STOCKS DOWN UNDER

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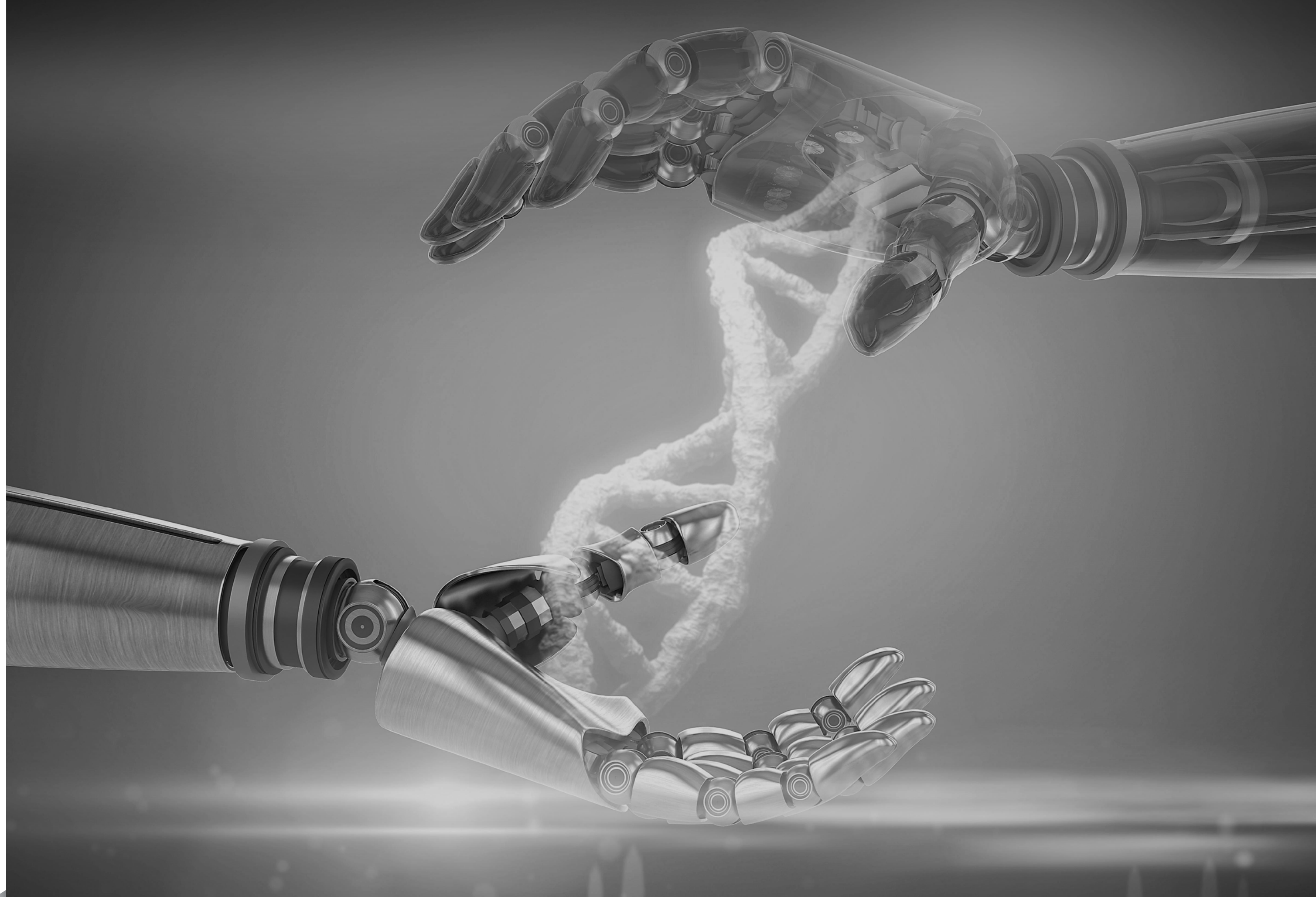
Emerging Stocks Down Under

"The best things in life are free. The second best are very expensive."

- Gabrielle Chanel (1883-1971), Fashion designer, businesswoman



STRAKER TRANSLATIONS

Artificial Intelligence is here to help

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Stocks Down Under rating: ★★

ASX: STG
Market cap: A$86.1M

52-week range: A$0.96/ A$1.85
Share price: A$1.28

Google Translate, move over. Yes, it's good enough if you're in a one-on-one conversation with someone else. However, entities needing longer, more complicated translation services – think content providers, government organizations and universities – need something more professional, and something that will work a lot faster. This is where Straker Translations (ASX: STG) comes in. The share price of the Bailador-backed company has been volatile since its listing. But, as the 2022 Tech Wreck subsidies, it is set for a rebound?

