ASX Release
28 August 2023

Investor Presentation

Further to the Appen Limited's (ASX:APX) announcement to the market today on its results for the half-year ended 30 June 2023, please find attached the presentation to be delivered to investors and analysts this morning.

Authorised for release by the Board of Appen Limited.

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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.

28
August
2023

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Powering Real World AI

1H FY23 half year results

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.

Appen Limited disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements in these materials to reflect any change in expectations in relation to any forward-looking statements or any change in events, conditions or circumstances on which any such statement is based. You should monitor any announcements by the company lodged with the ASX. Nothing in these materials shall under any circumstances create an implication that there has been no change in the affairs of Appen Limited since the date of these materials. Organisation structure is subject to change.

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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

01 | Introduction

02 | 1H FY 23 financial performance

03 | Turnaround progress & outlook

04 | Q&A

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1H FY23 Financial Performance

Justin Miles, Deputy CFO

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1H FY23 summary

US$M	1H23	1H22	change
Revenue	138.9	182.9	-24%
Underlying EBITDA [1]	(18.1)	8.5	nm
Underlying EBITDA margin	-13.0%	4.6%	
Underlying EBITDA [1] before FX	(15.7)	9.6	nm
Underlying EBITDA margin before FX	-11.3%	5.2%	
Underlying NPAT [2]	(34.2)	(3.8)	
Statutory NPAT	(43.3)	(9.4)	

1. Underlying EBITDA excludes restructure costs, transaction costs, inventory losses, and acquisition-related and one-time share-based payment expense.
2. Underlying NPAT excludes after tax impact of restructure costs, transaction costs, inventory losses, one-time share-based payment expense, and acquisition related costs, including amortisation of acquisition related intangibles, share-based payment expense, and deemed interest on earn-out liability.

- Revenue decreased 24% to $138.9M, primarily reflecting a lower contribution from the Global Services Division
- Underlying EBITDA (before FX) loss of $15.7M reflects lower gross margin and a proportionally higher cost base versus FY22
- No material EBITDA benefit in 1H FY23 from cost reduction program
- Statutory NPAT includes one off restructure costs of $5.0M associated with cost reduction program and $1.3M associated with leadership changes to align with refreshed strategy and turn around focus
- Nil interim dividend to ensure appropriate allocation of capital

Revenue

Group

$138.9M

$182.9M in 1H FY22

- Revenue down 24% on 1H FY22
- Majority of decline from Global Services

Global Services

$100.1M

$137.8M in 1H FY22

- Revenue down 27% on 1H FY22
- Reduction in spend due to the ongoing challenging external operating and macroeconomic conditions
- Despite challenging conditions Global Services won 45 new projects

New Markets

$38.9M

$45.0M in 1H FY22

- Revenue down 14% on 1H FY22
- Majority of decline from Global Product
- Excluding Global Product, New Markets 1H FY23 revenue down 5% on 1H FY22
- Enterprise, Govt and Quadrant revenue 10% up on 1H FY22
- 89 new client wins in New Markets

Note: All figures in USD unless stated otherwise

Underlying EBITDA[1] (before FX)

Group

($15.7M)

$9.6M in 1H FY22

- EBITDA impacted by lower revenue, lower gross margin and a proportionally higher cost base coming out of FY22
- 1H FY23 operating expenses[2] up 9% on 1H FY22, down 1% on 2H FY22
- No material EBITDA benefit of cost reduction program in 1H FY23

Global Services

$8.7M

$26.2M in 1H FY22

- EBITDA of $8.7M down 67% on 1H FY22
- EBITDA margin of 9% impacted by lower revenue on some core high margin projects, and a proportionally higher cost base coming out of FY22
- 1H FY23 operating expenses[2] up 2% on 1H FY22, down 10% on 2H FY22
- No material EBITDA benefit of cost reduction program in 1H FY23

New Markets

($21.8M)

($15.6M) in 1H FY22

- EBITDA impacted by lower Global Product revenue, increased costs to support Quadrant growth, lower contribution from China and a proportionally higher cost base coming out of FY22
- 1H FY23 operating expenses[2] up 11% on 1H FY22, up 3% on 2H FY22
- No material EBITDA benefit of cost reduction program in 1H FY23

Note: All figures in USD unless stated otherwise

1. Underlying EBITDA excludes restructure costs, transaction costs, inventory losses, and acquisition-related and one-time share-based payment expense.
2. Operating expenses excludes crowd labelling services, share-based payments, depreciation & amortisation, finance costs, restructure costs, transaction costs, and inventory losses.

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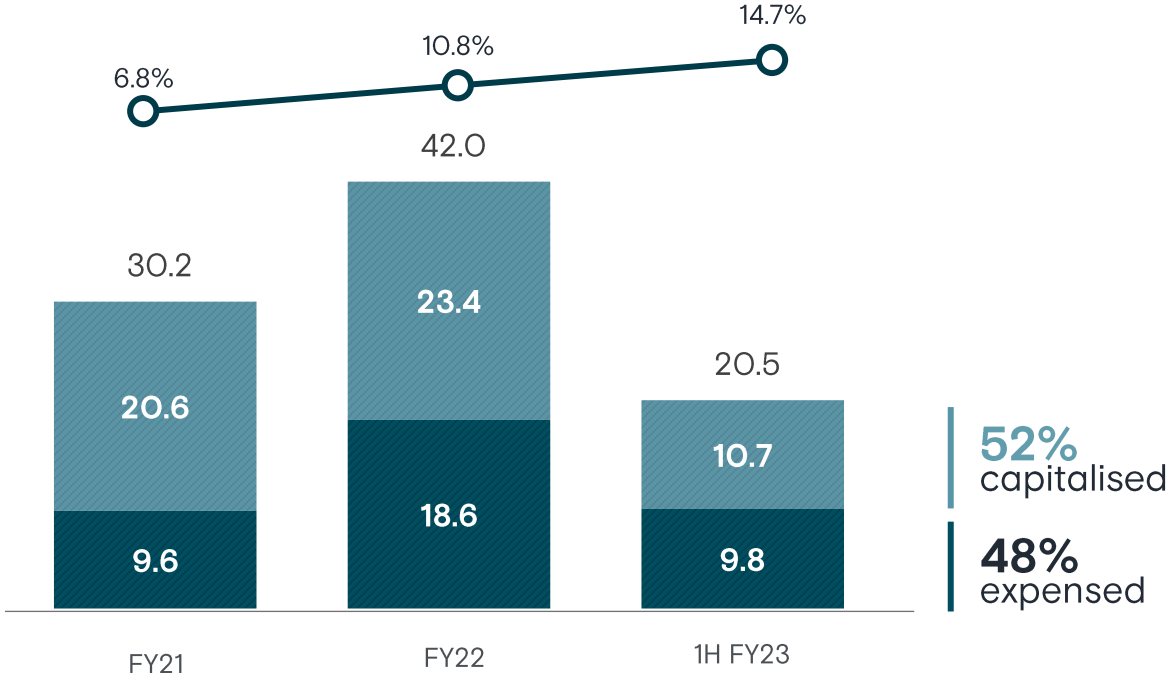
Investment in product development

Investment in product development[1]

Product development (ex amortisation) as a % of revenue



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

- 1H FY23 investment of $20.5M reflects continuing focus on product development and customer experience
- ~52% of spend capitalised in 1H FY23. Slightly lower than historical levels due to strategy refresh and update to product roadmap
- 14.7% of revenue reinvested in product development in 1H FY23. Higher than historical levels due to lower revenue for 1H FY23
- No material benefit of cost reduction program in 1H FY23. Full impact of cost reduction to be realised in FY24
- Annualised investment in product development expected to be ~$29M by the end of Q3 FY23, 29% down on 1H FY23 annualised.

