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ASX ANNOUNCEMENT
25 August 2022

INVESTOR PRESENTATION

Further to the Company's announcement to the market today on its results for the half year ended 30 June 2022, please find attached the presentation to be delivered to investors and analysts this morning.

A results briefing will be hosted by Mark Brayan, CEO and Kevin Levine, CFO at 11:00am AEST today.

Audio webcast - the briefing will be webcast live at Open Briefing.

Conference call - 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).

Authorised for release by the Board of Appen Limited.

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Powering the AI life cycle

Appen Limited

Half year results presentation

25 August 2022

Important information

The forward-looking statements included in these materials involve subjective judgement and analysis and are subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, Appen Limited. In particular, they speak only as of the date of these materials, they are based on particular events, conditions or circumstances stated in the materials, they assume the success of Appen Limited's business strategies, and they are subject to significant regulatory, business, competitive, currency and economic uncertainties and risks.

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All amounts are in US$ unless stated otherwise.

Appen Limited ACN 138 878 298 - 9 Help Street, Chatswood, NSW 2067, Australia

Agenda

- Results and overview
- 1H 22 financial performance
- Outlook
- Q&A

Results and overview

Mark Brayan

1H FY22 snapshot[1]

Performance

$182.9M	H1 FY22 Revenue
$9.6M	H1 FY22 EBITDA before FX
35%	New Markets revenue growth[2]
141%	China revenue growth
42.2M	Cash balance at 30 June 22
Nil	Interim dividend

Current state

- Our major customers are facing headwinds, cutting costs and re-prioritising spend, impacting our large Global program revenue
- We remain committed to our long-term strategy including investments in New Markets to diversify revenue and products to improve productivity
- New Markets (ex. Global Product) revenue up 35% underpinned by strong growth in China.
- We are reviewing all areas of the business to accelerate productivity improvements, prioritise high-impact revenue opportunities, and manage costs

1. All dollar amounts are in US dollars, unless otherwise stated
2. Excluding Global Product

State of play

Downturn in digital ad market

- Impacting some global customers
- Lower spend on our large global programs

Need for diversification

- Revenue from non-Global customers[1] represent 19% of total revenue, up from 13%
- Continued strong growth in China
- Enterprise business building momentum
- Need to further accelerate investments to achieve revenue diversification

Market remains strong

- Data labelling market forecast to grow by 32% per annum from 2021 to 2027[2]
- Global project count at all-time high at end of H1, but insufficient to offset reduction in core programs

1. Non-Global includes customers from China, Enterprise, Government and Quadrant
2. Cognilytica Research Snapshot: Data Labelling Markets (December 2021)

Maintaining our strategy with focus on near-term returns and costs

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Maintain strategy

Grow
revenue and diversify

Automate
crowd and labelling processes

Expand
our product offering

Evolve
how we do business

Focus on near-term, high impact change

- Focus investments in New Markets on high impact opportunities
- Ongoing improvements to products and processes to improve productivity

Prudent cost management

- Increased use of offshore facilities for project delivery, engineering and business support
- Right size investments to market opportunities

1H FY22
Financial performance

Mark Brayan and Kevin Levine

Financial highlights

US$M	1H FY22	1H FY21	% change
Group Revenue	182.9	196.6	(6.9%)
Global Services Revenue[1]	137.8	148.8	(7.4%)
New Markets Revenue[2]	45.0	47.8	(5.7%)
Other	0.1	0.0	
Underlying EBITDA (before FX)[3]	**9.6**	**28.2**	(66.0%)
Underlying EBITDA margin (before FX)	5.2%	14.3%	
Underlying EBITDA (after FX)[3]	**8.5**	**27.7**	**(69.3%)**
Underlying EBITDA margin (after FX)	4.6%	14.1%	
Dividend per share	**Nil**	4.5	

1. Revenue from major US technology customers (Global customers) through their platforms.
2. Revenue from Global Product (Global customers using the Appen platform and tools) and Enterprise, China, Government and Quadrant customers.
3. Underlying EBITDA excludes transaction costs, inventory losses, acquisition-related share-based payment expenses and for HY21, restructure costs.

Revenue performance primarily reflects lower contribution from the Global division due to weaker digital advertising demand and a resultant slowdown in spending by some of our large customers

- **Global Services** revenue down 7.4% due to reduced spend from some of our global customers
- **New Markets** revenue down 5.7% due to lower Global Product. Excluding Global Product, New Markets revenue up 35%

