

27
February
2023



Powering Real

World AI

Full year results presentation



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.

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.

All amounts are in US\$ unless stated otherwise.

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



Agenda

- 01 | FY22 Financial Performance
- 02 | CEO Introduction
- 03 | Q&A

01

FY22 Financial Performance

Kevin Levine



FY22 snapshot

	FY22	FY21	change
Revenue	388.5	447.3	-13%
Underlying EBITDA ¹	11.0	77.7	-86%
Underlying EBITDA margin	2.8%	17.4%	
Underlying EBITDA ¹ before FX	13.6	78.9	-83%
Underlying EBITDA margin before FX	3.5%	17.6%	
Underlying NPAT	(22.8)	40.6	
Statutory NPAT ²	(239.1)	28.5	

1. Underlying EBITDA excludes the impairment loss, restructure costs, transaction costs, inventory losses and acquisition-related share-based payment expenses.
2. Includes non-cash impairment of \$204.3 million reflecting the impairment of Goodwill and certain intangibles associated with the New Markets (excl China) cash generating units, comprising Global Product, Enterprise, and Government.



- Revenue decreased 13.1% to \$388.5M, primarily reflecting a lower contribution from the Global Division
- Underlying EBITDA (before FX) decreased 82.8% to \$13.6M due to lower revenue, lower gross margin and increased costs to support China and Quadrant growth as well as product, technology and transformation spend
- Statutory NPAT includes an impairment charge of \$204.3M
- Underlying NPAT includes increased amortisation for product development and acquired intangibles (Quadrant)
- Nil final dividend to ensure appropriate allocation of capital
- Revenue and EBITDA within guidance provided in October 2022

FY22 Highlights



184
new clients



25
non-global deals
over \$250k



Average deal size
for enterprise
>\$120k



Second largest
customer up
20%



9/10
Leading auto
customers in China



36%
revenue growth in
China



57%
of employees are
female



22
Customer NPS¹

1. Customer NPS measured at end of FY22.

Revenue

Group



\$388.5M

\$447.3M in FY21

- Revenue down 13% on FY21
- Majority of decline from Global Services
- H2 revenue up 12% on H1
- Q4 revenue up 11% on Q3

Global Services



\$299.8M

\$344.7M in FY21

- FY22 revenue of \$299.8M, down 13%
- Challenging market and macro conditions led to reduction in some large core projects
- Second largest client revenue up 20% YoY
- H2 revenue up 18% on H1. Q4 revenue up 12% on Q3

New Markets



\$88.4M

\$102.5M in FY21

- Revenue impacted by lower contribution from Global Product
- Excluding Global Product, New Markets FY22 revenue up 15% YoY
- China revenue up 36%
- H2 revenue (ex Global Product) up 4% on H1. Q4 revenue up 14% on Q3

Underlying EBITDA¹ (before FX)

Group



\$13.6M

\$78.9M in FY21

- EBITDA down 83% impacted by lower revenue, lower gross margin and investment in people and opex to drive growth, product, technology and transformation
- H2 costs up 12% (rev up 12%) and Q4 costs down 9% (rev up 11%) on Q3 from cost initiatives
- Reprioritise FY23 spend to support growth via annualised EBITDA costs savings of ~\$10M and rental cost savings of ~\$1M

Global Services



\$54.5M

\$91.2M in FY21

- EBITDA of \$54.5M down 40% on FY21
- EBITDA margin of 18% impacted by lower revenue on some core high margin projects, higher delivery overhead (increased project activity) and transformation and support cost allocation
- H2 costs up 15% (rev up 18%) and Q4 costs down 11% (rev up 12%) on Q3 from cost initiatives

New Markets



-\$36.5M

-\$11.5M in FY21

- EBITDA loss of \$36.5M reflects lower Global Product revenue, increased costs to support China and Quadrant growth and product, technology and transformation spend in Enterprise
- Excluding Global Product - H2 costs up 10% (rev up 4%) and Q4 costs down 3% (rev up 14%) on Q3 from cost initiatives

Note: All figures in USD unless stated otherwise.