Note: All figures in USD unless stated otherwise

On track to deliver $46 million cost out, with further cost savings identified

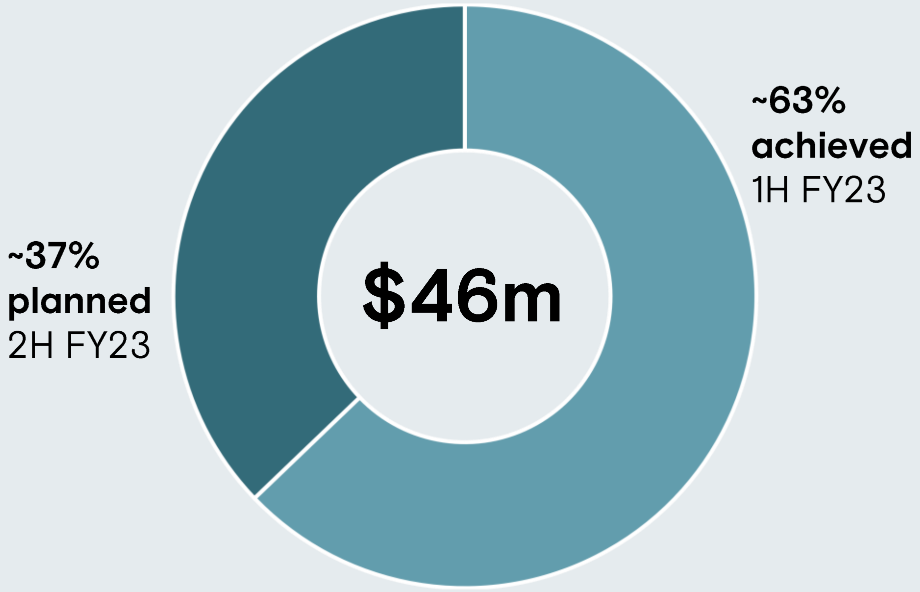
Strong progress against $46m cost out target

- As planned, at the end of 1H FY23 approximately 63% or $28.9M of annualised cost savings target has been achieved
- At least 80% of the $46 million cost out program will be completed by the end of Q3 FY23; remainder on track to be delivered in Q4 FY23.
- The $46 million cost savings were identified as part of a strategic review and Appen does not anticipate any material impact on its ability to service customers or generate revenue from these measures
- First full year impact of cost savings from FY24

Ongoing cost management

- We continue to focus on exiting FY23 with a return to underlying EBITDA and underlying cash EBITDA profitability on an annualised, run-rate basis. Costs will be managed in line with revenue forecasts and market conditions
- Further costs savings identified and are expected to be realised in FY23

Reduction in annualised operating costs



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Cash flow summary

- Cash balance includes net proceeds from equity raise of $38.2M
- Cash flow from operations decreased 50% to $9.0M due to lower trading volumes, partially offset by positive working capital
- Positive cash flow from operations despite EBITDA loss due to strong Q4 FY22 customer receipts flowing into Q1 FY23
- Cash used to pay capex and fund operations while turnaround in progress

US$M	1H23	1H22
Receipts	175.1	207.0
Payments and other	(166.1)	(189.1)
Cash flow from operations before interest and tax	**9.0**	**17.9**
Net interest	0.1	(0.2)
Taxes	0.6	(0.6)
Net cash from operations	**9.7**	**17.1**
Cash flows – investing activities	(12.4)	(14.8)
Cash flows – financing activities	36.3	(7.2)
Net cash flow for the period	**33.6**	**(4.9)**
Opening cash balance	23.4	47.9
FX impact	(1.8)	(0.8)
Closing cash balance	**55.2**	**42.2**
Cash flow reconciliation (US$M)	**1H23**	**1H22**
Underlying EBITDA	**(18.1)**	**8.5**
Working capital	27.1	10.3
Cash flow from operations before interest and tax	**9.0**	**17.9**
Underlying EBITDA cash conversion	**nm[1]**	**211%**

Note: All figures in USD unless stated otherwise

1. Not measured

Balance sheet

US$M	Jun 2023	Dec 2022
Cash	55.2	23.4
Receivables	43.2	64.3
Contract assets	10.8	30.4
Other current assets	9.1	6.5
Non-current assets	128.9	130.3
Total assets	**247.2**	**254.9**
Current liabilities	77.6	65.1
Non-current liabilities	22.9	41.8
Total liabilities	**100.5**	**106.9**
Net Assets	**146.7**	**148.0**
Total equity	**146.7**	**148.0**

- Cash balance of $55.2M including net proceeds of $38.2M from equity raise
- Receivables and contract assets decreased due to lower revenue volumes
- Non-current assets include Goodwill of $53.1M and identifiable intangible assets of $53.3M.
- No debt at June 2023
- Increase in current liabilities and decrease in non-current liabilities mainly due to reclassification of Quadrant earnout liability
- Quadrant earnout subject to performance metrics and payable in cash or shares in 2024

Note: All figures in USD unless stated otherwise

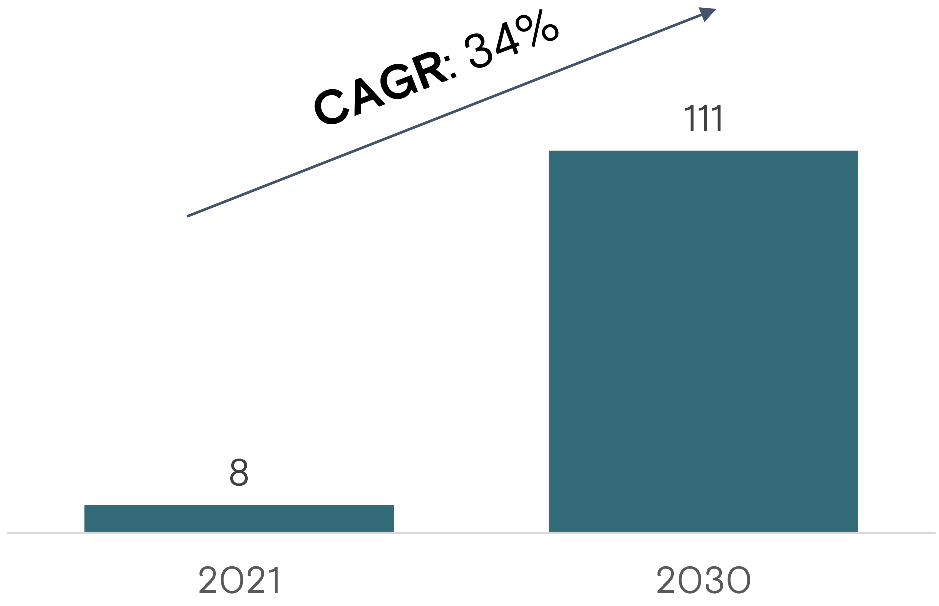
03

Turnaround progress & outlook

Armughan Ahmad, CEO & President

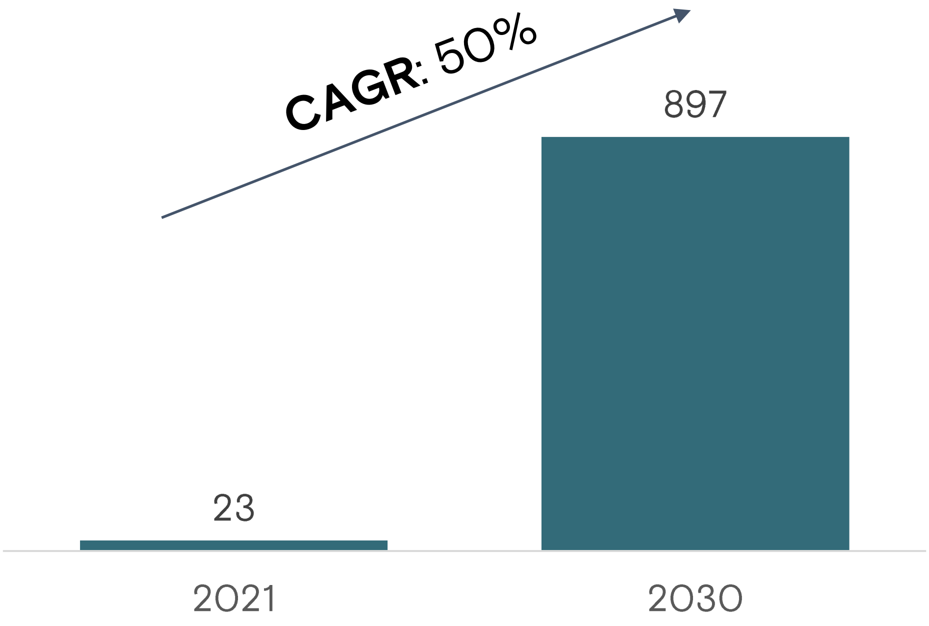
Generative AI market potential has grown

