Appen Limited

Annual General Meeting

CEO Presentation

26th May 2017

Machine learning – multiple techniques

Personal assistants and at-home devices use machine learning in many ways:

- Speech recognition to 'hear' commands

- Conversational understanding to comprehend and clarify commands

- Speech synthesis to respond

- Various tasks: search, recommendation, prediction and many more

Machine learning – multiple sectors and applications

Automotive: Self-driving vehicles

eCommerce: search, recommendation and chatbots. Netflix's recommender drives $1BN in annual revenue

Financial services: personalisation and fraud protection

Health: Image analysis and diagnosis

Manufacturing: optimise processes, predict maintenance

Machine learning – a very large market & growing fast

"Widespread adoption of cognitive systems and artificial intelligence (AI) across a broad range of industries will drive worldwide revenues from nearly **$8.0 billion in 2016 to more than $47 billion in 2020."**

IDC, October 2016

"45% of all work activities could be automated by current technologies; **machine learning can enable 80% of those activities**"

McKinsey, December 2016

"Cognitive technologies such as robots, artificial intelligence (AI), machine learning and automation will replace **7% of US jobs by 2025**."

Forrester Research, June 2016

Appen - strongly positioned to benefit

Strength

- Founded in 1996
- Trusted partner to 8 of 10 largest global tech companies
- Financially sound:
  - Growing revenue
  - High margins
  - Strong cash flow
  - No debt

Scale

- 280 staff worldwide
- Global operations

Seattle
San Francisco
Detroit
Exeter
Beijing
Davao
Sydney

- 400,000+ on-demand global crowd
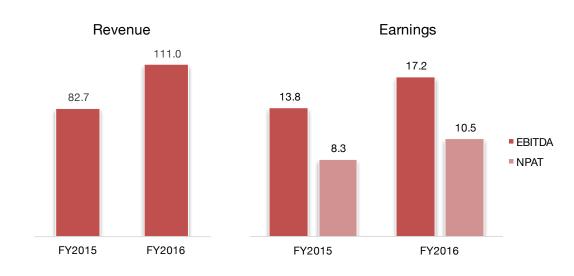- Delivered 1BN+ data points for one customer

Scope

- Worked in 180 languages and 130 countries
- Proficient in speech, search, social media and ecommerce
- Experience with multiple data types: text, audio, image and video
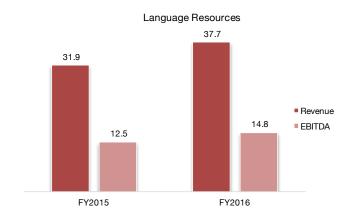
Full year highlights (A$m)

Strong growth continues:
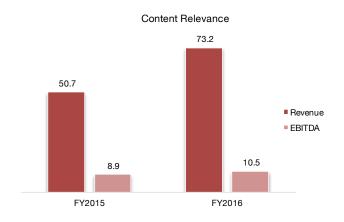
- Revenue up 34%
- EBITDA up 24%
- NPAT up 26%

Revenue

82.7 — FY2015

111.0 — FY2016

Earnings

EBITDA FY2015: 13.8
NPAT FY2015: 8.3
EBITDA FY2016: 17.2
NPAT FY2016: 10.5

Legend: ■ EBITDA ■ NPAT

High divisional growth (A$m)

Language Resources revenue up 18%

Language Resources

Revenue
EBITDA

- Ongoing demand for speech data
- Data quantity and quality drives word accuracy and improves usability
- Working with all data types

Content Relevance revenue up 44%
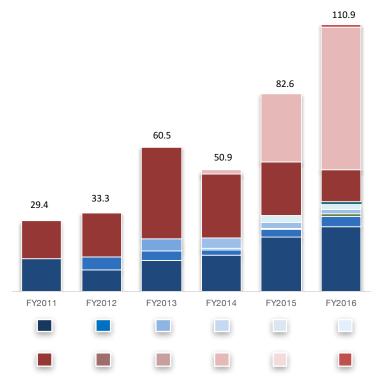
Content Relevance

Revenue
EBITDA

- Growing need for data for machine learning-based search, social media and ecommerce
- Working with all data types

Resilient Revenue (A$m)

- Customers include major global technology companies, automakers and governments

- Quality and importance of Appen's data and services drives growing and repeat revenue

