

ASX Announcement

27 February 2024

FY23 results and FY24 outlook

Appen Limited (Appen) (ASX: APX) today reported its full year results for the period ended 31 December 2023 and outlook for FY24. Appen's FY23 results¹ are as follows:

- **Group operating revenue** of \$273.0 million decreased 29.7%, primarily reflecting a lower contribution from Global Services
- **New Markets revenue**² of \$81.5 million decreased 7.8%, primarily impacted by a lower contribution from Global Product which declined 46.5%
- **Underlying EBITDA**³ (before FX) of (\$20.4) million compared to an Underlying EBITDA (before FX) of \$13.6 million, primarily due to reduced revenue and gross margin
- **Underlying EBITDA** (including the impact of FX losses) of (\$24.5) million, compared to \$11.0 million
- **Underlying net loss after tax**⁴ of (\$52.8) million, compared to an underlying net loss of (\$22.8) million
- **Non-cash impairment** of \$69.2 million reflecting the impairment of Goodwill and certain non-current assets associated with the Global Services cash generating unit
- **Statutory net loss after tax** of (\$118.1) million compared to statutory net loss after tax of (\$239.1) million
- **Cash balance** of \$32.1 million at 31 December 2023 and no debt
- **No dividend** reflecting Appen's financial performance and to ensure appropriate allocation of capital

Appen's CEO & Managing Director Ryan Kolln said, "2023 was a transitional year for the AI market and for Appen. The mainstream availability of Generative AI created huge interest from our customers, but also resulted in many reevaluating their AI investments. We experienced a material revenue reduction as customers navigated the rapidly evolving AI market and responded to the general economic slowdown.

¹ All amounts stated in US\$ and all comparisons are to the full year ended 31 December 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 impairment loss, earn-out adjustment, restructure costs, transaction costs, inventory losses, and acquisition-related and one-time share-based payment expense.

⁴ Underlying NPAT excludes after tax impact of impairment loss, earn-out adjustment, restructure costs, transaction costs, inventory losses, acquisition-related and one-time share-based payment expense, amortisation of acquisition related intangibles, and deemed interest on earn-out liability.

“In response we reset Appen’s business model and laid the foundation for future growth. We resized our cost base with the completion of a \$60 million cost out program which helped the business to exit December as cash EBITDA positive.

“A key priority in FY23 was gearing Appen to support generative AI. Appen has deep expertise and technology platforms that are highly applicable to generative AI.

“We are now working with 22 large language model builders globally to support the development of generative AI foundation models and are targeting growth in companies that are adopting generative AI models with software-focused products.

“We saw positive momentum in the fourth quarter of 2023 as declines from a major customer stabilised, we benefited from digital advertising seasonality, and China recorded record revenue.

“Our focus remains on delivering high quality data for the world’s leading AI companies and supporting our customers as they scale their data requirements. My priority is to return Appen’s core business to profitability and capture the full potential of generative AI.”

Operating performance

Total operating revenue of \$273.0 million declined 29.7% due to a lower contribution from the Global Services and New Markets businesses as customers evaluated their AI strategies and continued to optimise their costs in response to challenging external market conditions.

Appen saw positive momentum in Q4, with revenue in Global Services and New Markets (including China), recording growth compared to Q3. On a YoY basis, Global Services Q4 2023 revenue was down while New Markets (including China) was up. Within New Markets, China achieved a quarterly revenue record in Q4 2023 of \$11.1 million.

Global Services revenue of \$191.5 million declined 36.1%, impacted by reduced spend from a large customer. Generative AI was an important thematic for Global customers in FY23, with project activity ramping in the second half of FY23.

New Markets revenue of \$81.5 million decreased 7.8%. The reduction was primarily due to lower contribution from Global Product as Global customers focused more on using their internal platforms. Excluding Global Product, New Markets revenue increased 2.2% due to growth from China, Quadrant and Government and experienced a strong second half result that was 19% higher than the first half of FY23.

China revenue for the full year increased 2.7% to \$34.5 million which included a record Q4 revenue performance. This was largely due to LLM related project launches, growth in the ‘Off the Shelf’ datasets and Covid-related impacts subsiding. Collectively, China, Japan and Korea secured 82 new clients.

The Enterprise team secured 34 new customers which included LLM evaluation and categorisation, search relevance and taxonomy and annotation work. Enterprise also secured multiple deals with a leading LLM model builder, expanding from a small pilot into a ~\$1 million quarterly run rate. The average deal size signed was \$147,000, up 5.0% from the average deal size of \$140,000 in FY22 and \$61,000 in FY21.

The Quadrant business, which is now fully integrated into Appen, recorded strong revenue growth. Government recorded revenue growth, albeit from a small base. This primarily reflects the delivery of a large contract won in FY22.

Across all our segments we are seeing ongoing acceleration in Generative AI related work. There was a strong ramp-up in the second half, with LLM related revenue growing 410% compared to the first half. We are currently working with more than 80% of the global developers of LLM foundation models.

Financial performance

Underlying EBITDA (including the impact of FX losses) was (\$24.5) million, compared to \$11.0 million in FY22. Before the impact of foreign exchange gains or losses, underlying EBITDA was (\$20.4 million) compared to \$13.6 million. This reduction in Appen's underlying EBITDA is due to reduced revenue and gross margin, and a proportionally higher cost base coming out of FY22.