December 2022: $111b market size by 2030



Source: Acumen Research (December 2022)

June 2023: ~$900b market size by 2030



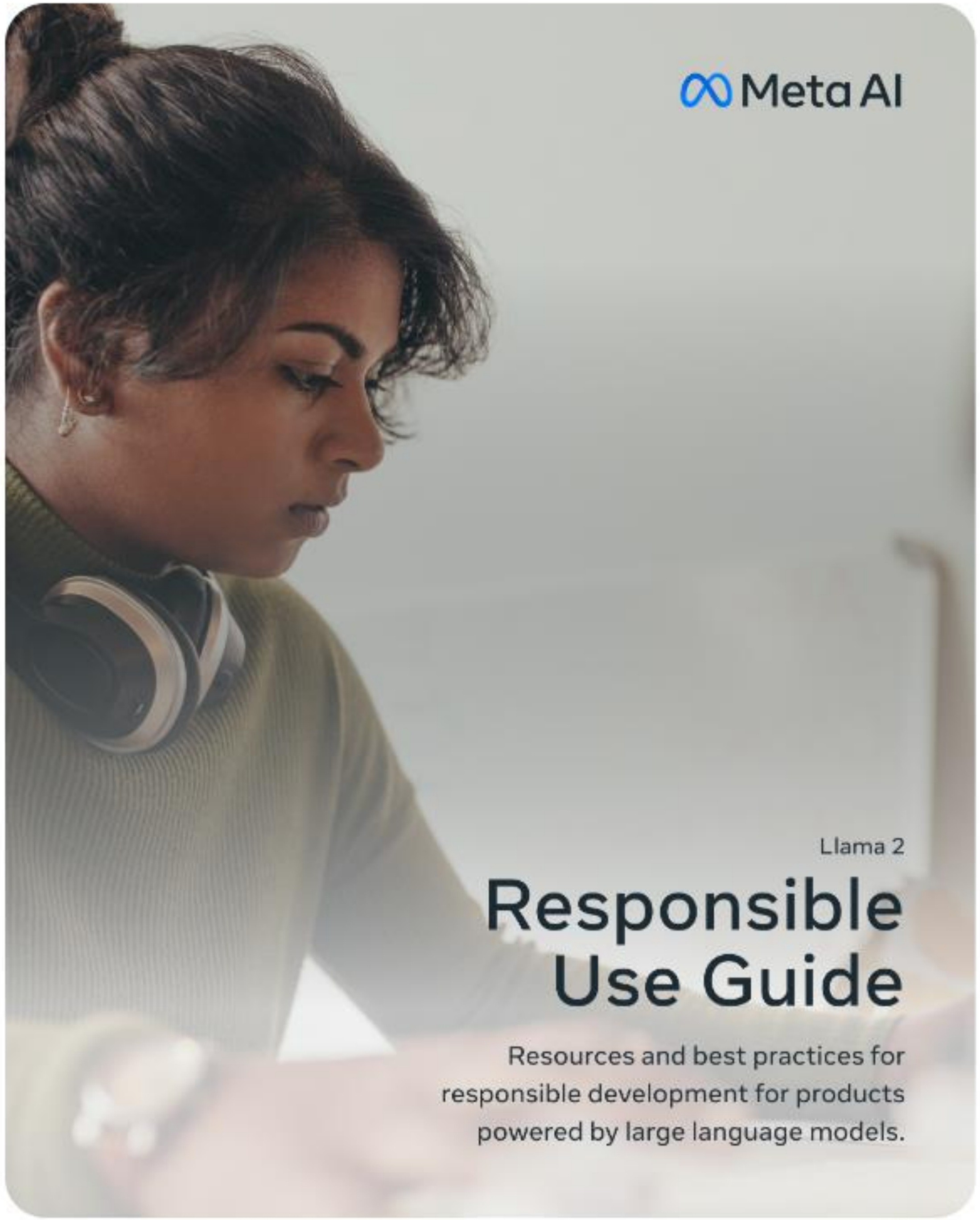
Source: Bloomberg Intelligence, IDC (June 2023)

Humans critical to generative AI

Human feedback (RLHF) is required for base models to perform at levels comparable to humans and to minimise hallucinations, bias and toxicity

Many base models do not work out of the box for companies and in a domain context – fine tuning and evaluation is required, together with real customer interactions

Human model evaluation is required, particularly when measuring against risk and compliance guidelines



Appen's growth vision

Full set of AI data services for deep-learning and generative AI

Deep-learning AI

Data collection
- Point of interest
- Speech
- Custom collections
- Synthetic data

Data annotation
- Annotation
- Categorisation

Relevance
- Search relevance
- Content moderation
- Ad evaluation

Generative AI

Fine tuning
- Human feedback
- Instruction datasets
- Model evaluation
- AI feedback

Assurance
- A/B testing
- Benchmarking
- Certification
- Monitoring

Appen Data Platform

Appen Crowd Marketplace

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Generative AI potential does not yet offset market headwinds

Tech spending slowdown continues

- Customers continue to reduce spending in most areas
- Reduction to customer engineering teams has impacted new projects

Customers are evaluating their AI strategies

- Generative AI has led to customers evaluating their AI strategies
- This has resulted in some projects put on pause

Generative AI projects remain small

- Many customers are exploring LLMs, few in production
- We see a pathway for small pilots to quickly turn into larger projects

Completed H1 turnaround actions

Operational rigour

- ✓ Establish business management systems
- ✓ Cost reallocation to growth vectors

Product velocity

- ✓ Launch products that capture new market growth
- ✓ Incorporate Generative AI labeling automation
- ✓ Drive internal productivity improvements

World class go-to-market

- ◐ Build consultative sales and go-to-market capabilities
- ◐ Elevate our brand with greater marketing awareness

Ecosystem partnerships

- ✓ Expand our partner ecosystem to reach more clients
- ◐ Focus on key industry verticals

#AIforGood

- ✓ Deliver trustworthy AI for our clients
- ✓ Responsibility by design
- ✓ Establish and chair AI for Good Committee
- ✓ One Appen

✓ Completed ◐ In progress

Strong progress against H2 turnaround plan

Operational rigour

- Execute cost saving initiatives
- Target operating model deployed
- Streamlined crowd onboarding process

Product velocity

- LLM benchmarking product launched
- Model monitoring solutions launched
- Synthetic LLM datasets launched

World class go-to-market

- New sales leaders and structure in place
- Sales ops function established
- New CMO in place to amplify brand value

Ecosystem partnerships

- Expanded set of ecosystem partners
- Joint go-to-market approach in place

#AIforGood

- Focus on conversion to renewable energy
- Active recruitment of Impact Sourced Crowd