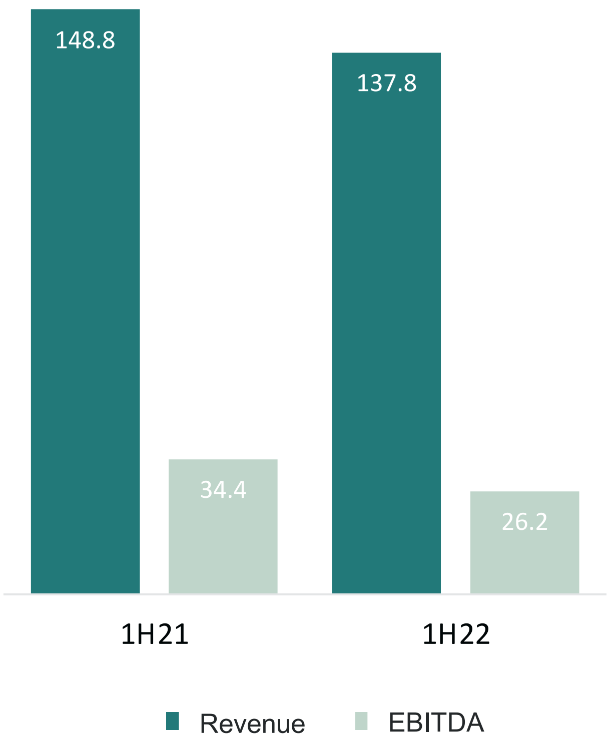
Underlying EBITDA before FX down 66%, driven by lower revenue and increased costs associated with product, New Markets investment and transformation

Strong balance sheet – $42.2M in cash and no debt as at 30 June 2022

Nil interim dividend to ensure appropriate allocation of capital

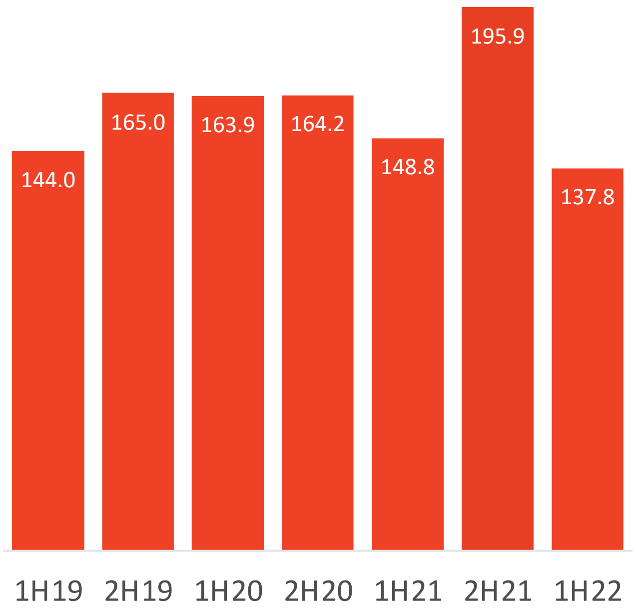
Global Services

Revenue and EBITDA (US$M)



- 1H22 revenue of $137.8M, down 7%
- GP% increase - customer/project mix and efficiencies
- EBITDA of $26.2M down 24% on 1H21
- EBITDA margin of 19% impacted by lower revenue

Revenue by half (US$M)



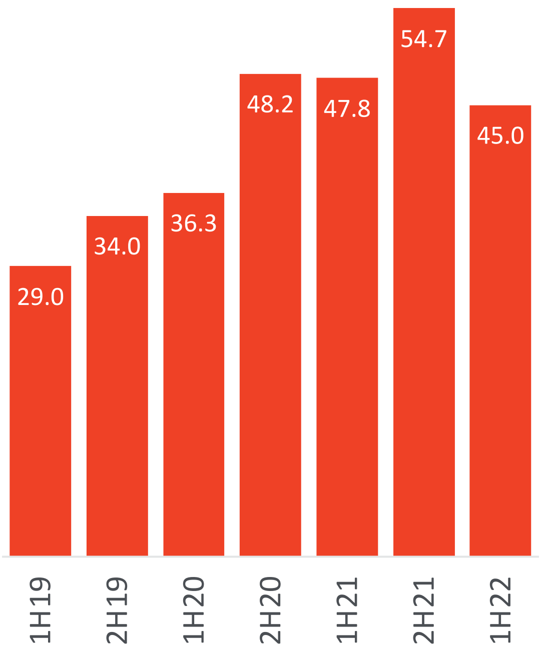
- Challenging external operating and macro conditions resulted in weaker digital advertising and a slowdown in spending by some major customers
- Flow on impact to non-ad related programs, as well as some core programs

New Markets

Revenue and EBITDA (US$M)

- 1H22 revenue of $45.0M, down 6% on 1H21
- Growth impacted by lower contribution from global product
- EBITDA loss of $15.6M reflects lower revenue and higher investment spend

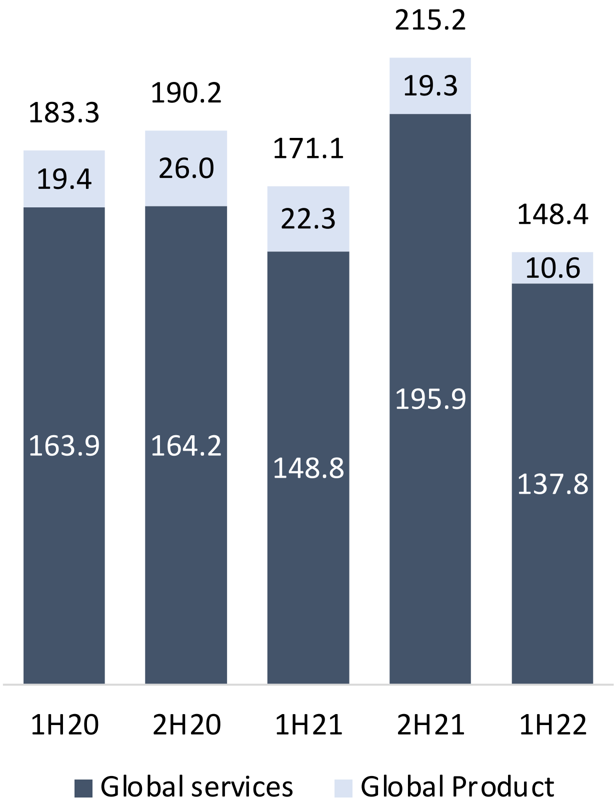
Revenue by half (US$M)