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

No debt on balance sheet

	Dec 2022	Dec 2021
Cash	23.4	47.9
Receivables	64.3	89.2
Contract assets	30.4	10.5
Other current assets	6.5	14.4
Non-current assets	130.3	340.2
Total assets	254.9	502.2
Current liabilities	65.1	64.6
Non-current liabilities	41.8	45.7
Total liabilities	106.9	110.3
Net Assets	148.0	391.9
Total equity	148.0	391.9

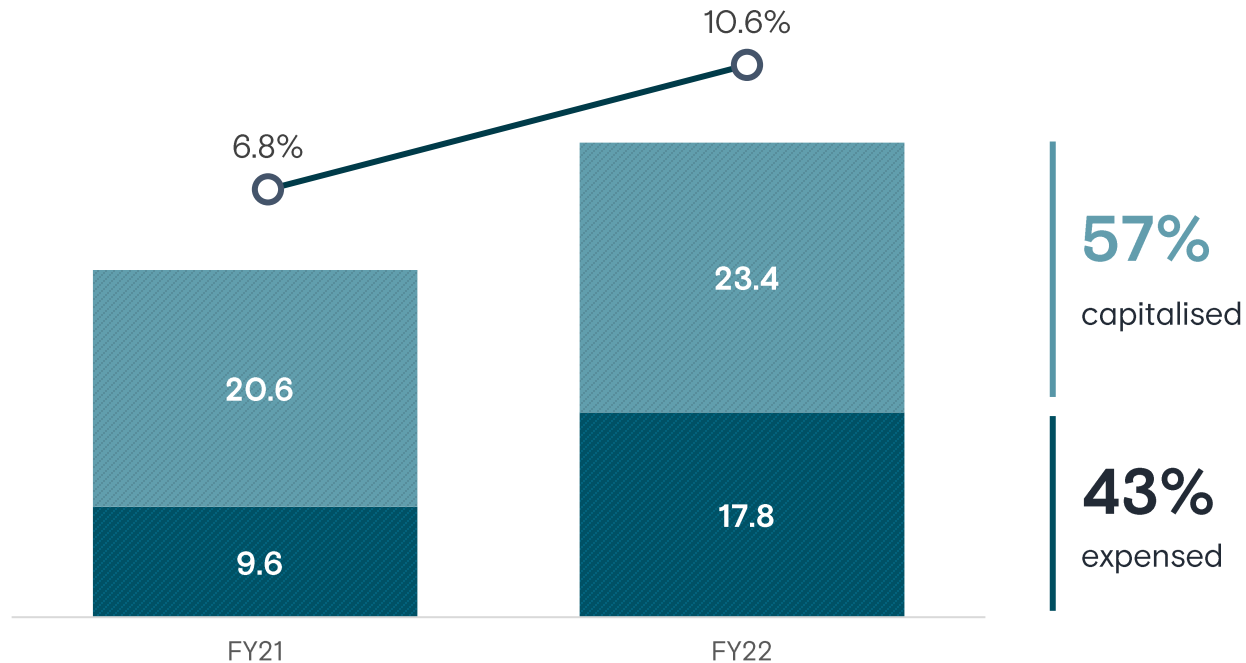


- Receivables impacted by lower revenue volumes and time based billing milestones (shown in contract assets)
- Non-current assets reduction reflects impairment loss of \$204.3M
- Total liabilities decreased by \$3.4M mainly due to reducing our leased office footprint
- Quadrant earnout subject to performance metrics, payable in cash or shares in 2024
- Credit approval extension of A\$20m debt facilities to Jan 2024. Full debt refinance process in 2HFY23

Investment in product development

Investment in product development¹

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.



