# Appen Limited

**2017 First Half Results Presentation**

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# Company snapshot

Appen is a global leader in the development of high-quality, human annotated datasets for machine learning and artificial intelligence.

The company has operations in Australia, the US, the UK and the Philippines

Appen's strong performance continues in 1H 2017



Data with a human touch

High quality data for machine learning, enhanced by human interaction
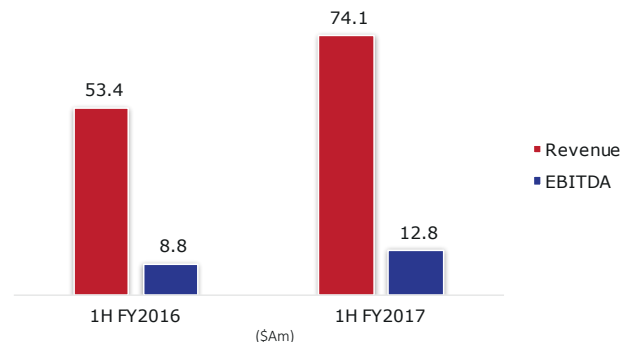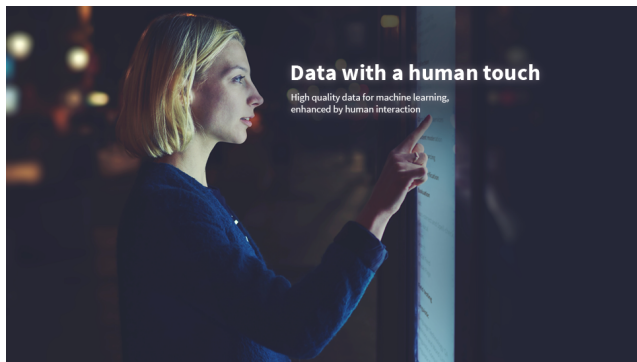
Appen's customers include the world's leading technology companies, automakers and governments

The company's data is used for machine learning in mobile devices, digital assistants, vehicles, security and surveillance, search, social media, ecommerce and consumer electronics
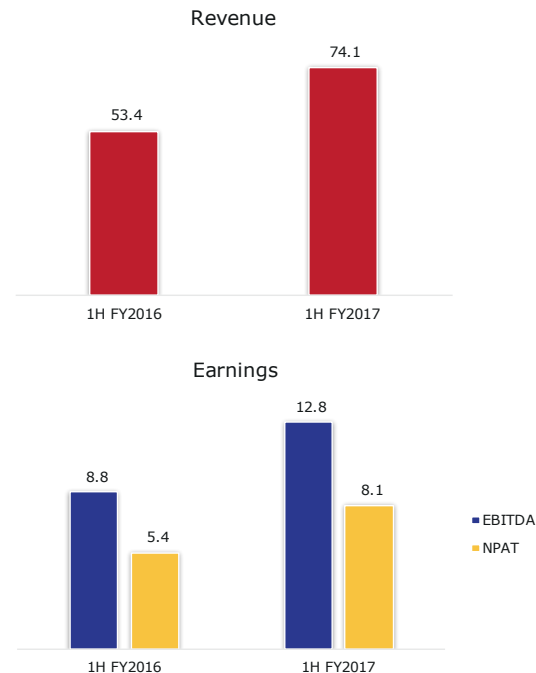
Covering over 130 countries and 180 languages

333 full time employees and over 400,000 on-demand global crowd



($Am)

1H FY2016: Revenue 53.4, EBITDA 8.8
1H FY2017: Revenue 74.1, EBITDA 12.8

# First half highlights (A$m)

## Strong performance continues

- Revenue up 39% to $74.1M

- EBITDA up 44% to $12.8M

- NPAT up 50% to $8.1M

- EBITDA margin improvement from 14.5% to 17.2%[1]

- Strong cash conversion (99% of EBITDA)

