Appen Limited

2019 First Half Results Presentation

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Appen collects and labels image, text, speech, audio, and video data used to build and continuously improve the world's most innovative artificial intelligence systems.

1H 2019 highlights – Appen delivers again (A$M)

Revenue	$245.1M ⬆	+ 60 %	**Speech & Image**[3]	$39.9M ⬆	+ 85 %
Underlying EBITDA[1]	$46.3M ⬆	+ 81 %	**Relevance**[4]	$193.7M ⬆	+ 48 %
Underlying EBITDA Margins	18.9% ⬆	From 16.8 %	**Dividend**	4 c ↔	Partially franked
Underlying NPAT[2]	$29.6M ⬆	+ 67 %	**Acquisitions**	Leapforce fully integrated Figure Eight delivering on the strategic thesis	

1. Underlying EBITDA excludes transaction costs and share based payment expenses relating to the Leapforce and Figure Eight acquisitions
2. Underlying NPAT excludes after tax impact of transaction costs, deemed interest on the Figure Eight earn out, amortisation of Leapforce identifiable intangibles and share based payment expense relating to the Leapforce and Figure Eight acquisitions
3. Former Language Resources division. Excludes Figure Eight
4. Excludes Figure Eight

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Strong core performance (A$M)

Speech and Image gathering speed[1]
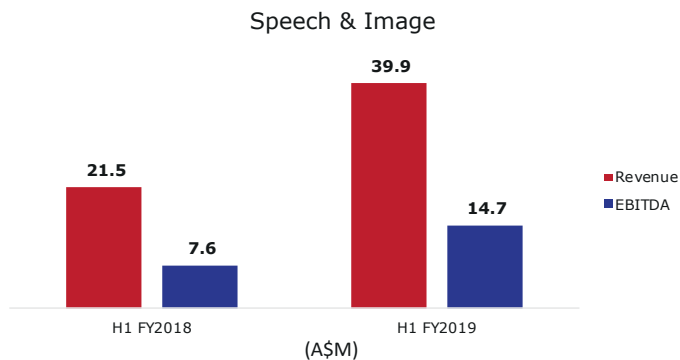
Speech & Image

- Half on half revenue growth of 85%, building on sharp revenue increase in 2H 2018

- Growth supported by speech, NLP, image and video projects and a greater variety of use cases

1. Excludes Figure Eight

Relevance growth and margin expansion continues[1]

Relevance
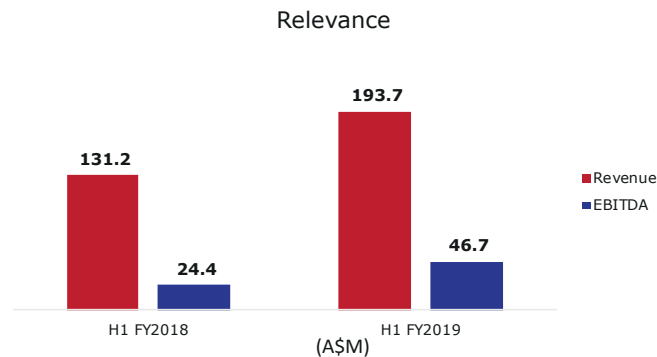
- Revenue growth of 48% on 1H 2018 from existing and new program growth

- Margin expansion from 18.6% to 24.1% due to Leapforce integration, technology and economies of scale

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Delivering on the thesis – accelerating tech, diversifying revenue, expanding markets

- Diversifying customer base
- Joint wins in US and Europe
- Leading position in high-potential government market
- Synergies and path to profitability on track
- Secure, market leading, SOC 2 compliant platform
- Voluntary employee retention high at 94.8% post acquisition

Figure 8 P&L

11.2

■ Revenue
■ EBITDA

H1 FY2018   H1 FY2019

(2.6)

(A$M)
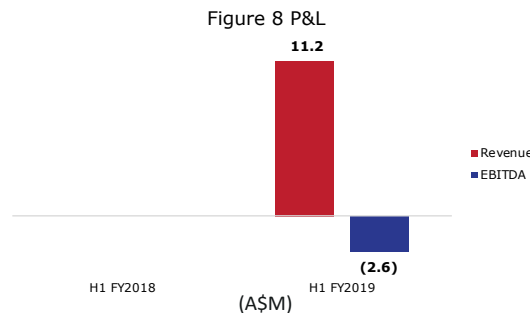
- 1H loss less than planned
- Revenue momentum impacted by transaction and pivot to larger customer focus
- Q2 renewals lower than expected
- Q2 sales impacted by delay of large deals

