ASX ANNOUNCEMENT

28 August 2023

1H23 results and FY2023 outlook

Appen Limited (Appen) (ASX: APX) today reported its half year results for the six months ended 30 June 2023 and outlook for FY2023.

Appen's 1H FY23 result reflects challenging external operating and macroeconomic conditions that were noted at the company's trading update on 10 May 2023.

Appen's 1H23 result[1] is as follows:

- **Group revenue** of $138.9 million decreased 24.0%, primarily reflecting a lower contribution from Global Services which recorded a revenue reduction of 27.4% to $100.1 million.
- **New Markets revenue**[2] of $38.9 million decreased 13.7%, primarily impacted by a lower contribution from Global Product.
- **Underlying EBITDA**[3] (before FX) of ($15.7) million compared to an Underlying EBITDA (before FX) of $9.6 million primarily due to reduced revenue and gross margin, and a proportionally higher cost base coming out of FY22.
- **Underlying EBITDA** (including the impact of FX losses) of ($18.1) million, compared to $8.5 million.
- **Underlying net loss after tax**[4] of ($34.2) million, compared to an underlying net loss of ($3.8) million.
- **Statutory net loss after tax** of ($43.3) million compared to statutory net loss after tax of ($9.4) million.
- **Cash balance** of $55.2 million at 30 June 2023 and no debt.
- **No dividend** to ensure appropriate allocation of capital.

Appen's CEO & President, Armughan Ahmad said, "The first half result reflects a challenging external environment. Against this backdrop we remain focused on resetting Appen. This includes instilling operational rigour across the business, releasing new generative AI focused products, refreshing our go-to-market and sales, establishing ecosystem partnerships and continuing with our AI for Good.

"In response to the broader technology slowdown, we are focusing on areas we can control and have already achieved 63% of our $46 million cost reduction target. We remain focused on exiting FY23 as an underlying EBITDA and cash EBITDA positive business. To help achieve this, we are exploring further actions to prioritise our investments into a more focused set of higher potential areas and expect to exit the year with a further reduced cost base.

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[1] All amounts stated in US$ and all comparisons are to the half year ended 30 June 2022, unless stated otherwise.

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

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

[4] Underlying net loss after tax 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.

"It is an exciting time for AI, and Appen continues to play an important role in the industry. Our data and services power the world's leading AI models.

"Our 1m+ strong crowd has also been a vital part of the AI development process for decades. Improving our crowd satisfaction remains a key focus for the business. We have recently launched a new crowd mobile experience and continue to create social impact opportunities.

"We are seeing growing demand in generative AI and have seen some early green shoots in our new generative AI product offerings. To date, 42 LLM projects have been delivered and we have signed our first million-dollar deal with Nvidia.

"We believe that our go-forward strategy along with our strong AI capabilities and market momentum related to generative AI will enable Appen to return to growth."

Operating performance

Total revenue of $138.9 million decreased 24.0% due to a lower contribution from the Global Services and New Markets businesses as our customers optimise their spend, cut costs and evaluate their AI strategies in response to external headwinds.

Global Services revenue of $100.1 million declined 27.4%, impacted by reduced volumes and a reduction in spend by our customers. Despite challenging conditions, Global Services secured 45 new projects, albeit at a lower level compared to 99 in the prior corresponding period.

New Markets revenue of $38.9 million decreased 13.7% primarily due to a lower contribution from Global Product. Excluding Global Product, New Markets revenue reduced by a more modest 4.6% to $32.8 million primarily due to a lower contribution from China.

Within **New Markets,** Global Product revenue declined 43% to $6.1 million as customers reduced work performed on our platform. Volumes were also lower as some large projects were discontinued or reduced in scope.

New Markets secured 89 new client wins. During the half, the Enterprise team won 22 new client wins which included relevance, taxonomy, and annotation work for a US online e-commerce platform. Enterprise also secured to an extension and expansion for in-cabin data collection for a global car manufacturer. The average deal size was $106k, up 16.5% from the average deal size of $91k in H1 FY22.

China revenue decreased 15.2% to $15.3 million due to the protracted impact of the COVID-19 pandemic which occurred in Q422 and continued into the first half, as well as challenging external conditions.

Despite the ongoing impacts of COVID-19 on sales and staffing levels, China, Japan and Korea secured 50 new clients, which included LLM projects, projects with large tech and leading automobile companies, and a project with a large multinational conglomerate.

China remained focused on growth and maintaining its position as a leading AI data company with the release of two new platforms, 1) an LLM Data Training platform, and 2) a SaaS Annotation platform. The China business continues to support 10 of the leading auto companies, the top 10 internet companies and the top four mobile companies.

Leveraging off the success in China, our presence in Japan and Korea continues to grow, with leading tech, auto and multinational companies among our customers.

Quadrant posted good revenue growth from a relatively small base. This primarily reflects an increase in data subscriptions contracts. Quadrant also secured 17 new clients wins.

Government also recorded good revenue growth, albeit from a small base. This primarily reflects the delivery of a large contract won in FY22.