- Excluding global product, New Markets 1H22 revenue of $34.4m, up 35%
- Growth mainly driven by China
- Positive momentum for Enterprise include increase in bookings quarter on quarter and larger average deal size
- 71 new logo wins

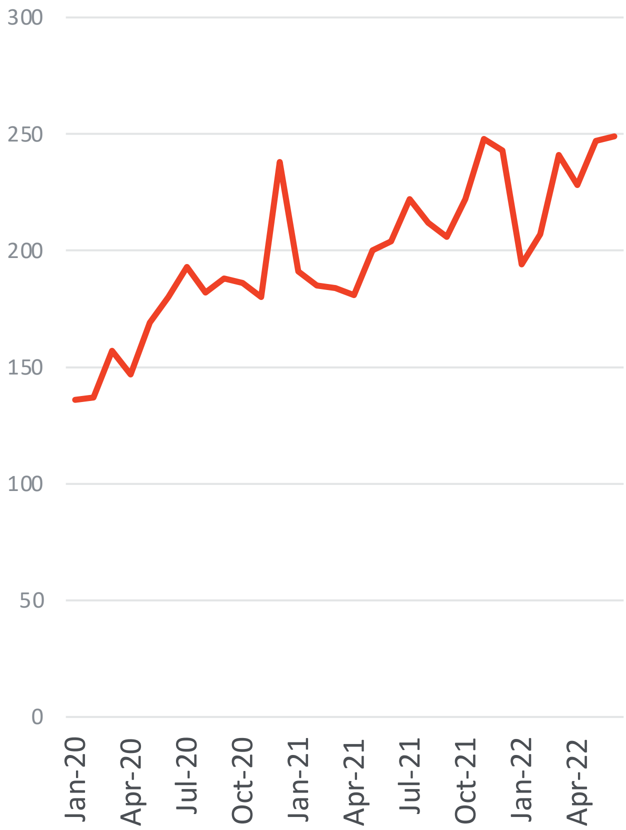
Global customers

Revenue by half (US$M)



- Global services 1H22 revenue of $137.8M, down 7% on 1H21 due to weaker digital advertising demand and slowdown in spending by some of our customers
- Global Product 1H22 revenue of $10.6M, down 52% on 1H21 due to end of a large project in 1H21 and slowdown in spending
- Some POs not fulfilling at same rates of prior years
- Website visits to customer annotation platforms suggest we are not losing share with our largest customers

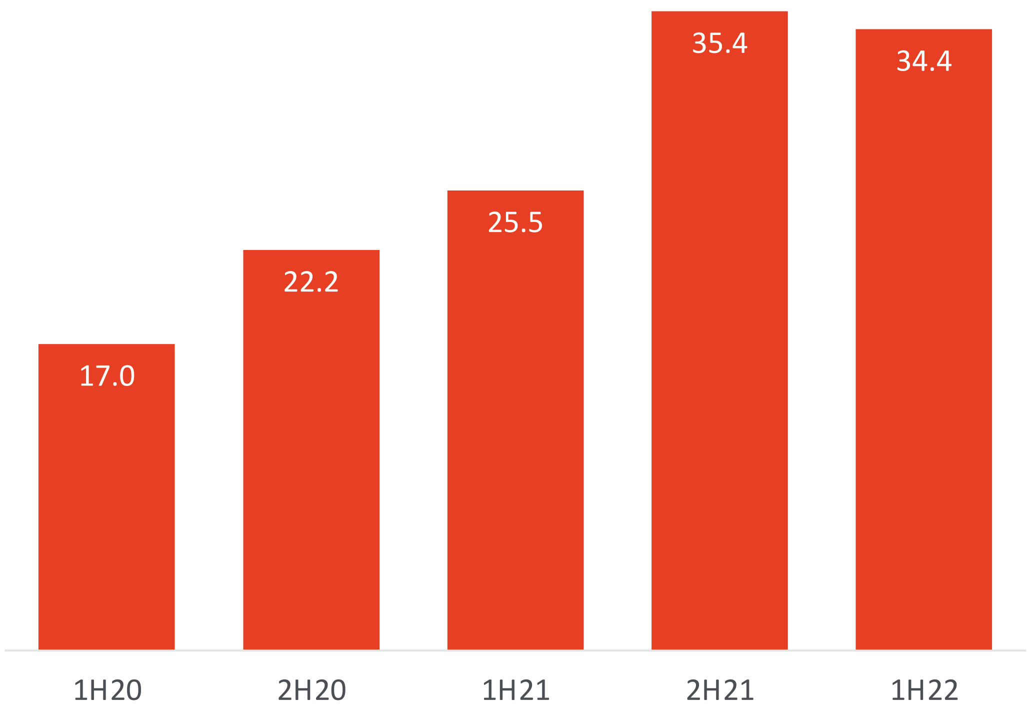
Global project count



- Global project count at all-time high at end of H1
- 99 new deals vs 75 in pcp
- Size and ramp up of new projects insufficient to offset reduction in core programs