Figure Eight ARR

40.0
35.0   35.0
30.0   27.5
25.0   30.0
20.0
15.0
10.0
5.0
-
        FY 2018   FY 2019

(A$M)
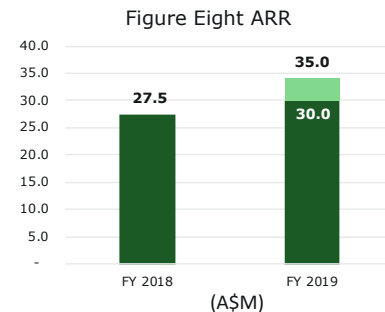
- FY 2019 ARR behind plan, revised to $30M - $35M[1]
- FY 2019 EBITDA in plan range
- 30+ cross-sell opportunities.
- New sales leader in place
- Earn-out protects investors

1. At A$1 = US$0.74 (Aug-Dec 2019)

High growth, long term customer relationships (A$M)

Existing customers continue to provide reliable, repeat revenue

- Appen's existing customers underpin revenue growth with repeat buying for existing and new projects

- Customer relationships remain strong due to high quality data and service

- New customer numbers building through Figure Eight and investments in sales and marketing

	FY2015	FY2016	FY2017	FY2018	H1 FY2019
	82.6	110.9	166.6	364.2	244.8

(A$M)

Speech & Image[1]

Relevance[1]

Figure Eight[1]
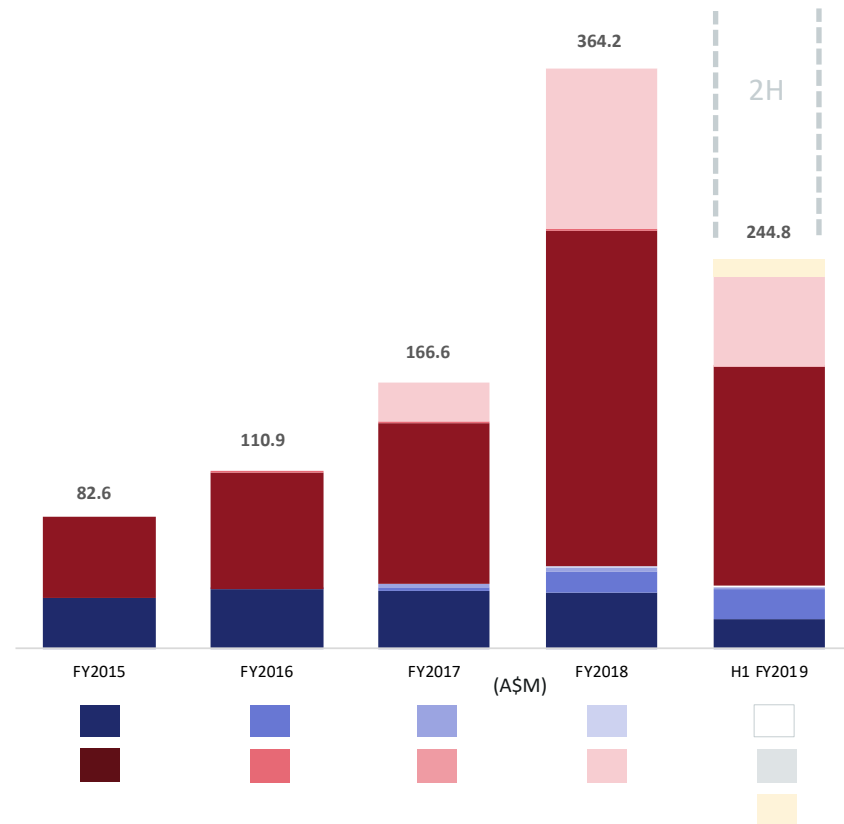
1. Chart shows revenue by annual customer cohort and successive revenue from those cohorts

Technology update

Delivering the vision

- Investing in technology to improve speed, quality and productivity

- Acquisitions accelerate and de-risk tech strategy

- New feature releases increase competitive advantage:
    - Enhanced security
    - Machine-learning annotation assistance
    - Workflows for integration into customer systems to increase retention

