Appen Limited

2019 Full Year Results Presentation

25th February 2020

appen

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High performance

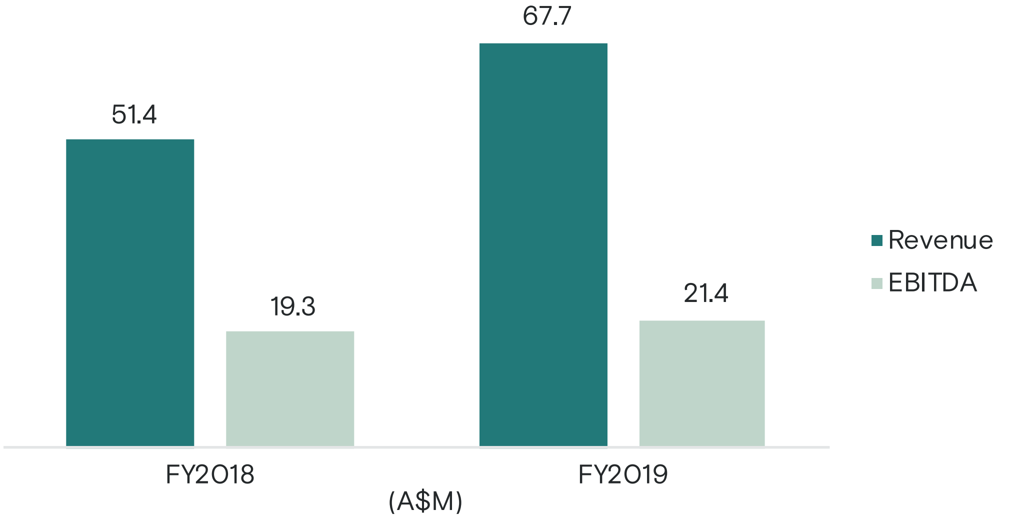
Revenue	$536.0M	+47%
Speech & Image	$67.7M[1]	+32%
Relevance	$430.0M[1]	+37%
Figure Eight (ARR)	$33.7M[2]	56% CAGR[3]
Underlying EBITDA	$101.0m	+42%
Underlying EBITDA margins	18.8%	vs. 19.6%

Strong organic growth[1]

Organic Revenue	$498.1M	+37%
Organic Underlying EBITDA	$107.3M	+51%
Organic Underlying EBITDA margins	21.5%	vs. 19.6%

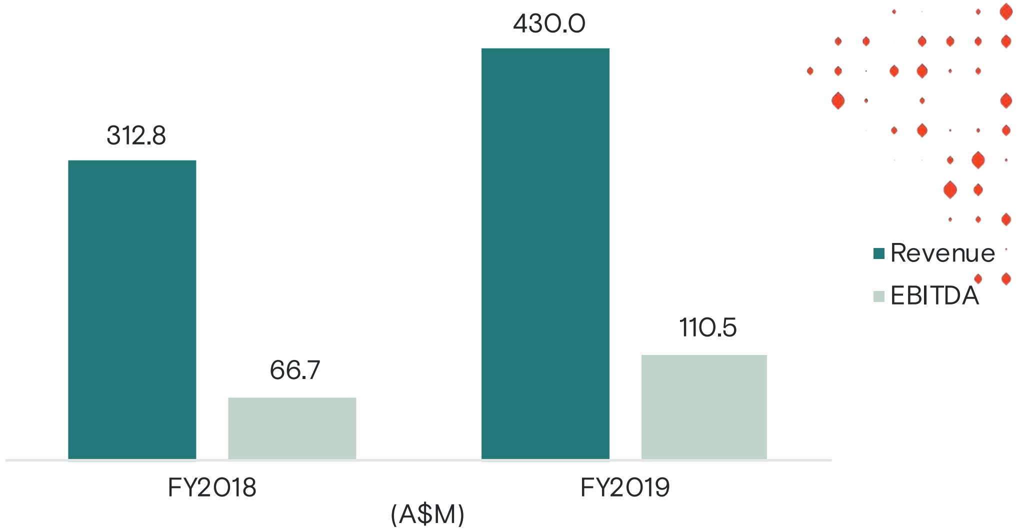
1. Excludes Figure Eight
2. Year end ARR. US$24.95M at A$1=US$0.74. Guidance range A$30M – A$35M at A$1=US$0.74
3. 2015 to 2019.