Enterprise, China, Government and Quadrant

Revenue by half (US$M)

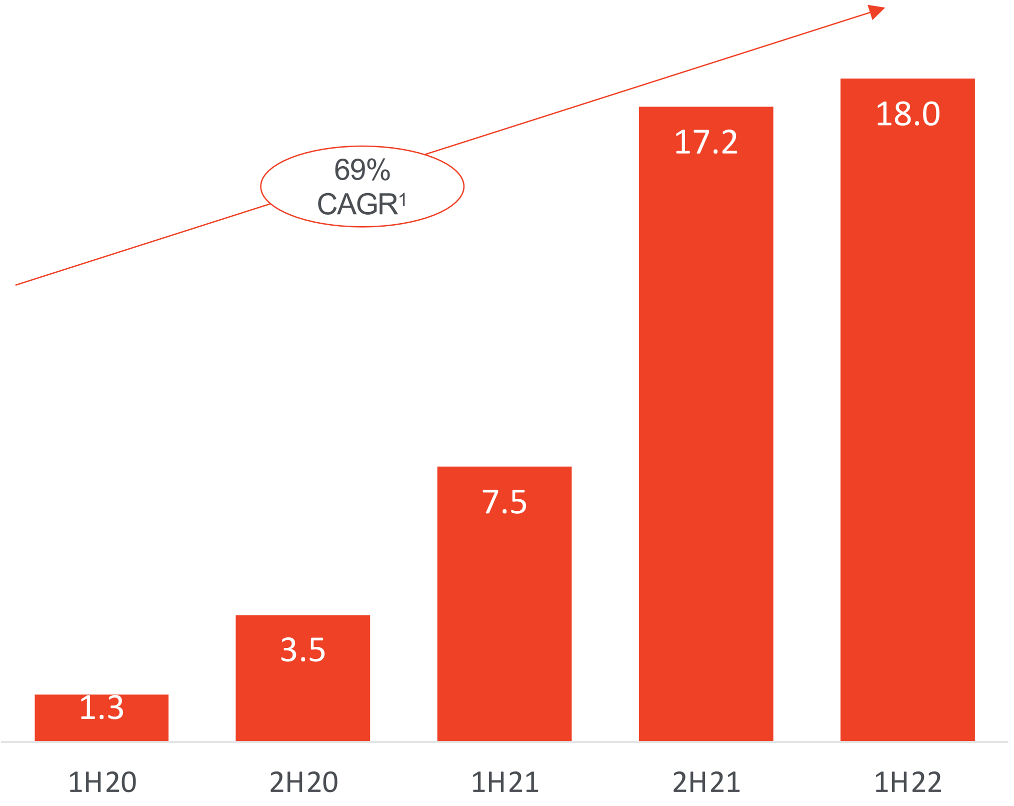


Performance summary

- 1H22 revenue of $34.4M, up 35% on 1H21
- Revenue represents 19% of total revenue, up from 13%
- Growth supported by strong performance in China
- Major wins for Enterprise, including
  - $8.7M order with existing large social media company signed in July
  - $2.5M contract with global auto company
- Enterprise wins in 1H22 to be delivered and recognized in 2H22 and FY23
- Enterprise average deal size up 37% YoY
- Strong opportunities to cross-sell Quadrant into our Global customers and Enterprise customers
- Business development remains focus for Government

China

China revenue by half (US$M)



1. Compounded semi-annual growth rate

Performance summary

- 1H22 revenue of $18.0M, 141% up on 1H21 as team secured new project and logo wins
- Shanghai office experienced three-month COVID lockdown in 1H FY22
- Gross margin % continues to improve
- Achieved ISO 27001 and ISO 27701 certification which strengthens China leadership position
- Highly focused on growth – expanded into Japan and Korea with new sales teams in place and achieved several new customer wins

Revenue, EBITDA and NPAT summary

US$M	1H FY22	1H FY21	% change
Global Services [1]	137.8	148.8	(7.4%)
New Markets [2]	45.0	47.8	(5.7%)
Other income	0.1	0.0	
Total revenue	**182.9**	**196.6**	**(6.9%)**
Statutory EBITDA	**7.9**	**25.2**	**(68.7%)**
Underlying EBITDA [3]	**8.5**	**27.7**	**(69.3%)**
Underlying EBITDA margin	4.6%	14.1%	
Underlying EBITDA [3] before FX	**9.6**	**28.2**	**(66.0%)**
Underlying EBITDA margin	5.2%	14.3%	
Statutory NPAT	**(9.4)**	**6.7**	**(240.0%)**
Underlying NPAT [4]	**(3.8)**	**12.5**	**(130.2%)**
Underlying basic eps (cents)	**(3.1)**	**10.2**	**(130.2%)**

1. Revenue from major US technology customers (Global customers) through their platforms
2. Revenue from Global Product, Enterprise, China, Government and Quadrant customers
3. Underlying EBITDA excludes transaction costs, inventory losses, acquisition-related share-based payment expenses and for HY21, restructure costs.
4. Underlying NPAT excludes after tax impact of transaction costs, inventory losses, acquisition-related share-based payment expenses and for HY21, restructure costs.