- FY22 investment of \$41.2M reflects continuing focus on product development and customer experience
- ~57% of spend capitalised in FY22 reflecting greater focus on current product set and platform stability
- 10.6% of revenue reinvested in product development in FY22.
- FY23 product development expected to be ~10% of total revenue

Solid cash flow conversion



- Cash balance decreased in line with lower revenue and increased investment in people, product and technology
- Cash conversion from EBITDA increased from 77% to 135%
- Positive working capital impact and lower tax payments, somewhat offset impact of lower volumes and higher payments
- Cash used to pay tax, dividends, capex and investments to support future growth

	FY22	FY21
Receipts	395.6	434.3
Payments and other	(380.8)	(374.2)
Cash flow from operations before interest and tax	14.8	60.1
Net interest	(0.4)	(0.6)
Taxes	3.8	(5.6)
Net cash from operations	18.2	53.9
Cash flows – investing activities	(32.1)	(50.8)
Cash flows – financing activities	(9.5)	(14.1)
Net cash flow for the year	(23.4)	(11.0)
Opening cash balance	47.9	60.5
FX impact	(1.1)	(1.6)
Closing cash balance	23.4	47.9
Cash flow reconciliation		
Underlying EBITDA	11.0	77.7
Working capital	3.8	(17.6)
Cash flow from operations before interest and tax	14.8	60.1
Underlying EBITDA cash conversion	135%	77%

01

CEO introduction

Armughan Ahmad



Appen powers the worlds leading AI

Google

amazon

Microsoft



Adobe

Bloomberg

Pinterest

nextdoor

LinkedIn

SIEMENS

ORACLE

Dolby

BEST BUY

THE HOME DEPOT

BOEING

AIRBUS

+ many more



8 out of 10

largest global big tech companies by market capitalization



184

new clients in 2022



+9 years

average tenure of our top 5 clients

Appen is an AI platform services business



We provide **AI platform services** to most advanced big tech companies



Fortune 500 clients **value** our **expertise** and consultative approach



Our **AI data platform** underpins our services

Immediate focus on managing costs and delivering growth



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

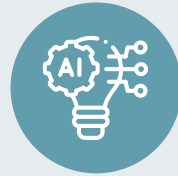
Drive internal productivity improvements



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



Operational rigour improvements



New product and engineering measurements to drive delivery and business impact



Cost review underway across all business areas



Target Operating Model for delivery functions to drive efficiency and automation focus



Generative AI automation in our annotation processes



Business Management System for financial and operational metrics



Weekly, Monthly, Quarterly business unit review cycle across revenue generating business units

AI is changing the world

The total contribution of AI to the global economy is expected to reach

~\$16 trillion by 2030*



AI is one of the most important things humanity is working on. It is **more profound than electricity or fire.**

Alphabet Inc. CEO
Sundar Pichai



AI is just at the beginning of the S-curve. The near-term and long-term **opportunities are enormous.**

Microsoft CEO
Satya Nadella



One of my goals for Meta is to build on our research to become a **leader in generative AI** in addition to our leading work in recommendation AI.