In response to declining volumes, Appen significantly resized its cost base, completing \$60 million of annualised cost savings during the year. We saw some of the cost out benefits emerge in FY23 with operating expenses⁵ decrease 11.3% or \$14.8 million compared to FY22. The first full year of these cost reductions will crystallise in FY24.

Global Services EBITDA declined 67.9% to \$17.5 million. This translates to an EBITDA margin of 9.1% 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 (\$32.7) million compared to EBITDA of (\$36.5) million in FY22 due to implementation of the cost reduction program and higher margin project mix in Global Product.

Technology continues to play a critical role in Appen's business and underpins our ability to deliver large scale data requirements for our customers. Investment in product development in FY23 (excluding amortisation) decreased 16.0% to \$34.6 million and represented 12.7% of revenue (2022: \$41.2 million or 10.6% of revenue).

While the quantum of our product development spend was lower in FY23, we remain committed to the development of industry-leading products and tools.

This year, we delivered several enhancements and new features in Appen's Data Annotation Platform (ADAP) to support LLM data products which enable Enterprises to fine tune, evaluate and monitor their LLM models. Earlier in the year China also released two new platforms, 1) an LLM Data Training platform, and 2) a SaaS Annotation platform.

We also opened a new technology hub in Hyderabad India to support Appen's global engineering function.

Statutory net loss after tax was (\$118.1) million, includes one-off restructure costs of \$8.9 million associated with implementation of the cost reduction programs implemented during FY23 and one-off costs associated with changes to the leadership team. The statutory result also included a non-cash impairment of \$69.2 million in relation to the Global Services cash generating unit.

Appen had a cash balance of \$32.1 million as at 31 December 2023 which includes the proceeds of the equity raisings completed in 2023.

Given Appen's financial performance and to ensure prudent allocation of capital, the directors determined not to pay a dividend for FY23.

⁵ Operating expenses exclude crowd labelling services, share-based payments, depreciation and amortisation, transaction costs, finance costs and restructure costs.

Growth strategy & FY24 priorities

Appen's strategy remains focused on delivering high quality data for leading AI. Quality data is important for deep learning model performance and is even more important for generative AI.

Appen is focused on the following five strategic pillars to support its customers and deliver profitable growth.

- 1) Building a next generation crowd and project management platform to improve how we deliver projects, create a better experience for our crowd, and reduce our related product and engineering costs.
- 2) Utilise more AI in our projects to scale the creation of datasets for our customers.
- 3) Configure our highly-flexible ADAP platform to support companies that are customising off-the-shelf generative AI models for their internal use cases.
- 4) Modernise our sales and marketing with a stronger focus on existing customer account management technical thought leadership.
- 5) Tightly manage our costs to adjust costs more proactively to revenue.

January 2024 trading update

At the group level, Appen recorded revenue of \$22.7 million in January 2024. Appen also recorded underlying EBITDA (excluding FX)⁶ of \$(0.1) million and underlying cash EBITDA (excluding FX)⁶ of \$(0.2) million in January 2024.

As at 31 January 2024, Appen had \$34.2 million cash on hand.

Outlook

The revenue decline from a large customer that impacted FY23 revenue stabilised in Q4 FY23. We expect this trend to continue into FY24.

Costs associated with the development of new products will be contained in the current product and engineering spend.

Tight cost controls remain in place across the business, in keeping with Appen's focus on managing costs in line with revenue.

- The first full year benefit of Appen's \$60 million cost reduction program to be evident in FY24.
- As announced on 12 February 2024, Appen will implement further cost reduction initiatives of \$13.5 million to remove direct and indirect costs associated with the delivery of Google projects. These are expected to be 80% complete by March 2024 and the remainder complete by June 2024.

Achieving cash EBITDA profitability in FY24 will largely depend on revenue growth from our non-global customers, the timing of which remains uncertain.

The management team is highly focused on ongoing cash positivity.

⁶ Underlying EBITDA excludes impairment loss, earn-out adjustment, restructure costs, transaction costs, inventory losses, and acquisition-related and one-time share-based payment expense.

Management change

Today, Appen is announcing changes to its executive team.

Justin Miles will take on the position of Chief Financial Officer (CFO). Justin was appointed Deputy CFO on 26 June 2023 and later assumed the role of interim CFO. Justin is a seasoned finance leader who has been with Appen since 2016 and will continue to lead the finance function.

Appen will also consolidate its product and technology functions. Mike Davie our Chief Product Officer will also take on the role of Chief Technology Officer.

Investor briefing

A result briefing will be hosted by Ryan Kolln, CEO & Managing Director and Justin Miles, 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/10035816-tfnjb3.html> into your browser.

| Financial summary⁷ US\$ | FY23 | FY22 |
|---|------------------|-----------------|
| Group operating revenue | \$273.0m | \$388.1m |
| Global Services | \$191.5m | \$299.8m |
| New Markets | \$81.5m | \$88.4m |
| Gross margin | 36.3% | 37.6% |
| Underlying EBITDA⁸ (before FX) | (\$20.4)m | \$13.6m |
| Underlying EBITDA ⁸ (after FX) | (\$24.5)m | \$11.0m |

Authorised by the Board of Appen Limited.

For further information, please contact:

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⁷ Numbers may not add due to rounding.

⁸ Underlying EBITDA excludes impairment loss, earn-out adjustment, restructure costs, transaction costs, inventory losses, and acquisition-related and one-time share-based payment expense.

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.

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 languages⁹, in over 200 countries¹⁰, as well as our advanced 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.

⁹ Self-reported.

¹⁰ Self-reported, includes territories.