



Appen Limited

Global Leader in Language Technology Solutions

FY2014 Results Presentation



Agenda

Topic:	Speaker:
Introduction to Appen	Chris Vonwiller (Chairman)
Financial Performance	Mark Byrne (CFO)
Growth and Outlook	Lisa Braden-Harder (Managing Director)
People and Leadership	Chris Vonwiller

Company snapshot

Global leader in language technology solutions

- Established in 1993 and provides language technology data and services to leading technology companies and government agencies
- Coverage in over 100 markets and over 140 languages and dialects
- 150 staff globally – mainly based in North America and Australia
- Support facilities in United Kingdom, Europe, Middle East, Indian subcontinent and the Philippines
- Ability to leverage a proprietary data base of 150,000 global independent contractors



Business snapshot

Appen has two business divisions:

- **Content Relevance:**
 - provides data annotation for improving search products
 - search products include search via web, e-commerce and social engagement technologies
- **Speech and Data Collection:**
 - provides training data for products including speech recognisers, machine translation and speech synthesisers
 - for use in internet-connected devices, in-car automotive and consumer electronics

FY2014 Pro-Forma Financial Highlights

Appen has exceeded FY14 prospectus forecasts

- Revenue A\$51.0m up 4.0% vs prospectus forecast of A\$49.1m ✓
- EBITDA A\$6.7m up 15.2% vs prospectus forecast of A\$5.8m ✓
- NPAT A\$3.6m up 5.4% vs prospectus forecast of A\$3.4m ✓
- Net cash A\$8.6m ✓
- ASX Listing in January 2015 ✓
- FY2015 outlook – on track to achieve Prospectus forecast ✓



Summary Income Statement

Pro-forma vs Prospectus

\$ in millions	Pro forma actual	Prospectus forecast	Growth	
	FY14	FY14	V\$	V%
Sales revenue	51.0	49.1	1.9	4.0%
Cost of sales	(22.5)	(21.4)	(1.1)	4.9%
Employee Costs	(17.9)	(17.8)	(0.1)	0.5%
Other operating expenses	(3.9)	(4.1)	0.2	(5.0%)
Total operating expenses	(44.3)	(43.3)	(1.0)	2.3%
EBITDA	6.7	5.8	0.9	15.2%
Depreciation and amortisation	(1.0)	(1.0)	-	-
EBIT	5.7	4.8	0.9	19%
Net finance costs	-	-	-	-
Profit before tax	5.7	4.8	0.9	19%
Tax (expense)/benefit	(2.1)	(1.4)	(0.7)	65%
NPAT	3.6	3.4	0.2	5.4%

Commentary

- Revenue increased by 4.0% driven by better than expected results from both divisions
- Pro-Forma EBITDA increased by 15.2%
 - EBITDA margins have improved to 13.1% from 11.8%
- NPAT ahead of prospectus 5.4%
- Expenses (excluding non-recurring items) of \$44.3m were 2.3% higher driven by increase cost of sales to support the additional sales.
- Public company costs of \$400,000 which were included in the prospectus for historical comparison have been excluded from the pro-forma results given costs were incurred in 2014 due to listing 7 January 2015



Statutory vs Pro Forma Reconciliation

Statutory vs Pro-forma

\$ in millions	Actual	Prospectus*		2013	
	FY14	FY14	%	FY13	%
Statutory EBITDA	4.8	3.1	52%	5.3	-9%
Change in fair value of contingent consideration	1.9	2.1	-9%	1.7	12%
IPO costs	1.1	0.4	158%	0	na
Other	0	0.1	-100%	0	na
Excise net tax refund	(1.2)	0	0%	0	na
Pro Forma EBITDA	6.7	5.8	15%	7.0	-5%
Statutory NPAT	1.6	0.8	107%	1.7	2%
Change in fair value of contingent consideration	1.9	2.1	-9%	1.7	12%
Excise tax refund	(1.2)	0	100%	0	na
Interest expense	0.1	0.1	8%	0.1	-11%
Pro Forma NPAT	3.6	3.4	5%	3.5	5%