Completed   In progress

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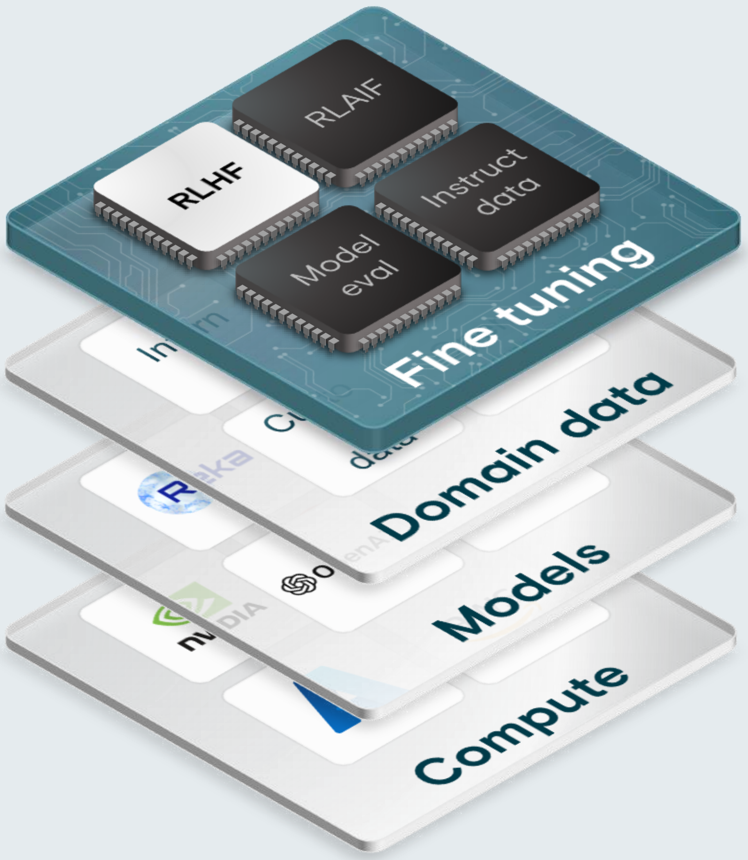
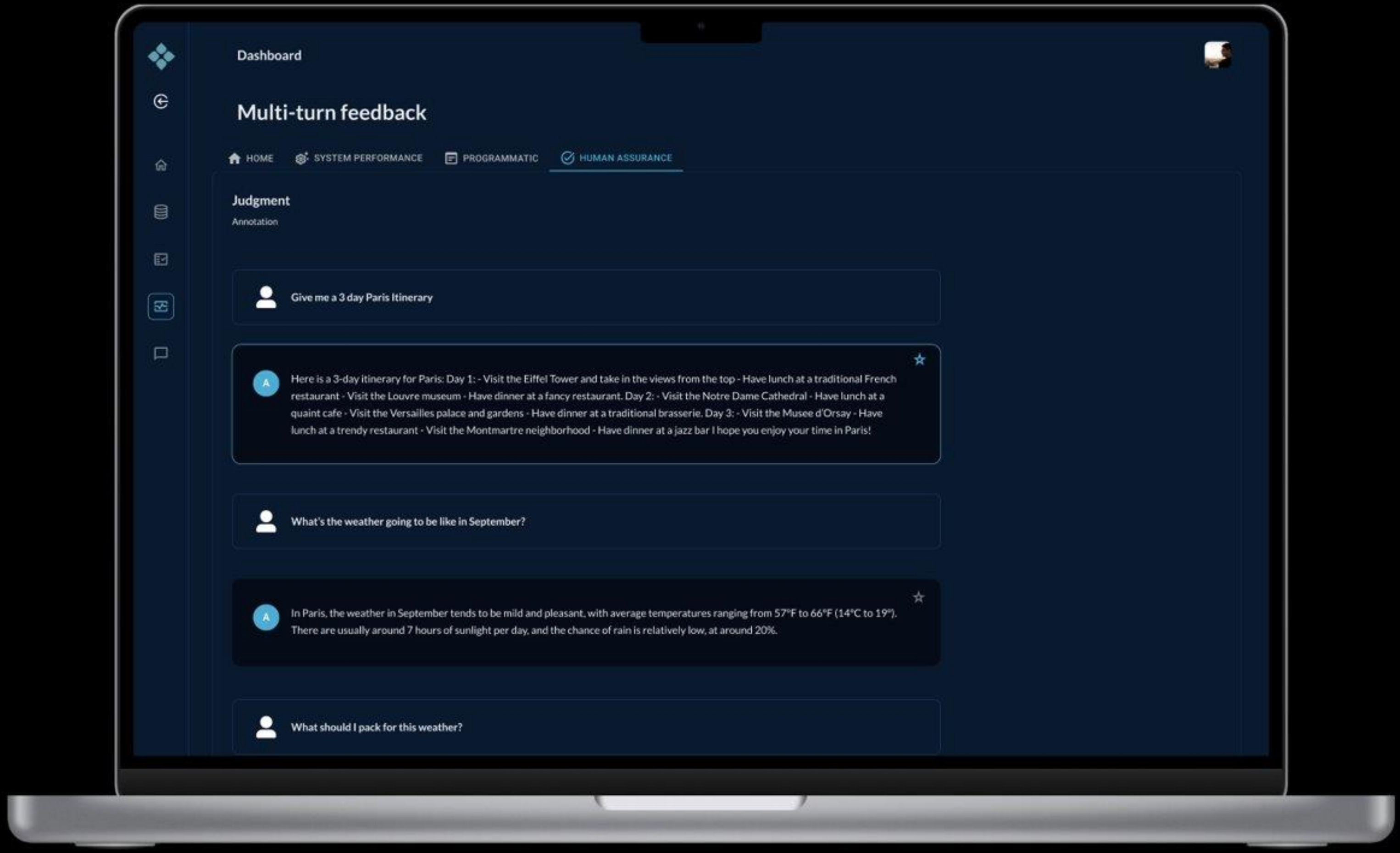
We are building new generative AI capabilities

Ensuring that **model performance meets performance, risk and regulatory** requirements

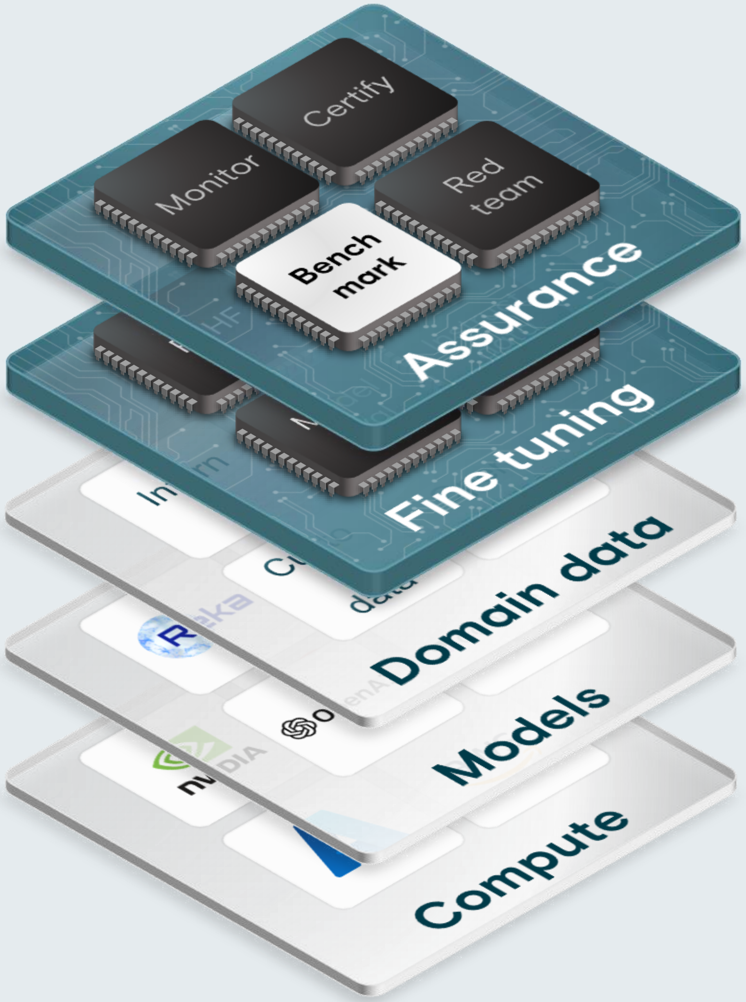
Optimise model performance to **align with human experiences**