- Interim dividend of 3.0 cps, up 50% on 1H2016

- Now working in multiple data formats: text, audio, image and video

**Revenue**

53.4 — 1H FY2016
74.1 — 1H FY2017

**Earnings**

EBITDA 8.8, NPAT 5.4 — 1H FY2016
EBITDA 12.8, NPAT 8.1 — 1H FY2017

1. EBITDA improvement from 2H 2016 to 1H 2017

# Strong divisional performance (A$m)

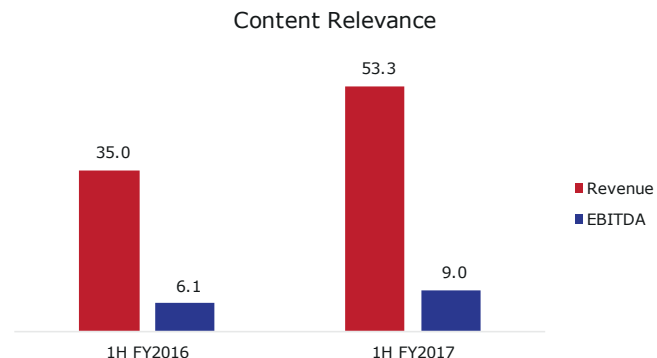## Language Resources revenue up 13%

**Language Resources**
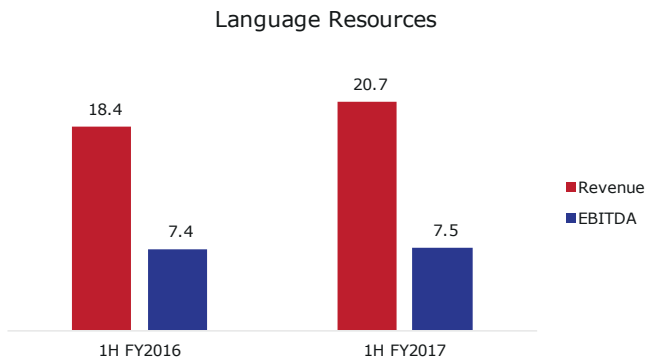


Most of Language Resources' revenue is in USD with costs in AUD. Currency neutral revenue up 17% and EBITDA up 8%

Speech becoming the preferred interface in more devices

New devices appearing in more markets worldwide

## Content Relevance revenue up 52%

**Content Relevance**



Search and social media increasingly deploy machine learning for more personalized and relevant services

Vast amounts of different types of data are required for a growing variety of products
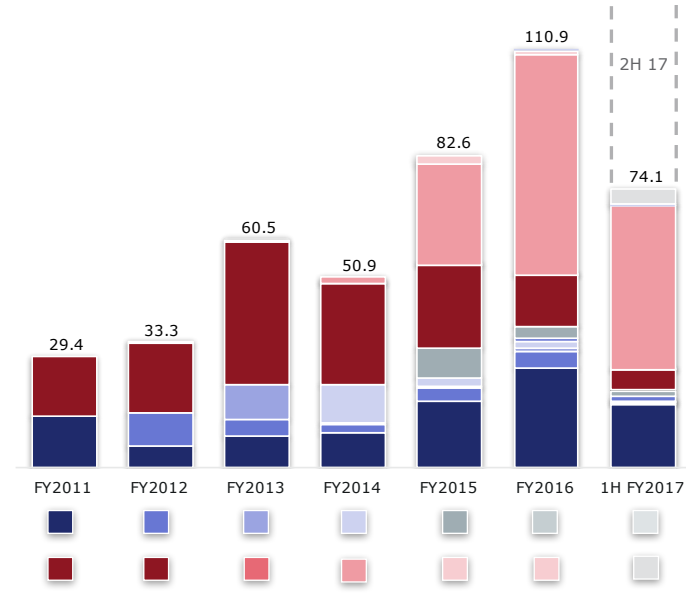
# Long term customer relationships (A$m)

Growth and new customer wins in key markets: technology, automotive, security

Working with multiple data types: text, image, audio, video

Secure work increasing. Investing in secure data annotation facility

Quality and importance of Appen's data and services drives growing and repeat revenue



| | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | 1H FY2017 | 2H 17 |
|---|---|---|---|---|---|---|---|---|
| Total | 29.4 | 33.3 | 60.5 | 50.9 | 82.6 | 110.9 | 74.1 | |