Commentary

- Statutory EBITDA ahead of prospectus by 52%
 - Stronger sales leading to higher profitability
 - Excise net tax refund of \$1.2m
- Proforma EBITDA 15% ahead of prospectus
 - Higher IPO costs offset by excise net tax refund
 - FV adjust closely in line with forecast
- Statutory NPAT double forecast
 - Excise net tax refund of \$1.2m
 - Higher tax charges on higher pre tax result and tax timing differences
- Proforma NPAT in line with forecast



Divisional Earnings

Divisional Earnings

Sales Performance (\$ in millions)	Speech & Data Collection	Content Relevance	Company Revenue
Forecast Revenue ¹	21.9	27.7	49.1
Additional sales	0.9	0.8	1.7
Foreign exchange impact	0.0	0.2	0.2
Actual Revenue	22.8	28.3	51.0
Profit Performance	2014	2013	Variance (%)
Speech and data collection			
Sales revenue	22.7	22.6	1%
Segment profit	7.2	3.3	117%
% revenue	32%	15%	115%
Content Relevance			
Sales revenue	28.2	37.9	-26%
Segment profit	5.1	7.7	-34%
% revenue	18%	20%	115%

Commentary

- Strong last quarter revenues from both businesses
 - Speech and Data Collection continued to win new work and execute quickly and efficiently
 - Content Relevance generated additional revenue with new customers
- Speech and Data Collection business :
 - Revenue was flat in 2014 on top of a record growth year in 2013 of 54%.
 - Strong margin of 32% - an increase of almost double over last year was due to
 - Strong operational efficiencies
 - Large amounts of work with the high margins
- Content Relevance business:
 - Revenue declined 26% decline year on year due to an exceptional 2013 year which was impacted by a significant global initiative from a major customer.
 - Continues to maintain margins
 - 2014 was a year of reinvesting in this business through the extension of offerings to new customers including leading ecommerce and social media companies.



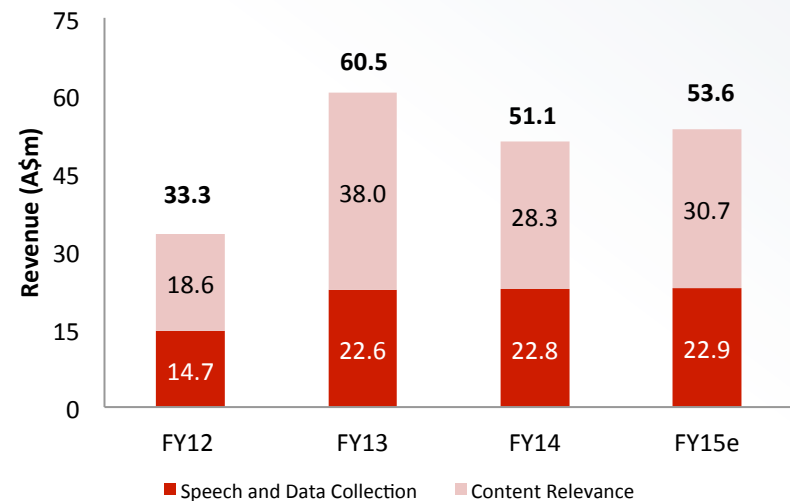
Business Mix

Revenues

- Revenues up approximately 53% from FY12 to FY14
- Large YOY growth from FY12 to FY13 due to strong demand from one of Appen's customers:
 - two new product launches within FY13
- Content Relevance has consistently produced the largest portion of Appen's revenues over the period and is expected to continue delivering strong results into 2015
 - clients are large global tech companies
 - require large amounts of data annotation

Business Mix

Revenue: FY12-FY15





Balance Sheet

Balance Sheet

\$ in millions	FY14	FY13	%
Cash	8.6	5.8	50%
Trade and other current assets	10.3	11.9	-13%
Total current assets	18.9	17.7	7%
Intangibles	10.9	10.0	8%
Other non-current assets	0.4	0.5	-33%
Total non-current assets	11.2	10.6	6%
Total Assets	30.1	28.2	7%
Trade and other current liabilities	8.6	8.1	7%
Borrowings	0.0	0.5	-100%
Provisions	0.7	7.1	-90%
Total current liabilities	9.3	15.6	-40%
Borrowings	0.0	2.6	-100%
Other non-current liabilities	1.2	2.3	-49%
Total non-current liabilities	1.2	4.9	-76%
Total Liabilities	10.5	20.6	-49%
Net Assets	19.6	7.7	157%
Issued Capital	18.5	8.1	127%
Other	1.2	0.0	8279%
Total Equity	19.6	8.1	141%