Speech and Image maintaining high revenue growth



- Revenue of $67.7M[1] up 32%
- EBITDA up 11%[1], impacted by large projects peaking in 1H
- Multiple projects across major customers
- Gross margin tradeoff for sales expansion
- Maintaining resource investment for future growth

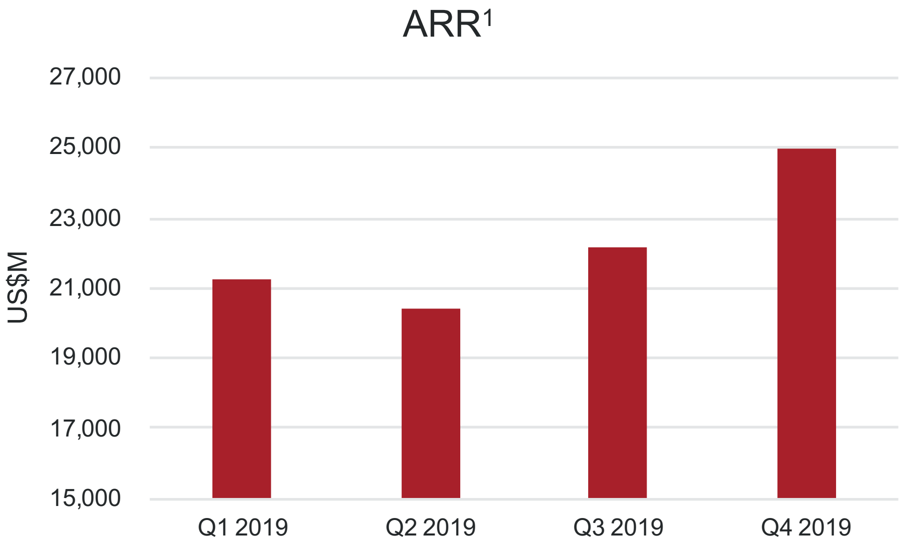
Strong Relevance growth with margin expansion

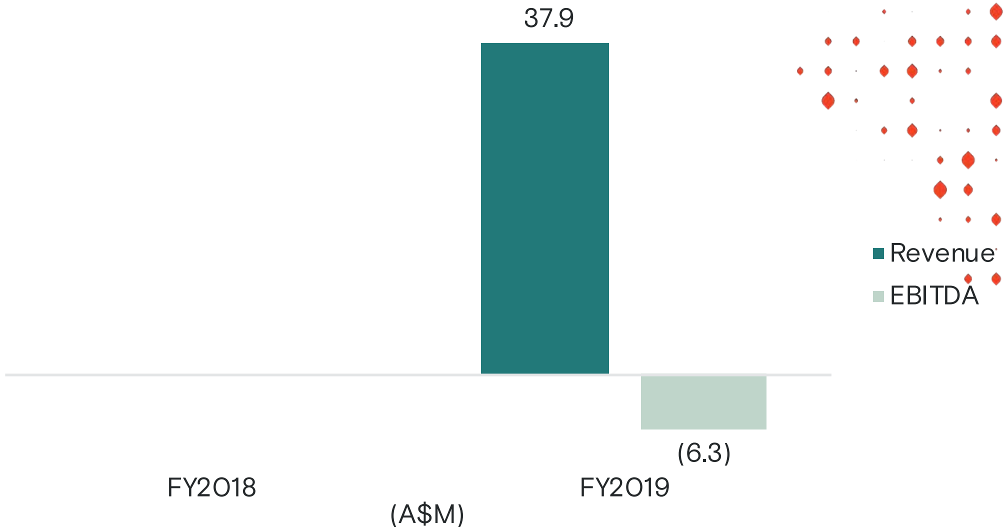


- Revenue of $430.0M[1] up 37%
- EBITDA up 66%[1]
- YoY margin expansion from 21.3% to 25.7% from scale and technology
- Recently updated multi-year agreement with one of our largest customers to hold prices for five years[2]