Share price chart

Source: Tradingview

An AI play

Straker Translations was co-founded in 1999 by husband-and-wife duo Grant and Merryn Staker. It listed in 2018 at $1.51 per share with the backing of broker Bell Potter and the ASX-listed venture capitalist Bailador. Some VC investors use IPOs to cash out of their holdings but not Bailador - it retains a stake to this day, currently equating to 11.79%. Although the company was founded and is headquartered in New Zealand, it gets close to 90% of its revenue from outside Australia and New Zealand.

Straker' RAY Translation Platform is powered by a mix of AI, machine-learning and a crowd-sourced pool of freelance translators. AI performs an initial translation before it is manually reviewed by the human translators - the company allows its clients to pick and choose which translator will check the AI work on a job-by-job basis. The AI engine is continually trained through machine learning, where that learning comes from previous translations that are successfully accepted by clients.

Translating content into other languages enables enterprises to do business in jurisdictions other than its own without language being a barrier. Straker is used by over 10,000 clients in over 20 countries. 45% of those clients are technology companies, with prominent clients including Zoom, Adobe and SAP. The other 55% covers a broad range of industries including manufacturing, media, retail and services, with Bloomberg, Nike, HSBC and Orica being a few examples. Straker's platform is used for many purposes including website development, corporate conference translations and media broadcasts.

The Big Blue is a fan

Easily Straker's most prominent client is IBM, which has a deal now covering 77 languages. IBM initially came on board as a client of one company Straker had acquired in 2018. The Big Blue didn't just stay on board, it expanded the relationship. Yes, Straker has been a frequent M&A participant as it has sought new customers and SaaS revenue, buying platforms such as IDEST Communication SA from Belgium and Lingotek from the US, and integrating their customers onto the RAY platform. As we observed in our last report on the company, in June 2021, acquisitions in recent years usually have gross margins of approximately 50%. And as soon as they are full integrated into RAY, these margins rise to 60%.

Straker shares have had a number of cycles since listing, growing in the first year or so of listed life before falling in 2HCY19 after its ongoing investments sent its bottom line into negative territory. COVID-19 had a mixed impact on the sector. Some market segments of Straker's cut back spending as demand from their customers was reduced (or even wiped out). Other segments required more work from Straker given increased virtual activities. Arguably the most prominent work for Straker amidst the pandemic was IBM's premier annual conference, THINK2020 which was held virtually. Straker had to create subtitles for 6,000 minutes of video, equivalent to 920,000 words in just 10 days.

A COVID beneficiary?

Straker uses 1 April-31 March as its financial year and consequently releases its results at the end of May. This company's progress hasn't been the easiest to follow as it has transitioned to a SaaS model and while it has talked up how IBM has generated significant revenue, it has not been very specific about the exact amount generated.

Still, in FY22, Straker's revenue grew 79% to NZ$55.9m and its EBITDA profit came in at $0.2m, compared to a $0.2m loss in the prior year. Its balance sheet boasts $15.1m in cash and no debt. For FY23 it has issued guidance of positive adjusted EBITDA and 20% higher revenue, which would equate to NZ$67.1m. Consensus estimates are even more optimistic, forecasting NZ$70.7m in revenue and $3m in EBITDA, representing growth of 26% and 1400% respectively. Straker trades at an EV/EBITDA multiple of 26.1x, but a P/E multiple is not available because negative EPS is forecast. The company has reported a positive start to FY23, reporting $18.8m in Q1 revenue, up 66% from the prior corresponding period, and positive EBITDA of $1.5m, although it saw another quarter of operating cash outflow by $2.3m. Straker expects cash flow to return to positive territory in the next quarter.

Our readers would notice that we have been fairly negative on companies that aren't profitable on an EPS basis just yet. This has mainly been because the market has as well. Still, it appears the current Tech Wreck bottomed out in late June with many tech stocks beginning to recover, particularly where the companies are on their way to being profitable. We like Straker's market niche and its list of clients. But we observe that its shares have been significantly volatile in all market conditions. Ultimately, we would hold off on this one until it reports for Q2 (the 3 months ending 30 September), to see if it meets its promise of returning to positive operating cashflow. We also would like to see it cut back on its M&A activity just for a little while and grow more organically. So, it's two stars right now.

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