Commentary

- Total assets increase due to higher cash balances
- Intangibles impacted by FX rates
- Borrowings paid off prior to listing in December as per prospectus
- Provisions reduced due to payment of contingent liabilities
- Share capital increase due to new shares being issued



Cash Flow

Cash Flow

Cash Position (\$ in millions)	FY14
Cash per Prospectus forecast	2.4
Lower supplier payments	0.5
Delayed tax payment	0.5
Customer collections	3.5
Delayed IPO costs	1.5
Foreign exchange impact	0.3
Actual cash as at FY14	8.7

Commentary

- Year end cash has been driven by the timing of receipts and payments
- We expect some reversal of these items over the next few months to bring the cash balances consistent with our 2015 plans
- Business continues to generate strong cashflows

Foreign Exchange impact

Movement	Weaker AUD		Neutral	Stronger AUD	
	5%	10%	0%	-10%	-5%
% Change					
Total AUD Revenue	3%	7%	0%	-6%	-3%
Total AUD EBITDA	3%	6%	0%	-5%	-2%
Total AUD NPAT	2%	5%	0%	-4%	-2%
Change (\$m)					
Total AUD Revenue	1.9	3.9	0	(3.2)	(1.7)
Total AUD EBITDA	0.2	0.4	0	(0.3)	(0.2)
Total AUD NPAT	0.1	0.2	0	(0.1)	(0.1)

Commentary

The assumptions behind this are:

- All changes are off the numbers reflected in the prospectus at an FX rate of \$0.90
- That the Speech and Data Collection division is fully hedged and no timing between receipt of invoices and execution of foreign currency contracts
- The mix of revenue between the US and Australian business is in line with the prospectus

Appen is benefitting from favourable movements in currency:

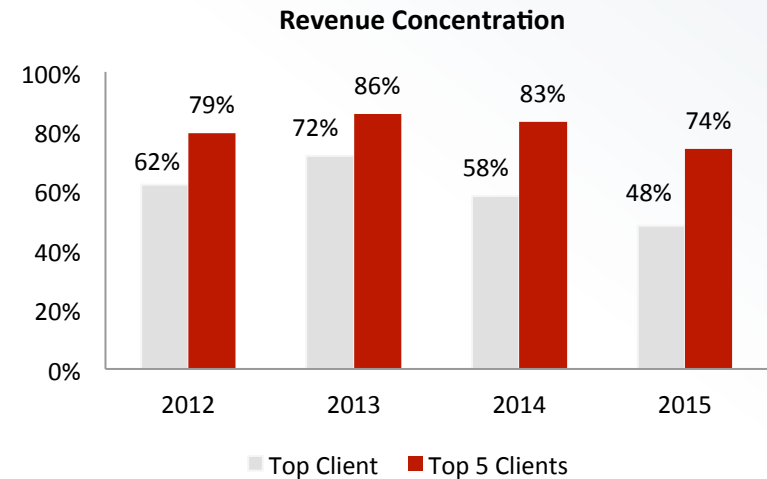
- The majority of revenue is USD
- The majority of costs are in USD and AUD, so a natural hedge exists for USD
- Appen's policy is to hedge at least 80% of its USD revenue generated by the Speech and Data Collection business (where significant costs are in AUD) for the subsequent 12 months

Overview

- For client confidentiality reasons Appen is not able to disclose the full list of its clients
- However Appen has a diverse client base principally with blue chip large technology clients

Revenue Concentration

- The existing strong base of large technology repeat customers translates to a high concentration of revenue with a few clients
- 58% of FY14 revenue is from one client
- The top five clients account for 83% of FY14 revenue



Key Industries

Search Engines

E-commerce

Government

Social Media

Appen reaffirms FY2015 prospectus forecast

Appen reaffirms its FY2015 prospectus forecasts – Revenue \$53.6m and EBITDA \$6.8m (pro-forma)