1. Excludes Figure Eight
2. Agreement includes clause to increase prices under exceptional circumstances

Figure Eight rebounds to high growth





- Year-end ARR US$24.95M, AU$33.7M[2]
- Strong 2H – new customer and expansion deals with improved churn management
- Increase in larger customer wins
- Growth improves to 56% CAGR[3]
- Q2 impacted by acquisition, lower new business and higher churn

- Path to profitability ahead of plan[4]
- Cost management of non-essential items
- Earnout payment estimate of A$36.8M
- Total acquisition cost of $287.6M, 5.8x 2019 revenue

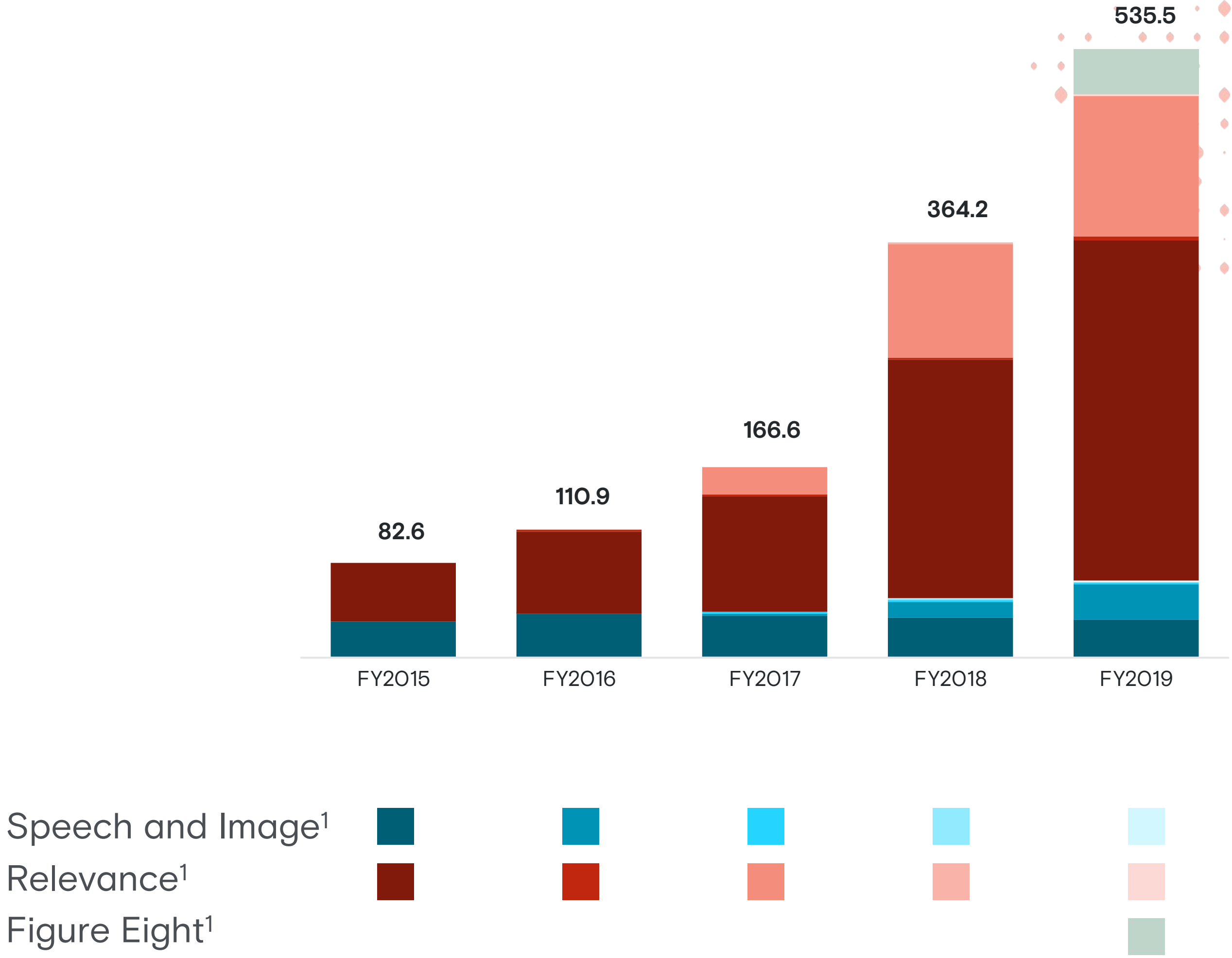
1. Ending ARR each quarter in US$M
2. ARR US$24.95M at A$1=US$0.74. Guidance range A$30M – A$35M at A$1=US$0.74
3. 2015 to 2019.
4. EBITDA forecast loss of ($9.9M) to ($11.6M) at time of acquisition

