ASX ANNOUNCEMENT

27 February 2023

FY2022 results and FY2023 outlook

Appen Limited (Appen) (ASX: APX) today reported its full year results for the 12 months ended 31 December 2022 and outlook for FY2023.

Appen's FY22 result reflects challenging external operating and macro conditions that resulted in weaker digital advertising revenue and a slowdown in spending. This caused a reduction in spend by some of our customers primarily on some core global programs relating to ad and non ad-related projects.

Appen's full year result[1] is as follows:

- **Group revenue** of $388.5 million decreased 13.1%, primarily reflecting a lower contribution from the Global Division.
- **New Markets revenue**[2] of $88.4 million declined 13.8%, impacted by lower Global Product. Excluding Global Product, New Market revenue grew 15.4% to $70.2 million primarily due to strong year-on-year growth in China.
- **Underlying EBITDA**[3] **(before FX impact)** of $13.6 million decreased 82.8%, due to lower revenue, lower gross margin (impacted by customer and project mix) increased costs to support growth in China and Quadrant and investment in people, products, technology and transformation.
- **Underlying EBITDA** (including the impact of foreign exchange losses) of $11.0 million, decreased by 85.8%.
- **Underlying net loss after tax** of $22.8 million, compared to an underlying net profit of $40.6 million in FY21.
- **Non-cash impairment** of $204.3 million reflects the impairment of goodwill and certain intangibles associated with the New Markets (excl China) cash generating unit, comprising Global Product, Enterprise, Government and Enterprise, in line with Appen's announcement on 13 February 2023.
- **Statutory net loss after tax** and after impairment of$239.1 million, compared to statutory net profit after tax of $28.5 million in FY21.
- **No dividend** was paid to ensure appropriate allocation of capital.
- **Cash balance** of $23.4 million at 31 December 2022 and no debt; impairment has no impact on debt covenants or ability to use debt facilities.

[1] All amounts stated in US$ and all comparisons are to the full year ended 31 December 2021, unless stated otherwise.

[2] New Markets includes revenue from Global Product (Global customers using the Appen platform and tools) and Enterprise, China, Government and Quadrant customers.

[3] Underlying EBITDA excludes the impairment loss, restructure costs, transaction costs, inventory losses and acquisition-related share-based payment expenses.

Appen's FY22 revenue and EBITDA (before FX) is in line with the company's guidance announced to the market on 6 October 2022.

Commenting on the FY22 result, Appen's CEO & President, Armughan Ahmad said, "During my first two of months at Appen I've had the opportunity to meet our people and experience their deep sense of pride for their work. I believe that AI is the enabler, and our people are the transformers.

"I'm excited about the potential for Appen and our ability to create a positive impact, however our FY22 financial performance is far from satisfactory. We have a lot of work ahead of us. My top priority is to establish greater operational rigour to accelerate innovation, drive sales and deliver profitable growth."

Operating performance

Total revenue of $388.5 million decreased 13.1% primarily due to a lower contribution from the Global division reflecting weaker digital advertising and a slowdown in spending by some global customers. Some of our global customers continue to face increased competition from new social media companies and privacy issues. Pleasingly, second half revenue increased 12% compared to 1H FY22 and Q4 FY22 revenue increased 11% compared to Q3 FY22.

Global Services revenue of $299.8 million declined 13.0%, impacted by a reduction in spend in some of our large core projects. However, revenue from our second largest customer grew 20% over the year. This helped underpin an 18% increase in second half FY22 revenue compared to the first half FY22, and a 12% increase in Q4 FY22 revenue compared to Q3 FY22.

New Markets revenue of $88.4 million decreased 13.8% primarily due to a lower contribution from Global Product.

Excluding Global Product, revenue from our non-global business (Enterprise, Government, China and Quadrant) grew 15.4% to $70.2 million due new client wins of 184 and the strong performance of China where Appen continues to be the leading AI data company. Second half revenue in FY22 (excluding Global Product) also increased 4% compared to 1H FY22, and gained further momentum in Q4 FY22, increasing 14% compared to Q3 FY22.

During the year, the Enterprise team won 48 new client wins and progressively signed larger deals. The average deal size was $140k, up 129.5% from the average deal size of $61k in FY21. Momentum in the business continues to build with year end bookings up 36%.

Despite three month lockdown in the first half, China FY22 revenue grew 35.6% to $33.6 million due to 80 new client wins. However, momentum slowed later in the year due to the heavy impact of the COVID-19 pandemic on pipeline, sales, staffing and delivery. Consequently, 2H FY22 revenue declined 13.6% to $15.6 million.

Leveraging the growth, support and platform infrastructure in China, we invested in dedicated local sales teams in Japan and Korea where we had 14 new customer wins.

Quadrant also posted a strong revenue performance, albeit off a low base. In total Quadrant won 42 new customers. The ramp up of Quadrant to global and enterprise customers is on ongoing focus and has already yielded tangible benefits.

