

ASX ANNOUNCEMENT

19 May 2021

BUSINESS AND TRADING UPDATE

Appen Limited (ASX: APX) (Appen) has today announced a new organisational structure aligned to the company's product-led and customer-centric strategy, as well as changes to financial reporting that provide greater visibility of the drivers and performance of the business.

The changes reflect Appen's evolution from being the leading provider of artificial intelligence (AI) data annotation services to the provider of a broad range of AI data annotation products and solutions that unlock growth in new markets.

"Our new structure will drive performance and growth by aligning our business with market opportunities and customer needs", said Mark Brayan, Chief Executive Officer. "Value will be created by pursuing product-led expansion and by giving our teams end-to-end responsibility and control over delivery for their customers."

Highlights

- Appen has been restructured to align to our product-led growth strategy and distinct customer propositions.
- Our new organisational structure consists of four customer facing business units - Global, Enterprise, China and Government.
- Global will focus on providing data annotation services and products to our major US technology (Global) customers.
- Enterprise will drive growth outside of Global customers by leveraging our product suite to serve new customers and AI use cases.
- China and Government will continue to focus on capturing share in their high-growth markets.
- The new leadership structure, together with P&L responsibility, will increase visibility of, and accountability for, performance.
- Organisation alignment and technology-enabled productivity allow resources to be optimised and right sized for future needs.
- New segment reporting according to our product and service offerings will provide greater transparency on performance, growth and market dynamics.

- The Global Services segment represents the services we provide to our Global customers using their data annotation tools.
- The New Markets segment comprises our product led businesses, including the work we do for our Global customers using Appen's annotation products, and our Enterprise, Government and China businesses.
- Reporting in US dollars will enable easier comparison of financial performance between periods.
- Underlying EBITDA for the year ended 31 December 2021 is expected to be in the range of US\$83-90M, as per the guidance provided to the market at our FY20 Full Year Results in February.

Becoming an AI-powered provider of AI data products and solutions

Appen has evolved from a language data service provider, to become the leading AI data annotation services provider. Most recently, we have been pursuing a product led strategy to unlock new markets, drive growth and deliver high-quality training data, faster, at larger scale and with improved unit economics.

Traditionally our Global customers have relied on Appen to provide data annotation services via our crowd of more than 1 million contractors, with the work completed using our customers' annotation tools.

Through recent acquisitions and engineering investment we have developed our own product suite of market leading platforms and tools. This includes our AI-enabled Annotation Platform, our Appen Connect workforce management platform, and our Appen Intelligence proprietary machine learning models.

By using our own platforms and adding AI-enabled functionality, we can increase the quality, speed and scale of data annotation and collection. Our products also increase our addressable market and enable us to support the long tail of companies, outside of the US tech giants, that are investing in AI.

Our Global customers are also now using Appen training data products due to rising annotation complexity and new use cases. Increasing the adoption of our products by Global customers is a key priority as it enables project expansion through improved quality and greater productivity benefits.

Our new segment reporting reflects our product led growth strategy. The segments are:

- **Global Services** where services are provided for our Global customers on their data annotation tools; and
- **New Markets** which includes Global customer revenue through Appen products and Enterprise, Government and China.

New Markets represents our high growth markets and delivered an annualised revenue CAGR of 41% from 1H19 to 2H20.

This strong growth in New Markets revenue shows the value of our product suite and the foundation it provides for further growth and productivity gains, as we add more automation and value-add functionality to our offering.

Historical segment reporting in US dollars is provided in Appendix 1.

New organisational structure

We are aligning our internal structure to drive focus on the needs of different customer groups and markets, and to enable the development of differentiated approaches to sales, customer experience and delivery models.

The new organisational structure will consist of four customer facing business units – Global, Enterprise, China and Government. A new leadership structure together with P&L responsibility will increase visibility of, and accountability for, performance across the four customer-focused business units.

The Global business unit will be responsible for delivering high-quality data annotation services and products to our major US technology customers and will focus on deepening and expanding these long-standing relationships.

Tom Sharkey, currently Senior Vice President of Client Services, will lead the Global business unit. Tom has over 30 years' experience in technology services, outsourcing, account management, global service delivery, and business transformation and automation.

The Enterprise business unit will leverage our product suite and AI-driven automation to efficiently grow revenue within our 300+ current enterprise customers¹ and to expand our customer base as AI is adopted throughout the economy.

A global search is under way for an executive to head the Enterprise division. Jon Kondo, currently SVP of Sales and Marketing, will act in the role. Jon has more 30 years of sales and marketing experience with global big data companies.

