ASX ANNOUNCEMENT

25 August 2022

Appen confirms 1H 22 results and updates FY2022 outlook

Appen Limited (Appen) (ASX: APX) today reported its half year results for the six months ended 30 June 2022 and provided a further update to its FY2022 outlook.

As announced on 2 August 2022 in the update on 1H FY22 results and FY2022 outlook, Appen's half year results reflect lower earnings due to challenging external operating and macro conditions, resulting in weaker digital advertising demand and a slowdown in spending by some of its major customers. Appen also saw a flow on effect to non ad-related projects and some of its core programs.

Appen's first half results[1] include:

- **Group revenue** of $182.9 million down 7%, primarily reflects a lower contribution from the Global division due to weaker digital advertising demand and a resultant slowdown in spending by some large customers
- **Global Services revenue[2]** revenue of $137.8 million down 7%
- **New Markets revenue**[3] of $45.0 million down 6%, impacted mainly by lower Global Product. Excluding Global Product, New Market revenue was up 35%
- **Underlying EBITDA**[4] (before FX impact) of $9.6 million down 66%, due to lower revenue as well as investments in product, technology, and transformation
- **Statutory net loss after tax** of $9.4 million, compared to a $6.7 million statutory net profit after tax in 1H FY21, impacted by higher amortisation on product development
- **Nil half year dividend**
- **Cash balance** of $42.2 million on 30 June 2022 and no debt

Commenting on the half year result, Appen's Chief Executive Officer, Mark Brayan said, "Appen's first half results have been impacted by external headwinds as some of our global customers have cut costs and re-prioritised their spend which has impacted some of our large global programs.

"However, we are encouraged by the performance of our New Markets division which excluding Global Product recorded a 35% uplift in revenue. Our China business continued to enjoy sustained strong growth with revenue up 141% and the Enterprise business is building momentum.

[1] All amounts stated in US$ and all comparisons are to the half year ended 30 June 2021, unless stated otherwise.

[2] Revenue from major US technology customers (Global customers) through their platforms.

[3] Revenue from Global Product (Global customers using the Appen platform and tools) and Enterprise, China, Government and Quadrant customers.

[4] Underlying EBITDA excludes transaction costs, inventory losses, acquisition-related share-based payment expenses and for HY21, restructure costs.

"We are highly focused on implementing our long-term strategy, including investments in New Markets to diversify revenue. We are also reviewing all areas of the business to accelerate productivity improvements and prioritise near-term high impact change and tightly manage costs.

"While the current operating conditions remain challenging and some of our customers face numerous headwinds, we remain committed to our long-term strategy and confident of our prospects in the high growth AI market."

Operating performance

Total revenue of $182.9 million was 7% lower due to a downturn in the digital advertising market resulting in a slowdown in spending by some of our global customers on large global programs. This has particularly impacted our Global division, especially our customers with a high exposure to digital advertising.

Global Services revenue declined 7% to $137.8 million. Non-ad related projects comprised 74% of total revenue from Global customers, closely in line with 75% reported in the prior corresponding period.

Despite the challenging external environment, the Global Division won 99 new deals, compared to 75 new deals in the prior corresponding period. Most of this work is non-ad related. At this stage, the size and ramp up of new projects is insufficient to offset the reduction in some of our core programs.

New Markets revenue fell 6% to $45.0 million, primarily due to lower Global Product revenue. Revenue from non-global customers (Enterprise, Government, China and Quadrant) grew 35% to $34.4 million due to the strong performance of China, and represents 19% of total revenue.

Within New Markets, Global Product revenue declined 52% to $10.6 million. This was due to challenging macro conditions as our customers reduced their spend for project work performed on our platform and a large project from one global customer ending in the prior corresponding period.

The Enterprise team had many customer and project wins over the half-year, including Bloomberg, Adobe, Boeing and Salesforce. A key project also involved data collection for a leading global car maker.

The new enterprise leadership team is fully onboarded and successfully signing new and larger deals. Importantly, bookings in 1H 22 were up 9% compared to 1H 21. The average deal size signed in the first half was $91,000, up 37% from the average deal size of $67,000 in the prior corresponding period.

Despite a COVID lockdown in Shanghai for at least three months, revenue in China grew 141% on the prior corresponding period as the team secured new project and new logo wins. We continue to count China's leading technology, mobile and AV companies amongst our customers.

Leveraging off the growth and support infrastructure in China, we invested in dedicated local sales teams in Japan and Korea where we had several new customer wins during the half year.

The Government team had a disappointing half as revenue declined. This was due to the non-renewal of a large contract, and longer sales and budget cycles that are typically associated with government work.

During the half, we commenced multiple transformation workstreams, reflecting the set-up of the transformation office, which included improving our roster fill and management of global programs, automating the crowd labelling processes, diversifying the range of data modalities that we can service, and growing our world-class data science team to automate our processes.

Financial performance

Before the impact of FX, underlying EBITDA fell 66% to $9.6 million due to lower revenue and investments in product, technology and transformation.

Gross margins improved primarily due to a better customer and product mix and internal efficiencies in our Global Services division. In China, gross margins also improved in line with increasing revenue.