During the half, Appen collaborated with Nvidia and Reka to increase its channels to market and reach more customers. We are in advanced conversations with several professional services firms to further expand our channel partnerships.

Appen has made strong early progress and has multiple projects underway that relate to generative AI model development and evaluation, for both large tech and enterprise customers. To date, we have secured 42[5] large language models (LLMs) deals and signed our first million-dollar deal through our collaboration with Nvidia. We remain active in developing our LLM pipeline and have 40[6] deals in the pipeline.

Financial performance

Underlying EBITDA (before impact of FX) was ($15.7) million, compared to $9.6 million in 1H FY22. This is due to reduced revenue and gross margin, and a proportionally higher cost base coming out of FY22.

On 10 May, Appen announced a significant cost reduction program. As at the end of 1H FY23, $28.9 million or 63% of the $46 million cost reduction savings target had been achieved. By the end Q3 FY23, we expect to complete at least 80% of our initial cost out program. As expected, we saw no material benefits from the cost out program within 1H FY23, with expenses up 9% on 1H22 and down 1% on 2H FY22.

Global Services EBITDA declined 66.8% to $8.7 million. This translates to an EBITDA margin of 8.7% primarily due to lower revenue on core high margin projects and a proportionally higher cost base coming out of FY22.

In **New Markets**, EBITDA of ($21.8) million compares to ($15.6) million in 1H F22, mainly due to a reduction in spend from Global customers using the Appen platform and tools, a lower contribution from China, increased costs to support Quadrant and a proportionally higher cost base coming out of FY22.

Investment (excluding amortisation) in product development of $20.5 million represents 14.7% of revenue and reflects continuing focus on improving the customer and crowd experience, the development of LLM and annotation platforms in China and the launch of Compass through Quadrant. The increased investment as a percentage of revenue is primarily due to the unexpected reduction in revenue.

[5] At 22 August 2023.

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

Statutory net loss after tax was ($43.3) million, includes one-off restructure costs of $5.0 million related to the cost reduction program and one-off costs of $1.3 million associated with strategy refresh.

Appen had a cash balance of $55.2 million as at 30 June 2023 which includes the proceeds of the A$60 million equity raising.

On 5 April, Appen completed the extension agreement for its debt facility of A$20 million. The facility expires on 3 January 2024. The facility is undrawn at 30 June 2023.

Given the half year performance and to ensure prudent allocation of capital, the Directors determined not to pay a dividend for the first half.

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 2H FY23 revenue to be closer to 1H FY23 revenue.

We continue to focus on exiting FY23 with a return to underlying EBITDA[7] and underlying cash EBITDA[8] 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.

Management change

Today, Appen is announcing changes to its executive team.

Ryan Kolln, SVP, Strategy and Operations will take on the new position of Chief Operating Officer. He will lead the crowd and delivery functions along with his existing role.

To create a leaner and more efficient organisational structure, Appen will consolidate leadership of its product functions. Mike Davie, GM of Quadrant will be talking on the role of Chief Product Officer in addition to his current responsibilities.

We are also combining our Sales and Marketing functions under the leadership of our Chief Revenue Officer, Andrew Ettinger.

Sujatha Sagiraju and Fab Dolan have decided to leave the company for personal reasons. We thank Sujatha and Fab for their valuable contributions to Appen and wish them all the best.

[7] 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.

[8] Underlying cash EBITDA is underlying EBITDA less capitalised software development expenses plus non-acquisition-related share-based payment expenses.

Investor briefing

A result briefing will be hosted by Armughan Ahmad, CEO & President and Justin Miles, Deputy CFO at 11:00am (AEST). The briefing will be webcast live at Open briefing

Those wishing to ask questions during the briefing can join via conference call. Please pre-register for the call at Diamond pass conference call or copy and paste the link https://s1.c-conf.com/diamondpass/10031708-y6s5ec.html into your browser.

Financial summary[9] US$	1H23	vs 1H22
Group revenue	**$138.9M**	**24.0%**
Global Services	$100.1M	-27.4%
New Markets	$38.9M	-13.7%
Underlying EBITDA[10] (before FX)	**($15.7)M**	**-264%**
Underlying EBITDA margin (before FX)	**-11.3%**	**vs 5.2%**
Underlying EBITDA[10] (after FX)	($18.1)M	vs $8.5M
Underlying EBITDA margin (after FX)	**-13.0%**	**vs 4.6%**

Authorised by the Board of Appen Limited.

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Important Information

This announcement does not constitute financial product advice and does not take into account the investment objectives, financial situation or needs of any particular investor. Investors are encouraged to seek independent financial advice before making any investment decision. This notice contains forward-looking statements, including statements of opinion and expectation. These statements may be affected by various assumptions, risks and uncertainties, including matters which are outside the control of Appen, and may differ from results actually achieved. Investors are cautioned against placing undue reliance upon such statements.

[9] Numbers may not add due to rounding.
[10] Underlying EBITDA excludes restructure costs, transaction costs, inventory losses and acquisition-related and one-time share-based payment expenses.

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.