Figure Eight Integration

- Shifting to a unified product set
- Single sales team in place
- Refreshing messaging and visual identity
- Consolidating crowds, moving work to Appen crowds and facilities
- Combining teams and culture
- Integrating back office functions and infrastructure
- Synergies on track
- Major integration components to be complete by end of 2020

High-value, long-term customer relationships

- Appen's existing customers underpin revenue growth with increased demand for existing and new projects
- Strong and enduring customer relationships
- Substantial investment in Sales and Marketing in FY20 to lay foundation for future growth

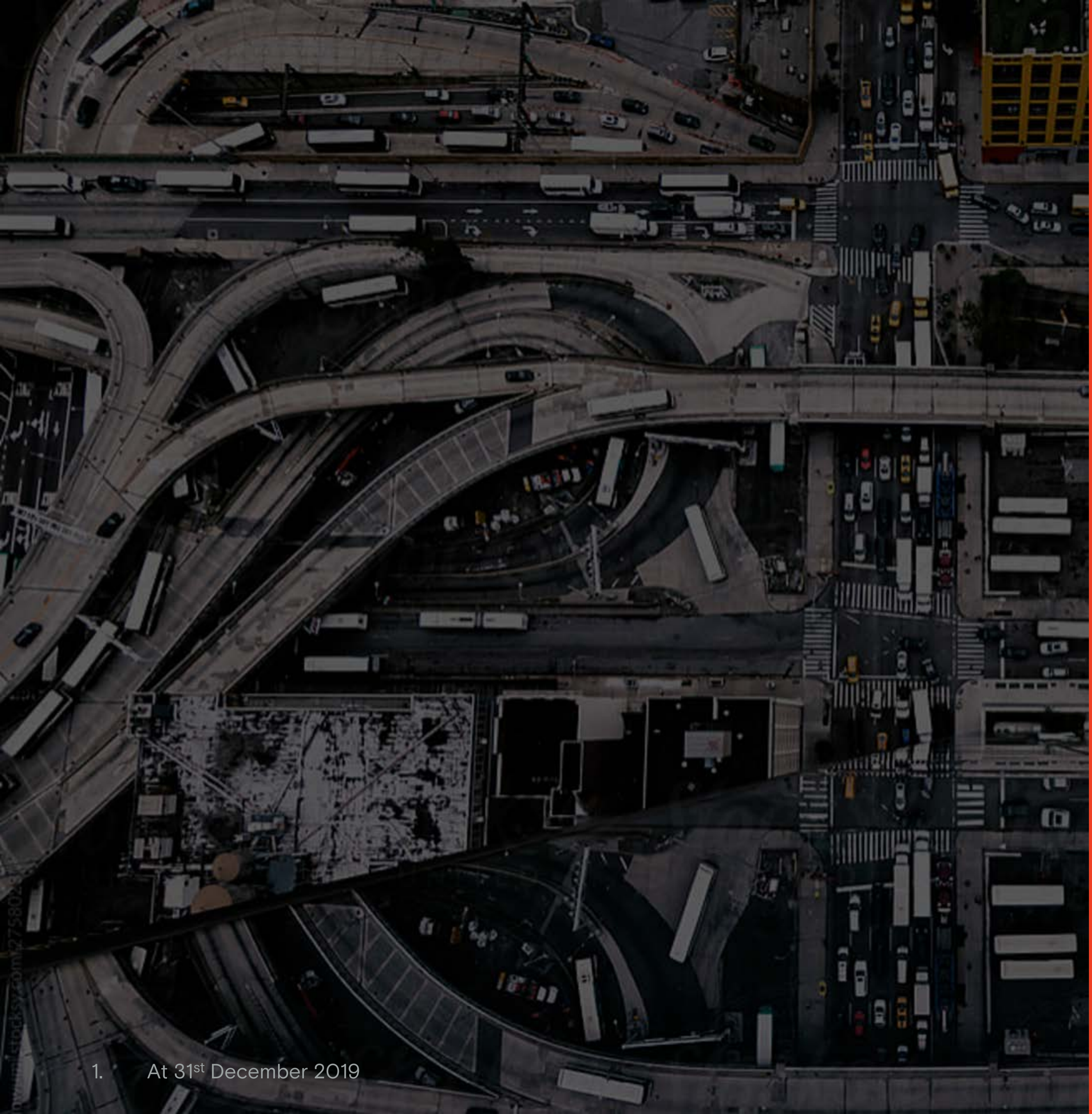


1. Chart shows revenue by cohort in year of origination and each successive year thereafter
2. Revenue on chart excludes interest and other income

Government

- Known government AI budgets include $5BN in the US[1] and £2.3BN in the UK[2]
- New US government customer win in 2019
- US government operations setup on-track
- Hiring ongoing
- Washington DC office leased and undergoing fitout for occupancy Q1 2020

1. Bloomberg Government
2. UK Ministry of Defence



China

Team in place:

- 53 full time employees in Shanghai, including 30 customer facing[1]
- 154 data labelers in Wuxi facility[1]

Rapid pipeline expansion

Modest FY20 targets

Coronavirus update

- All staff safe and accounted for
- Customer project work ongoing