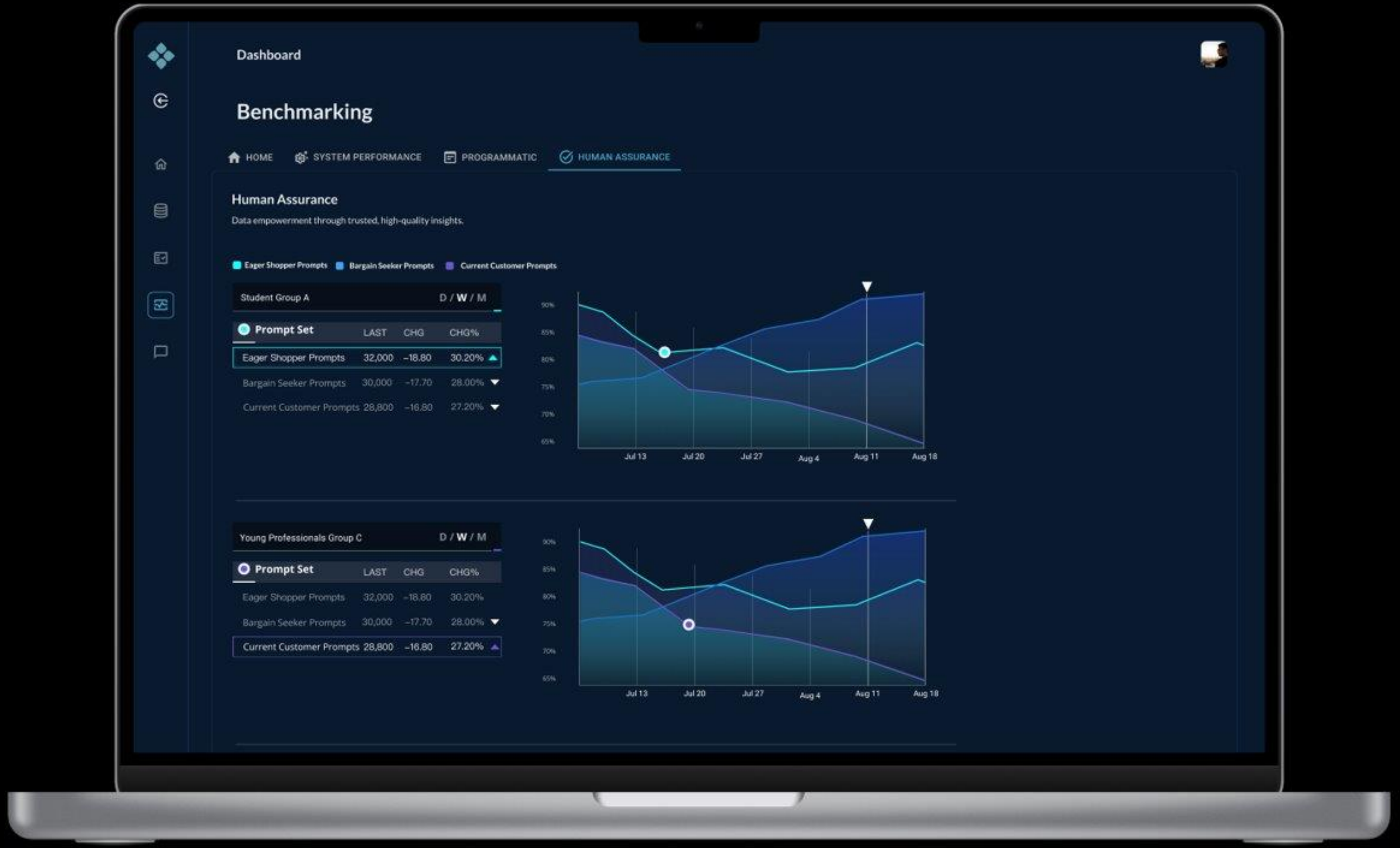
LLM conversational RLHF





LLM Benchmarking





Growing LLM success

42 LLM projects and pilots delivered in 2023[1]

40 Deals in current pipeline[2]

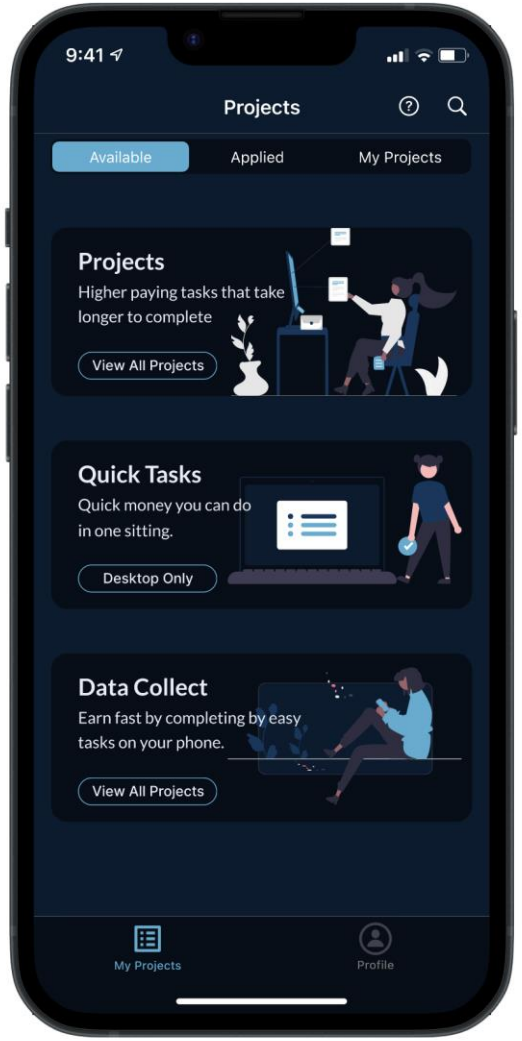
5/5 Global customers have project completed or in pipeline

