Appen

ASX Announcement

30 August 2024

Investor Presentation

Further to Appen Limited's (ASX:APX) announcement to the market today on its results for the half-year ended 30 June 2024, please find attached the presentation to be delivered to investors and analysts this morning.

Authorised for release by the Board of Appen Limited.

For further information, please contact:

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About Appen

Appen is a global market leader in data for the AI Lifecycle. With over 28 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 500 languages[1], in over 200 countries[2], as well as our AI data 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.

[1] Self-reported.
[2] Self-reported, includes territories.

H1 2024 results

30 August 2024

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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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No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including Appen Limited). In particular, no representation, warranty or assurance (express or implied) is given in relation to any underlying assumption or that any forward-looking statement will be achieved. Actual future events and conditions may vary materially from the forward-looking statements and the assumptions on which the forward-looking statements are based. Given these uncertainties, readers are cautioned to not place undue reliance on such forward-looking statements. To the maximum extent permitted by law, Appen disclaims all liability and responsibility (including without limitation, any liability arising from fault or negligence) for any direct or indirect loss or damage which may arise or be suffered through use or reliance on anything contained in, or omitted from, this presentation.

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

All amounts are in US$M unless stated otherwise.

Some amounts may not add due to rounding.

Underlying results referenced in these materials are a non-IFRS measures used by management to assess the performance of the business and are calculated from statutory measures. Non-IFRS measures are not subject to audit.

Agenda

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Results and overview

Ryan Kolln

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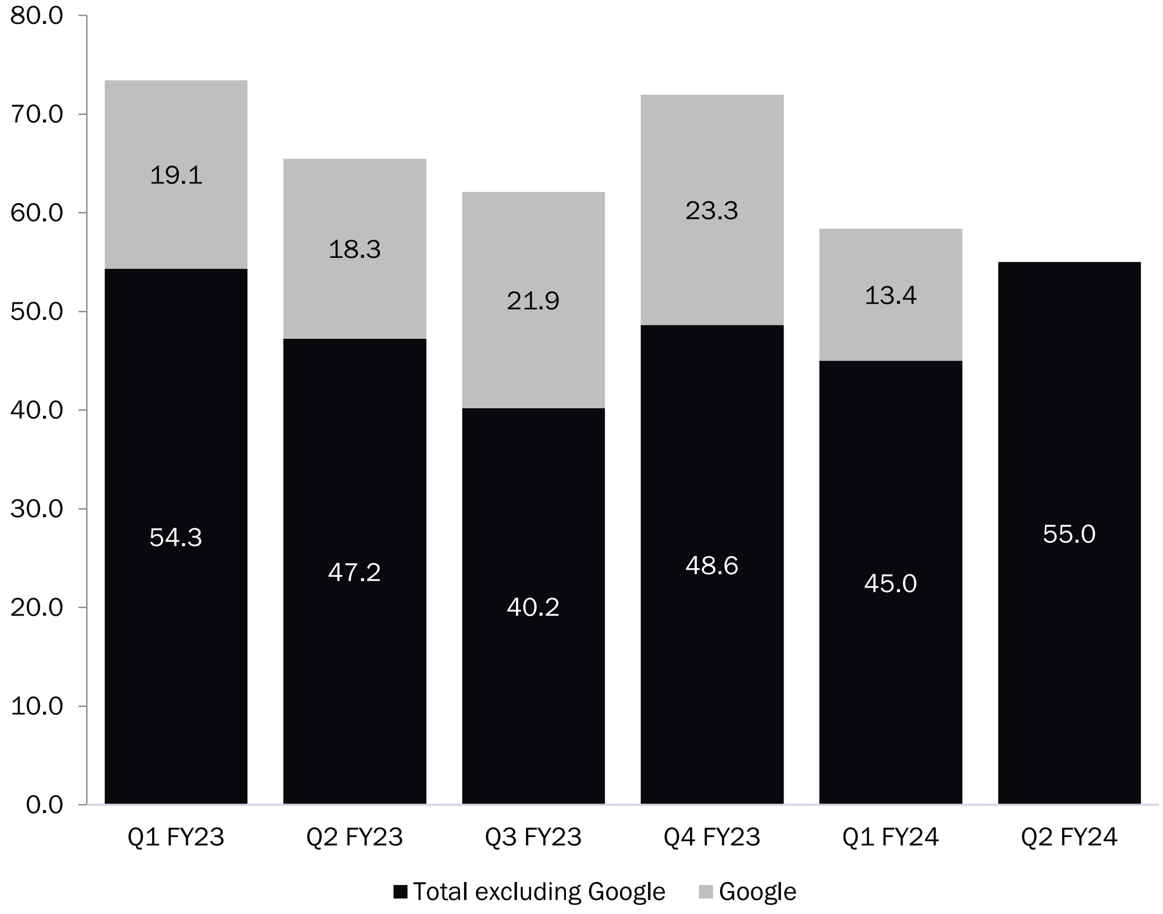
Revenue growth returning

Group revenue excluding Google



Commentary

- Excluding the impact of Google, we are experiencing a return to revenue growth
- Excluding Google, revenue for Q2 FY24 grew 16% on pcp (from $47.2 million in Q2 FY23)
- Q2 growth benefited from LLM growth with a Global customer that is utilising Appen's ADAP platform
- China continues to experience breakout growth and margin expansion

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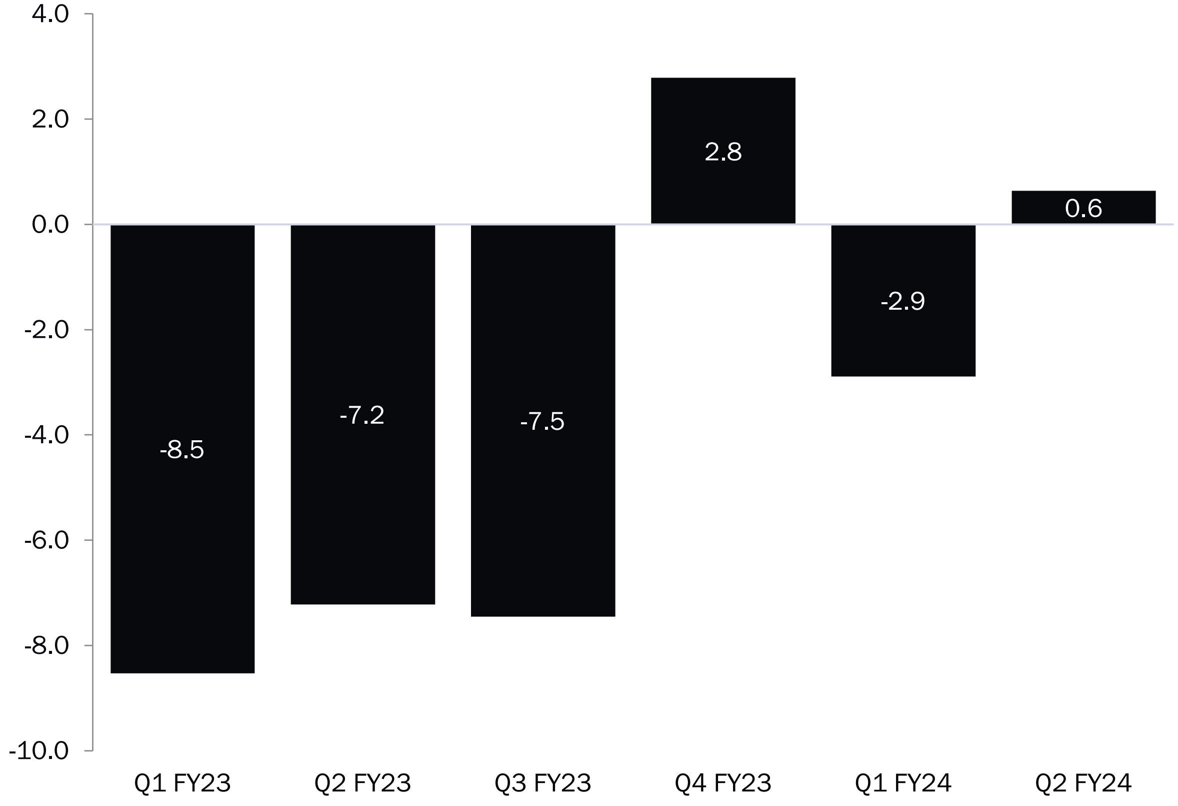
EBITDA improving as costs remain in control

Underlying EBITDA before Fx[1]



Commentary

- Underlying EBITDA[1] (before FX) for Q2 FY24 was a profit of $0.6 million, a $7.8 million improvement on pcp loss of $7.2 million
- We acted swiftly to control costs following the Google announcement, and have now completed the $13.5m cost reduction
- Revenue growth in China and improved gross margins resulted in positive EBITDA contribution in Q2
- Profitability remains a key focus for Appen

1. Underlying EBITDA excludes restructure costs, transaction costs, and acquisition-related and one-time share-based payment expense.