- Expect negligible impact on FY20 group revenue and earnings based on currently available information

1. At 31st December 2019

Technology Update

Client workspace

- Secure workspace solution for enhanced at-home data security
- Workflows feature to automate complex annotation tasks

Crowd Management

- Automated applicant checking reduces time from up to 20 hours to a few minutes
- Automated skills matching speeds up project setup

Annotation tools

- ML-assisted tools delivering measurable efficiency gains in pilot projects
- ML-assisted tools will improve worker experience and productivity

Appen enhances autonomous vehicle capabilities with LIDAR annotation solution

- Investments in autonomous vehicles growing at 35% p.a.[1]
- Multiple data types and large data volumes required
- LIDAR-based technologies to grow to US$10BN by 2025[1]

- 3D point cloud visualisation and feature labelling
- ML-assisted labelling and workflows for higher productivity and quality
- Pilot projects underway

1. 2019 Global Market Insights, Inc

Environmental

- Low environmental footprint
- Buying carbon credits to offset 2019 travel
- Further investments in offsets in 2020

Social

- Launched Crowd Code of Ethics for fair treatment of workers
- Member of Global Impact Sourcing Coalition offering jobs to disadvantaged communities

GLOBAL IMPACT SOURCING COALITION

- Internal management program to improve gender balance at senior levels
- Ongoing work with Translators Without Borders