- Current operating results with revenue and business won thus far in FY2015 is on track with forecast
- Pipeline and order book
- Prospectus AUD exchange rate is A\$0.90

We continue to implement our strategy

- Pursuing opportunities for Content Relevance in social media and e-commerce
- Expanding our client base and reducing customer concentration
- Reducing the cost structure through globalisation of our workforce and ongoing technology innovation
- Reinforcing our leadership position in range of languages and markets supported, and the breadth of services covered
- Strengthening our scalability through ongoing development of our technology platform



Strategic Growth Opportunities

Industry drivers are positive across all segments

- Search, social media, e-commerce, government, automotive

New client acquisition in Content Relevance

- Master Service Agreements in place with 7 Fortune 500 companies and initial engagements continue with others
- Expansion of current offerings to new customers in social media and e-commerce search

Appen's new technology platform is in place

- Facilitates scalable growth
- Strong competitive advantage
- Faster response to new customer needs
- Yields a reduction in unit costs as business volumes grow

Appen's growing strength across both speech and text aligns with industry convergence

- Global workforce and operations provides capability to benefit from the forecast growth in internet non-English languages



People and Leadership

Appen has a stable and long serving board and senior management team

Managing Director transition

- Current Managing Director and founder of Butler Hill, Lisa Braden-Harder, will transition from her executive role to a non-executive role within a few months
- Lisa has successfully led the integration of Appen and Butler Hill (acquired in 2011)
- Lisa has also led the transition of Appen to a publicly listed company
- The board acknowledge Lisa for her 23 years in leadership in the Company and is looking forward to her continuing role as a non-executive Director

Board has commenced a search for a new Managing Director

- We expect a smooth transition without a change of strategic direction
- Appen's strong senior management team is supported by an experienced board with deep familiarity of the Appen's customers and business

Additional non-executive strength

- As outlined in the prospectus, an additional independent non-executive director will be announced shortly
- Will bring complementary skills and experience including relevant US technology sector expertise

People and Leadership

A Long Term Incentive Plan has been introduced covering senior management

- We have continued to strengthen our global workforce to optimise our capability-base and our cost structure
- LTIP covers a three-year period and is based upon target growth in EPS

Company wide staff satisfaction increased for the third consecutive year

- Appen's global Corporate Social Responsibility program supports local and international causes and employees in need, reflecting a strong culture of philanthropy and service within the company

Awards

- Appen was named in Forbes magazine as one of the Top 100 Companies Offering Flexible Jobs in 2014, winner of Deloitte Technology Fast 50 Award and Deloitte Leadership Award



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Appendix

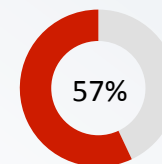
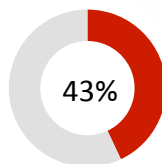


Business Snapshot

Speech & Data Collection

Content Relevance

Revenue Contribution %
(2015 Est.)



Description

Data and services for development and tuning of systems for speech recognition, speech synthesis and voice search.

Data and services to ensure that global search engines and e-commerce search platforms return the most relevant and accurate answers for each market. Additionally, Appen also support the addition of new features to products.

Examples

Products that require speech & data analysis include:

- smart phones
- computer game technology
- voice activated navigation systems
- government systems for massive volume analysis

Applications that utilise content relevance include:

- web search
- e-commerce evaluation
- content and sentiment analysis

Revenue Drivers

Revenue is typically generated by providers of speech recognition systems. Revenue is generated mainly on project delivery of customised data solutions which includes Appen developed embedded licenses and licensable products

Internet content and traffic patterns are always changing and the client typically requires frequent updates. In addition launches of new features or functionality to web searches, e-commerce and social engines is also a key revenue driver for Appen

Revenue Model

Revenue is typically on a project by project basis. The majority of this revenue is based on charge out rates agreed with clients

Revenues are usually contracted with contracts generally up to 12 months. Due to the reoccurring nature of much of the work, one year contracts are typically rolled over from year to year

FY15 Est. Revenue Growth

[5%]

[13%]