- Substantial increase in engineering investment for future-proofing[1]:

1H 2018[2]	1H 2019[2]
A$1.4M	A$13.3M

Global crowd workforce

Crowd management	**Client workspace**	**Annotation tools**

- At-scale crowd recruiting and management
- Enables crowd and improves productivity of Appen resources

- Self-serve client workspace
- Provides agility, speed and quality for clients

- Tools for text, audio, image and video data
- Improves quality, crowd experience and productivity
- Machine-learning automation for productivity leaps

1. Engineering investments include most of $6M savings from systems and Leapforce integration.
2. Before capitalization. Includes Figure Eight in 1H 2019

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Integration update

Leapforce

Figure Eight

1M+ Skilled Global Workforce	180+ Languages	20Y+ Enabling AI Projects	500K+ Audio Hours Processed	13B+ Human Judgments
Scale	**Quality**	**Security**	**Speed**	

- Integration complete
- Deep review and redesign of all operational processes
- Processes replicated in Appen Connect platform, improving productivity
- Efficiency savings of $6M expected in 2019 contributing to increased margins
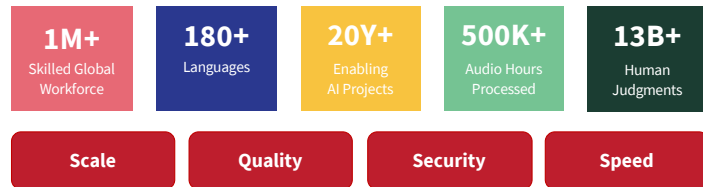
- Figure Eight operating 'as is' in 2019
- Appen management supporting sales and technology acceleration
- Integration scoping underway with aim to maximise combination and strengthen competitive position
- Full scale integration to start 1 Jan 2020

Emerging growth pillars - Government

Governments increasing investments in AI

- Growing government interest in AI

- Multiple use cases and data types required

- Large scale projects

- High barriers to entry including cleared personnel and facilities

- Well positioned by combining Figure Eight's leading position with Appen's secure data annotation capabilities

- Investing in resources, facilities and technology to respond to government needs

Emerging growth pillars - China

Appen China taking shape

- China AI market growing at 55% annually. Forecast to be $14.3BN in 2020[1]

- Appen leadership in place

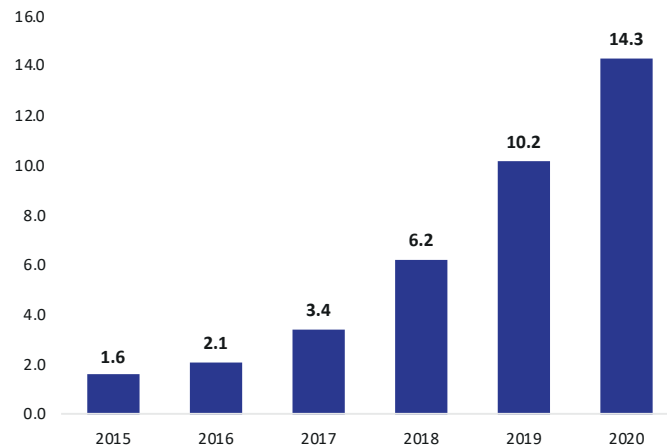- Building sales, client services, HR/recruiting and operational teams

- Wuxi facility operable and supporting customers

China AI Market[1] ($USBN)

1. Statista

High growth momentum continues (A$M)

	H1 FY2019	H1 FY2018	% change	% change constant currency
Statutory Results				
Speech & Image	39.9	21.5	85%	73%
Relevance	193.7	131.2	48%	35%
Figure 8	11.2	-		
Other	0.3	0.1		
Total Revenue	**245.1**	**152.8**	**60%**	**47%**
Statutory EBITDA	**35.3**	**23.9**	**48%**	**33%**
Underlying EBITDA	**46.3**	**25.6**	**81%**	**63%**
Underlying EBITDA Margin	18.9%	16.8%		
Statutory NPAT	**18.6**	**14.0**	**33%**	**16%**
Underlying NPAT	**29.6**	**17.8**	**67%**	**47%**

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Revenue up 60% on 1H 2018

Relevance data from major customers continues to underpin revenue

High Speech and Image revenue growth in 1H 2019 from expansion of existing projects and new work

