

ASX ANNOUNCEMENT

2 August 2022

Update on 1H 22 results and FY2022 outlook

Appen Limited (Appen) (ASX: APX) today issued an update in relation to the company's half year results for the six months ended 30 June 2022 and FY2022 outlook.

On 26 May 2022, Appen advised that its year-to-date revenue (as of 30 April 2022) was lower than the prior corresponding period. Appen also advised that 1H FY2022 EBITDA was expected to be materially lower than the prior corresponding period, due to lower than expected revenue, investment in transformation, product, and technology, as well as lower share-based payments in the prior corresponding period.

The first half results¹, which are unaudited and subject to the completion of the auditor's interim review and Board approval, are expected to be:

- **Group revenue** of \$182.9 million down 7%, primarily reflects a lower contribution from the Global Division due to weaker digital advertising demand and a resultant slowdown in spending by some of our large customers
- New Markets revenue² of \$45.0 million down 6%, impacted mainly by lower Global Product. Excluding Global Product, New Market revenue was up 35%
- **Underlying EBITDA**³ (after FX impact) of \$8.5 million down 69%, due to lower revenue and investments in transformation, product, and technology, as well as an FX loss
- Statutory net loss after tax of \$9.4 million, compared to a \$6.7 million statutory net profit after tax in 1H FY21, impacted by higher amortisation on product development
- Underlying net loss after tax of \$3.8 million, compared to a \$12.5 million net profit after tax in 1H FY21
- Cash balance of \$42.2 million on 30 June 2022, with high cash flow conversion

Commenting on the half year result, Appen's Chief Executive Officer, Mark Brayan said, "The first half of the financial year has been characterised by challenging external operating and macro conditions, which has resulted in weaker digital advertising demand, and a slowdown in spending by some of our major customers.

"This has especially impacted our Global division, particularly those customers with a high exposure to digital advertising. While only 26% of our first half Global revenue supports digital

¹ All amounts stated in US\$ and all comparisons are to the half year ended 30 June 2021, unless stated otherwise.

² New Markets reflects our product-led growth strategy. It 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, cloud computing costs and acquisition-related share-based payment expenses, inventory losses and share of associate losses.



advertising, we are seeing a flow on effect to non ad-related projects and some of our core programs, as our customers reduce their overall spend.

"As stated in February, costs in this half are higher primarily due to transformation costs, and investment in product and technology resulting in higher employee expenses, recruitment, and IT costs. Together with lower-than-expected revenue, this has impacted earnings and margins.

"In China, despite a three-month COVID lock down we have continued to grow, with first half revenue up 141% to \$18.0 million. We have established ourselves as a leading AI data company in China, and continue to service the leading tech giants, social media, mobile providers, and autonomous vehicle companies.

"The Enterprise business is showing growing momentum. Its first half was not to its potential, but the second half has started well with orders of \$9.3 million in July.

"Pleasingly, we saw solid free cash flow generation and cash conversion from EBITDA increase from 101% to 211% in the half.

"The fundamentals of our business remain strong and our operational performance and the quality of our service we provide customers continues to improve, evidenced by higher NPS. We are increasing our range of products and through our product investments remain well positioned to serve our customers.

"Despite the current challenging operating conditions, we remain committed to our longer-term growth strategy and confident of our prospects in the high growth AI market."

FY2022 outlook

We expect to achieve higher volumes in the latter part of the second half due to the delivery of seasonal projects and ramp up in existing projects.

However, with no improvement in July trading there remains uncertainty about a continued slowdown of spending from our Global customers and their exposure to weaker digital advertising demand. As a result, the conversion of forward orders to sales is less certain this year compared to prior years.

Given the revenue skew and fixed cost operating leverage of the business, we expect FY22 EBITDA to be weighted to the second half.

We are reviewing all investments in the business to accelerate productivity improvements and margin expansion.

While some of our customers are slowing the pace of their investments, their AI product development is expected to increase. We remain confident that the AI training data market will continue to grow in the longer term.



Investor briefing

A brief conference call will take place today at 10:00am (AEST) to provide high level comments on the half year results. It will be hosted by Mark Brayan, CEO and Kevin Levine, CFO. A replay will be made available after the event on Appen's website.

Register for the conference call: https://s1.c-conf.com/diamondpass/10024243-sdh7fs.html

Appen will announce its final audited results on 25 August 2022, which will include further details about the first half performance and outlook for FY2022.

Financial summary

US\$	1H FY22	vs 1H FY21
Group revenue	\$182.9M	-7.0%
Global Services ²	\$137.8M	-7.4%
New Markets ³	\$45.0M	-6.0%
Underlying EBITDA ⁴ (before FX)	\$9.6M	-66%
Underlying EBITDA margin (before FX)	5.2%	vs 14.3%
Underlying EBITDA ⁴ (after FX)	\$8.5M	-69%
Underlying EBITDA margin (after FX)	4.6%	vs 9.5%

Authorised by the Board of Appen Limited.

For more information, please contact:

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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.



About Appen

Appen is the global 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 Alassisted data annotation platform. Our products and services give leaders in technology, automotive, financial services, retail, healthcare, and governments the confidence to launch world-class Al products.

Founded in 1996, Appen has customers and offices globally.