Governance

- Adding US-based NED to increase independence and add market knowledge
- Phased implementation of enhanced reporting based on Integrated Reporting Framework (IIRC)

Strong financial performance executed with efficiency (A$M)

Results	FY2019	FY2018	% change	% change constant currency
Speech & Image	67.7	51.4	32%	24%
Relevance	430.0	312.8	37%	28%
Figure 8	37.9	-		
Other	0.4	0.1		
Total Revenue	**536.0**	**364.3**	**47%**	**37%**
Statutory EBITDA	**87.9**	**68.1**	**29%**	**20%**
Underlying EBITDA	**101.0**	**71.3**	**42%**	**31%**
Underlying EBITDA Margin	18.8%	19.6%		
Statutory NPAT	**41.6**	**41.7**	**(0%)**	**(10%)**
Underlying NPAT	**64.7**	**49.1**	**32%**	**20%**

Revenue up 47%

- Record growth in Speech & Image combined with continued strong growth in Relevance.
- Growth largely driven by continued increase in demand from current projects with existing customers and to a lesser extent new sales and the addition of Figure Eight.
- Organic growth of 37%[3]

Underlying EBITDA up 42%[1]

- EBITDA margins reduced to 18.8% from 19.6% due to Figure Eight losses. Excluding Figure Eight losses, margins increased to 21.5% from economies of scale
- Organic growth up 51%[3]

Underlying NPAT up 32%[2]

- Effective tax rate reduced from 25.4% to 24.4% mainly due to deductions from expensing and vesting of employee performance shares. Normalised tax rate (excluding share based payment related items) ~29%

1. Underlying EBITDA excludes transaction costs, acquisition related share based payment expenses and fair value adjustments (consideration adjustments) for the Figure Eight earn out liability
2. Underlying NPAT excludes after tax impact of items relating to acquisitions, including amortisation of identifiable assets, share based payment expenses, transaction costs and fair value adjustments (interest unwind and consideration adjustments) for the Figure Eight earn out liability
3. Excludes Figure Eight

Robust balance sheet (A$M)

	Dec-19	Dec-18
Cash	75.3	40.0
Receivables	116.3	60.5
Other Current Assets	11.0	13.8
Non-Current Assets	431.5	125.7
Total Assets	**634.1**	**240.0**
Current Liabilities	128.8	40.3
Borrowings	-	56.3
Non-current Liabilities	23.6	4.0
Total Liabilities	**152.4**	**100.6**
Net Assets	**481.7**	**139.4**
Total Equity	**481.7**	**139.4**

- Increase in receivables relates to increase in revenue volumes
- Non-current assets include Goodwill of $288.8M and identifiable intangible assets (IIA) of $109.8M in relation to acquisitions. Goodwill of $202.6M and IIA of $79.0M relating to Figure Eight has been tested for impairment with significant headroom
- Borrowings of $57.0M repaid in 2019. $35M from cash reserves and $22M from fund raising associated with the Figure Eight acquisition
- Total earn out liability in respect of Figure Eight estimated at $36.8M to be paid in March 2020
- Full year dividend of 5.0 cps up from 4.0 cps in 2018. Final dividend 50% franked

Consistent cash conversion (A$M)