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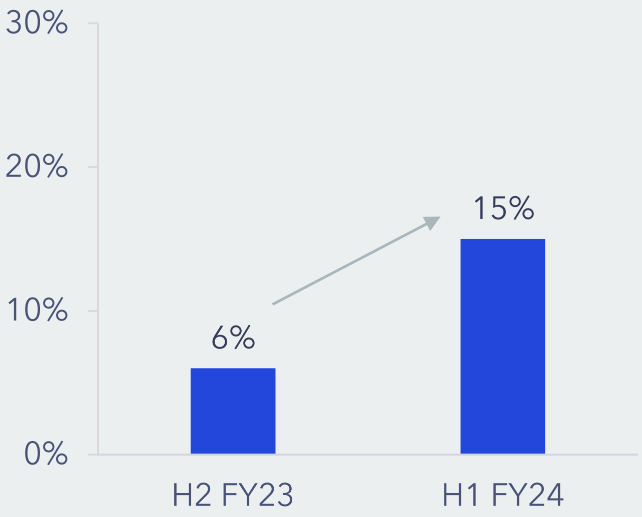
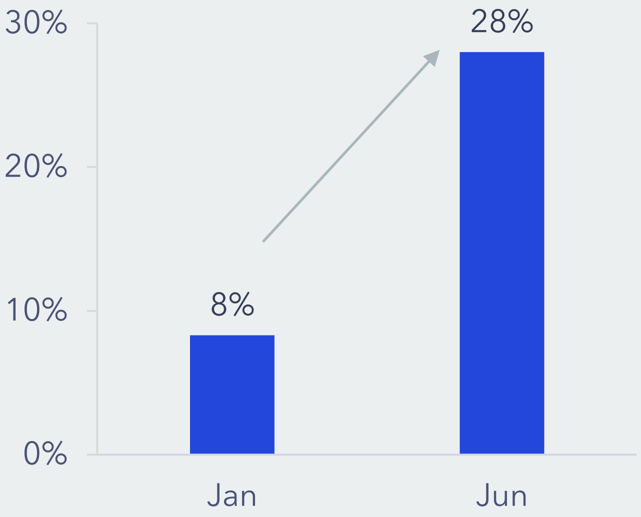
Generative AI major driver of revenue growth

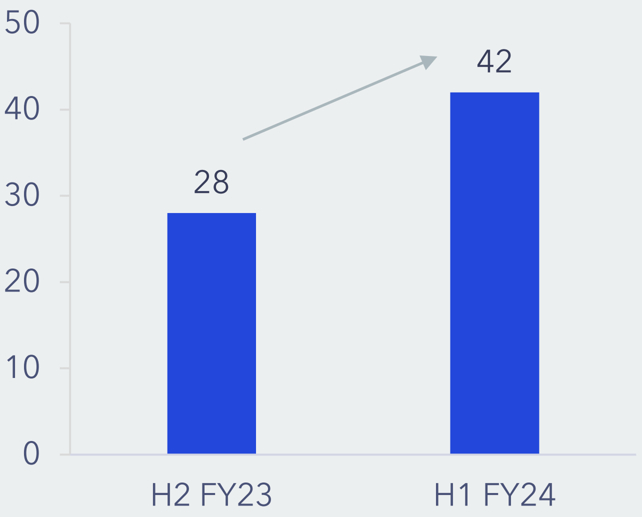
15% of group revenue from generative AI-related projects[1] in H1 FY24



28% of group revenue from generative AI-related projects[1] in June 2024



Delivered generative AI-related projects to **42 LLM customers** in H1 FY24



1.Excludes Google

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Financial performance

Justin Miles

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H1 FY24 snapshot

	H1 FY24	H1 FY23	Change
Revenue	**113.4**	138.9	(18%)
Global Services revenue	**63.6**	100.1	(36%)
New Markets revenue	**49.8**	38.9	28%
Revenue (excluding Google)	**100.0**	101.6	(2%)
Gross Margin[1]%	**37.7%**	37.3%	0.4 pp
Underlying EBITDA[2] before FX	**(2.3)**	(15.7)	nm

Commentary

- Revenue decreased 18% to $113.4m, reflecting termination of the Google contract
- Excluding the impact of Google, decrease a modest 2%
- Global Services impacted by termination of the Google contract
- New Markets benefited from strong growth in China and Global Product. Growth reflects significant traction in multiple generative AI projects
- Gross margin % improvement primarily due to change in customer and project mix
- $13.4m improvement in underlying EBITDA (before FX)
- Significant EBITDA improvement despite decrease in revenue. Due to cost out programs executed during FY23 and H1 FY24

1. Gross margin refers to revenue less crowd expenses.
2. Underlying EBITDA excludes restructure costs, transaction costs, and acquisition-related and one-time share-based payment expense.
3. Underlying cash EBITDA is underlying EBITDA less capitalised software development expenses plus non acquisition-related share-based payment expenses.

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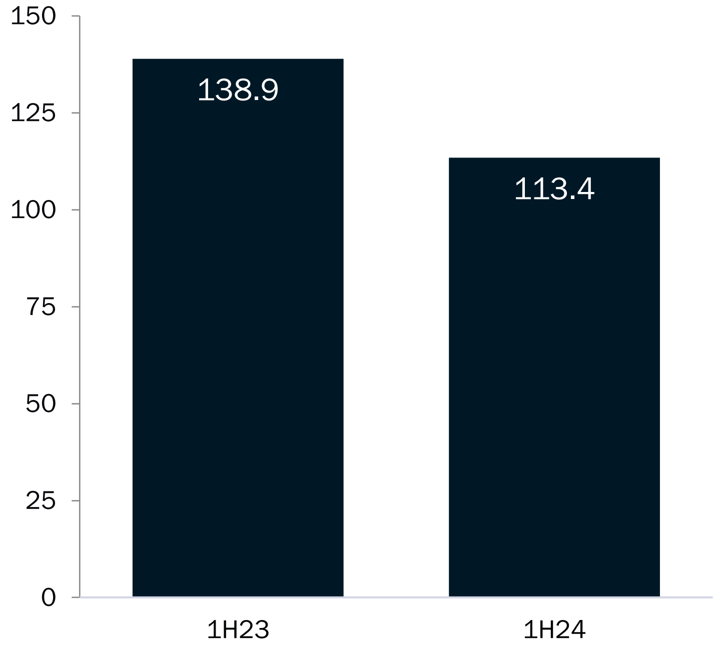
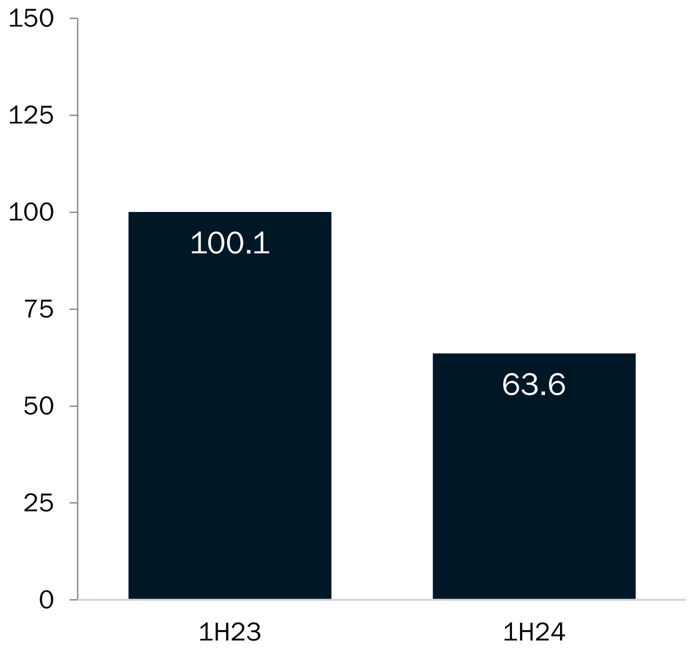
Revenue