The China and Government businesses will continue to operate separately under their current leadership and will focus on capturing share in their high-growth markets.

¹ Active customers that have paid for Appen products and services in the last 12 months.

The business units will be supported by four service units – Product, Engineering, Crowd and HR, and Corporate.

A new Head of Product is being recruited to coordinate product development and technical services across the business, and to ensure that we continue to offer the most innovative suite of products in the market. They will report to the CEO and be responsible for driving investments in product that increase the volume, quality, speed, security and value of data provision; and for the deployment of machine learning and other advanced techniques that automate processes to deliver scale and cost efficiencies.

The review and restructure of Appen’s operating model also allows resources to be optimised and right sized for future needs. As technology is becoming a bigger part of what we do and is being used internally to streamline business processes and workflows, it reduces delivery and other resource requirements.

Restructuring costs will be primarily related to redundancies. Partial benefits will be realised in the second half of 2021. We anticipate annualised gross savings (before reinvestment), largely related to lower labour expense, of US\$15 million from 2022.

Change to reporting currency

Appen will change its reporting currency from Australian dollars to US dollars, commencing with the 2021 interim result. The change is driven by the fact that more than 90% of Appen’s revenue and assets are in US dollars. Reporting in US dollars will remove the volatility that occurs when US earnings and assets are translated into Australian dollars, which will enable easier comparison of financial performance between periods.

The historical financial information provided in Appendix 2 was previously reported in Australian dollars and has been restated to US dollars based on the following translation methodology:

- The financial performance summary, consolidated statement of profit or loss and consolidated statement of cash flows have been translated into US dollars using average exchange rates for the relevant period.
- Assets and liabilities in the consolidated statement of financial position have been translated into US dollars at the closing exchange rates on the relevant balance sheet dates.²

² The AUD/USD exchange rates used were: 0.7709 as at 31 December 2020; 0.7014 as at 31 December 2019; and 0.6877 as at 30 June 2020.

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- The equity section of the consolidated statement of financial position has been translated into US dollars using historical rates at transaction date.

The financial information in the appendices has not been audited, however it has been extracted from previously audited Australian dollar financial statements and converted into US dollars.

Trading update

The Company's year-to-date revenue plus orders in hand for delivery in FY21 is approximately US\$260 million at the end of April 2021,³ consistent with the methodology and timing used for the update provided at the Annual General Meeting in May 2020.⁴

Underlying EBITDA for the year ending 31 December 2021 is expected to be US\$83-90 million, as per the guidance provided to the market at our FY20 Full Year Results in February.⁵

Conference call

Appen will host an investor and analyst conference call and an audio webcast at 11am AEST on Wednesday, 19 May 2021. It will be hosted by Mark Brayan, CEO and Kevin Levine, CFO.

Register for the conference call: <https://s1.c-conf.com/diamondpass/10014117-m2nbd4.html>

Join the audio webcast: <http://www.openbriefing.com/OB/4252.aspx>

A replay will be made available after the event on Appen's [Investor Centre](#).

The release of this announcement was authorised by the Board.

³ Equivalent to ~A\$340 million at AUD/USD FX rate of 0.77 cents.

⁴ Year-to-date revenue and orders in hand at the same time in 2020 was approximately US\$240 million.

⁵ Underlying EBITDA excludes transaction costs, acquisition related share-based payment expenses and fair value adjustments (consideration adjustments) for the Figure Eight acquisition.

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About Appen

Appen collects and labels images, text, speech, audio, video, and other data used to build and continuously improve the world's most innovative artificial intelligence systems. Our expertise includes having a global crowd of over 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 reliable training data gives leaders in technology, automotive, financial services, retail, healthcare, and governments the confidence to deploy world-class AI products. Founded in 1996, Appen has customers and offices globally.

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Appendix 1

Segment reporting by Offering Presented in US dollars

Year Ended 31 December 2020

	Global Services US\$'000	New Markets US\$'000	Corporate (Unallocated) US\$'000	Total US\$'000
Revenue	328,143	84,495	-	412,638
Interest	-	2	210	212
Other income	34	26	86	146
Total revenue & other income	328,177	84,523	296	412,996
Segment EBITDA	88,269	(7,484)	90	80,875
Share-based payment – employees				(10,096)
Foreign exchange gain				4,660
Group underlying EBITDA				75,439
Transaction costs				(807)
Depreciation and amortisation				(28,283)
Figure Eight earn out adjustment				2,559
Share-based payment – acq'n related				(2,441)
Deemed interest on earn-out liability				(853)
Finance costs				(1,435)
Profit before income tax				44,179
Income tax expense				(8,907)
Profit after income tax expense				35,272