At the end of 2022, Quadrant won a landmark multi-year deal to provide Point-of-Interest (POI) data-as-a-service to a large global customer, starting in South-East Asia with potential to expand globally.

Government had a disappointing year as revenue declined 68% to $1.3 million. This reflects the non-renewal of a large contract in May 2021.

Financial performance

Before the impact of FX, underlying EBITDA fell 82.8% to $13.6 million due to lower revenue and lower gross margin, and an increase in people investment and OPEX to drive growth, product, technology and transformation.

Underlying EBITDA from Global Services declined 40% to $54.5 million. EBITDA margins of 18% were impacted by lower revenue on some core high margin projects, higher delivery overheads associated with increased project activity, transformation and support cost allocation.

In New Markets, an EBITDA loss of $36.5 million reflects lower Global Product revenue, increased costs to support China and Quadrant growth and product, technology and transformation spend in Enterprise.

Investment (excluding amortisation) of $41.2 million represents 10.6% of revenue and reflects continuing focus on product development and customer experience.

Operating expenses (expenses excluding impairment, crowd labelling services, share-based payments, depreciation and amortisation, transaction, finance and restructure costs and the impact of foreign exchange losses) increased by $36.6 million compared to the prior year.

The main reasons for the increase relate to higher costs in China and Quadrant, increases in employee expenses, employee and crowd recruitment costs, IT costs and travel (with COVID restrictions lifting). Higher costs in China relate to delivery and engineering costs to support revenue growth. Higher Quadrant costs relate to full year of Quadrant trading, plus investment to drive future growth.

The pace of cost growth slowed through 2H FY22. At the group level, 2H FY22 costs increased 12% compared to 1H FY22 (in line with revenue growth) and Q4 FY22 costs declined 9% compared to Q3 FY22 (while revenue grew 11%). In Global Services, 2H FY22 costs increased 15% compared to 1H FY22 (while revenue grew 18%) and Q4 FY22 costs declined 11% compared to Q3 FY22 (while revenue grew 12%). In New Markets (excluding Global Product), 2H FY22 costs increased 10% compared to 1H FY22, (while revenue grew 4%) and Q4 FY22 costs declined 3% compared to Q3 FY22 (while revenue grew 14%).

Underlying net loss after tax was $22.8 million and compared to an underlying net profit after tax of $40.6 million in prior corresponding period.

Statutory net loss after tax was $239.1 million, includes an impairment of $204.3 million and compares to a statutory net profit after tax of $28.5 million in FY21.

As announced on 13 February 2023, following a review of the value of cash generating units (CGU) and of the carrying value of our assets in accordance with the relevant accounting standards, we recognised a non-cash, pre-tax impairment charge of $204.3 million for the year ended 31 December 2022. As a result, the carrying value of non-goodwill intangibles attributable to the New Markets CGU was reduced by $15.4 million and the carrying value of goodwill was reduced by $188.9 million.

Appen had no debt and a cash balance of $23.4 million as at 31 December 2022. Cash was lower than the prior period mainly due to lower revenue.

Cash conversion from EBITDA increased from 77% to 135% due to positive working capital movement and lower tax payment, somewhat offset impact of lower volumes and higher payments.

Given the full year performance and to ensure prudent allocation of capital, the Directors have determined not to pay a final dividend for FY22.

Subsequent to year end, we received credit approval for the extension of our debt facilities for nine months to 3 January 2024. The extension agreement is expected to be finalised in the next few weeks. A full debt refinance is planned for the second half of FY23 to achieve an appropriate debt structure to support the current and future needs of the business. Our existing debt facility has been resized to a working capital facility of A$20 million to reflect the current needs of the business.

FY2023 outlook

Carrying over from 2022, we see a soft start to 2023. Our immediate focus is to instil discipline and greater operational rigour to recover margins and drive sales.

Annualised cost savings of ~$10 million have been identified, with the benefit from cost savings and increased operational rigour expected to commence in H2 FY23 and FY24.

We continue to investment in product development, which is expected to be ~10% of FY23 revenue.

Our FY23 EBITDA outlook is under review. However, 1H FY23 EBITDA is expected to be materially lower than 1H FY22.

We have withdrawn our current FY26 financial targets, pending a full strategy review to be announced in May.

Investor briefing

A result briefing will be hosted by Armughan Ahmad, CEO & President and Kevin Levine, CFO at 11:00am (AEDT). 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 conference call] or copy and paste the link into your browser https://s1.c-conf.com/diamondpass/10028000-are54rf.html

Financial summary

US$	FY22	vs FY21
Group revenue	**$388.5M**	**13.1%**
Global Services	$299.8M	-13.0%
New Markets	$88.4M	-13.8%
Underlying EBITDA (before FX)	**$13.6M**	**-82.8%**
Underlying EBITDA margin (before FX)	**3.5%**	**vs 17.6%**
Underlying EBITDA (after FX)	$11.0M	-85.8%
Underlying EBITDA margin (after FX)	2.8%	vs 17.4%

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 the global 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.