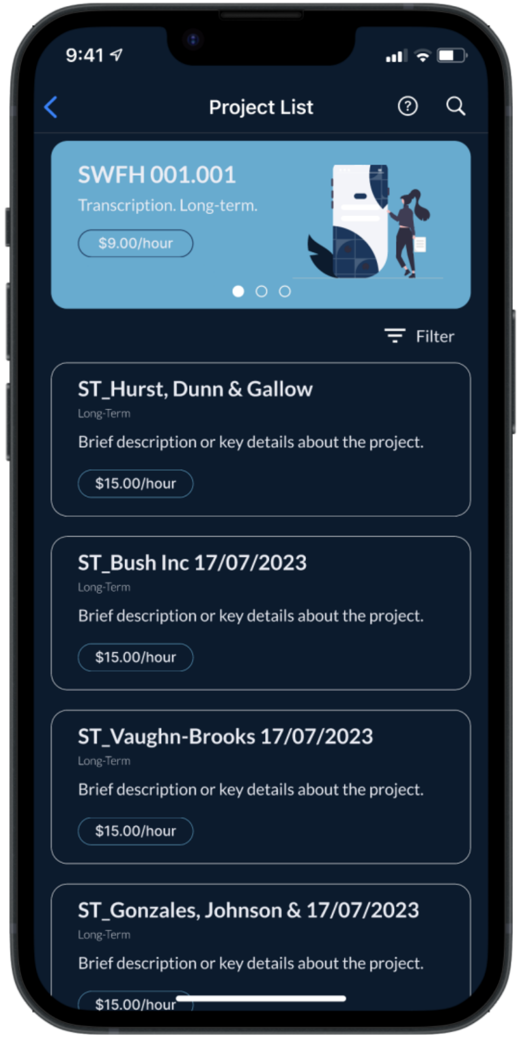
Examples of LLM projects delivered

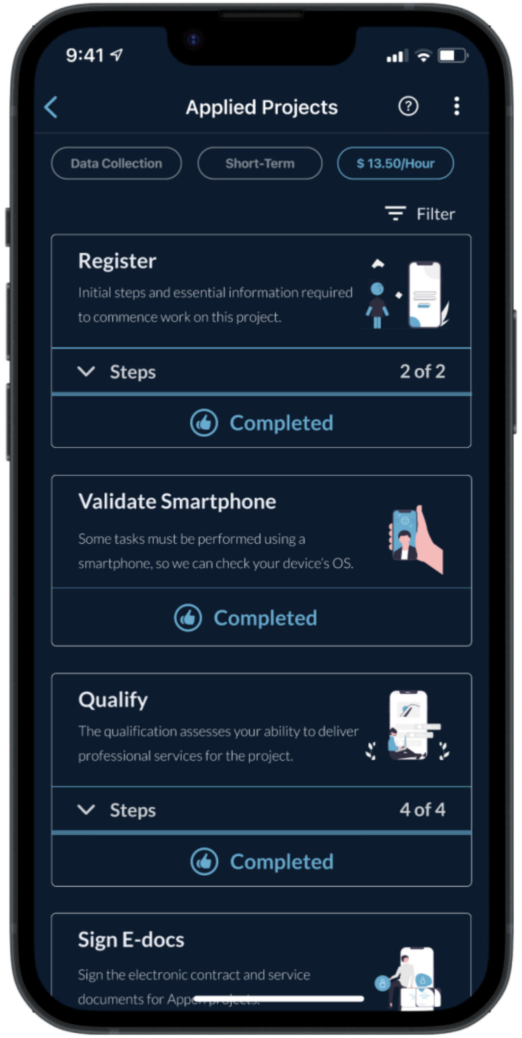
- LLM prompt evaluation for leading generative AI model builders
- A/B testing for leading generative AI moder builders
- Fine-tuned LLM models through human feedback for global financial services firm
- Generative AI Image categorisation for AI startup
- LLM model evaluation for social media company
- LLM response ranking on multi-turn conversations for global technology leader

1. At 22 August 2023.
2. At 22 August 2023. There is no guarantee that these opportunities will be finalised or result in revenue generating business.

Modernised mobile-first crowd experience







Benefits

- Improved crowd experience leading to better engagement with Appen
- Faster sign on leading to reduced time to revenue
- Improved fraud signals through mobile telemetry

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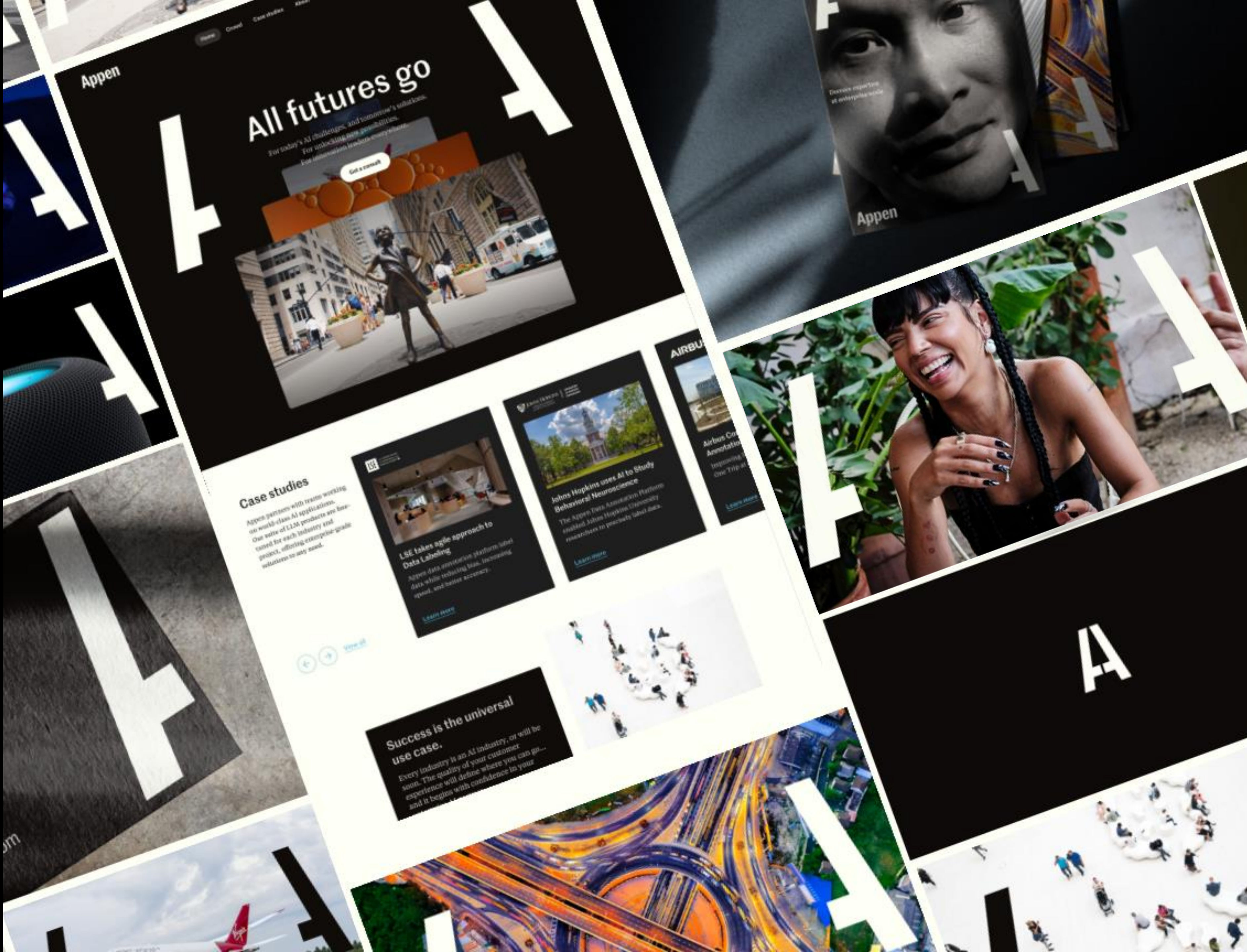
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All futures go
Case studies
LSE takes agile approach to Data Labeling
Johns Hopkins uses AI to Study Behavioral Neuroscience
Success is the universal use case.
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Progress against our partner strategy

Enterprise Customer

Appen Enterprise Sales	+ Ecosystem leaders
Direct	+ Sales Network

	Ecosystem relationships[1]	
Model Builders	REKA[2]	Minority investment in Series A ($500k), joint GTM plans in place
Compute	NVIDIA[3]	Signed million-dollar deal through Nvidia partnership
Systems Integrators/ IT Consultants	***Professional services firms***	Multiple advanced conversations with global professional services firms

Note: 1. Ecosystem relationships do not represent revenue generating customer agreements themselves, but are collaboration agreements under which the organisations agree to collaborate with a focus on serving new revenue generating customers; 2. Appen has signed a joint go-to-market collaboration agreement with Reka, with focus on promoting and delivering an end-to-end generative AI solution for enterprises; 3. Appen has signed a Master Data License and Custom Data Agreement with NVIDIA with a focus on new client acquisition.

2023 outlook

- The following outlook is provided on the basis that market conditions do not change materially.
- Appen continues to face headwinds from the broader technology market slowdown and as customers evaluate their AI strategies.
- Due to the ongoing uncertainty across all customers, we now expect an 2H FY23 revenue to be closer to 1H FY23 revenue.
- We continue to focus on exiting FY23 with a return to underlying EBITDA[1] and underlying cash EBITDA[2] profitability on an annualised, run-rate basis.
- We will achieve this by prioritising our growth investments into a smaller set of higher potential areas, this will simplify our business and deliver incremental costs savings but may have a negative impact on 2024 revenue.
- We now expect to exit FY23 with an annualised run-rate operating cost base lower than $113 million.