- Total revenue down 6.9%, impacted by some Global customers' reduced spending in response to their lower revenues and weaker digital advertising demand
- This also impacted New Markets revenue which saw a decrease in Global Product revenue. Excluding this, New Markets up 35%
- Gross margin % up slightly, mainly due to Global Services changes in customer/project mix and internal efficiencies. China gross margins improving with increasing revenue
- 1H22 expenses higher due to investment in:
  - product and engineering
  - growth investments in New Markets
  - transformation office
  - associated increase in employee expenses, recruitment costs and IT costs
- Underlying EBITDA margins impacted by lower revenue and higher cost base
- Underlying NPAT impacted by increased amortisation associated with investment in product development
- Effective tax rate constant at 20.5% due to tax effect of movements from expensing and vesting of employee performance shares. Normalised tax rate ~25%

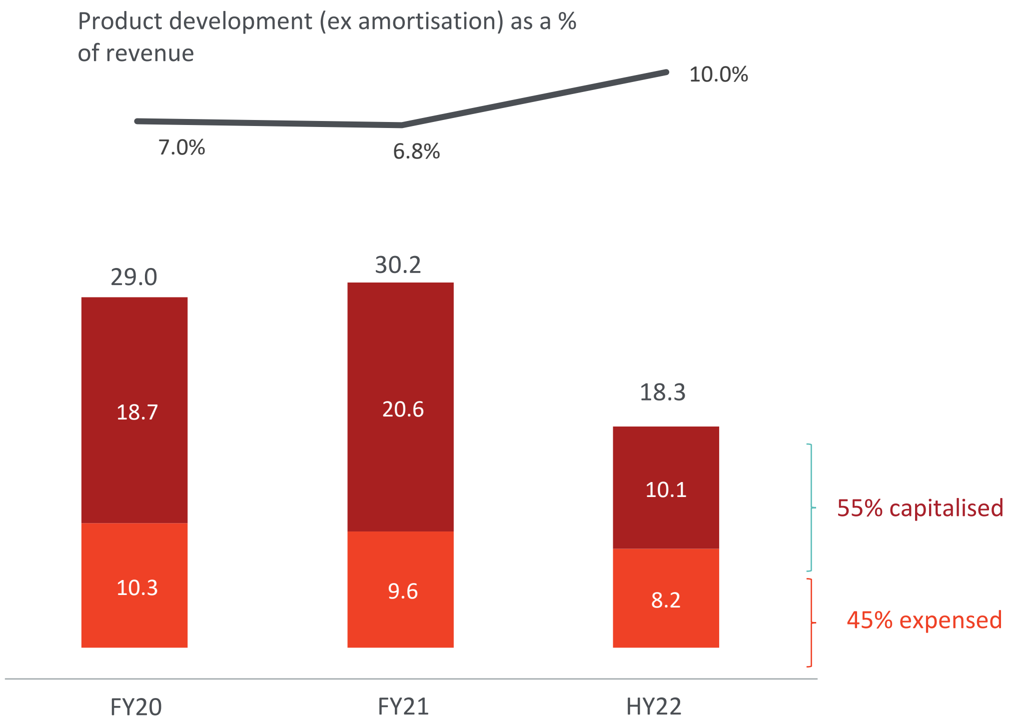
Strong and resilient balance sheet

US$M	Jun 2022	Dec 2021
Cash	42.2	47.9
Receivables	45.3	89.2
Contract assets	30.3	10.5
Other current assets	21.5	14.4
Non-current Assets	337.1	340.2
Total assets	**476.4**	**502.2**
Current liabilities	60.3	64.6
Non-current liabilities	41.4	45.7
Total liabilities	**101.7**	**110.3**
Net Assets	**374.7**	**391.9**
Total equity	**374.7**	**391.9**

- Decrease in receivables due to lower volumes and excludes work done in June not invoiceable as billing milestones not met (shown in contract assets)
- Non-current assets include Goodwill of $242.1M and identifiable intangible assets (IIA) of $72.7M. Goodwill and IIA reviewed for indicators of impairment, with full review to be conducted at year end
- Goodwill of $45.4M initially recorded in respect of the Quadrant acquisition has been adjusted by $5.8M as part of the provisional purchase price adjustment exercise
- Total liabilities include an earn out liability of $18.6M in respect of the Quadrant acquisition
- Nil interim dividend to ensure appropriate allocation of capital

Investment in product development

Investment in product development[1]



1. Product development relates to investment in engineering to ensure that the annotation platform and tools support our customers and their use cases, and drive efficiencies and scale. These amounts exclude amortization expense.