Group



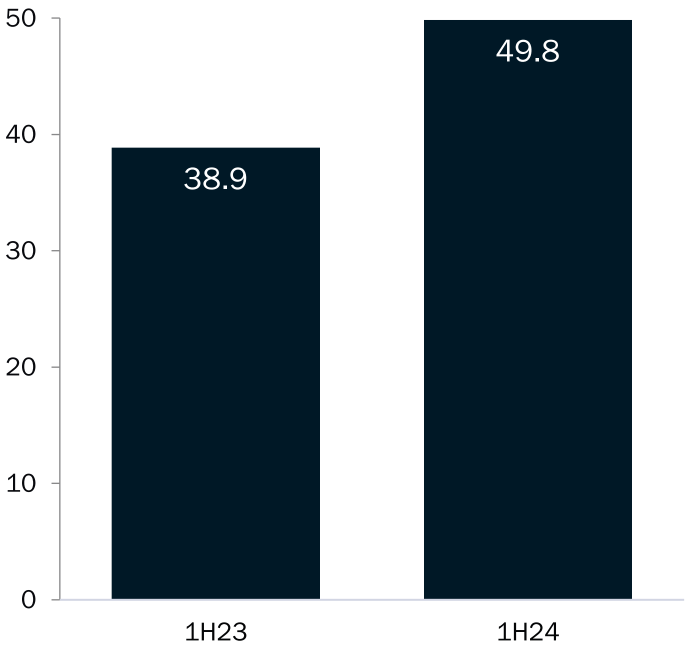
- Revenue down 18% on H1 FY23
- Impacted by termination of Google contract
- Excluding impact of Google, decrease 2%

Global services



- Revenue down 36% on H1 FY23
- Impacted by termination of Google contract

New markets



- Revenue up 28% on H1 FY23
- Strong growth in China and Global Product
- Growth reflects significant traction in multiple generative AI projects

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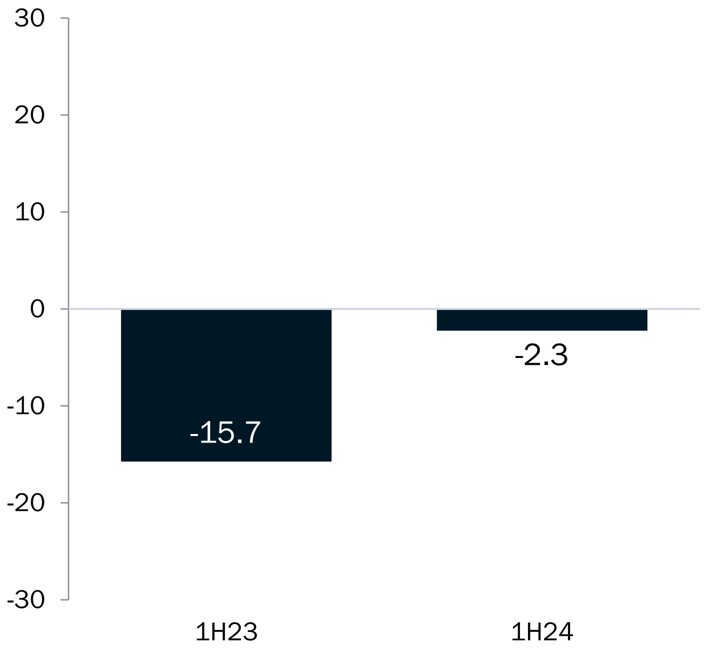
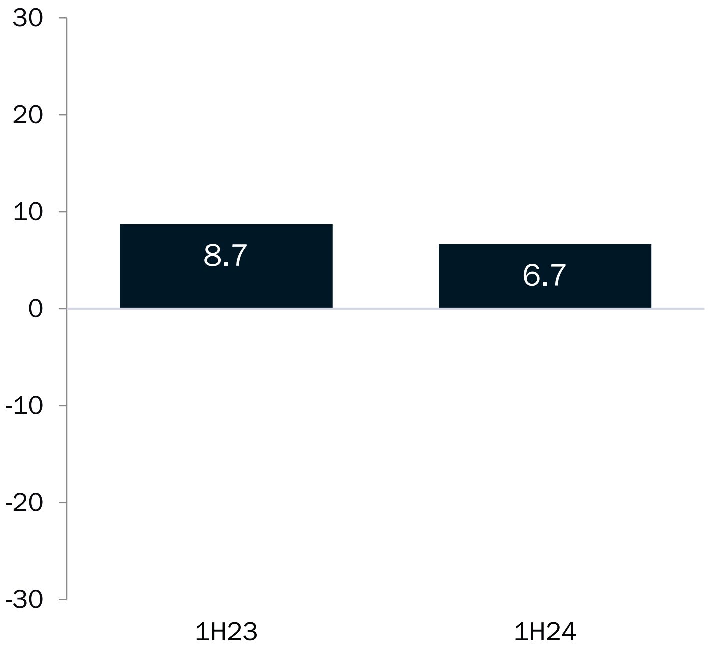
Underlying EBITDA[1] (before FX)

Group



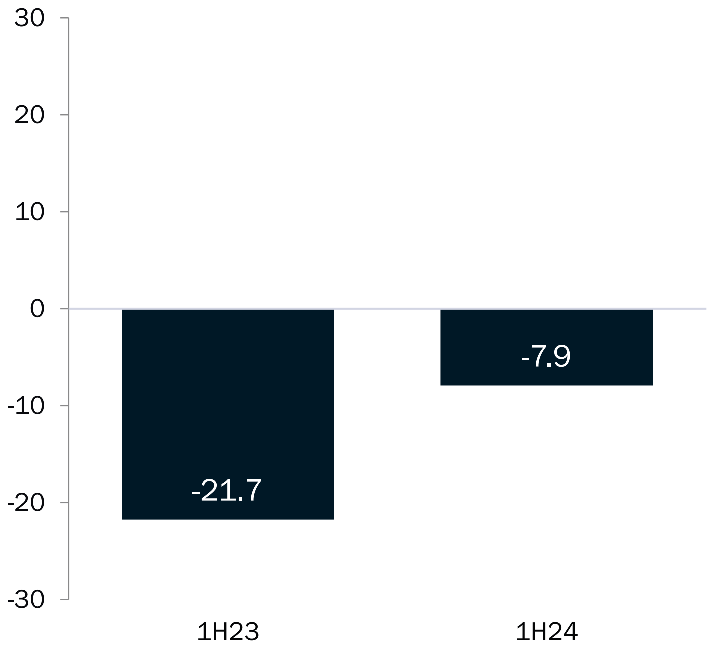
- $13.4m improvement on H1 FY23
- Despite lower revenue and gross margin, significant improvement due to cost out programs executed during FY23 and H1 FY24

Global services



- EBITDA of $6.7m down 23% on H1 FY23
- Decrease reflects lower revenue and gross margin, partially offset by benefit of cost out programs

New markets



- $13.8m improvement on H1 FY23
- Improvement driven by growth in revenue and gross margin for China and Global Product, as well as benefit of cost out programs

1. Underlying EBITDA excludes restructure costs, transaction costs, and acquisition-related and one-time share-based payment expense.

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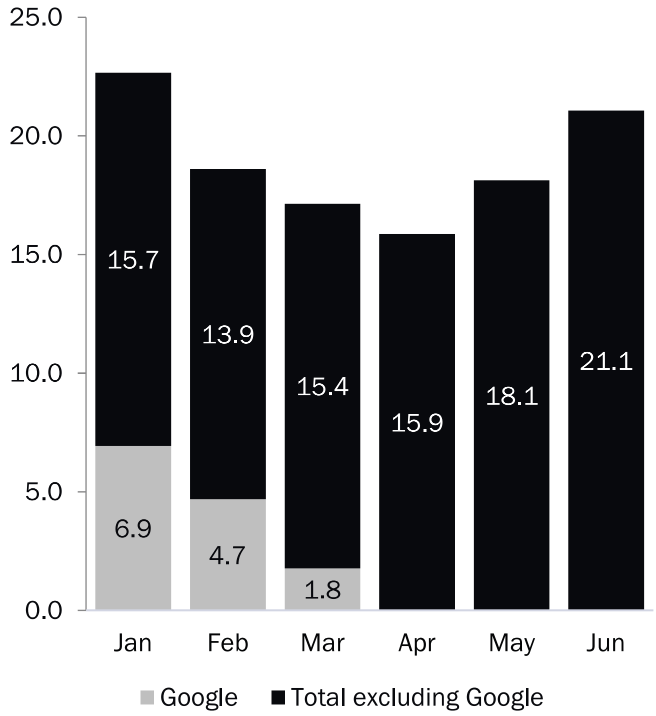
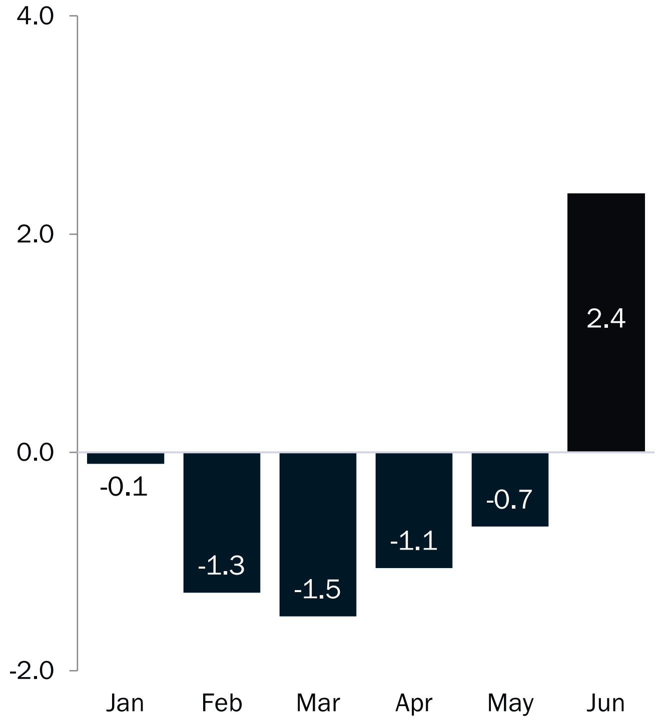
Cash EBITDA improving month-on-month