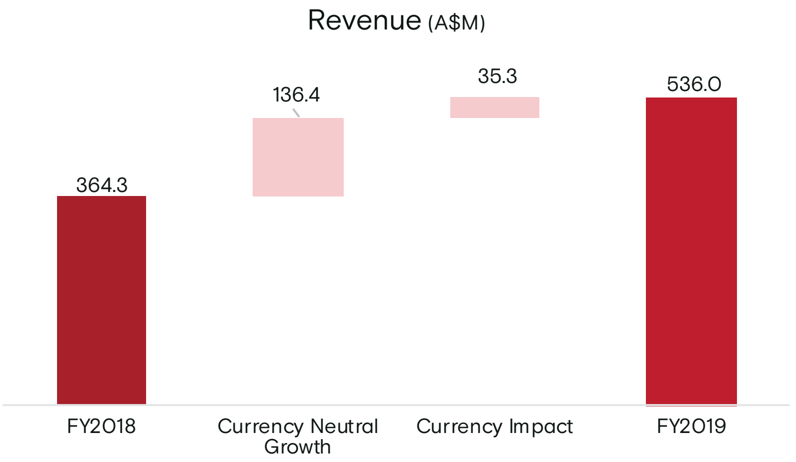
	FY2019	FY2018
Receipts	488.6	340.4
Payments and other	(405.8)	(275.0)
Cash flow from operations before interest and tax	**82.8**	**65.4**
Interest	(2.0)	(3.0)
Taxes	(13.5)	(15.6)
Total Cashflow from Operations	**67.3**	**46.8**
Cashflows - Investment Activities	(256.0)	(7.6)
Cashflows - Financing Activities	221.9	(25.2)
Net Cashflows for the period	**33.2**	**14.0**
Opening cash balances	40.0	24.0
FX Impact	2.1	2.0
Closing cash balances	**75.3**	**40.0**

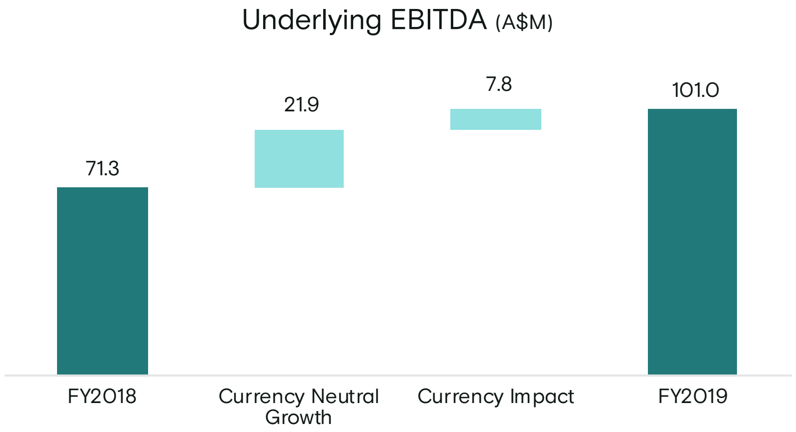
Cash balance increased by $35.3M

- Cash flow from operations increased by 47% and remains strong
- Cash used to repay debt, pay dividends, fund capex and transaction costs
- Cash conversion from EBITDA remains strong at 88%
- Cash balance and cash conversion impacted by year end receipt timing delays, resolved in January 2020

	FY2019	FY2018
Underlying EBITDA	**101.0**	**71.3**
Less transaction costs	(7.4)	(1.5)
Underlying EBITDA after transaction costs	**93.6**	**69.8**
Working capital	(10.8)	(4.4)
Cash flow from operations before interest and tax	**82.8**	**65.4**
Underlying EBITDA cash conversion	**88%**	**92%**

Currency tailwind benefit (A$M)

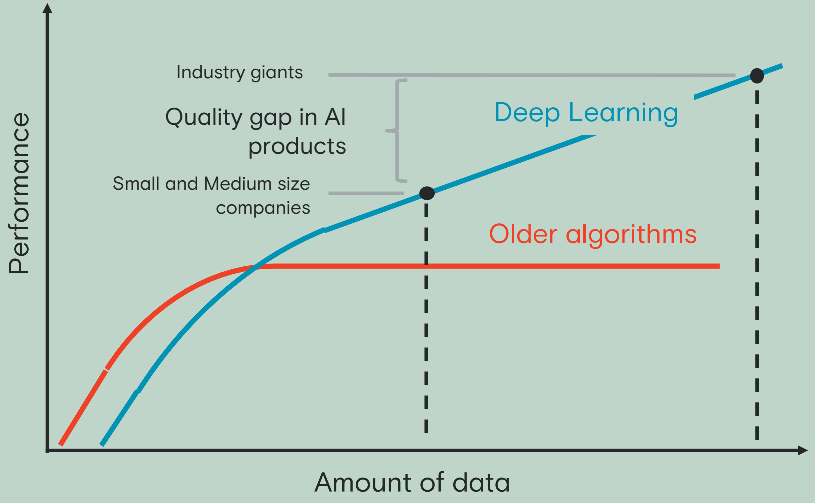




- Almost all revenue derived offshore, most in USD
- Meaningful currency tailwind impact in 2019