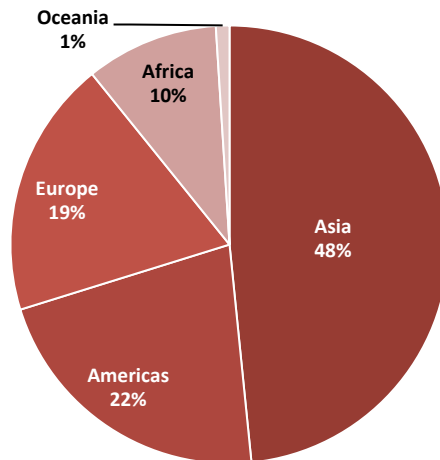
FY15 Est. EBITDA margin (pre corporate overheads)

[30%]

[16%]

- 1 Non-English speaking countries now account for the majority of internet usage

Internet usage – by region



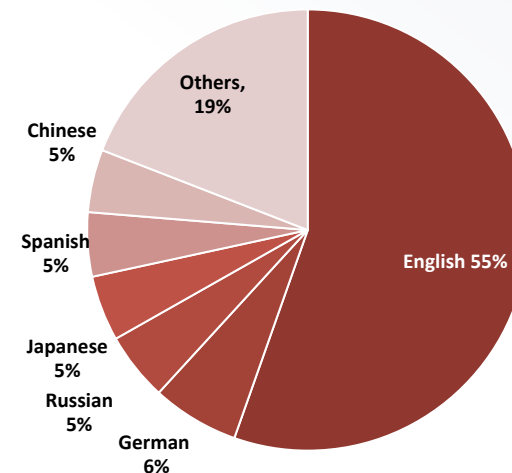
Trends:

- Large increase in internet participation particular in Asia
- New internet users will be predominantly from non-English speaking regions
- 75% of all internet users are represented by just 20 countries

Sources: Internetlivestats.com; Internetlivestats.com, sources delivered by Worldometers' RTS algorithm which collects data from; the International Telecommunication Union (ITU), The World in 2014: ICT Facts and Figures, Measuring the Information Society, Internet Users Data – World Bank Group, The World Factbook – CIA, United Nations Population Division – U.N. Department of Economic and Social Affairs ;

- 2 Internet content however is still heavily biased towards English

Internet content – by language



Trends:

- Appen expects that English will decline as a proportion of total internet languages over time
- Global e-commerce organisations must adapt to cultures, languages and legal systems to facilitate the change

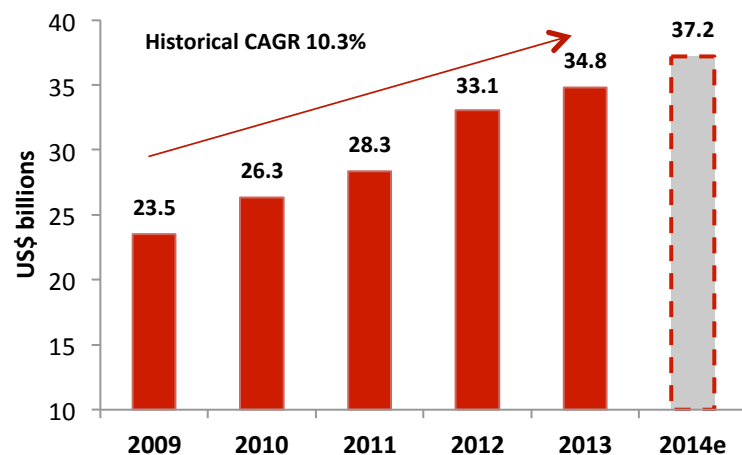
Source: languageconnect.net



Industry Drivers (continued...)