- 1HFY22 investment of $18.3M reflects continuing focus on product development to drive customer wins, scalability, repeatability, quality data and margin expansion
  - This spend was up 18.4% on the first half spend last year of $15.5M
- Approximately 55% of product spend was capitalised in 1HFY22. This is lower than historical levels due to a larger focus in the half on addressing customer requirements, following an extensive product review
- 10% of revenue was reinvested in product development in 1HFY21
- Investment in product development around 10% of revenue

Solid cash flow conversion

US$M	1H 22	1H FY21
Receipts	207.0	210.4
Payments and other	(189.1)	(182.5)
Cash flow from operations before interest and tax	**17.9**	**27.9**
Net interest	(0.2)	(0.3)
Taxes	(0.6)	(1.5)
Net cash from operations	**17.1**	**26.1**
Cash flows – investing activities	(14.8)	(12.3)
Cash flows – financing activities	(7.2)	(7.5)
Net cash flow for the period	**(4.9)**	**6.3**
Opening cash balance	47.9	60.5
FX impact	(0.8)	(0.8)
Closing cash balance	**42.2**	**66.0**

- Cash balance (vs pcp) decreased by $23.8M mainly due to upfront payment for Quadrant of $25.3M in Sep 21
- Cash conversion impacted by working capital timing (cash collection of strong Q4 21 volumes in 1H22)
- Lower trading volumes, somewhat offset by positive working capital impact and lower tax payments, resulted in cash flow from operations decreasing by 34%
- Cash used to pay tax, dividends, capex and investments to support future growth
- Cash conversion from EBITDA increased from 101% to 211%

Cash flow reconciliation (US$M)	1H FY22	1H FY21
Underlying EBITDA	**8.5**	**27.7**
Working capital	10.3	3.0
Other	(0.9)	(2.8)
Cash flow from operations before interest and tax	**17.9**	**27.9**
Underlying EBITDA cash conversion	**211%**	**101%**

Outlook

Mark Brayan

FY22 trading performance and outlook

- YTD **revenue plus orders in hand** for delivery in FY22 is approximately US$360M[1] as at August 2022, in line with August 2021, with customer delivery schedule skewed to the fourth quarter of FY22

- Conversion of forward orders to sales occurring at lower rates than prior years

- No material improvement in monthly trading in July and August trading to date

- Expect **higher volumes** in the latter part of **2H** from:
  - delivery of seasonal Global projects and ramp up in existing Global projects
  - continued growth in China
  - ramp up of Quadrant into Global and Enterprise customers

- Expect **FY22 revenue** skew to be **weighted to 2H**, although revenue not expected to be at prior year levels due to slowdown of Global customers

- Expect **FY22 EBITDA** and **FY22 EBITDA margin** to be materially lower than FY21 mainly due to lower revenues, as well as investment in product, technology and transformation

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

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Questions

Thank you for your attendance

Appendix

Reconciliation between statutory and underlying results

-	Half-year ended 30 June 2022 USD $000	Half-year ended 30 June 2021 USD $000	Change
Underlying net profit after tax (NPAT) [1] *(Less)/add underlying adjustments (net of tax)*	**(3,794)**	12,511	(130%)
Amortisation of acquisition-related identifiable intangible assets	**(4,953)**	(4,159)	
Losses on inventory	**(228)**	–	
Transaction costs	**(210)**	(342)	
Deemed interest on earn-out liability [2]	**(154)**	-	
Acquisition-related share-based payments [3]	**(25)**	249	
Restructure costs	-	(1,569)	
Statutory NPAT	(9,364)	6,690	(240%)
Add: tax (benefit)/expense	(2,415)	1,725	
Add: net interest expense	504	701	
Add: deemed interest on earn-out liability [2]	217	-	
EBIT [4]	**(11,058)**	9,116	(221%)
Add: depreciation and amortisation	18,925	16,071	
Statutory EBITDA [5] *Add/(less): underlying adjustments*	7,867	25,187	(69%)
Transaction costs	299	496	
Inventory losses	275	-	
Acquisition-related share-based payments [2]	25	(249)	
Restructure costs	-	2,254	
Underlying EBITDA [1]	8,466	27,688	(69%)
Statutory diluted earnings per share (cents)	(7.59)	5.35	
Underlying diluted earnings per share (cents)	(3.08)	10.01	
% Statutory EBITDA/sales revenue	**4.3%**	12.8%	
% Underlying EBITDA/sales revenue	**4.6%**	14.1%	

1. Underlying results are a non-IFRS measure used by management to assess the performance of the business and have been calculated from statutory measures. Non-IFRS measures have not been subject to audit. Underlying EBITDA excludes transaction costs, inventory losses, acquisition-related share-based payments expenses and for FY21, restructure costs.
2. Contingent liability with respect to the Quadrant acquisition which will settle no later than 29 February 2024, subject to Quadrant attaining revenue milestones.
3. Includes a true-up adjustment reducing the share-based payments expense in relation to the 2020 and 2021 Long-Term Incentive Plans, for rights that did not vest.
4. EBIT is defined as earnings before interest and tax.
5. EBITDA is EBIT before depreciation and amortisation.