Note:
1. Underlying results are a non-IFRS measure used by management to assess the performance of the business and are calculated from statutory measures. Non-IFRS measures are not subject to audit. Underlying EBITDA excludes restructure costs, transaction costs, inventory losses, and acquisition-related and one-time share-based payment expense.
2. Underlying cash EBITDA is underlying EBITDA less capitalised software development expenses plus non acquisition-related share-based payment expenses.

04

Questions

Thank you for your attendance

Appendix

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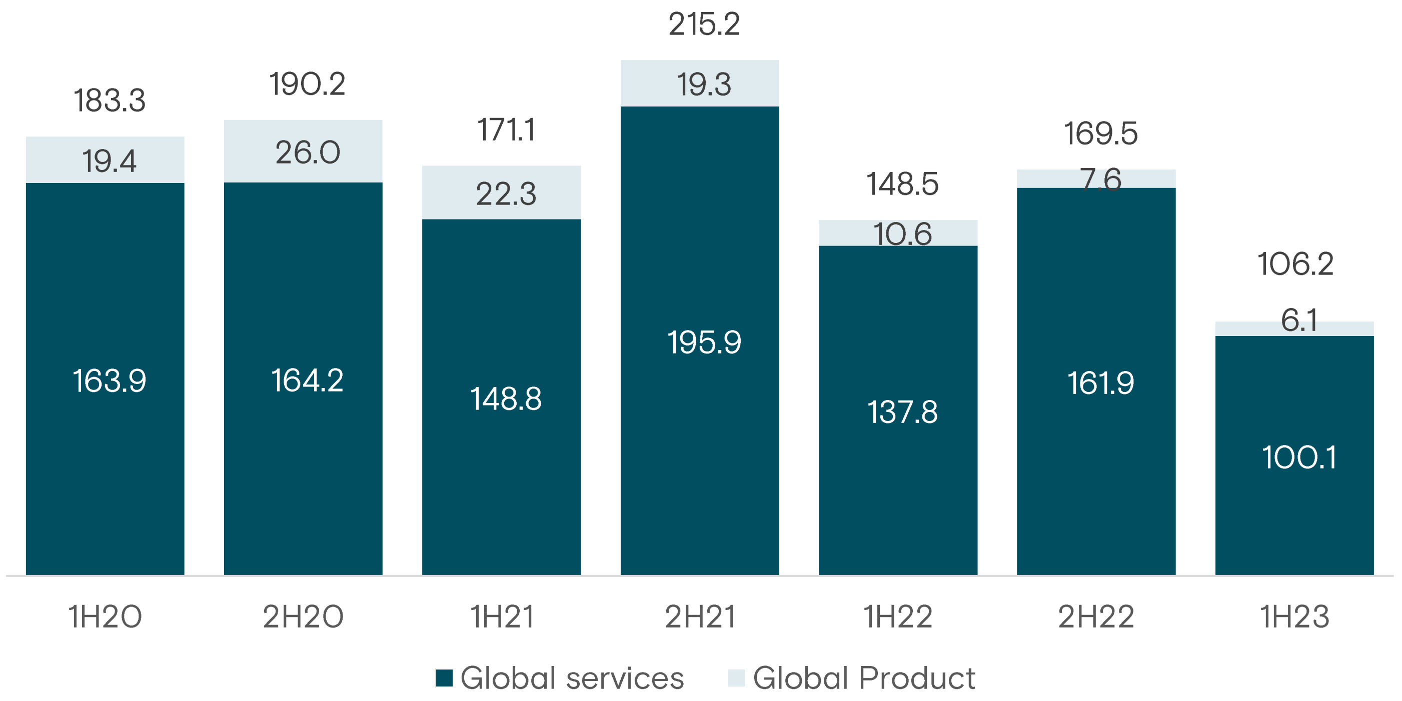
Global revenue[1]

Global division revenue by half ($M)



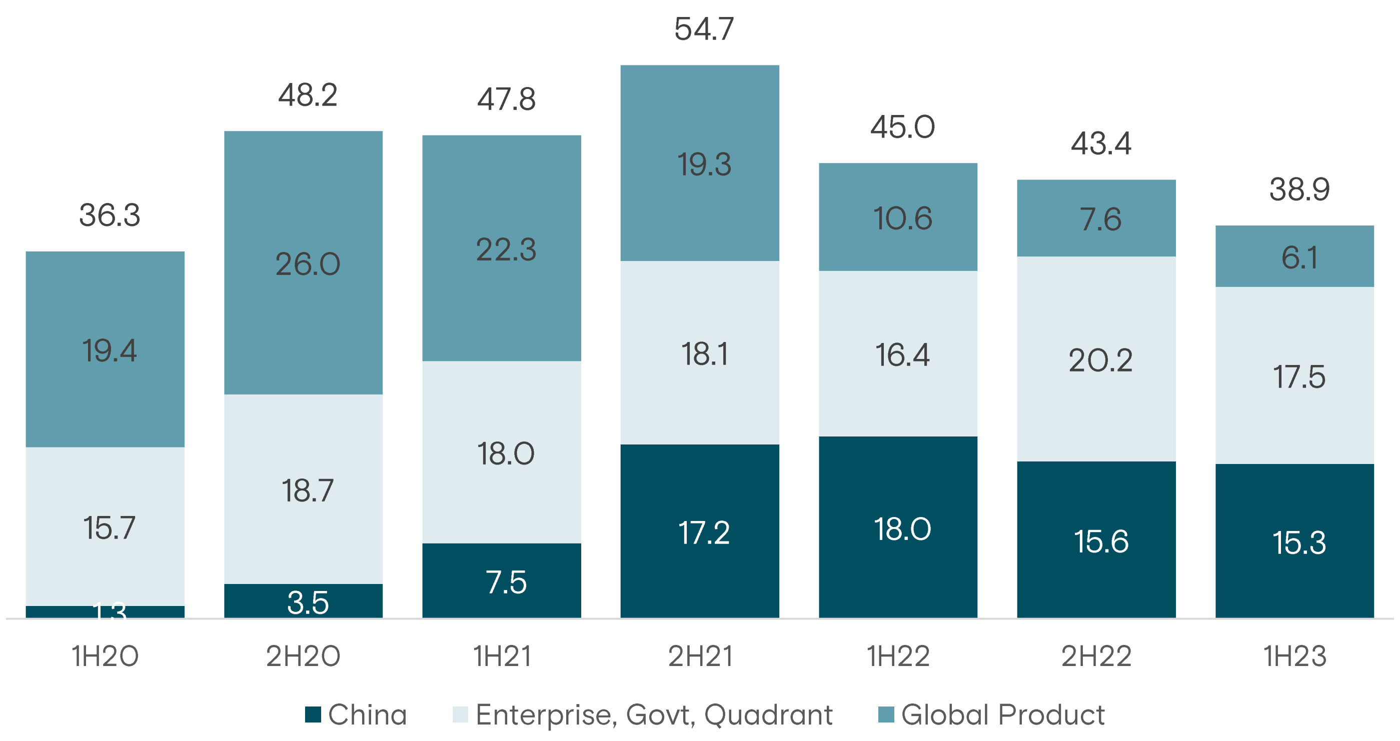
- Global revenue down 28% in 1H FY23 on 1H FY22, impacted by reduced volumes and reduction in spend by our customers
- Largest customer revenue down 34% in 1H FY23 on 1H FY22
- Global Product revenue 43% down on 1H FY22 as a small number of large projects were discounted or reduced in scope

Note: All figures in USD unless stated otherwise

1. Global includes revenue from Global Product (Global customers using the Appen platform and tools) and Global Services.