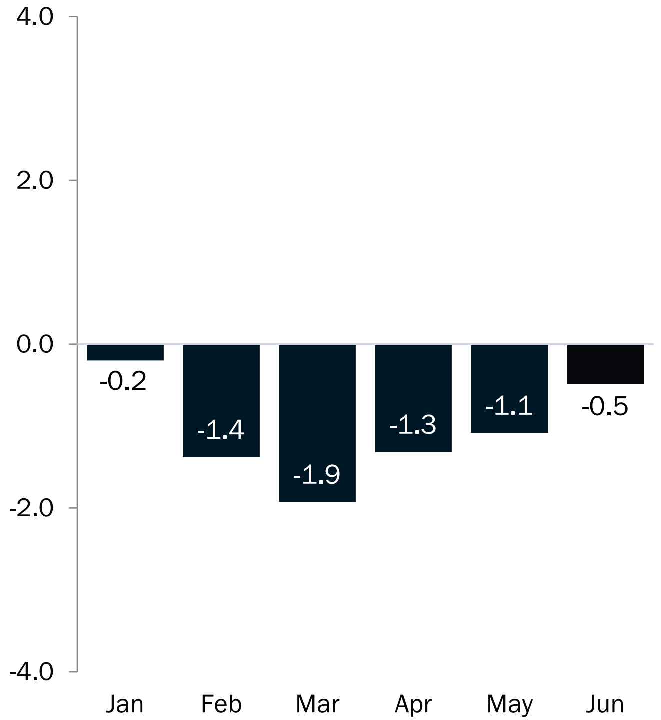
Revenue



Underlying EBITDA[1] before FX



Underlying cash EBITDA[2] before FX



1. Underlying EBITDA excludes restructure costs, transaction costs, 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.

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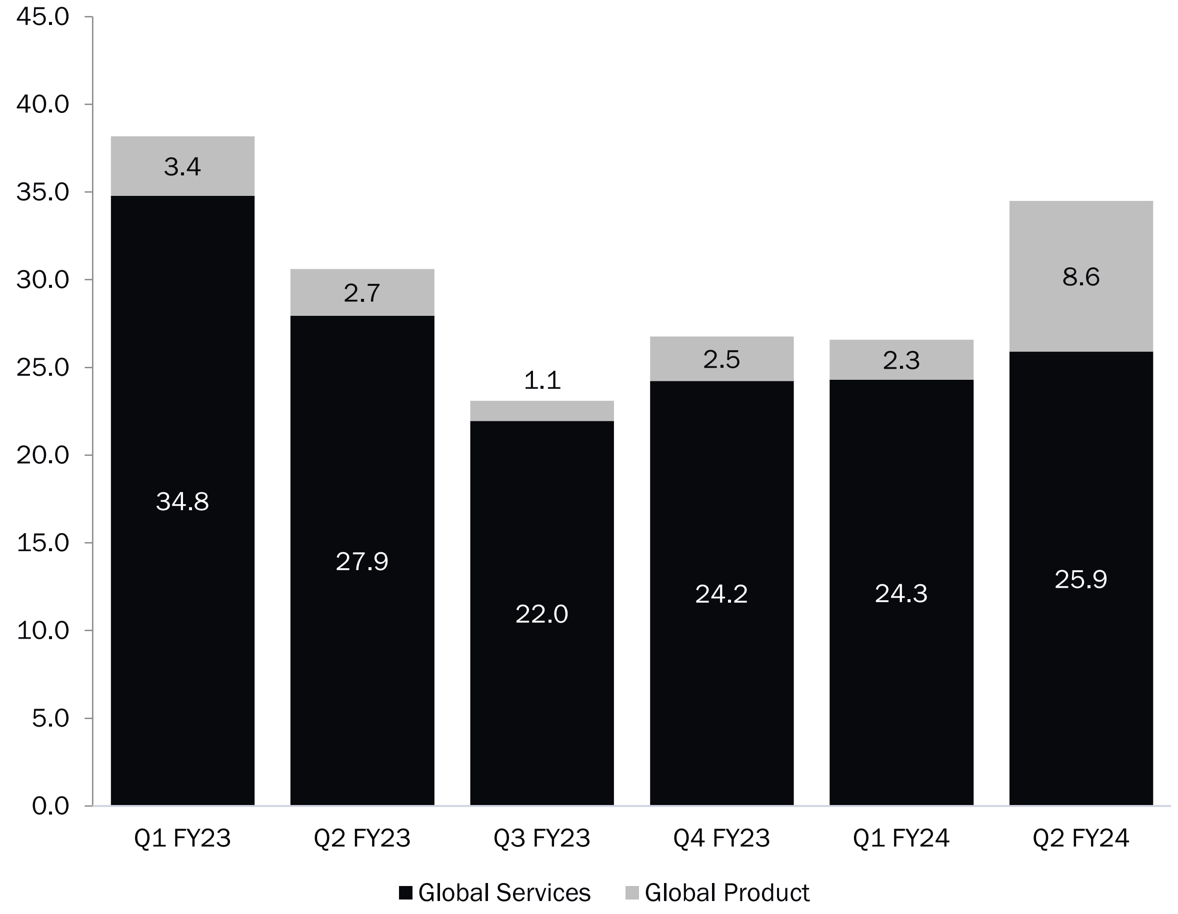
Global revenue stabilised with growth returning

Global revenue excluding Google



Commentary

- Following stabilisation of revenue in H2 FY23, growth returned in Q2 FY24
- Q1 FY24 result pleasing given Q4 FY23 volume includes some seasonality
- Global Product growth driven by multiple generative AI projects. Given early stage for some projects, volumes may be inconsistent during H2 FY24 as customers adapt to their evolving needs and budgets
- Global Services growth driven by increase in projects / volumes across multiple customers. 30 new projects won during the period
- See Appendix 2 for Global revenue including Google

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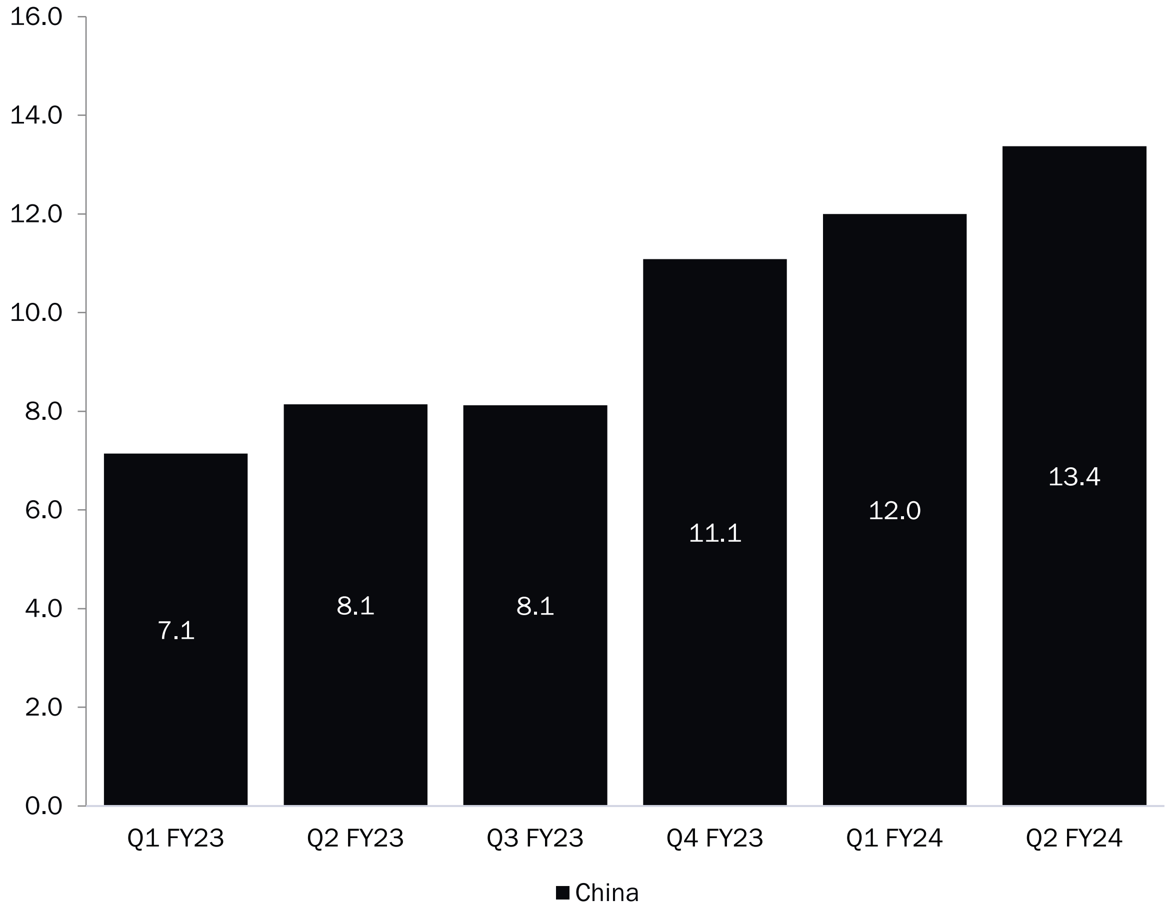
Record revenue for China in Q2