Meta CEO
Mark Zuckerberg

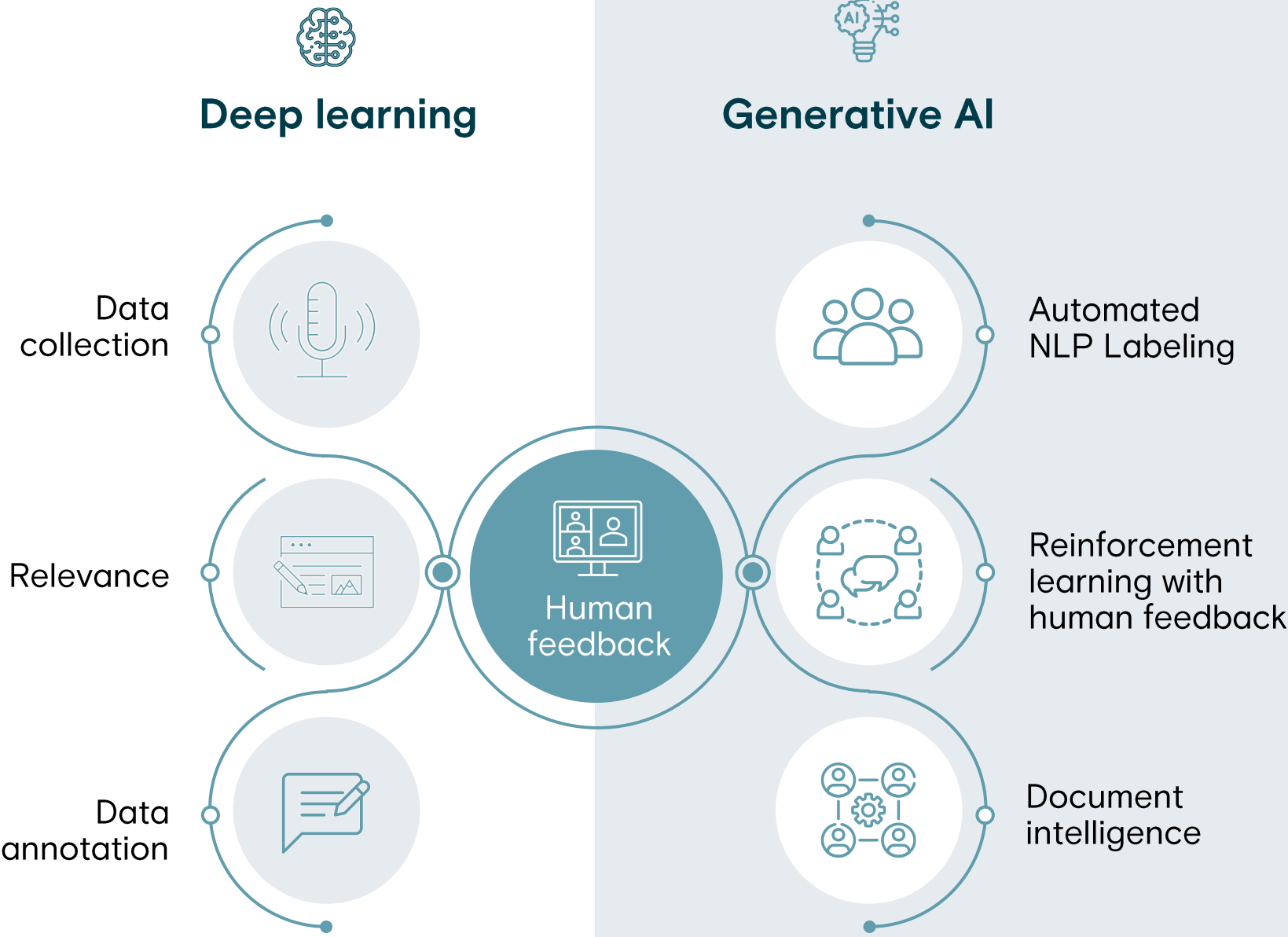
Exponential change

ChatGPT reaches 100M users in 2 months

Time to reach 100M global users



Generative AI growth opportunity for Appen



Our clients are using AI to create new customer experiences



Unused data

80% of enterprise data is unstructured



Data preparation is difficult

>80% of data scientist time spend on preparing data



Data is incomplete

Creating new AI experiences often requires new or external data



Enterprise data pipelines are nascent

Many enterprises do not have data infrastructure to support production AI



High-growth products follow **s-curves**

LAUNCH

POST-LAUNCH

GROWTH

MATURITY

Sustainable growth requires stacking **S-curves**



Appen is defining our **S-curves**



Growth vision

AI enabled customer experiences



