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ASX ANNOUNCEMENT

11 March 2019

APPEN TO ACQUIRE FIGURE EIGHT AND LAUNCH CAPITAL RAISING

Appen Limited (**Appen** or **Company**) (**ASX: APX**) a global leader in the development of high-quality, human annotated datasets for machine learning and artificial intelligence, has today (Sydney time) entered into a binding agreement to acquire San Francisco-based Figure Eight Technologies, Inc. (**Figure Eight**) (the **Acquisition**).

Highlights

- Figure Eight is a best in class machine learning software platform which uses highly automated annotation tools to transform unstructured text, image, audio and video data into customised high quality artificial intelligence training data.
- Figure Eight materially increases the quality of Appen's revenues and the breadth of its customer base via high growth, high-gross margin recurring revenue from annual platform subscription fees (SaaS model) earned from its ~200 customers.
- The Acquisition combines the scale, quality and language expertise of Appen's leading global crowd, supported by its efficient crowd management platform, with Figure Eight's innovative data annotation platform, to create a unique and valuable end-to-end solution. The combined business significantly improves Appen's capability to deliver the increasing volume, quality and speed requirements for high quality training data.
- Payment of upfront consideration of US$175 million (~A$250 million[1]) (5.7x FY18 revenue) plus earn-out consideration payable in March 2020, expected to be US$60-80 million (~A$86 - 114 million[1]) based on Figure Eight's FY19 budget (5.1-5.4x incremental revenue) and capped at US$125 million (~A$178 million[1]).
- Upfront consideration funded via a fully underwritten placement of A$285 million at an offer price of A$21.50 per new Appen share, representing an 11.8% discount to last closing price of Appen shares on ASX. Following completion of the placement, Appen will also conduct a non-underwritten share purchase plan to existing eligible shareholders capped at A$15 million.
- Payment of the earn-out consideration will be funded via arrangements for up to US$125[2] million (~A$178 million[1]) of new debt facilities expected to be drawn down at the time of payment in March 2020.
- Completion of the Acquisition is expected in late March / early April 2019.

[1] Assumes an exchange rate of A$1.00:US$0.70.
[2] US$90m committed facility and US$35m accordion facility.

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ACQUISITION DETAILS

Purchase price

Appen has executed a binding agreement to acquire Figure Eight for total upfront consideration of US$175 million, subject to certain purchase price adjustments at completion (including for working capital). This represents a 5.7x multiple of FY18 revenue.

Appen has also agreed to pay the vendors earn-out consideration capped at US$125 million payable in March 2020, based on Figure Eight's achievement of incremental FY19 subscription revenue targets.

Based on Figure Eight's forecast budget, Appen expects to pay an earn-out amount of US$60-80 million. This represents a 5.1-5.4x multiple of incremental budgeted revenue in FY19.

Completion of the Acquisition is expected in late March / early April 2019, subject to customary closing conditions.

Background

AI and the need for data continues to boom. It is estimated that by 2025 the global AI market will be worth approximately US$170-190 billion[3] (~A$243-271 billion[1]). New and existing use cases, such as chatbots, assistants, search, social media, online advertising, surveillance, computer vision, autonomous vehicles, facial recognition, etc are driving this investment.

The majority of AI applications rely on large volumes of high-quality training data and, generally, more training data results in improved performance. In addition, many AI applications rely on frequent data refreshes, where data recency is a major driver of performance. The high growth in AI use cases combined with the push for more accurate applications is driving the market growth for AI training data. It is estimated that training data will represent up to 10% of the AI investment, translating to an estimated market opportunity of US$17-19 billion (~A$24-27 billion[1]) by 2025[4].

The acquisition of Figure Eight allows Appen to further capitalise on this trend by combining the scale, quality and language expertise of Appen's leading global crowd with Figure Eight's innovative data annotation platform to create a unique and valuable end-to-end training data solution. The combined business puts Appen in a strong position to deliver the increasing volume, quality and speed requirements for high quality training data.