China revenue

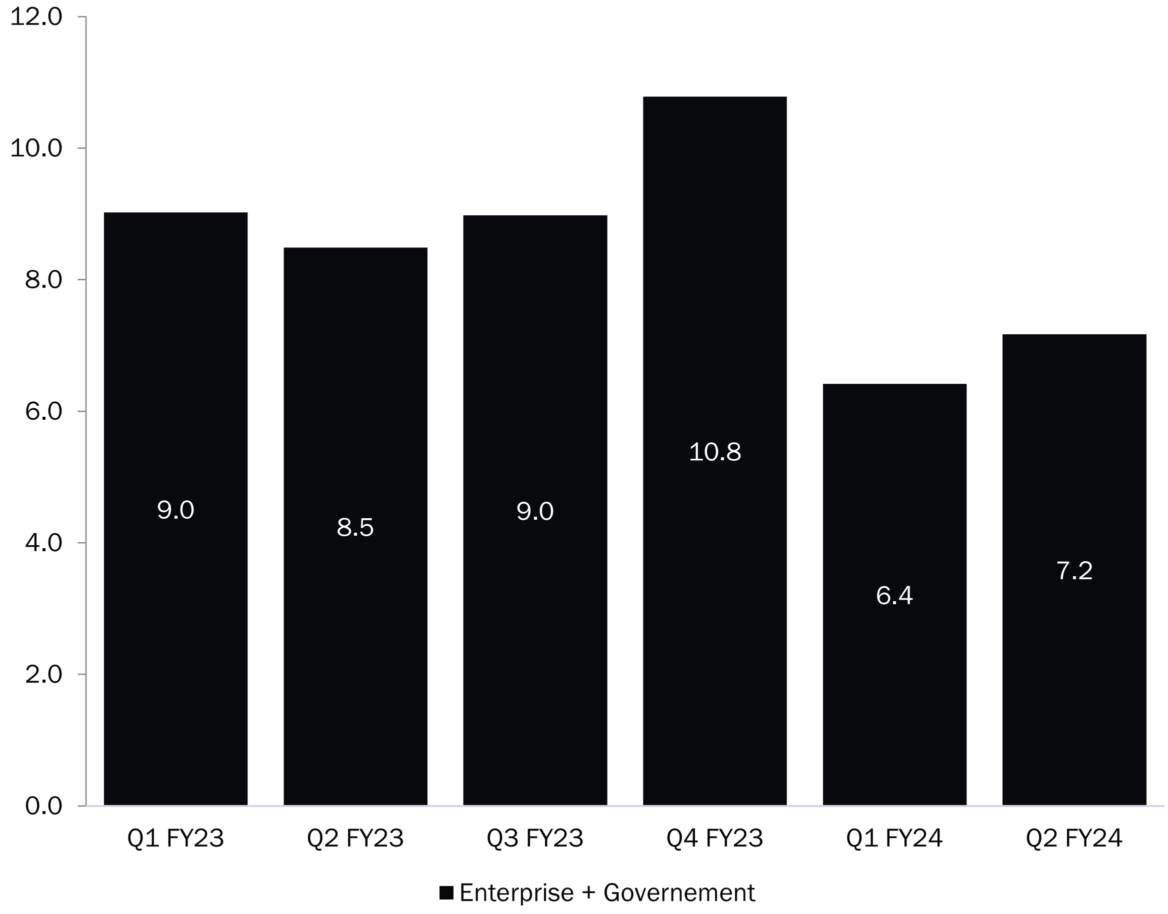


Commentary

- Revenue growth continued during the half, off the back of a strong Q4 FY23
- China achieved revenue record in Q2 FY24
- Significant traction in LLM projects, continuing to support leading LLM builders
- Expansion continues within existing large tech customers as well as new customer wins
- China group (includes Japan, Korea) won 37 new customers during the period

Conviction in revenue opportunity remains for Enterprise, Government

Enterprise, Government revenue



Commentary

- Decrease in revenue driven by lower volumes within existing large Enterprise projects
- Remain bullish on the opportunity, however timing is unclear with uncertainty around how enterprises will proceed with generative AI investment
- Healthy Government pipeline, awards generally linked to infrequent government budget cycles
- Despite decrease in revenue, 21 new customer wins across Enterprise and Government.

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Profit and loss summary

	H1 FY24	H1 FY23	Change
Revenue	113.4	138.9	(18%)
Gross Margin[1]%	37.7%	37.3%	0.4 pp
Employee expenses [2]	28.2	45.9	(39%)
Share-based payments expense [3]	1.0	1.6	(38%)
Other expenses [4]	15.8	20.0	(21%)
Underlying EBITDA [5]	(2.6)	(18.1)	nm
Underlying EBITDA [5] before FX	(2.3)	(15.7)	nm
Underlying NPAT [6]	(11.8)	(34.2)	nm
Statutory NPAT	(17.8)	(43.3)	nm

1. Gross margin refers to revenue less crowd expenses.
2. Employee expenses per management reporting. Excludes direct project workers included in gross margin calculation (i.e. crowd expenses).
3. Non-cash expense. Excludes acquisition-related and one-time share-based payment expense.
4. All other expenses included in underlying EBITDA before FX.
5. Underlying EBITDA excludes restructure costs, transaction costs, and acquisition-related and one-time share-based payment expense.
6. Underlying NPAT excludes after tax impact of restructure costs, transaction costs, acquisition-related and one-time share-based payment expense, amortisation of acquisition related intangibles, and deemed interest on earn-out liability.

Commentary

- Revenue decreased 18% to $113.4m, reflecting termination of Google contract
- Gross margin % improvement primarily due to change in customer and project mix
- Significant decrease in expenses, driven by full execution of cost out programs
- $13.4m improvement in underlying EBITDA (before FX) despite decrease in revenue. Due to cost out programs executed during FY23 and H1 FY24
- $25.5m improvement in statutory NPAT due to cost out programs executed, as well as lower restructure costs, decrease in depreciation and amortisation following H2 FY23 impairment charge, and lower investment in product development

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Balance sheet

	Jun 2024	Dec 2023
Cash	34.7	32.1
Receivables	40.2	49.9
Contract assets	14.4	15.6
Other current assets	8.9	9.1
Non-current assets	44.3	48.5
Total assets	**142.5**	**155.2**
Current liabilities	50.3	47.7
Non-current liabilities	12.7	14.7
Total liabilities	**63.0**	**62.4**
Net Assets	**79.5**	**92.8**
Total equity	**79.5**	**92.8**

Commentary

- Cash balance of $34.7m, up $2.6m from December 2023
- Cash balance at 31 July of $30.6m, decrease from June due to working capital cycle
- Receivables decreased due to lower revenue Q2 FY24 compared to Q4 FY23
- Non-current assets decreased primarily due to amortisation of platform at higher rate than new investment in product development. Includes intangible assets of $36.1m
- Current liabilities $2.6m higher, reflecting timing of trade payables
- Non-current liabilities $2.0m lower due to decrease in non-current lease liabilities

Cash flow summary

	H1 FY24	H1 FY23
Receipts	123.3	175.1
Payments and other	(112.7)	(166.1)
Cash flow from operations before interest and tax	**10.6**	**9.0**
Net interest	0.2	0.1
Taxes	0.6	0.6
Net cash from operating activities	**11.4**	**9.7**
Cash flows – investing activities	(6.5)	(12.4)
Cash flows – financing activities	(2.1)	36.3
Net cash flow for the period	**2.8**	**33.6**
Opening cash balance	32.1	23.4
FX impact	(0.2)	(1.8)
Closing cash balance	**34.7**	**55.2**