Unused data



Data preparation is difficult



Data is incomplete



Enterprise data pipelines are nascent

Deep learning

Data for the AI lifecycle

Generative AI **NEW**

Reinforcement Learning with Human Feedback

Automated NLP labeling

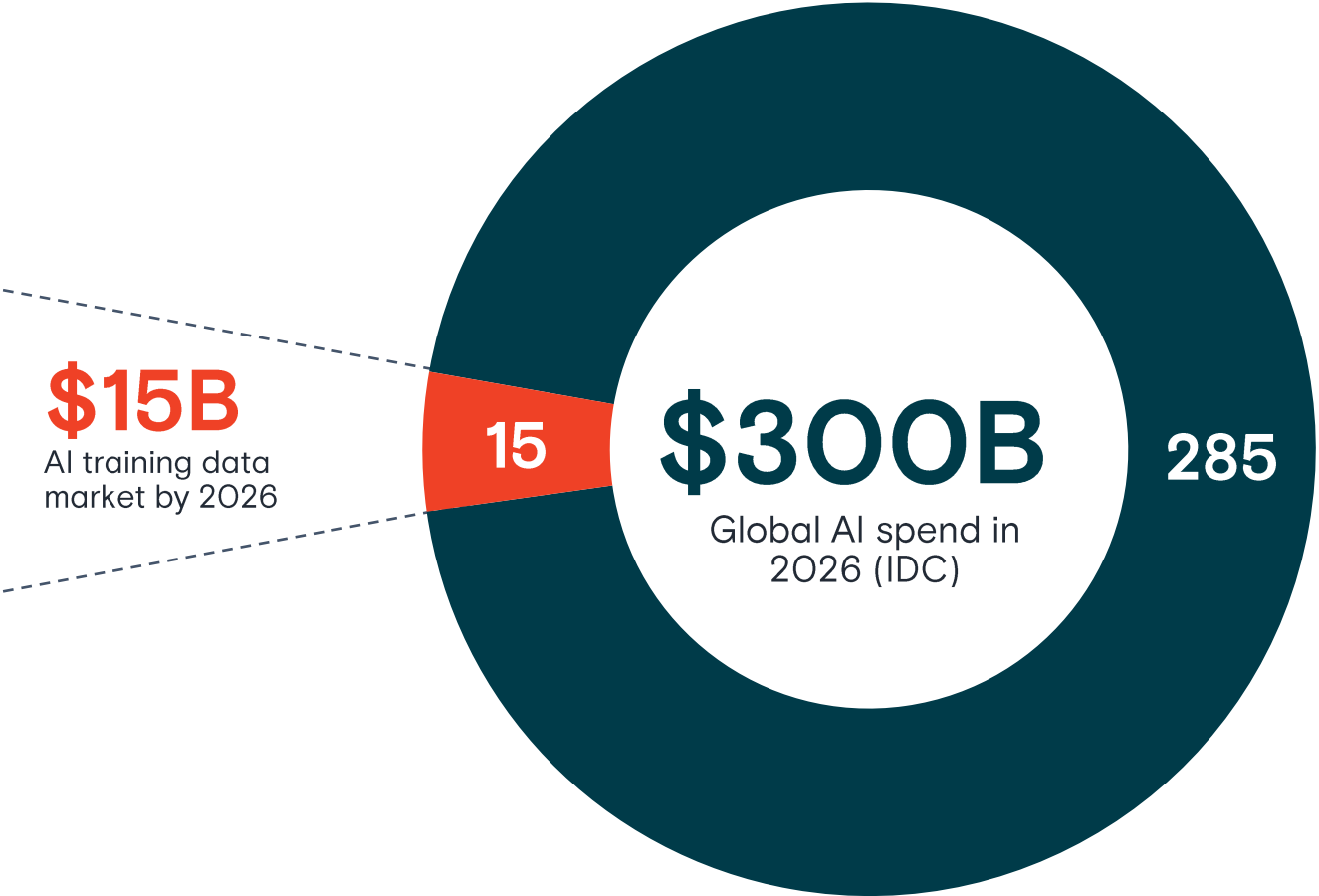
Document Intelligence

Industry vertical AI solutions

Ecosystem partnerships

Appen AI Platform

20x TAM expansion



Why we can win



Front-row seat on latest AI innovation from leading tech companies



Deep industry vertical expertise



Partnerships with AI ecosystem leaders



Execution focused leadership

We create a positive impact

#AIforGood



Crowd

We provide flexible, work-from-home opportunities to our global crowd of 1 million+ contractors. We help make AI ethical and fair through our Crowd Code of Ethics.