Conservative approach to amortisation

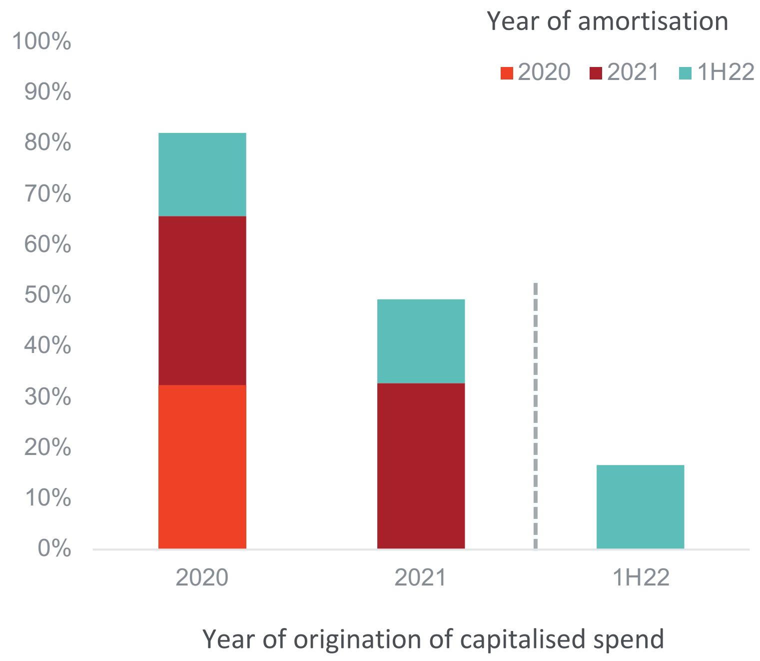
- Product development is amortised over 3 years
- Amortisation expense reflects our strategic focus on product development. 1H22 amortisation is based on spend in FY20, FY21 and 1H22.

Amounts amortised

US$'000

Year of origination of capitalised spend	Amount capitalised	2020	2021	1H22
2020	18,712	6,063	6,063	3,056
2021	20,574	-	6,858	3,462
1H22	10,065	-	-	1,678
Total	**49,351**	**6,063**	**12,921**	**8,196**

Figures may vary from period to period due to the impact of foreign currency translation



Our growth strategy

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Vision

#1 Data for the AI Lifecycle

Core strategic pillars

Grow	Automate	Expand	Evolve
revenue and diversify	crowd and labelling processes	our product offering	how we do business
Drive growth in target customer segments	Leverage AI and ML in our labelling operations to improve the productivity of our crowd	Expand our TAM by adding new products and capabilities – e.g. Quadrant and synthetic data	Improve the scalability and productivity of our GTM and project delivery

Enablers

- New customer-aligned organisation structure
- Increased investment in Product and Engineering (up to 10% of revenue)
- Dedicated team of data scientists to build and deploy ML models to pre-label training data
- Quadrant acquisition unlocks broader Point of Interest market
- ~$5m annual investment for dedicated transformation team, starting in FY22

Delivering financial outcomes in FY26

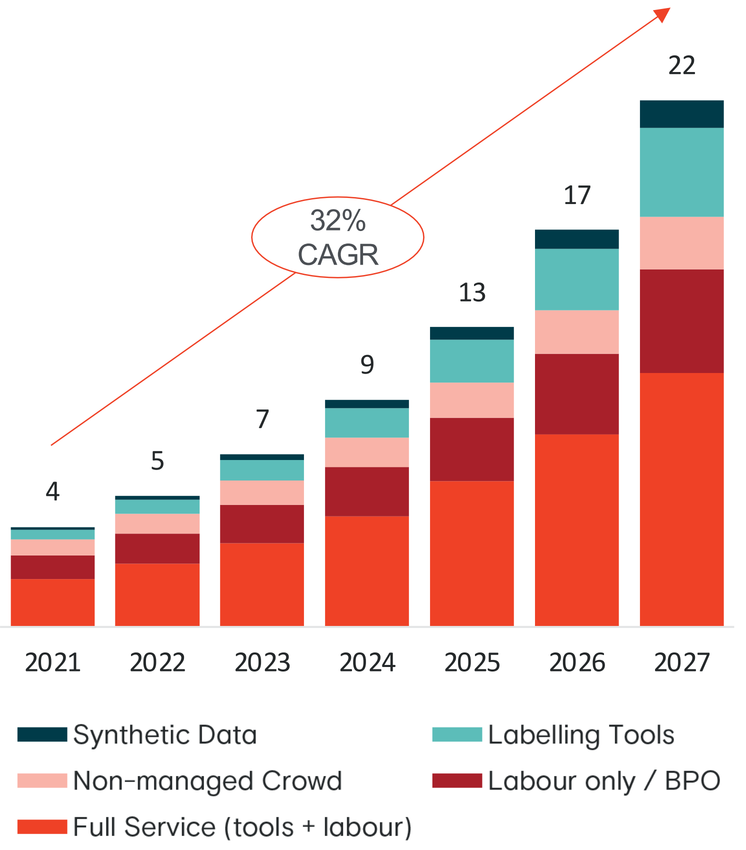
- **At least double FY21 revenue**
- **More than one third of revenue from non-Global[1] customers**
- **EBITDA margin target 20%**