Cash flow reconciliation

Underlying EBITDA	(2.6)	(18.1)
Working capital	13.2	27.1
Cash flow from operations before interest and tax	**10.6**	**9.0**
Underlying EBITDA cash conversion	nm%	nm%

Commentary

- Cash balance of $34.7m, up $2.6m from December 2023
- Cash flow from operations of $10.6m, positively impacted by strong Q4 FY23 trading
- Cash flows from investing activities $5.9m lower compared to H1 FY23, due to lower investment in product development. This reflects the cost out program executed during FY23
- Cash inflow from financing activities in H1 FY23 includes net proceeds from equity raise
- Cash used to fund operations, capex, and one-off costs associated with $13.5m cost reduction program

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Strategy update

Ryan Kolln

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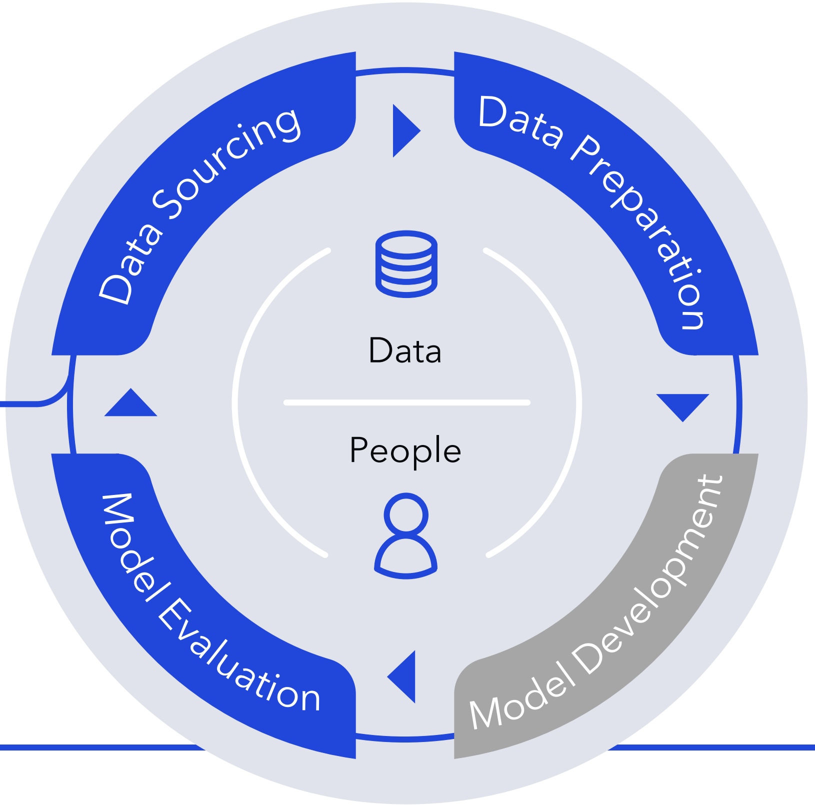
Appen specialises in high-quality data that brings human expertise into AI model development

Your model



Curate the right data ▸ Prepare useable training data ▸ Develop and deploy your models ▸ Evaluate model performance

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Appen AI data solutions

AI solutions

AI/ML data we support

Personalised recommendation	Ad Relevance	Content Relevance	Content Moderation	Metaverse AR / VR	Computer Vision Models	Audio & Speech Models	LLM Foundation Models	Enterprise LLM Customisation
Product Cataloguing	News Feed Evaluation	Search Engines	Sentiment Analysis	Autonomous Vehicles	Translation & Localisation	Multimodal AI Models	Multimodal Generative AI	Enterprise LLM Red Teaming

Core AI lifecycle services

- **Data Sourcing** → Custom Data Collection; Off-the-shelf or Prelabeled Datasets
- **Data Preparation** → Data Classification; Data Annotation; Human Preference Annotation (Human-in-the-loop)
- **Model Evaluation** → Model Evaluation; A/B Testing; Application / User Testing; Red Teaming; Benchmarking

Platform capabilities

Single & Multimodal Data Annotation Capabilities

- Image & Video Annotation
- Point Cloud Annotation
- Audio Annotation & Transcription
- Text Annotation & Translation

Quality Assurance & Workflow Management

- Contributor Management
- Test Questions
- Quality Workflows
- Monitoring & Dashboards

Features for LLM Development

- AI Model API End Points
- LLM Customisation Templates

Language

English | German | Spanish | French | Hindi | Mandarin | Portuguese | Japanese | 500+ Others

Global delivery models

Appen Crowd | Appen Secure Workforce | Client Internal Teams

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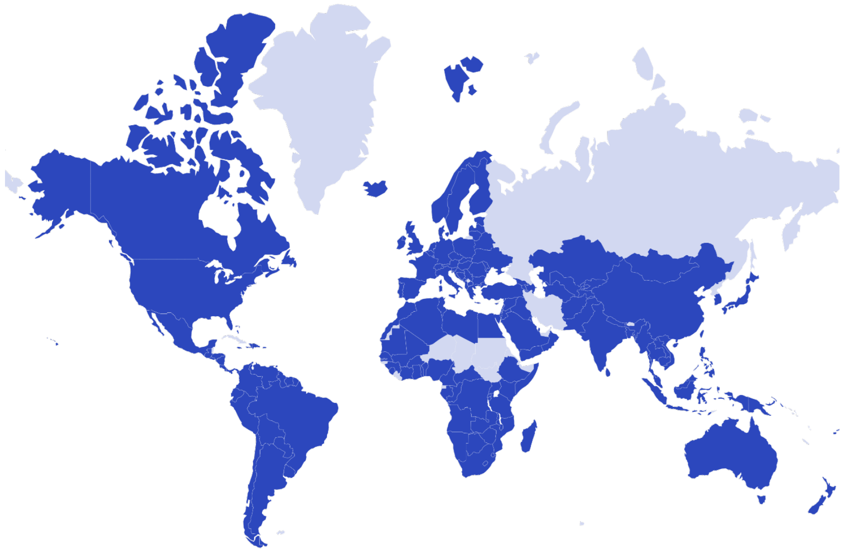
Appen global workforce



1M+
people

50M+
people hours on platform

500+
languages

100+
domain specific capabilities

7
secure facility options

100+
countries

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Generative AI is a key component of our service offering

Generative AI case studies

LLM evaluation for a leading technology company

LLM evaluation and preference ranking, ramping from 48K annotations per week to 550K annotations per week.

SFT dataset for a leading LLM model builder

Supervised Fine-Tuning (SFT) data for complex Chain-of-Thought reasoning in the STEM domain, including 30+ sub-domains.

Domain-specific LLM for leading technology company

12-month program of work with a leading tech company to train a domain-specific LLM. Multiple projects in the programming/coding domain.

Multimodal prompt-response dataset for a leading LLM model builder

Multimodal prompt-response dataset for a leading generative AI model builder. The initial pilot of 10K rows transitioned to production with 100K+ rows.

LLM multi-turn interactions for a leading LLM model builder

45K/week LLM chatbot interactions with human preference ranking using live model endpoint on Appen AI data platform.

Red teaming for a leading LLM model builder

Delivered red teaming insights across 7 harms categories using various adversarial and linguistic techniques. Ongoing program of work.

LLM data in 9 Languages for a leading LLM model builder

1M+ LLM prompt, instruction and response annotation in 9 languages for a leading generative AI model builder. 3-year program of work.

Benchmarking for a leading LLM model builder

Leveraging our expertise in model evaluation methodology to provide an assessment of the performance of leading LLMs on key benchmark datasets.