Appen CEO, Mark Brayan, commenting on the Acquisition, said: "*The union of Appen and Figure Eight creates a unique, exciting and powerful opportunity for our customers. We now have the best of both worlds: Appen's highly efficient crowd management platform and scalable, skilful multi-lingual crowd, combined with Figure Eight's innovative customer-facing SaaS platform with ML-assisted annotation. Combined, we expect to meet and exceed our customers' scale, speed and quality requirements.*"

Figure Eight co-founder, Lukas Biewald commented: "*I'm extremely proud of the team. This transaction is a genuine validation of everything we've achieved and a great platform for our teams to combine and continue to do amazing things in AI.*"

Through to the end of 2019, Figure Eight will operate largely independently as a division of Appen to ensure it remains focused on its product development and customer delivery. Beyond 2019, Figure Eight's experienced team and powerful technology will be fully integrated and will become an integral part of Appen's future growth.

Combination benefits

The Acquisition adds scale and scope to Appen to enable greater participation in the dynamic and high growth AI market:

- ***Leading technology platform*** – Figure Eight's technology platform is a 'best in class' machine learning software platform, with automated annotation tools.

[3] Allied Market research and Markets and Markets: "Artificial Intelligence Market by Offering (Hardware, Software, Services), Technology (Machine Learning, Natural Language Processing, Context-Aware Computing, Computer Vision), End-User Industry, and Geography – Global Forecast to 2025

[4] McKinsey Global Institute

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- ***Complementary technology*** – Appen's platform, Appen Connect, complements Figure Eight's platform. Appen Connect manages the large-scale crowds that will use Figure Eight's platform and annotation tools.
- ***Future proofs, de-risks and accelerates growth strategy*** – Growth by acquisition rather than organic building accelerates and de-risks Appen's growth strategy across technology, customer acquisition and partnerships. Figure Eight's technology platform and automated annotation tools position the combined company to deliver larger volumes of high quality data faster with improved unit economics.
- ***Enhances earnings quality*** – Figure Eight's annual SaaS subscription fees immediately add high quality, high-margin, recurring revenue to Appen.
- ***Customer and industry diversification*** – Figure Eight's near-200 customers enhance Appen's customer diversification and provide access to core growth verticals including government, technology (outside big-five) and financial services. The self-service nature of the Figure Eight's platform opens a new market segment for Appen, outside the typical large enterprise customers
- ***Improved service offering*** – the Acquisition provides the opportunity to cross sell Figure Eight's platform to Appen's customers. There is also significant opportunity to leverage Appen's crowd across Figure Eight's platform to enhance services to customers and drive further revenue.
- ***Significant operational benefits*** – the Acquisition provides Appen with a number of significant operational benefits including deployment of Figure Eight's advanced and automated labelling tools to Appen's current projects; the addition of Figure Eight's engineering and data science teams accelerates Appen's technical capabilities and offerings. Additionally, Appen brings a high-quality, large-scale global crowd with significant language expertise to Figure Eight.
- ***High growth and synergy potential*** – Figure Eight has enjoyed significant growth to date, achieving FY15-18 group revenue CAGR of over 50%, SaaS platform revenue CAGR of over 70%, and ARR CAGR of over 65%. Appen expects that Figure Eight will contribute positive EBITDA (excluding synergies) by the second half of 2020. Appen also expects to realise significant cost and revenue synergy benefits from the Acquisition.
- ***Experienced and committed leadership, technical and data science teams*** – Figure Eight's key management, technical and scientific staff will receive long-term incentives to continue with the business and assist Appen with the integration process at the end of FY19. Figure Eight's co-founder, Lukas Biewald, will continue as an advisor to Appen and Figure Eight.

