagement

Downside Case

- Longer lead times to secure enterprise customers
- Acquisitive nature of business makes it difficult to unpick like for like performance
- More than 70% of revenue generated offshore, adding exchange rate risk

Catalysts/upcoming events

FY21 results May 2021, evidence of additional revenues and operating earnings delivered by LingoTek acquisition

Comparable companies (Aust/NZ)

Access innovation Holdings (ASX:AIM), Damstra Corporation (ASX:DTC), Freelancer (ASX:FLN)

Top 5 shareholders

Grant Straker	13.49%
Scobie Dickinson Ward	13.43%
Bailador Technology Investments	11.78%
Skyone Capital	7.75%
MJ Gregg	5.08%

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FINANCIAL SERVICES GUIDE

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