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Growth strategy

Appen's traditional TAM | New Generative AI opportunities

Deep learning model builders	Generative AI model builders	Companies adopting generative AI
1. Next generation crowd and project management platform		3. SaaS platform for LLM customisation
2. Optimise and automate high quality data creation		
4. Modernised sales and marketing		
5. Tight financial controls		

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July trading update and 2024 outlook

Ryan Kolln

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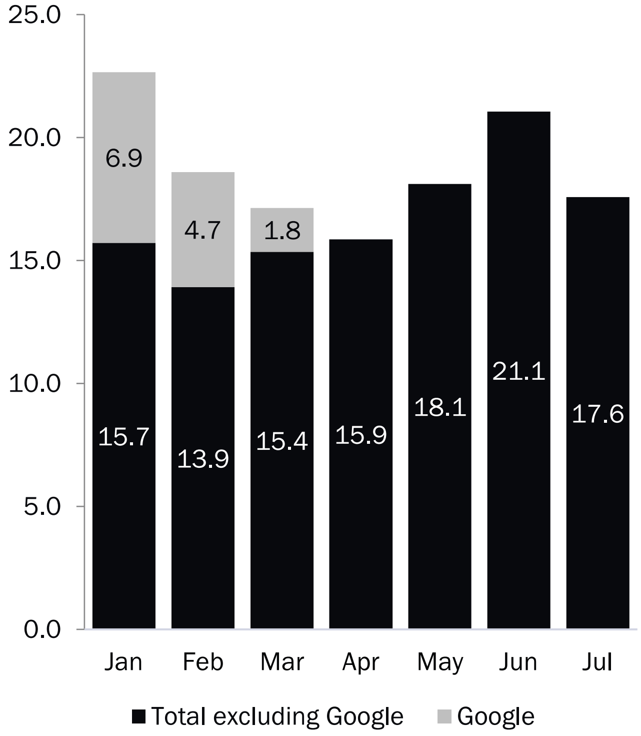
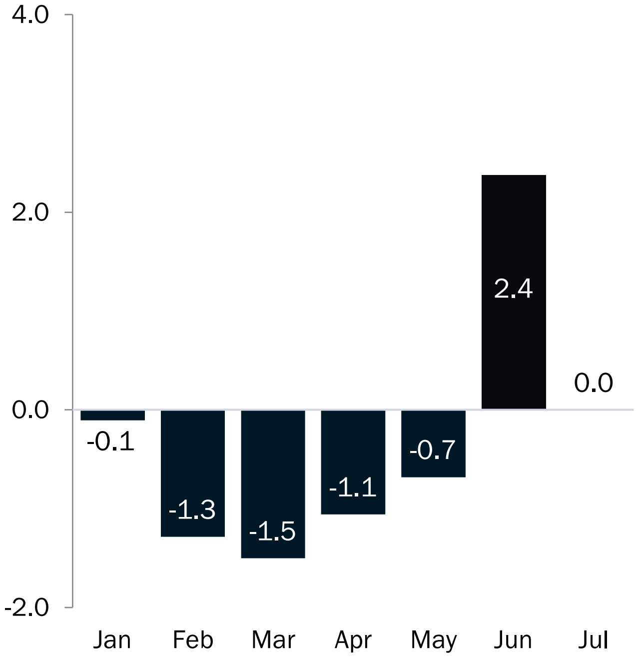
July 2024 trading update

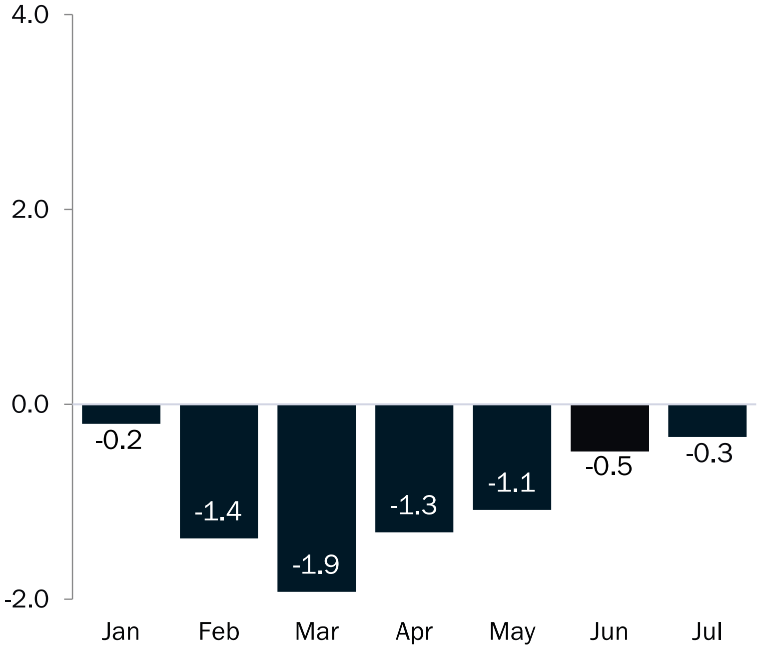
Revenue[1]



Underlying EBITDA[2] before FX



Underlying cash EBITDA[3] before FX



1. The figures for July 2024 are based on unaudited management accounts.
2. Underlying EBITDA excludes restructure costs, transaction costs, and acquisition-related and one-time share-based payment expense.
3. Underlying cash EBITDA is underlying EBITDA less capitalised software development expenses plus non acquisition-related share-based payment expenses.

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2024 outlook statement

Excluding the impact of Google, revenue momentum is positive

We continue to see positive signals on LLM related growth including from our Global and China customers

Tight cost controls remain in place, in keeping with the company's focus on managing costs in line with the revenue opportunity

- FY24 will be the first full year benefit of the $60m FY23 cost reduction program
- On 12 February 2024, we announced a further $13.5m of cost out initiatives that are now complete

We remain highly focused on ongoing cash EBITDA positivity, and our target is to become underlying cash EBITDA positive on a run-rate basis in early H2 FY24

Appendix

Appendix 1: Appen reporting structure

Global Services	New Markets
Services provided to leading US tech companies utilising their platform	New Markets reflects progress against our product led strategy Includes Global Product (Global customer revenue through Appen products), Enterprise, China, and Government. Quadrant was integrated into the Enterprise division from 1 January 2024. All project types and data modalities

Global	Enterprise	Government	China
Leading US tech companies, including Amazon and Microsoft	Covering North America, EMEA and SEA, Quadrant location data	Federal agencies	China, Japan and Korea

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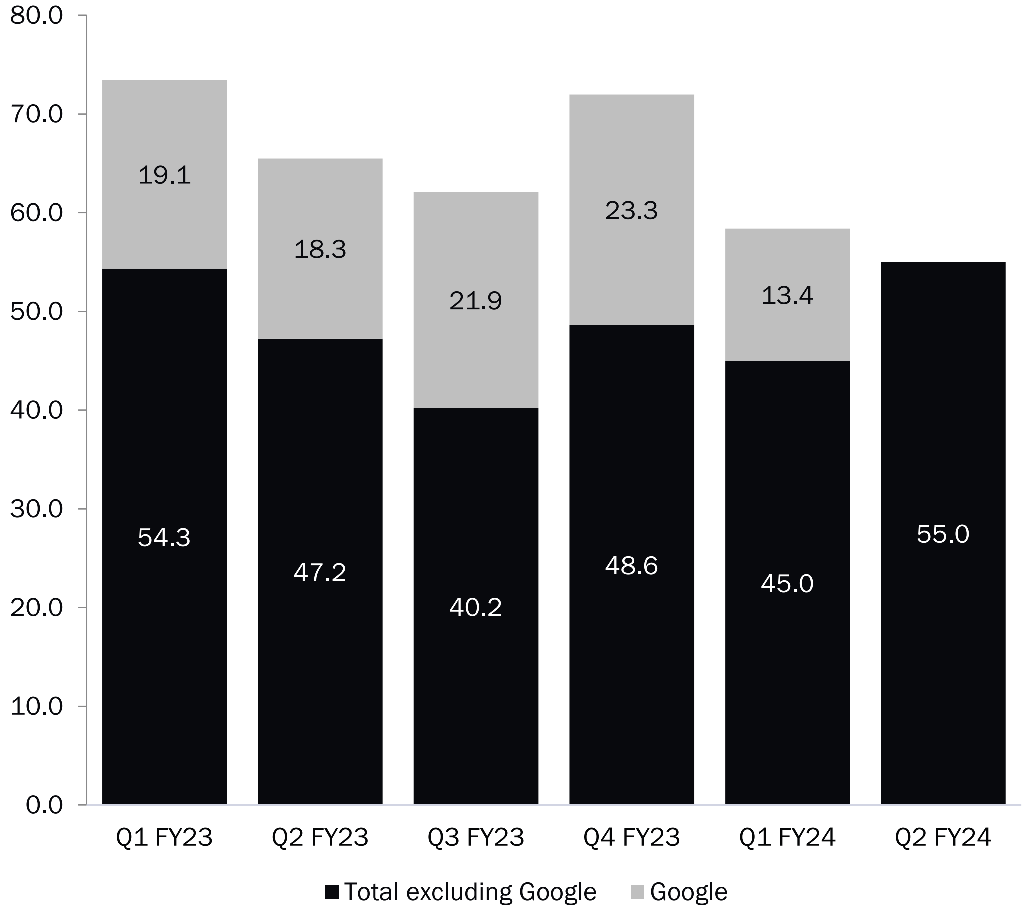
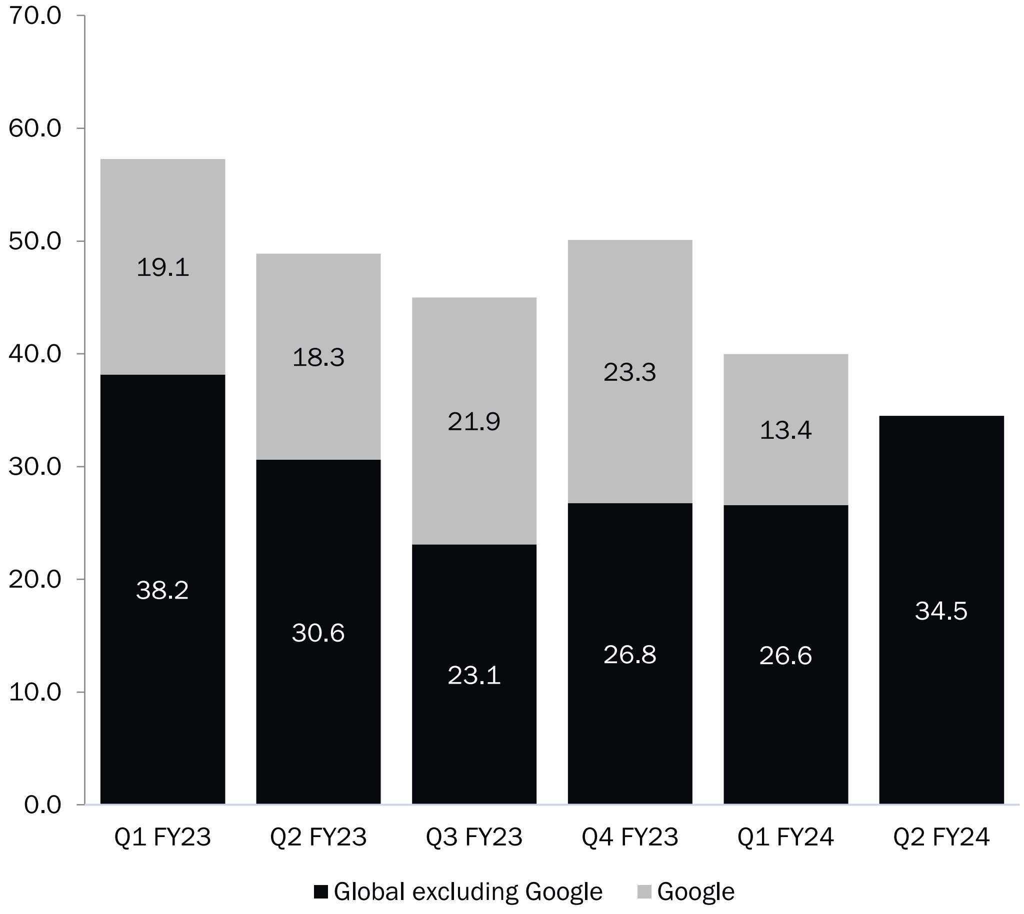
Appendix 2: Google contribution to revenue