Underlying EBITDA up 81%

EBITDA margins up on prior period due to Leapforce integration, efficiencies and economies of scale

Underlying NPAT up 67%

Effective tax rate increased from 21.2% to 28.2% impacted by large employee incentive share issue tax deduction in the prior year. Normalised tax rate (excluding share based payment expense related items) ~29%

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Robust balance sheet (A$M)

	Jun-19	Dec-18
Cash	70.8	40.0
Receivables	89.0	70.8
Other Current Assets	9.7	2.6
Non-Current Assets	434.7	124.2
Total Assets	**604.2**	**237.7**
Current Liabilities	107.7	39.5
Borrowings	11.6	56.3
Non-current Liabilities	26.2	2.4
Total Liabilities	**145.5**	**98.2**
Net Assets	**458.7**	**139.4**
Total Equity	**458.7**	**139.4**

Robust balance sheet

Increase in receivables relates to increase in revenue volumes and acquisition of Figure Eight

Non-current assets include Goodwill of $367.2M, identifiable intangible assets of $38.7M and right of use assets (leases) of $22.2M

Current liabilities include estimated earn out liability of $35.2M

Borrowings relate to debt funding for Leapforce acquisition. Debt repayment of $44.7M during the period

Significant improvement in debt leverage ratio from 0.26x in the prior year to net cash positive of $59.2M in current period

Half year dividend of 4.0 cps in line with 1H 2018, partially franked

Solid cash conversion (A$M)

	H1 FY2019	H1 FY2018
Receipts	233.3	142.6
Payments and other	(190.7)	(121.1)
Cash flow from operations before interest and tax	**42.7**	**21.6**
Interest	(0.4)	(1.4)
Taxes	(10.5)	(5.6)
Total Cashflow from Operations	**31.8**	**14.5**
Cashflows - Investment Activities	(242.7)	(5.8)
Cashflows - Financing Activities	241.8	(10.0)
Net Cashflows for the period	**30.9**	**(1.3)**
Opening cash balances	40.0	24.0
FX Impact	(0.2)	0.8
Closing cash balances	**70.8**	**23.6**

Cash balance increased by $39.9M

Cash flow from operations increased by 98% and remains strong

$293M (net of raising costs) raised to acquire Figure Eight and pay associated transaction costs

Cash used to repay debt, fund capex and pay dividends

Strong cash flow conversion

	H1 FY2019	H1 FY2018
Underlying EBITDA	**46.3**	**25.6**
Working capital	(3.7)	(4.0)
Cash flow from operations before interest and tax	**42.7**	**21.6**
Underlying EBITDA cash conversion	**92%**	**84%**

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Currency tailwind (A$M)

- Most revenue derived offshore in USD

- Currency benefit in 1H 2019

- Currency neutral revenue growth 47% on 1H 2018

- Currency neutral underlying EBITDA up 63% on pcp.

Revenue

H1 FY2018	Currency Neutral Growth	Currency Impact	H1 FY2019
152.8	72.6	19.7	245.1

(A$M)

Underlying EBITDA

H1 FY2018	Currency Neutral Growth	Currency Impact	H1 FY2019
25.6	16.1	4.7	46.3

(A$M)

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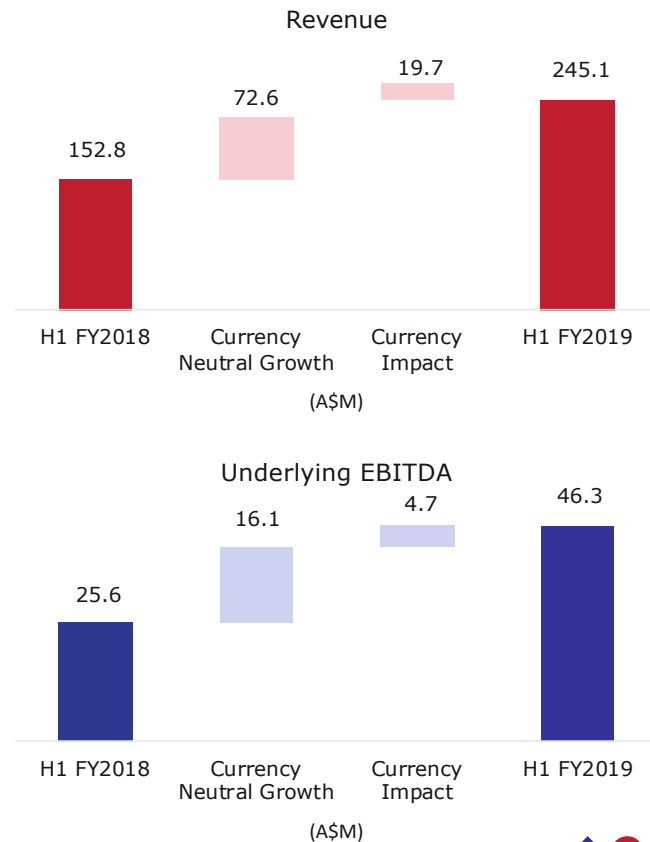
AI market and the need for data continues to expand

