New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

August 3rd 2022

Straker Translations Limited (STG)

The company will hold its Annual Shareholders Meeting at **4.00pm Wednesday 24 August 2022.**

The location is the company's office **Level 2 49 Parkway Drive Rosedale Auckland.**

You can register to join the meeting online here.

Company Overview

The company was founded in 1999 by Merryn and Grant Straker as a technology services business, but became a tech-centric translation company in 2010 when they saw a gap in the market for technology-based translation services that could utilise both machines and humans to produce highly accurate, faster, and more cost-effective translations.

Since 2010, Straker has grown into one of the world's leading translation service providers serving some of the world's largest and best-known brands. Its largest 25 customers include IBM, SAP, Oracle, Nike, H&M, Walmart, Orica, the United Nations, and the European Union. It has 65 people working in North America, 108 in Europe, 8 in Japan, 16 in the Philippines and 70 in the Pacific. During the year it acquired IDEST a translation company based in Brussels, Belgium.

In July 2022 the company announced that Phil Norman, the independent Chair who has served since 2014 and Tim Williams, an independent director who has served since 2015 will retire at the ASM. Heith Mackay-Cruise has been appointed as an independent Chair and Steve Bayliss has been appointed as a new independent director.

Current Strategy

The strategy for the next three years is to use the company's technology and data assets to grow revenue and margins. The global market for translations services is expected to grow at an estimated compound rate of over 6% to US$73.6 billion by 2025. The market is fragmented with over 20,000 participants however the top 100 translation companies account for only 15% of the market.

New Zealand Shareholders Association Inc.
NZSA®
Many Investors, One Voice

Disclaimer
To the maximum extent permitted by law, New Zealand Shareholders Association Inc. (NZSA) will not be liable, whether in tort (including negligence) or otherwise, to you or any other person in relation to this document, including any error in it.

Forward looking statements are inherently fallible
Information on www.nzshareholders.co.nz and in this document may contain forward-looking statements and projections. For any number of reasons, the future could be different – potentially materially different. For example, assumptions may be wrong, risks may crystallise, unexpected things may happen. We give no warranty or representation as to any future financial performance or any other future matter. We may not update our website and related materials for changes.

There is no offer or financial advice in our documents/website
Information included on www.nzshareholders.co.nz and in this document is for information purposes only. It is not an offer of financial products, or a proposal or invitation to make any such offer. It is not financial advice and does not take into account any person's individual circumstances or objectives. Prior to making any investment decision, NZSA recommends that you seek professional advice from a licensed financial advice provider.

There are no representations as to accuracy or completeness
The information, calculations, and any opinions on www.nzshareholders.co.nz and in this document are based upon sources believed reliable. The NZSA, its officers and directors make no representations as to their accuracy or completeness. All opinions reflect our judgement on the date of communication and are subject to change without notice.

Please observe any applicable legal restrictions on distribution
Distribution of our documents and materials on www.nzshareholders.co.nz (including electronically) may be restricted by law. You should observe all such restrictions which may apply in your jurisdiction.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	**Assessment**	**Notes**
Directors Fees	A	See below.
Director share ownership	G	Directors are not required to own shares.
Executive Remuneration	R	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	A	See below.
Board Composition	A	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid meeting. See below.
Independent Advice for the Board	A	See below.

Directors Fees: Directors are paid fees in cash and share options. NZSA does not generally support the payment of directors fees via share-based payments, although we recognise Straker as an early-stage company. NZSA supports the payment of share options to non-Executive Directors of early-stage companies – but would wish to see greater disclosure of the terms and conditions that apply (eg, performance or tenure objectives related to their issue) and a calculation showing the potential dilutionary impact on shareholders.

We would also expect to see the value of options paid within the limits provided by the director fee pool of AU$600,000, as they represent an alternative to cash payments, and would appreciate greater clarity as to the value of director options in the director remuneration table, to support ease of readability for investors.

The company does not disclose if retirement benefits are offered to directors or if special exertion payments are made. Given the amount of actual payments to directors disclosed compared with the role-based payment disclosed, we consider it unlikely that any special exertion payments are available, but would appreciate more specific clarity in future.

We do note that Stephen Donovan, a non-executive director, receives interest payments in relation to a loan he has made to Straker through a related entity and also receives consulting fees. The company is clear in its disclosure that they do **not** consider Stephen Donovan s an independent director.

Executive Remuneration: The CEO is paid a salary and short-term incentive (STI), up to 50% of his base salary (both in cash). He is also paid a long-term incentive (LTI) by way of share options.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

Straker does not disclose the performance hurdles (measure groups, weightings, targets, outcome) for either the STI or LTI, although the total STI payment made is disclosed. The quantum of the LTI is not disclosed so it is not possible to calculate the total remuneration or the makeup of the individual components.

NZSA would expect greater transparency of disclosure in future.

Golden parachutes/handshakes: In the interests of transparency, NZSA believes there should be explicit disclosure around the severance terms associated with the CEO, including whether specific termination payments are offered. We recognise that the CEO is the founder and substantial shareholder, making such payments unlikely.

Director Independence: The Board comprises three Independent Directors and three Non-Independent Directors. NZSA policy recommends a majority of independent directors to protect the interests of minority shareholders.

Board Composition: The Annual Report includes a list of the collective directors' skills but does not include a skills matrix that attributes skill sets to individual Directors to demonstrate how they contribute to the governance of the company.