Half Year Ended 30 June 2020

	Global Services US\$'000	New Markets US\$'000	Corporate (Unallocated) US\$'000	Total US\$'000
Revenue	163,928	36,316	-	200,244
Interest	-	1	206	207
Other income	(12)	(2)	50	36
Total revenue & other income	163,916	36,315	256	200,487
Segment EBITDA	42,294	(7,880)	18	34,432
Share-based payment – employees				(4,493)
Foreign exchange gain				2,380
Group underlying EBITDA				32,319
Transaction costs				(364)
Depreciation and amortisation				(12,810)
Figure Eight earn out adjustment				2,559
Share-based payment – acq'n related				(1,103)
Deemed interest on earn-out liability				(853)
Finance costs				(607)
Profit before income tax				19,141
Income tax expense				(4,413)
Profit after income tax expense				14,728

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Appendix 1

Segment revenue reporting by Customer
Presented in US dollars

Year Ended 31 December 2020

	Global US\$'000	New Markets US\$'000	Corporate (Unallocated) US\$'000	Total US\$'000
Revenue - Services	328,143	-	-	328,143
Revenue - Product	45,368	39,127	-	84,495
Total revenue	373,511	39,127	-	412,638

Half Year Ended 30 June 2020

	Global US\$'000	New Markets US\$'000	Corporate (Unallocated) US\$'000	Total US\$'000
Revenue - Services	163,928	-	-	163,928
Revenue - Product	19,360	16,956	-	36,316
Total revenue	183,288	16,956	-	200,244

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Appendix 2

Financial performance summary Presented in US dollars

	Year ended 31 Dec 2020	Year ended 31 Dec 2019	Change	Half year ended 30 Jun 2020
	US\$'000	US\$'000		US\$'000
Global Services revenue	328,143	308,754	6%	163,928
New Markets revenue	84,495	63,076	34%	36,316
Other income	358	351		243
Total sales revenue and other income from principal activities	412,996	372,181	11%	200,487
Underlying net profit after tax (NPAT)¹ <i>(Less)/add underlying adjustments (net of tax)</i>	44,916	44,902	<1%	19,077
Amortisation of acquisition-related identifiable intangible assets	(7,859)	(7,030)		(4,213)
Acquisition-related share-based payments	(2,441)	(4,755)		(1,103)
Deemed interest on earn-out liability ²	(615)	(1,675)		(615)
Transaction costs	(573)	(3,740)		(262)
Figure Eight earn-out adjustment	1,844	1,271		1,844
Statutory NPAT	35,272	28,973	22%	14,728
Add: tax	8,907	9,379		4,413
Add deemed interest on earn out liability ²	853	2,325		853
Add: net interest expense	1,435	2,511		607
EBIT³	46,467	43,188	8%	20,601
Add: depreciation and amortisation	28,283	17,863		12,810
Statutory EBITDA⁴	74,750	61,051	22%	33,411
<i>Add/(less): underlying adjustments</i>				
Acquisition-related share-based payments	2,441	5,634		1,103
Figure Eight earn-out adjustment	(2,559)	(1,759)		(2,559)
Transaction costs	807	5,250		364
Underlying EBITDA¹	75,439	70,176	8%	32,319
Statutory diluted earnings per share (cents)	28.52	24.09		12.01
Underlying diluted earnings per share (cents)	36.32	37.33		15.55
% Statutory EBITDA/sales revenue	18.1%	16.4%		16.7%
% Underlying EBITDA/sales revenue	18.3%	18.9%		16.1%

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.