Our Crowd Code of Ethics:

- ✔ Fair pay
- ✔ Inclusion
- ✔ Crowd voice
- ✔ Privacy and confidentiality
- ✔ Communication
- ✔ Wellbeing

Do Good, Be Good, Lead Good



Do good

for society through our crowd model and social impact initiatives



Be good

by doing the right thing internally



Lead good

by working with our clients to improve how AI impacts the world

2023 outlook

Carrying over from 2022, we see a soft start to 2023

Immediate focus on instilling discipline and greater operational rigour to recover margins and drive sales

Annualised cost savings of ~\$10 million identified – benefit from cost savings and increased operational rigour expected to commence in H2 FY23 and FY24

Continued investment in product development, expected to be ~10% of FY23 revenue

FY23 EBITDA outlook under review, 1H FY23 EBITDA expected to be materially lower than 1H 2022

Withdrawal of current FY26 targets, pending full strategy review to be announced in May

Wrap up

Five key take aways

- 1** | **AI is changing the world.** Generative AI is creating new experiences like we have not seen before. The future is with us
- 2** | **Appen is well positioned to capture growth.** Generative AI requires human feedback to turn impressive AI into next generation customer experiences.
- 3** | **Ethical and unbiased AI is increasingly important:** Appen is well aligned to support this shift
- 4** | **Our growth vision** is to move beyond AI data into industry vertical AI solutions and products, expanding out TAM by 20x
- 5** | **Establishing operational rigor** is a key priority to manage costs, increase revenue visibility and fund new growth



03

Questions

Thank you for
your attendance





Appendix

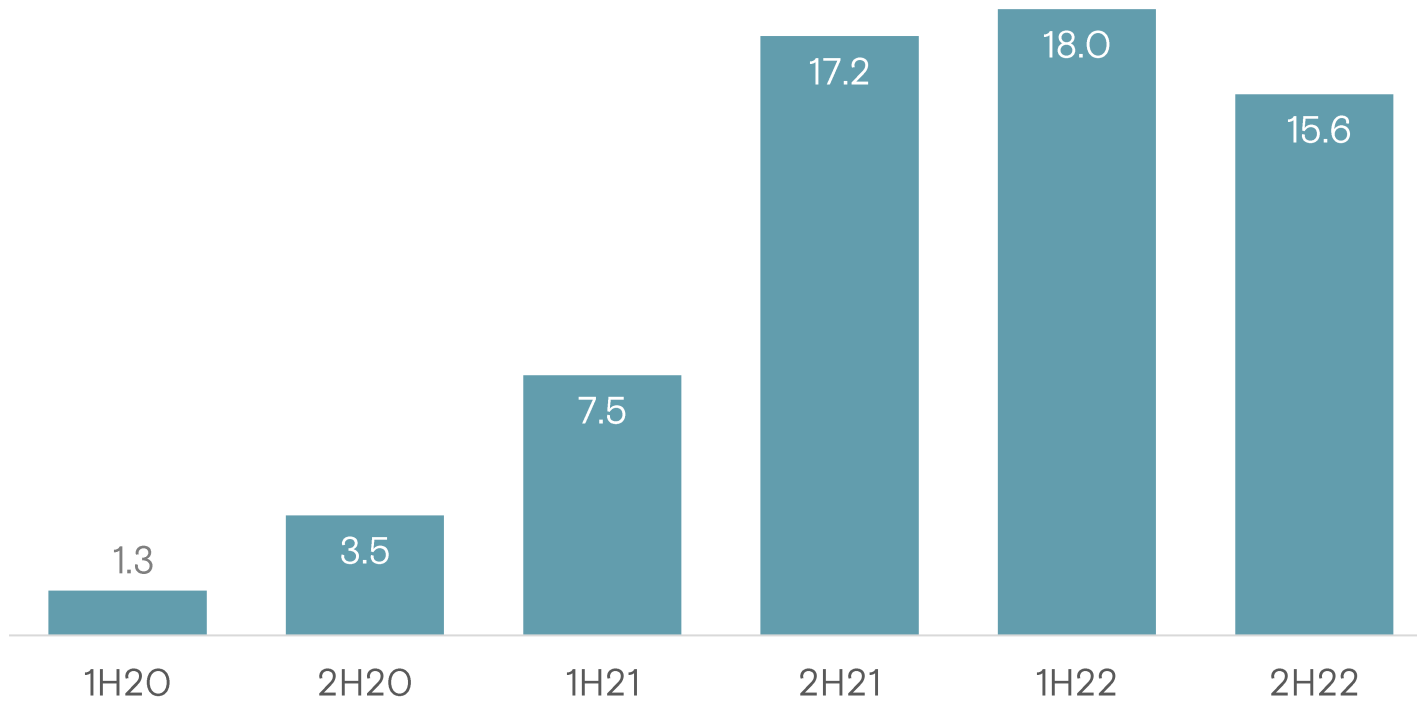
Reconciliation between statutory and underlying results