Language Resources customers originating in year

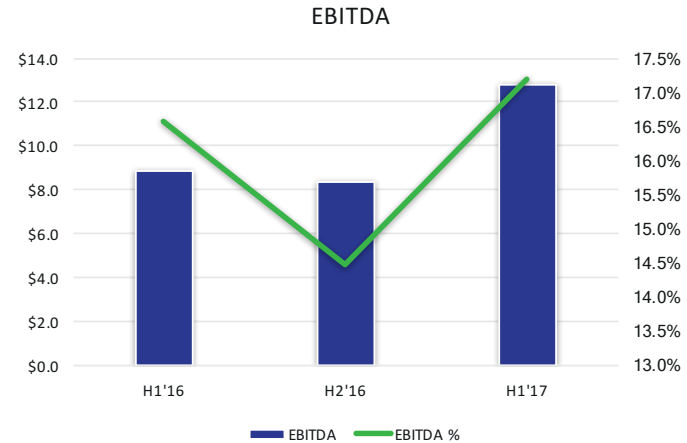Content Relevance customers originating in year

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# Margin Improvement

Volume discounts for major customers dampened margins in 2H 2016.

Productivity improvements and cost management have improved margins in 1H 2017

EBITDA margin improvement from 14.5% 2H 2016 to 17.2% 1H 2017

Price pressure to continue from customers, competitors and macro factors

**EBITDA**

# High growth continues (A$m)

| | 1H FY2017 | 1H FY2016 | % change | % change constant currency |
|---|---|---|---|---|
| **Statutory Results** | | | | |
| Language Resources | 20.7 | 18.4 | 13% | 17% |
| Content Relevance | 53.3 | 35.0 | 52% | 56% |
| Total Revenue | 74.1 | 53.4 | 39% | 42% |
| EBITDA | 12.8 | 8.8 | 44% | 48% |
| EBITDA Margin | 17.2% | 16.6% | | |
| NPAT | 8.1 | 5.4 | 50% | 57% |

## Revenue up 39% on 1H 2016

Revenue growth from current and new projects with existing customers along with new customer wins

## EBITDA up 44%

Higher revenue, productivity measures and cost management delivering improvements in 1H 2017.

## NPAT up 50%

Effective tax rate reduced from 34% to 30%

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# Strong Balance Sheet (A$m)

| | Jun-17 | Dec-16 |
|---|---|---|
| Cash | 20.0 | 16.5 |
| Receivables | 23.2 | 21.9 |
| Other Current Assets | 1.0 | 0.4 |
| Non-Current Assets | 15.6 | 15.2 |
| Total Assets | 59.8 | 54.0 |
| Current Liabilities | 18.3 | 15.4 |
| Non-current Liabilities | 2.4 | 3.2 |
| Total Liabilities | 20.7 | 18.6 |
| Net Assets | 39.1 | 35.4 |
| Total Equity | 39.1 | 35.4 |

## Strong balance sheet. No debt.

Increase in cash reserves and receivables related to increase in revenue volumes

2H 2017 capex estimate at $4M largely due to investment in secure data annotation facility

## Interim dividend of 3.0 cents per share fully franked

Dividend up 50% from 2.0c in 1H 2016

# Strong cash conversion (A$m)

| | 1H FY2017 | FY2016 | 1H FY2016 |
|---|---|---|---|
| Receipts | 71.9 | 106.8 | 50.7 |
| Payments and other | 59.2 | 90.1 | -44.0 |
| Cash flow from operations before interest and tax | 12.7 | 16.7 | 6.7 |
| Taxes | (3.5) | (4.0) | (3.2) |
| Total Cashflow from Operations | 9.2 | 12.7 | 3.5 |
| Cashflows - Investment Activities | (2.2) | (4.6) | (0.4) |
| Cashflows - Financing Activities | (2.6) | (4.4) | (2.5) |
| Net Cashflows for the period | 4.4 | 3.7 | 0.6 |
| Opening cash balances | 16.5 | 12.7 | 12.7 |
| FX Impact | (0.9) | 0.1 | (0.3) |
| Closing cash balances | 20.0 | 16.5 | 13.0 |