- 3 Increased consumer expectations in the internet languages market

Forecast growth in the language services market



Trends:

- Over a four year period to 2013, language services experienced a CAGR of 10.3%
- The language services industry is expected to grow by 6.9% in 2014 to revenues of US\$37.2 billion
- The services that make up this industry are focused on improving the accessibility of products and services through language

Source: Common Sense Advisory, 'The Language Services Market 2014'

- 4 Increased consumer expectations in internet search & navigation

Description

- Search & navigation systems provide rapid access to documents, answers, videos, images, ads, products and reviews
- Market leaders include; Microsoft, Google, Yahoo, and Baidu, some of which are Appen's clients

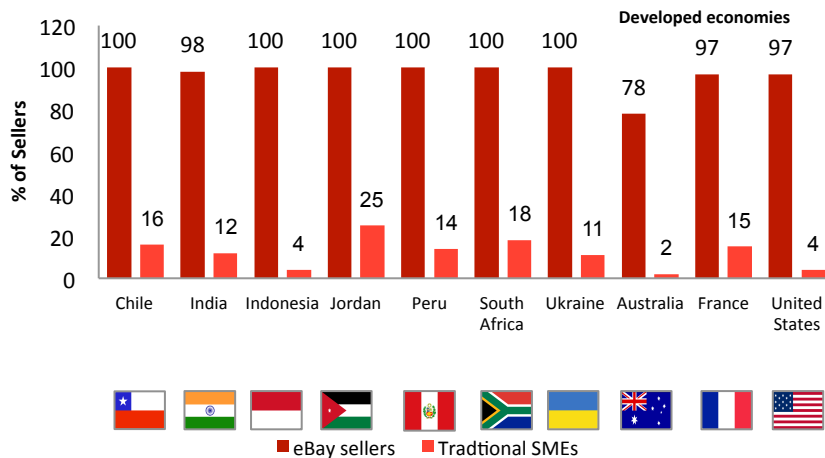
Trends:

- The increases in digital content has been a large driver of search & navigation
- Data to grow from 2.8ZB (zeta bytes) in 2012 to an expected 8.5ZB by 2015
- The search & navigation industry has been estimated by Appen to be worth approximately US\$64 billion a year

Source: LT-INNOVATE, Status and Potential of the European Language Technology Markets; 2013 Annual Report, internet and advertising revenue: Microsoft, Google, Yahoo, Baidu, Interactive Corp

5 E-commerce relies on search queries

Share of eBay commercial sellers and offline SMEs that export



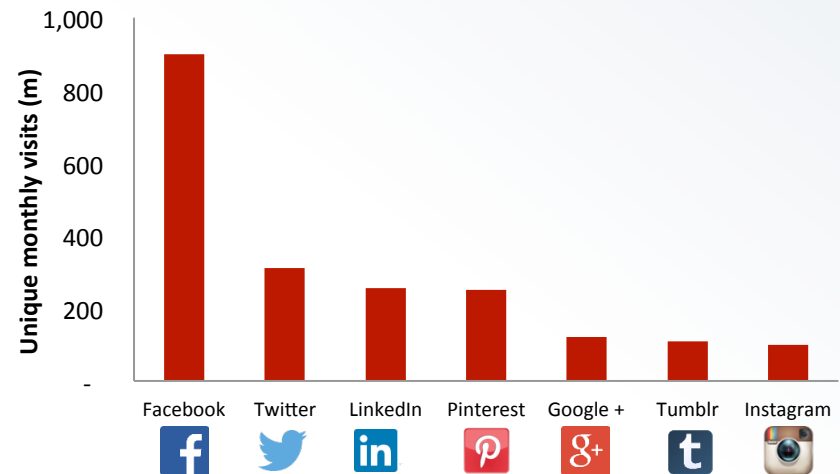
Trends:

- Like search engines, e-commerce sites rely on search queries to help customers navigate their digital store fronts
- Appen has begun working closely with businesses to improve these conversion rates
- E-commerce were approximately US\$1.25 trillion in 2013, an 18.3% increase on 2012 figures.

Source: Enterprise Surveys, World Bank, 2012; Australia Bureau of Statistics, 2012, 2007; eBay; McKinsey Global Institute analysis; 'Global B2C Ecommerce Sales to Hit \$1.5 Trillion This Year Driven by Growth in Emerging Markets', eMarketer, 3 February 2014

6 Increase in Social Media

Social Media utilisation



Trends:

- Explosive growth, revenues are expected to reach US\$34 billion by 2016 an increase from US\$12 billion in 2011
- Objective is to engage customers by returning or displaying the best and most relevant results

Source: Alexa, 2014, <http://www.ebizmba.com/articles/most-popular-websites>; 'Social Media Revenue, Worldwide, 2011-2016', Gartner