Figure Eight overview

Figure Eight's 'Human-in-the-Loop' machine learning platform transforms unstructured text, image, audio, and video data into customized high-quality training data for a variety of use cases including autonomous vehicles, consumer product identification, natural language processing, search relevance and intelligent chatbots.

Founded in San Francisco in 2007, Figure Eight (previously known as Crowdflower) plays a critical role in the AI ecosystem, having delivered 325 million human judgments in 2018 alone. Figure Eight has a variety of innovative capabilities to enhance its platform – including machine-learning assisted data labelling and video object tracking – that can create high-quality training datasets up to 50 times faster than human labelling.

Figure Eight's product offering includes:

- ***Client interface*** – Self-serve interface for customers to design, build, route and monitor jobs. Customers have direct, customisable control for their annotation requirements including task instructions, data upload, data collection, contributor routing, and quality thresholds.
- ***Annotation tools*** – Leading data annotation tools that cover the majority of data annotation requirements including text and natural language processing, images, video and computer vision, search relevance, data enrichment and classification, audio and text.
- ***Annotation automation*** – Combines machine learning and human-generated training data labels to provide annotation automation that is up to 50x faster than human-only solutions.

- ***On-premise and private cloud solutions*** – Supports organisations with mission-critical data sovereignty or data governance security requirements (e.g. military). Specific contracted business process outsourcers work under non-disclosure agreements for sensitive data.

Figure Eight has a diverse customer base across a wide variety of industries including technology, government, retail and financial services. Figure Eight's customer base has minimal overlap with Appen's current customer base.

Figure Eight's customers pay an annual subscription fee to access its platform, and it is common for customers to increase annual commitments as their usage expands.

Figure Eight has existing channel partnerships with leading global cloud providers including AWS, Google Cloud, IBM and Microsoft. Figure Eight provides annotation services to partner customers as part of the broader partner AI product suites, giving the company scalable blue-chip channels to market.

Figure Eight has a global network of labour partners, providing customers with access to contributors to support data annotation requirements.

Figure Eight is headquartered in San Francisco, has around 107 employees and is currently backed by leading strategic and venture investors including Microsoft and Salesforce.

Figure Eight financials

Figure Eight's revenue for FY18 was A$42 million[5], growing at a compound annual growth rate (**CAGR**) of over 50% since FY15. Over this period, Figure Eight's SaaS platform revenue grew at a CAGR of over 70% including over 90% growth in 2018.

Figure Eight's contracted annualised recurring revenue (**ARR**) from its SaaS platform was A$27 million[5] as of 31 December 2018, growing at a CAGR of over 65% during the last three financial years.

The strong SaaS revenue and ARR growth has been driven by expansion from long-term customers as well as the addition of new customers. Figure Eight has achieved high ARR retention over time, with total customer upgrades typically more than offsetting total customer decreases and churn.

FUNDING

Placement

The upfront consideration of US$175 million for the Figure Eight acquisition as well as transaction costs will be funded through a A$285 million fully underwritten placement to institutional shareholders at an offer price of A$21.50 per new share (**Placement Price**) (**Placement**).

The Placement Price for each new Appen share (**New Share**) of A$21.50 represents an 11.8% discount to the last closing price of the Shares on ASX on Friday, 8 March 2019, being A$24.37.

The Placement is fully underwritten by Citigroup Global Markets Australia Pty Limited.

Appen shares have been placed in a trading halt while the Placement is undertaken.

Settlement of the New Shares issued under the Placement will occur on Friday, 15 March 2019, with allotment of the New Shares scheduled for Monday, 18 March 2019. New Shares issued under the Placement will be issued within Appen's existing placement capacity under ASX Listing Rule 7.1.

Debt funding

Appen has entered into a commitment with a syndicate of leading global and Australian banks for up to US$125 million[6] of new debt facilities that are expected to be drawn down in March 2020 to fund the earn-out payment under the Acquisition.