New Markets revenue[1]

New Markets revenue by half ($M)



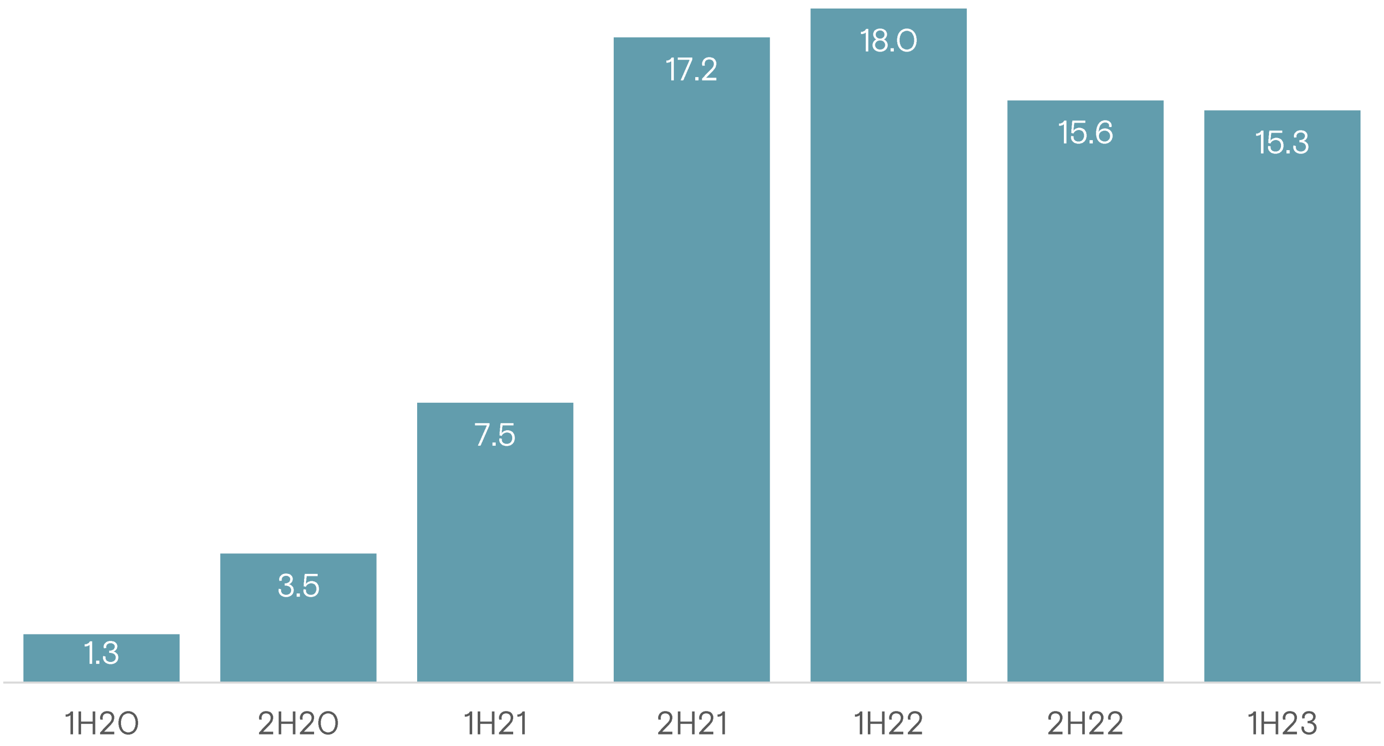
- New Markets revenue down 14% in 1H23 on 1H22, primarily impacted by Global Product revenue
- Global Product revenue 43% down on 1H FY22 as a small number of large projects were discounted or reduced in scope
- Excluding Global Product, revenue 5% down on 1H FY22
- Enterprise, Govt and Quadrant revenue 10% up on 1H FY22, 13% down on 2H FY22
- 24 non-global deals > $250k

Note: All figures in USD unless stated otherwise

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

China revenue

China revenue by half ($M)



- China revenue down 15.2% in 1H23 on 1H22, due to impact of Covid-19 pandemic and challenging external market conditions carried over into 1H FY23
- China, Japan and Korea won 50 new clients
- Launched Appen China LLM Data Training platform
- Released a new SaaS Annotation Platform
- Appen remains a leading AI data company in China
- Achieved BSI certification ISO 14001 / ISO 45001 for China sites

Note: All figures in USD unless stated otherwise

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Underlying[1] profit and loss summary

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 the impairment loss, restructure costs, transaction costs, inventory losses and acquisition-related share-based payments expenses. See following slide for reconciliation between statutory and underlying results
2. EBITDA is EBIT before depreciation and amortisation
3. EBIT is defined as earnings before interest and tax
4. Income tax expense / benefit is statutory income tax expense / benefit adjusted for tax effect of non-underlying transactions at standard tax rates for the applicable jurisdiction
5. See following slide for reconciliation between statutory and underlying results

	Half-year ended 30 June 2023 USD $000	Half-year ended 30 June 2022 USD $000
Revenue	138,939	182,845
Other income	431	71
Expenses		
Crowd labelling services	(82,961)	(109,526)
Employee expenses	(50,095)	(45,496)
Professional fees	(4,747)	(4,170)
Rent and occupancy expenses	(972)	(486)
Communication and travel expenses	(1,596)	(1,302)
Recruitment costs	(2,307)	(2,238)
Information technology costs	(6,600)	(5,828)
Other expenses	(4,226)	(4,652)
Share-based payments	(1,613)	361
Underlying EBITDA[2] before FX	(15,747)	9,579
Net foreign exchange loss	(2,325)	(1,113)
Underlying EBITDA[2]	(18,072)	8,466
Depreciation and amortisation	(12,462)	(12,065)
Underlying EBIT[3]	(30,534)	(3,599)
Interest income	131	13
Finance costs	(554)	(517)
Underlying net loss before tax	(30,957)	(4,103)
Income tax (expense) / benefit[4]	(3,252)	309
Underlying net loss after tax[5]	(34,209)	(3,794)

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Reconciliation between statutory and underlying results

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 the impairment loss, restructure costs, transaction costs, inventory losses and acquisition-related share-based payments expenses
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 CEO one-off sign-on bonus, in receipt of bonuses forgone and is intended to replace a portion of the bonus payments that the CEO would have received from his previous employer had he not ceased employment
4. EBIT is defined as earnings before interest and tax
5. EBITDA is EBIT before depreciation and amortisation

	Half-year ended 30 June 2023 USD $000	Half-year ended 30 June 2022 USD $000	Change
Underlying net loss after tax (NPAT) [1]	(34,209)	(3,794)	(802%)
(Less)/add underlying adjustments (net of tax)			
Amortisation of acquisition-related identifiable intangible assets	(3,067)	(4,953)	
Restructure costs	(4,525)	-	
Transaction costs	(273)	(210)	
Deemed interest on earn-out liability [2]	(222)	(154)	
Losses on inventory	-	(228)	
Acquisition-related and one-time[3] share-based payments	(1,015)	(25)	
Statutory NPAT	(43,311)	(9,364)	(362%)
Add: tax expense/(benefit)	59	(2,415)	
Add: net interest expense	423	504	
Add: deemed interest on earn-out liability [2]	317	217	
EBIT [4]	(42,512)	(11,058)	(284%)
Add: depreciation and amortisation	16,761	18,925	
Statutory EBITDA [5]	(25,751)	7,867	(427%)
Add: underlying adjustments			
Restructure costs	6,276		
Transaction costs	388	299	
Acquisition-related share-based payments [2]	1015	25	
Inventory losses	-	275	
Underlying EBITDA [1]	(18,072)	8,466	(313%)
Statutory diluted earnings per share (cents)	(33.63)	(7.59)	
Underlying diluted earnings per share (cents)	(26.57)	(3.08)	
% Statutory EBITDA/sales revenue	(18.5%)	4.3%	
% Underlying EBITDA/sales revenue	(13.0%)	4.6%	