Underlying EBITDA margins were impacted by lower revenue and a higher cost base.

Costs were primarily higher due to investment in product and technology; growth investments in New Markets; and transformation costs; all with associated higher employee expenses, recruitment, and IT costs. Retention strategies resulted in an increase in share-based payments expenses, although this was offset by the impact of non-vesting of rights, due to performance hurdles not being met.

Product development investment (excluding amortisation) represented 10% of revenue or $18.3 million. This spend was up 18% on the first half spend last year of $15.5m.

Underlying net loss after tax was $3.8 million and compared to a $12.5 million underlying net profit after tax in the prior corresponding period.

Statutory net loss after tax was $9.4 million and was impacted by high amortisation expense for product development. This compared to a $6.7 million statutory net profit after tax in the corresponding period.

Appen had no debt and a cash balance of $42.2 million as at 30 June 2022. The cash balance was lower than the prior corresponding period mainly due to the upfront payment for Quadrant of $25.3 million in September 2021.

Cash conversion from EBITDA increased from 101% to 211% due to working capital movements.

Given the half-year performance and to ensure appropriate allocation of capital, the Directors have determined not to pay an interim dividend for the half-year.

Strategy and FY2022 outlook

We are a global market leader with respect to the provision of data for the AI lifecycle and generate more revenue than each of our competitors and produce strong cash flow conversion, backed by a strong balance sheet. We offer the broadest range of data modalities amongst all our competitors, and will continue to expand this capability, to win more customers and to deliver scale, quality and margin expansion associated with our strategic pillars of **GROW**, **AUTOMATE, EXPAND** and **EVOLVE**.

As at August 2022, our revenue order book including year-to-date revenue plus orders in hand stands at ~$360 million[5], in line with August 2021 with customer delivery schedule skewed to the fourth quarter of FY2022.

However, with no improvement in July and August trading to date there remains uncertainty about a continued slowdown of spending from our Global customers and their exposure to weaker digital advertising demand. As a result, the conversion of forward orders to sales is less certain this year compared to prior years.

We still expect higher volumes in the latter part of 2H, from:

- delivery of seasonal Global projects and ramp up of existing Global projects
- continued growth in China
- ramp up of Quadrant into Global and Enterprise customers.

Therefore, we expect FY22 revenue skew to be weighted to the latter half of 2H, although revenue is not expected to be at prior year levels due to the slowdown of Global customers.

Management is highly focused on implementing the Company's strategy with a focus on near-term returns and costs and are prioritising the following initiatives:

- focus on investments in New Markets on high impact opportunities
- ongoing improvements to products and processes to improve productivity
- increased use of offshore facilities for project delivery, engineering, and business support
- right size investments to market opportunities.

We remain focused on investing in technology and expect investment in product development to be around 10% of revenue.

Our FY22 EBITDA and EBITDA margin is expected to be materially lower than FY21, mainly due to lower revenue, as well as investment in product, technology, and transformation.

5 Consistent with prior year methodology and timing used for the update provided at the half year result in August 2021.

Management change

We continue to make changes to support our ongoing transformation. Mr Tom Sharkey, SVP and General Manager Global, will be stepping down from his role effective from 31st August 2022. An external search process is underway to appoint a replacement to drive the digital transformation of our Global business.

Investor briefing

A results briefing will be hosted by Mark Brayan, CEO and Kevin Levine, CFO at 11:00am AEST on Thursday 25 August. The briefing will be webcast live at Open Briefing. Those wishing to ask questions during the briefing can join via conference call. Please pre-register for the call at: Diamond Pass Invitation (c-conf.com).

Financial summary US$	1H FY22	vs 1H FY21
Group revenue	**$182.9M**	**-6.9%**
Global Services[2]	$137.8M	-7.4%
New Markets[3]	$45.0M	-6.0%
Underlying EBITDA (before FX)[4]	**$9.6M**	**-66.0%**
Underlying EBITDA margin (before FX)	**5.2%**	**vs 14.3%**
Underlying EBITDA (after FX)[4]	$8.5M	-69.3%
Underlying EBITDA margin (after FX)	4.6%	vs 9.5%

For footnote descriptions please refer to page 1

Authorised by the Board of Appen Limited.

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Important Information

This announcement does not constitute financial product advice and does not take into account the investment objectives, financial situation or needs of any particular investor. Investors are encouraged to seek independent financial advice before making any investment decision.

This notice contains forward-looking statements, including statements of opinion and expectation. These statements may be affected by various assumptions, risks and uncertainties, including matters which are outside the control of Appen, and may differ from results actually achieved. Investors are cautioned against placing undue reliance upon such statements.

About Appen

Appen is a global market leader in data for the AI Lifecycle. With over 25 years of experience in data sourcing, data annotation, and model evaluation by humans, we enable organisations to launch the world's most innovative artificial intelligence systems.

Our expertise includes a global crowd of more than 1 million skilled contractors who speak over 235 languages, in over 70,000 locations and 170 countries, and the industry's most advanced AI-assisted data annotation platform. Our products and services give leaders in technology, automotive, financial services, retail, healthcare, and governments the confidence to launch world-class AI products.

Founded in 1996, Appen has customers and offices globally.