Appen's existing US$40 million senior debt facility and A$20 million working capital facility will be refinanced as part of the transaction, with the repayment of US$15 million (~A$21 million[1]) from additional funds raised under the Placement.

[5] Assumes an exchange rate of A$1.00:US$0.74.
[6] US$90m committed facility and US$35m accordion facility.

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Share Purchase Plan

Following completion of the Placement, Appen will conduct an offer of New Shares under a share purchase plan (**SPP**) to existing shareholders in the Company with a registered address in Australia and New Zealand as at 7.00pm (Sydney time) on Friday, 8 March 2019, and who are not in the United States or acting for the account or benefit of a person in the United States. The SPP will provide each eligible shareholder with the opportunity to apply for up to $15,000 of new Appen shares at the lower of (i) the Placement Price (being $21.50), and (ii) the price that is a 2% discount to the VWAP of Appen shares on ASX over the 5 trading days up to, and including, the closing date of the SPP (rounded down to the nearest cent). The SPP will raise a maximum of A$15 million and applications that exceed that amount will be scaled back.

The SPP offer booklet (**SPP Offer Booklet**) containing further details of the SPP will be released separately and will be mailed to all eligible shareholders in Australia and New Zealand on or about Wednesday, 20 March 2019.

For further information regarding the SPP you should contact the Appen Offer Information Line on 1300 306 276 (within Australia) or +61 1300 306 276 (from outside Australia) between 8.30am and 5.30pm (Sydney time) from the date the SPP opens being Wednesday, 20 March 2019.

Each New Share under the Placement and the SPP will rank equally with existing Shares on issue, except that the New Shares will not be entitled to the FY18 final dividend declared by the Company and scheduled to be paid on 25 March 2019.

Appen will seek quotation of the New Shares issued under the Placement and the SPP on ASX.

Capital Raising Indicative Timetable**

Event	Date (2019)
Record date for eligible shareholders to subscribe for New Shares via the SPP	7.00pm (Sydney time), Friday, 8 March
Trading halt request Announcement of the Acquisition and Capital Raising	Before market open on Monday, 11 March
Conduct of Placement	Monday, 11 March
Announcement of results of Placement Trading halt lifted and trading resumes	Before market open on Tuesday, 12 March
Settlement of Placement	Friday, 15 March
Allotment of New Shares under the Placement	Monday, 18 March
SPP Offer Booklet despatched to shareholders	Wednesday, 20 March
SPP opens	Wednesday, 20 March
SPP closes	5:00pm (Sydney time) on Thursday, 4 April, unless extended
Allotment of New Shares under the SPP	Wednesday, 10 April
Despatch of holding statements and normal trading of New Shares issued under SPP	Thursday, 11 April

*** These dates are indicative only and are subject to change. Appen, reserves the right, subject to the Corporations Act 2001 (Cth) and the ASX Listing Rules, to amend this indicative timetable. In particular, Appen reserves the right to extend the Closing Date, accept late applications under the SPP (either generally or in particular cases) and to withdraw or vary the Placement or SPP without prior notice. Any extension of the Closing Date will have a consequential effect on the date for the allotment and issue of New Shares. Appen will consult with the underwriter in relation to any proposed change to this indicative timetable and any such change will require the consent of the underwriter.*

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ADDITIONAL INFORMATION

Further details of the Acquisition, the Placement and the SPP are set out in the investor presentation provided to ASX today and also available to eligible persons not in the United States at the Company's website at https://appen.com/. The investor presentation contains important information including the terms and effects of the Acquisition and key risks relating to the Acquisition and Appen. Any person considering an investment in Appen should read the investor presentation and seek their own independent advice before making any decision in this regard.

Citigroup Global Markets Australia Pty Limited is acting as sole lead manager, sole bookrunner and underwriter to the Placement, and Bell Potter Securities Limited is acting as co-manager. Atlas Technology Group is acting as financial advisor to Appen on the Acquisition.