2 Liability was settled during 2020.

3 EBIT is defined as earnings before interest and tax.

4 EBITDA is EBIT before depreciation and amortisation.

Appendix 2

Consolidated statement of profit or loss Presented in US dollars

	Year ended 31 Dec 2020	Year ended 31 Dec 2019	Half year ended 30 Jun 2020
	US\$'000	US\$'000	US\$'000
Sales revenue	412,638	371,826	200,244
Other income	106	5	36
Interest income	212	350	207
Recovery of impairment of receivables	40	-	-
Net foreign exchange gain	4,660	-	2,380
Expenses			
Services purchased - data collection	(239,018)	(215,781)	(118,984)
Employee expenses	(71,659)	(52,345)	(32,894)
Share-based payments expense	(12,537)	(13,282)	(5,596)
Depreciation and amortisation expense	(28,283)	(17,863)	(12,810)
Impairment of receivables	-	(545)	-
Travel expense	(689)	(2,065)	(582)
Professional fees	(8,241)	(7,965)	(3,964)
Rent and occupancy expense	(63)	(485)	(81)
Communications expense	(837)	(745)	(397)
Transaction costs	(807)	(5,250)	(364)
Figure Eight earn-out adjustment	2,559	1,759	2,559
Deemed interest on earn-out liability	(853)	(2,325)	(853)
Net foreign exchange loss	-	(38)	-
Other expenses	(11,402)	(14,038)	(8,946)
Finance costs	(1,647)	(2,861)	(814)
Profit before income tax expense	44,179	38,352	19,141
Income tax expense	(8,907)	(9,379)	(4,413)
Profit after income tax expense attributable to the owners of Appen Limited	35,272	28,973	14,728
Basic earnings per share (cents)	29.00	24.57	12.26
Diluted earnings per share (cents)	28.52	24.09	12.01

Appendix 2

Consolidated statement of financial position Presented in US dollars

	As at 31 Dec 2020	As at 30 Jun 2020	As at 31 Dec 2019
	US\$'000	US\$'000	US\$'000
Assets			
Current assets			
Cash and cash equivalents	60,488	86,684	52,799
Trade and other receivables	50,611	42,668	81,600
Contract assets	31,516	21,125	5,531
Derivative financial instruments	1,479	16	220
Income tax refund due	8,289	-	-
Prepayments	2,423	2,644	1,984
Total current assets	154,806	153,137	142,134
Non-current assets			
Property, plant and equipment	3,973	4,019	3,911
Right-of-use assets	17,993	19,358	15,377
Intangibles	277,055	276,357	279,570
Deferred tax	8,240	2,148	2,792
Sundry receivables	801	146	1,012
Total non-current assets	308,062	302,028	302,662
Total assets	462,868	455,165	444,796
Current liabilities			
Trade and other payables	44,168	38,195	42,377
Contract liabilities	7,458	11,793	15,516
Lease liabilities	5,036	4,391	3,260
Income tax payable	-	1,341	999
Employee benefits	3,261	2,763	1,438
Other liabilities	77	909	26,754
Total current liabilities	60,000	59,392	90,344
Non-current liabilities			
Borrowings	-	23,473	-
Lease liabilities	14,432	16,127	12,656
Deferred tax	13,410	4,134	2,814
Employee benefits	436	335	302
Other liabilities	-	750	750
Total non-current liabilities	28,278	44,819	16,522
Total liabilities	88,278	104,211	106,866
Net assets	374,590	350,954	337,930
Equity			
Share capital	262,917	262,917	262,917
Reserves	115,690	92,054	79,030
Accumulated losses	(4,017)	(4,017)	(4,017)
Total equity	374,590	350,954	337,930

Appendix 2

Consolidated statement of cash flows Presented in US dollars

	Year ended 31 Dec 2020	Year ended 31 Dec 2019	Half year ended 30 Jun 2020
	US\$'000	US\$'000	US\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	413,589	339,776	219,279
Payments to suppliers & employees (inclusive of GST)	(335,632)	(282,227)	(169,833)
	77,957	57,549	49,446
Interest received	212	350	207
Interest paid	(1,323)	(1,678)	(497)
Income taxes paid	(12,119)	(9,393)	(2,229)
Net cash from operating activities	64,727	46,828	46,927
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	(27,011)	(162,616)	(25,602)
Transaction costs paid for acquisitions	(807)	(5,250)	(364)
Payments for property, plant and equipment	(1,684)	(2,165)	(880)
Payments for intangibles	(17,171)	(8,623)	(6,328)
Net cash from investing activities	(46,673)	(178,654)	(33,174)
Cash flows from financing activities			
Proceeds from issue of shares	-	203,438	-
Proceeds from borrowings	27,011	-	25,602
Repayment of borrowings	(23,473)	(39,659)	-
Payment for lease liabilities	(4,279)	(3,107)	(1,877)
Dividends paid	(7,419)	(6,301)	(3,560)
Net cash from/(used in) financing activities	(8,160)	154,371	20,165
Net increase in cash and cash equivalents	9,894	22,545	33,918
Cash and cash equivalents at the beginning of the year	52,799	28,253	52,799
Effects of exchange rate changes on cash and cash equivalents	(2,205)	2,001	(33)
Cash and cash equivalents at the end of the financial year/period	60,488	52,799	86,684

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