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 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

	Year ended 31 December 2022 USD \$000	Year 31 December 2021 USD \$000	Change
Underlying net profit after tax (NPAT) ¹ (Less)/add underlying adjustments (net of tax)	(22,739)	40,597	(156%)
Impairment loss	(204,326)	-	
Amortisation of acquisition-related identifiable intangible assets	(9,573)	(8,303)	
Restructure costs	(488)	(1,625)	
Transaction costs	(1,096)	(1,929)	
Deemed interest on earn-out liability ²	(540)	(461)	
Losses on inventory	(257)	-	
Cloud computing costs	-	(17)	
Acquisition-related share-based payments ³	(49)	257	
Statutory NPAT	(239,068)	28,519	(938%)
Add: tax (benefit)/expense	-	7,356	
Add: net interest expense	772	1,362	
Add: deemed interest on earn-out liability ²	813	657	
EBIT ⁴	(237,483)	37,894	(727%)
Add: depreciation and amortisation	41,582	35,038	
Statutory EBITDA ⁵ Add/(less): underlying adjustments	(195,901)	72,932	(369%)
Impairment loss	204,326	-	
Restructure costs	678	2,256	
Transaction costs	1,556	2,729	
Acquisition-related share-based payments ²	49	(257)	
Inventory losses	309	-	
Cloud computing costs	-	24	
Underlying EBITDA ¹	11,017	77,684	(86%)
Statutory diluted earnings per share (cents)	(193.78)	22.85	
Underlying diluted earnings per share (cents)	(18.43)	32.53	
% Statutory EBITDA/sales revenue	(50.4%)	16.3%	
% Underlying EBITDA/sales revenue	2.8%	17.4%	