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ABOUT APPEN

Appen is a global leader in the development of high-quality, human annotated datasets for machine learning and artificial intelligence. Appen brings over 20 years of experience collecting and enriching a wide variety of data types including speech, text, image and video. With deep expertise in more than 180 languages and access to a global crowd of over 1,000,000 skilled contractors, Appen partners with leading technology, automotive and eCommerce companies – as well as governments worldwide - to help them develop, enhance and use products that rely on natural languages and machine learning.

IMPORTANT NOTICE

*This announcement may not be released or distributed in the United States. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or in any other jurisdiction in which such an offer would be illegal. The New Shares have not been, and will not be registered under the US Securities Act of 1933, as amended (**US Securities Act**) or the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Shares may not be offered or sold, directly or indirectly, in the United States or to a person acting for the account or benefit of a person in the United States unless they have been registered under the US Securities Act (which Appen has no obligation or intention to do or procure), or are offered and sold in a transaction exempt from, or not subject to, the registration requirements of the US Securities Act and any other applicable securities laws.*

This announcement contains certain "forward-looking statements". Forward-looking statements can generally be identified by the use of forward looking words such as "forecast", "estimate", "likely", "anticipate", "believe", "expect", "future", "project", "opinion", "opportunity", "predict", "outlook", "guidance", "intend", "should", "could", "may", "target", "plan", "propose", "to be", "foresee", "aim", "will" and other similar expressions. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements, and include statements in this announcement regarding the conduct and outcome of the Placement and SPP, the use of the proceeds, and the Acquisition. Forward-looking statements, opinion and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections and guidance on future earnings and estimates are provided as a general guide only and should not be relied on as an indication or guarantee of future performance and may involve significant elements of subjective judgement, assumptions as to future events that may not be correct, known and unknown risks, uncertainties and other factors, many of which are outside the control of Appen. A number of factors could cause actual results, performance or achievements to vary materially from any forward-looking statements and the assumptions on which statements are based, including but not limited to the risk factors set out in the investor presentation released by Appen to ASX today. Except as required by applicable law or regulation (including the ASX Listing Rules), Appen undertakes no obligation to provide any additional or updated information or update any forward-looking statements, whether as a result of new information, future events or results, or otherwise.

*This announcement includes certain financial measures that are "non-IFRS financial information". These measures include EBITDA and CAGR. This financial information is unaudited. The non-IFRS financial information financial measures do not have a standardised meaning prescribed by Australian Accounting Standards (**AAS**) or International Financial Reporting Standards (**IFRS**) and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AAS or IFRS. Investors are cautioned, therefore, not to place undue reliance on any non-IFRS financial measures included in this announcement.*

The historical financial information included in this announcement does not purport to be in compliance with Article 11 of Regulation S-X of the rules and regulations of the U.S. Securities and Exchange Commission. Investors should also be aware that certain financial data included in this announcement are "non-GAAP financial measures" under Regulation G of the U.S. Securities Exchange Act of 1934, as amended. These measures include "CAGR", "Annual Recurring Revenue", and "EBITDA". The disclosure of such non-GAAP financial measures in the manner included in this announcement may not be permissible in a registration statement under the Securities Act. These non-GAAP financial measures do not have a standardized meaning prescribed by AAS and therefore may not be comparable to similarly titled measures presented by other entities, and should

not be construed as an alternative to other financial measures determined in accordance with AAS. The financial information included in this announcement with respect to Figure Eight is not compliant with Rule 3-05 of Regulation S-X, which would require disclosure of separate historical financial statements of Figure Eight. Appen is unable to verify the accuracy or completeness of the financial information with respect to Figure Eight included in this announcement, some of which has been prepared on the basis of unaudited information provided by Figure Eight. Although Appen believes these non-GAAP financial measures provide useful information to users in measuring the financial performance and condition of its business, investors are cautioned not to place undue reliance on any non-GAAP financial measures included in the Information.

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