1. Non-Global includes customers from China, Enterprise, Government and Quadrant

The AI training data market is growing rapidly

Growing need for labelling

Data labelling market forecast (US$B) [1]



Appen supports all data labelling delivery models

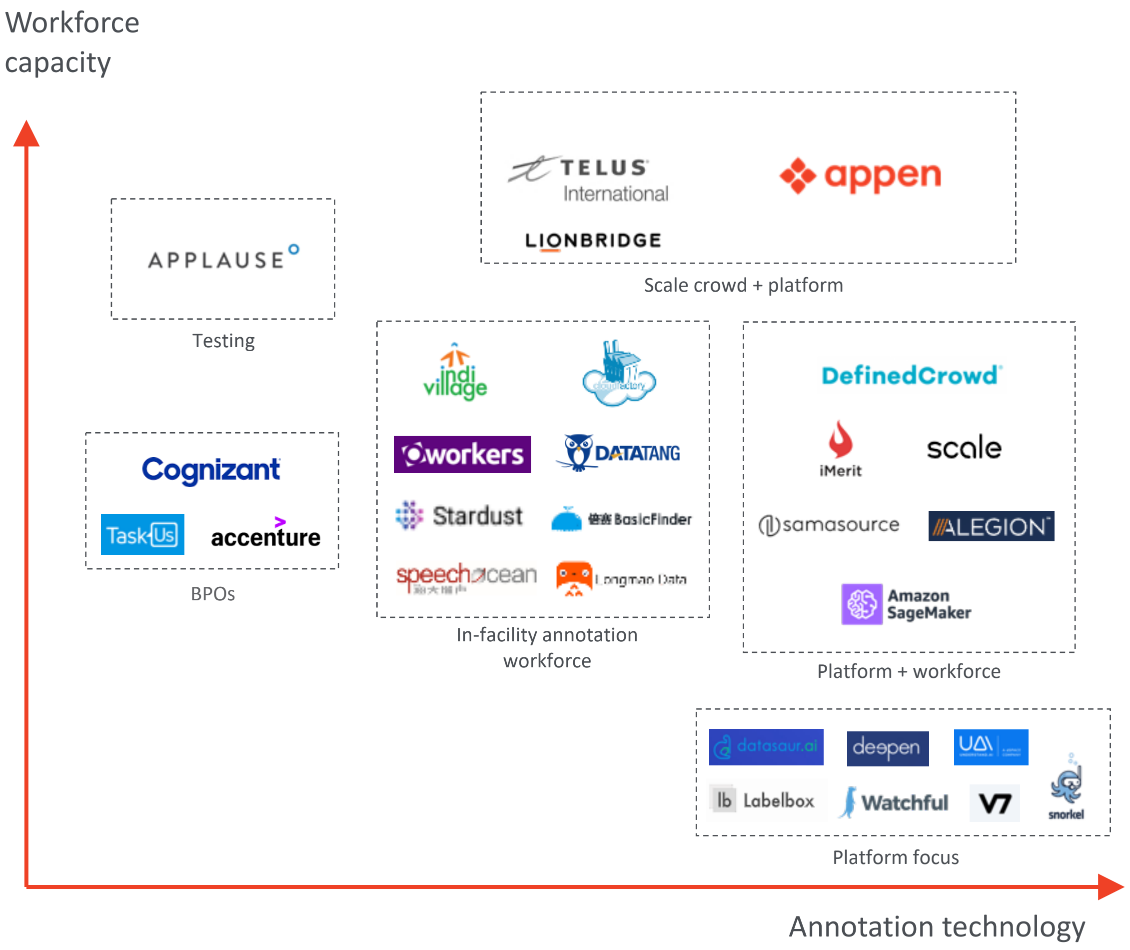
What customers are saying

- Vast, high-quality data sets are required for AI models to work perfectly
- Humans will continue to play a significant role in the creation of unbiased AI training data
- Technology is essential for delivering large-volumes of high-quality labelling and sourcing tasks and integrating with model development pipelines
- Data trust and privacy are paramount
- AI is experimental, requires high agility and expertise to support new product development. Customers less likely to commit spend
- Synthetic data is early but will play a role

1. Cognilytica Research Snapshot: Data Labelling Markets (December 2021)

Appen is strongly positioned against competitors

Competitive landscape



Our differentiators

- Unique combination of **leading annotation technology** and **global crowd**
- **Trusted by global AI leaders** to support both in-deployment and emerging AI enabled products
- 25 years expertise working delivering **high quality AI training data**
- Appen's crowd supports **large-scale data requirements with high quality**
- **Full market coverage** with dedicated business units focusing on Global (big-tech), China, Government and Enterprise