AI market still early, and growing

AI Projects Per organisation[1]

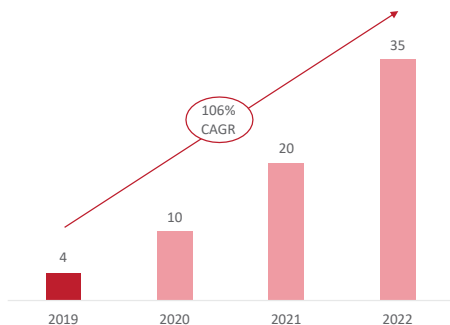106% CAGR

2019	2020	2021	2022
4	10	20	35

Multiple use cases and data types

Adoption plans for AI[2]

- RPA
- Chatbots
- AI
- NLP
- ML
- Computer Vision
- Predictive Analytics

0% 20% 40% 60% 80% 100%

- ■ No current plans
- ■ Pilot
- ■ Moving to production
- ■ Scaled up and industrialized
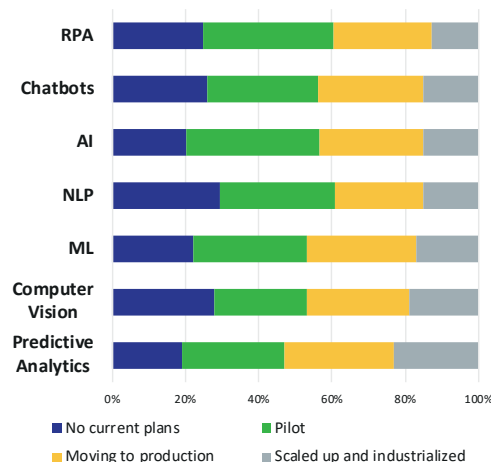
Appen uniquely positioned to win

Global crowd workforce

| Crowd management | Client workspace | Annotation tools |

- Mature and growing tech
- 1M+ crowd
- Track record, growing customers
- Expertise and experience

1. Source: Gartner "AI and ML Development Strategies", 2018
2. Source: HIS and KPMG, "Intelligent Automation Adoption in Enterprises", 2018.

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Appen strongly positioned and delivering

Established Provider

Founded in **1996** with industry-leading work in speech solutions

Added **search relevance expertise in 2007,** working with leading tech companies

Strategic acquisitions over the past 3 years have positioned Appen to support client needs for **high levels of data security & large volumes of high quality text, speech, image and video data**

Global Presence

Seattle
Detroit
San Francisco
Exeter
Beijing
Wuxi
Shanghai
Manila
Davao
Sydney

Scalable Operations

662 full-time staff worldwide[1]

High staff engagement, **low** turnover

1+ million on-demand skilled annotators globally

Providing data for an **increasing range of AI** applications

1.   At June 30 2019

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Outlook

Appen is strengthening its position in a high growth market through investments in technology, sales & marketing, government markets and China

YTD revenue plus orders in hand including Figure Eight for delivery in 2019 of ~$380M at mid-August 2019.

The Company's full year underlying EBITDA for the year ending Dec 31st 2019 including Figure Eight is trending to the upper end of $85M - $90M (at A$1 = US$0.74 Aug-Dec 2019).

2H includes 6 months of Figure Eight losses vs. $2.6M in 3 months in 1H. 1H benefits from FX gains of $4.7M. 2H at 0.74c

Ongoing review of Appen's capital management priorities, including dividend policy

Outlook susceptible to upside or downside from factors including timing of work from major customers and Australian dollar fluctuations.

Thank you

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