## Cash balance increased by $7.0m over 1H 2016

Cash flow from operations significantly improved due to change in payable cycle and improvements in timing of customer receipts
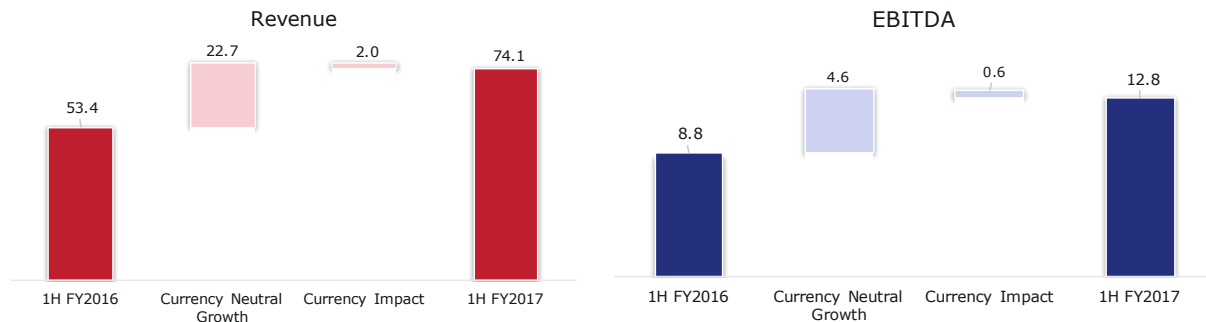
Strong cash flow conversion:

| | 1H FY2017 | 1H FY2016 |
|---|---|---|
| EBITDA | 12.8 | 8.8 |
| Working capital | (0.1) | (2.5) |
| Other | 0.0 | 0.4 |
| Cash flow from operations before interest and tax | 12.7 | 6.7 |

# Currency impact (A$m)

Almost all revenue derived offshore, most in USD

Low currency impact in 1H 2017

Strong underlying growth



Revenue

| 1H FY2016 | Currency Neutral Growth | Currency Impact | 1H FY2017 |
|---|---|---|---|
| 53.4 | 22.7 | 2.0 | 74.1 |

EBITDA

| 1H FY2016 | Currency Neutral Growth | Currency Impact | 1H FY2017 |
|---|---|---|---|
| 8.8 | 4.6 | 0.6 | 12.8 |

# Growing use of AI increasing the need for data

### Technology

Technology companies are making full use of machine learning for speech, computer vision, search and social media to create more usable, personalised products

### Automotive

Auto makers rely on speech for hands-on control, routing and optimisation for vehicle and resource management and a range of machine learning applications in the development of autonomous vehicles

### Security

Speech and image recognition are being used in surveillance and security to identify intruders and security breaches in access management, banking and national security.
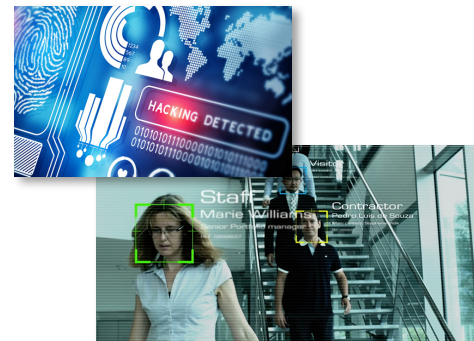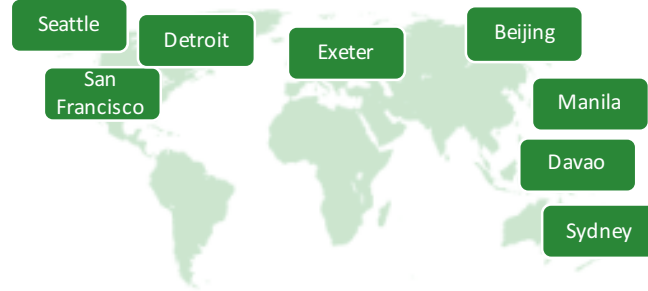
# Appen well positioned for growth

## Proven Provider

- Founded in 1996
- Trusted partner to 8 of 10 largest global tech companies
- Covering over 130 countries and 180 languages

## Global presence

Seattle

Detroit

Exeter

Beijing

San Francisco

Manila

Davao

Sydney

## Scalable operations

- 333 full time staff worldwide
- High staff engagement, low turnover
- 400,000+ on-demand global crowd
- Providing data for an increasing range of AI applications

# Outlook

Appen is well positioned in a growing market

Long term customer relationships support growth and resilience

YTD revenue plus orders in hand for delivery in 2017 ~$140M at end July 2017

The Company's full year EBITDA for its financial year 2017, ending Dec 31st 2017, is trending at the upper end of 40% to 50% above the prior year's result (at A$1 = US$0.79).

*Outlook susceptible to upside or downside from factors including timing of work from major customers and Australian dollar fluctuations.*

# Thank you

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