China revenue

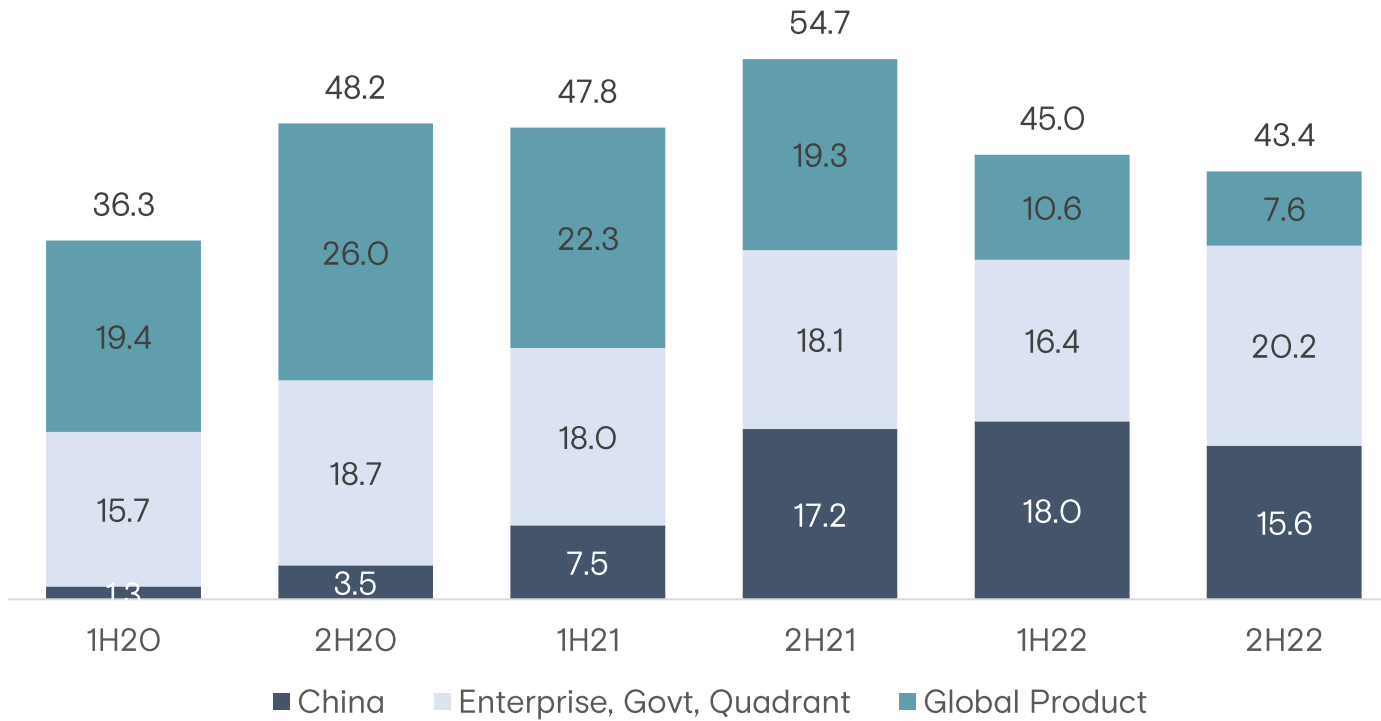
China revenue by half (\$M)



- Covid lockdown restrictions created challenging operating environment in FY22
- Despite challenging environment revenue 36% YoY growth
- China won 80 new clients
- Japan and Korea won 15 new clients
- 2H revenue declined 14% due to impact of COVID on sales, staffing and delivery
- Appen remains leading AI data company in China

New Markets revenue

New Markets division revenue by half (\$M)



- Excluding Global Product, 15% YoY growth
- Global Product down 56% in FY22, driven mostly by end of a large project

Non-cash asset impairment charge

Indicators of impairment were identified for assets relating to the New Markets (ex-China) group of cash generating units (CGU)

High conviction remains in the future growth prospects of the New Markets (excluding China) business, however given the FY22 performance, future revenue growth assumptions have been reduced to reflect lower growth rates

This resulted in a total impairment loss of \$204.3m. Allocated to specific Figure Eight-related customer relationships assets of \$15.4m and Goodwill of \$188.9m

The impairment charge is non-cash related and is a non-operating item. Underlying EBITDA and underlying NPAT are not impacted. Additionally, no covenant or debt facility impacts

Following completion of a value-in-use model for the Global Services CGU, significant headroom was determined and no impairment was necessary