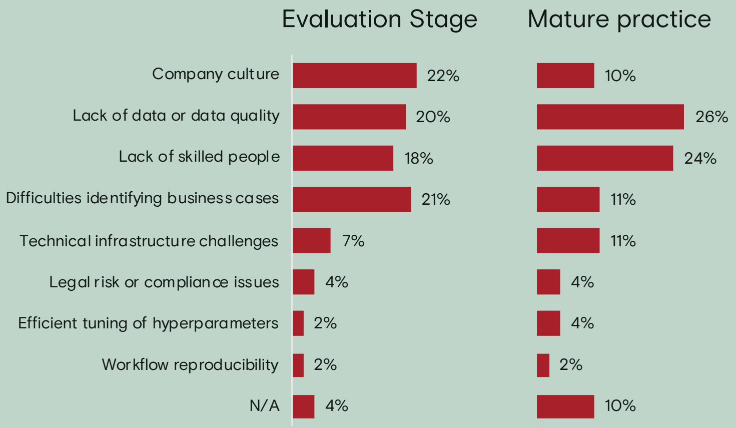
Market trends

Large volumes of quality data continue to be critical for deployable AI[1]



Data availability is a major challenge[2]

Factors holding back AI adoption by companies' stage of AI adoption



Growth proxies underscore a growing demand for quality training data[3]

AI Spend	**28%**
Digitial Ad Spend (Relevance)	**13%**
Speech Recognition	**18%**
Natural Language Processing	**12-20%**
Computer Vision	**40-51%**
Lidar	**35%**

1. Andrew Ng, Google Brain, Baidu, Stanford University
2. O'Reilly - Artificial Intelligence Adoption in the Enterprise, 2019
3. AI Spend: O'Reilly; Digital Ad Spend: EMarketer; Speech Recognition: Grand View Research, Markets and Markets; Natural Language Processing: Research Reports World, Research and Markets; Computer Vision: Report Consultant, Maximise Market Research; LiDAR: Global Market Insight. All figures forecast CAGR.

Appen strongly positioned to win

Proven dependable provider

- Founded in 1996
- 781 full-time staff worldwide[1]
- Global operations:

Sydney
San Francisco
Seattle
Detroit
Exeter
Washington DC[2]
Dallas[3]
Manila
Shanghai
Beijing
Wuxi

- Strategic acquisitions have added talent, customers, scale and technology

Global crowd

- Scale: >1m crowd members
- Diversity: >70k locations in 130 countries

Advanced technology

- Fully functional, highly scalable platform

Global crowd workforce

Crowd management | Client workspace | Annotation tools

1. At 31st December 2019
2. Opening in Q1 2020
3. US secure facility opening in Q2 2020

Outlook

- Appen continues to strengthen its position in a high growth market through investments in technology, sales & marketing, government markets and China
- Investments in sales and marketing will soften 1H FY20 margins to mid teens. Margins expected to be high teens for the full year FY20
- Expect negligible impact from the Coronavirus on FY20 group revenue and earnings based on currently available information
- YTD revenue plus orders in hand for delivery in FY20 of ~$210M at February 2020.
- The Company's full year underlying EBITDA for the year ending Dec 31st 2020 is expected to be in the range $125M - $130M (at A$1 = US$0.70, Feb-Dec 2020)
- Ongoing review of Appen's capital management priorities, including dividend policy

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


Thank you
appen