Language Resources customers originating in year

Content Relevance customers originating in year

Chart values: FY2011 29.4, FY2012 33.3, FY2013 60.5, FY2014 50.9, FY2015 82.6, FY2016 110.9

Margin Improvement

- Volume discounts for major customers dampened margins in 2H

- Margins improving:
  - Productivity improvements from updated processes and systems
  - Cost control through sourcing crowd workers at different rates

- Expect further improvement through 2017

High Growth (A$m)

	FY2016	FY2015	% change	% change constant currency
Statutory Results				
Language Resources	37.7	31.9	18%	
Content Relevance	73.2	50.7	44%	
Total Revenue	111.0	82.7	34%	33%
EBITDA	17.2	13.8	24%	22%
EBITDA Margin	15.5%	16.7%		
NPAT	10.5	8.3	26%	23%
Underlying Results**				
EBITDA	17.3	14.0	23%	21%
NPAT	10.6	8.5	25%	24%

- Revenue up 34% on FY2015
  - Growth from current and new projects with existing customers plus new customer acquisition

- EBITDA* up 24%
  - Volume discounts dampened margins in 2H. Productivity measures and cost control delivering improvements in Q4 16 and Q1 17

- NPAT* up 26%

*Refers to Statutory Results
**Underlying results exclude one-off expenses associated with the IPO and transaction costs

Strong Balance Sheet (A$m)

	FY2016	FY2015
Cash	16.5	12.7
Receivables	21.9	17.3
Other Current Assets	0.4	0.3
Non-Current Assets	15.2	11.7
Total Assets	**54.0**	**42.0**
Current Liabilities	15.4	11.5
Non-current Liabilities	3.2	1.8
Total Liabilities	**18.6**	**13.3**
Net Assets	**35.4**	**28.7**
Total Equity	**35.4**	**28.7**

- Strong balance sheet. No debt.
- Increase in cash reserves and receivables related to increase in revenue volumes
- Final dividend of 3.0 cents per share fully franked, in line with prior year.
- Total dividend for FY2016 of 5.0 cents up 19% on prior year.
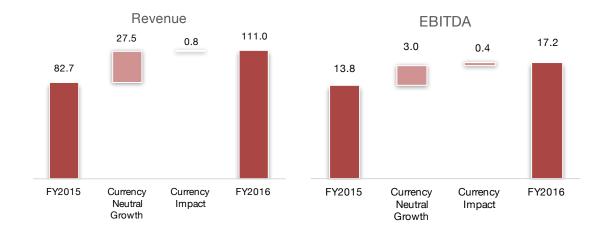
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Strong Cash Conversion (A$m)

	FY2016	FY2015
Receipts	106.8	72.5
Payments and other	(90.1)	(67.6)
Cash flow from operations before interest and tax	**16.7**	**4.9**
Taxes	(4.0)	(0.8)
Total Cashflow from Operations	**12.7**	**4.1**
Cashflows - Investment Activities	(4.6)	(0.6)
Cashflows - Financing Activities	(4.4)	(0.6)
Net Cashflows for the period	**3.7**	**2.9**
Opening cash balances	12.7	8.6
FX Impact	0.1	1.2
Closing cash balances	**16.5**	**12.7**

- Cash balance increased by $3.7m over FY2015
- Cash flow from operations significantly improved due to change in payable cycle and better timing of customer receipts

Cash flow conversion:	FY2016	FY2015
EBITDA	**17.2**	**13.8**
Working capital	(0.4)	(6.2)
FX impact	(0.1)	(1.2)
Other	-	(0.2)
Payment of IPO costs not going through P&L	-	(1.3)
Cash flow from operations before interest and tax	**16.7**	**4.9**

Currency Impact (A$m)

- Most revenue derived offshore in USD
- Negligible currency impact in 2016
- Strong underlying growth

Revenue

82.7	27.5	0.8	111.0
FY2015	Currency Neutral Growth	Currency Impact	FY2016

EBITDA

13.8	3.0	0.4	17.2
FY2015	Currency Neutral Growth	Currency Impact	FY2016

Outlook

- YTD revenue plus orders in hand for delivery in FY2017 ~$100m at end April 2017

- Full year outlook for EBITDA growth at 40% to 50% on prior year

  Outlook susceptible to upside or downside from factors including timing of work from major customers and Australian dollar fluctuations (outlook at A$1 = US$0.76)

Thank you

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