Group revenue



Global revenue



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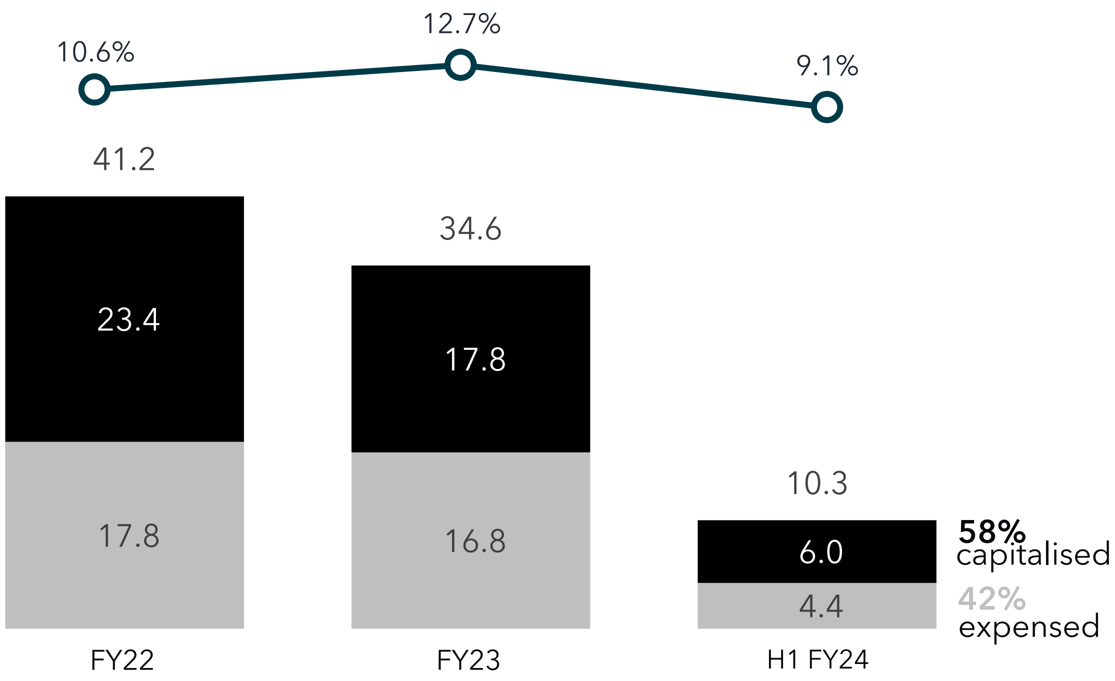
Appendix 3: Investment in product development

Investment in product development[1]

Product development (exc. amortisation) as a % of revenue



Commentary

- $10.3m investment in product development significantly lower than prior periods, reflecting cost out program executed during FY23
- Savings primarily achieved by establishing a product and engineering hub in Hyderabad
- ~58% of spend capitalised, up on FY23 due to increased effort on development vs. maintenance during the period. 9.1% of revenue reinvested in product development
- Full year investment in product development expected to be contained within existing product and engineering spend
- While the quantum of product development spend was lower in H1 2024, Appen remains committed to the development of industry-leading products and tools to deliver high quality data for our customers, including supporting generative AI

1. Product development relates to investment in engineering to ensure our AI data platform and tools support our clients and their use cases, drive efficiencies and scale. These amounts exclude amortization expense.

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Appendix 4: Reconciliation between statutory and underlying results

	Half-year ended 30-Jun-24 $000	Half-year ended 30-Jun-23 $000	Change
Underlying net loss after tax (NPAT)[1]	(11,815)	(34,209)	nm%
Less underlying adjustments (net of tax)			
Amortisation of acquisition-related identifiable intangible assets	(3,072)	(3,067)	
Restructure costs	(1,991)	(4,525)	
Transaction costs	(137)	(273)	
Deemed interest on earn-out liability[2]	-	(222)	
Acquisition-related and one-time[3] share-based payments	(738)	(1,015)	
Statutory NPAT	(17,753)	(43,311)	nm%
Add : tax expense	15	59	
Add : net interest expense	228	423	
Add : deemed interest on earn-out liability[2]	-	317	
EBIT[4]	(17,510)	(42,512)	nm%
Add : depreciation and amortisation	11,293	16,761	
Statutory EBITDA[5]	(6,217)	(25,751)	nm%
Add: underlying adjustments			
Restructure costs	2,673	6,276	
Transaction costs	193	388	
Acquisition-related and one-time [3] share-based payments	738	1,015	
Underlying EBITDA[1]	(2,613)	(18,072)	nm%
Statutory diluted earnings per share (cents)	(8.06)	(33.63)	
Underlying diluted earnings per share (cents)	(5.37)	(26.57)	
% Statutory EBITDA/sales revenue	(5.5%)	(18.5%)	
% Underlying EBITDA/sales revenue	(2.3%)	(13.0%)	

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 restructure costs, transaction costs, and acquisition-related and one-time share-based payments expense.
2. Contingent liability with respect to the Quadrant acquisition. Settled in January 2024.
3. Former CEO one-off sign-on bonus, in receipt of bonuses forgone and was intended to replace a portion of the bonus payments that the former 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.

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Appendix 5: AI market opportunity

	Appen's traditional TAM	New Generative AI opportunities	
	Deep learning model builders	Generative AI model builders	Companies adopting generative AI
Description	Technology and software companies that have built AI into their core product offering	Well-funded start up and technology companies that are building foundation models	Companies that are customising foundation models for their internal use cases
Main customer segments	• US and China major tech companies • Global software companies • Ecommerce • Federal	• US and China major tech companies • LLM startups (i.e, OpenAI, Cohere, Anthropic)	• Fortune 2000 companies, mostly non-tech
Estimated TAM for data services and software by 2030	$12-17B[1] Mostly data services	$2-4B[2] Mostly data services	$2-4B[3] Mostly software

1. $17B market size from Grandview Research. $12.75B market size from Research and Markets, $15.5B market size from Spherical Insights.
2. Management estimates of data services market based on extrapolation of current estimate spend from major LLM vendors.
3. Management estimates based on expected adoption rate of LLM in enterprises and willingness to spend on software platforms to support implementation and ongoing model performance optimization.

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