NZSA believes that the nature of the company's board indicates that a greater commitment to thought, experiential and social diversity should be considered within director succession plans.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

We note the Managing Director and CEO, Grant Straker, has served since 1999 and another Director who was the former CFO, Stephen Donovan, has served since 2004. Both have substantial shareholdings in the company; NZSA recognises the unique role of a founder-shareholder on a company's Board.

Retiring Chair, Phil Norman, has served since 2014. Following the retirement of Phil Norman and Tim Williams from the Board, remaining directors will have been appointed in 2015, 2020 and 2022 (2x), indicating a good overall commitment to succession management.

ASM Format: NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation.

Independent Advice for the Board: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

There is no disclosure within the annual report as to the extent to which Board members are able to seek external or internal advice to support decision-making, nor the extent to which internal assurance staff have unfettered access to the Board.

The company offers good disclosure of financial risks, but there is little disclosure of business or operational risks, nor the processes by which these are governed.

New Zealand Shareholders Association Inc.
NZSA
Many Investors, One Voice

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure.
Audit rotation	R	See below.

Audit Rotation: We were unable to determine if the Lead Audit Partner is rotated at 5 years or if the Audit Firm is rotated at 10 years.

Notwithstanding audit tenure, NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No donations were made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	No dividend was paid
Capital Raise process	A	See below.
Takeover or Scheme	n/a	

Capital Raise process: During the year the company raised capital by way of a Placement, a non-renounceable Institutional entitlement offer, and a non-renounceable Retail entitlement offer. NZSA prefers renounceable rights offers so shareholders can either maintain their proportionality or derive some benefit from the sale of rights.

Straker's share price fell from \$1.72 to \$1.10 (as of 1st August 2022) over the last 12 months – a 36% decline. This compares unfavourably with the NZX 50 which declined by 9% in the same period. The capitalisation of STG is \$75m; were it listed on the NZX, this places it 92nd out of 131 companies and makes it a mid-sized company.

Metric	2022	2021	Change
Revenue	\$55.9m	\$31.3m	78%
Gross Profit	\$30.4m	\$16.7m	82%

NPAT	-$5.9m	-$6.0m	n/a
Gross Profit Margin	54%	53%	2%
EPS[1]	-$0.09	-$0.11	n/a
PE Ratio	n/a	n/a	
Current Ratio	1.66	0.72	130%
Debt Equity	0.52	1.28	-60%
Operating CF	-$2.4m	-$0.3m	n/a
NTA Per Share[1]	$0.32	$0.08	293%
Dividend Per Share[1]	n/a	n/a	

[1] *per share figures based off actual shares at balance date (not weighted average)*

Straker Translations Group are a NZ company that is listed on the ASX and reports in New Zealand dollars. Straker are in a growth phase and will be looking to increase revenues and decrease relative costs to drive profit growth.

During the year Straker completed a successful capital raise, raising $26.9m. Funds have been utilised to repay debt and for working capital purposes.

Revenues increased by 78% to $55.9m and with a stable *Gross Profit Margin* of 54%, meant STG increased their Gross Profit by 82% to $30.4m. Large increases in selling, distribution and administrative expenses mean that Gross profit was similar to 2021 at -$6.4m.

Operating cashflows also declined slightly to -$2.4m.

After their successful capital raise, STG are in sound financial position with a cash balance of $15.1m, a *current ratio* of 1.66 and a low *debt-equity* ratio of 0.52.

NTA per share is $0.32 (the company has large amounts of intangibles) and the shares trade at a 246% premium to NTA. This indicates the market is positively disposed to future prospects.

On the 28th July, Straker released their quarterly report for the 1st quarter of FY 23 and reported a positive start to the year. *"We have a strong balance sheet, are well funded and are on track to deliver on the guidance issued at the end of May 2022 for profitable growth in revenue for the 12 months to the end of March 2023 of 20% and gross margins exceeding the 54% achieved in FY 2022."*

Resolutions

1. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To elect Heith Mackay-Cruise as an Independent Director.

A biography is set out in the Notice of Meeting.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To elect Steve Bayliss as an Independent Director.

A biography is set out in the Notice of Meeting.

We will vote undirected proxies **IN FAVOUR** of this resolution.

4. To approve the addition of 10% Placement Capacity.

The ASX Listing Rules allow a company to issue an additional 15% of shares during the year without seeking prior shareholder approval. The company is seeking approval to increase this to 25%. The details are set out in the Notice of Meeting. The company states that whilst it has no plans to issue the additional 10% if it does this will only be for a cash consideration.

We note the company's statement that it "*intends to use the funds raised towards working capital, investing activities (including possible complementary business acquisitions if any are identified and approved by the Board), meet financing commitments or capital management activities deemed by the Board to be in the best interests of the Company.*"

NZSA believes that such use of funds should be considered by shareholders as potential opportunities or funding requirements come to light. Approval of this resolution is akin to offering a 'blank cheque' to the Board with no further due consideration by shareholders.

Furthermore, as recognised by the Board in the explanatory notes within the Notice of Meeting, there is possibility of significant dilution for existing shareholders depending on any level of discount associated with the placement.

For these reasons, we will vote undirected proxies **AGAINST** this resolution.

The following two resolutions relate to the issue of Share Options under the Employee Share Option Scheme for the year ended 31 March 2022.

5. **To issue Share Options to Grant Straker.**
6. **To issue Share Options to Merryn Straker.**

   Full details are set out in the Notice of Meeting.

We will vote undirected proxies **IN FAVOUR** of these resolutions.

Proxies

You can vote online or appoint a proxy at https://www.linkmarketservices.com.au/

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **4.00pm Monday 22 August 2022.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA