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## **ASX ANNOUNCEMENT**

27 May 2022

### **2022 ANNUAL GENERAL MEETING – CEO ADDRESS AND TRADING PERFORMANCE UPDATE**

Appen Limited (**Appen**) (ASX:APX) provides the attached CEO address and trading performance update to be delivered at today's Annual General Meeting commencing at 10.00am AEST.

The webcast of the AGM can be joined at: [meetings.linkgroup.com/APX22](https://meetings.linkgroup.com/APX22)

**Authorised for release by the Chair and Chief Executive Officer of Appen Limited.**

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#### **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 AI-assisted data annotation 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.

**CEO address and trading performance update  
2022 Annual General Meeting**

27 May 2022

Thank you, Richard.

Good morning, everyone.

It's a privilege to speak with you today.

Firstly, I would like to talk to you about how Artificial Intelligence works, the market opportunity available to Appen and how we plan to grow our business.

I will then touch on our 2021 performance and provide an update on how we are tracking for the year.

**Market Opportunity**

At Appen, our vision is to make AI work in the real world. Put simply, for AI to work, it needs large volumes of high-quality training data.

Just like humans - AI learns from examples. It learns through a process called machine learning which requires and is underpinned by examples, or training data.

In practical terms, if we wanted to create an AI product to assist the diagnosis of medical imagery, we would need to source many thousands, perhaps even millions, of images that were labelled to assist the diagnosis. The labels could identify fractures in bones for example. Through the machine learning process, patterns would be identified between the pixels in each image and the labels. Trained with enough images, the resultant AI product should be able to correctly predict a fracture or any other labelled item in an image.

For AI to work in this instance, training data needs to include all the things a doctor may wish to use an image for – fractures, tumours, and other abnormalities - and the labels need to be accurate. That represents a lot of data, and this is only one application.

AI is embedded in many everyday products, such as the phones we use and the cars we drive. It's present in applications that recognise speech, help us shop and find our way around, and it's increasingly being used in business, in robotics, supply chains, ecommerce, marketing, medical science and many other areas.

Consequently, there is a growing need for high volumes of high-quality training data to enable AI products to work.

Independent research firm – Cognilytica confirms this. They expect the global training data market to grow at a five-year average compound annual growth rate of 32%.

The global training data market includes multiple sources of training data and labelling methodologies, from manually labelled real-world data, to synthetic data, to the technology platforms and labelling labour forces. These are all areas in which we operate in, and have expertise in.

We are well positioned to capitalise on the growth offered by the AI market as we can source and label almost any data type – text, relevance, image, audio, video, lidar, geo-locational / point-of-interest, and synthetic.

While we are very good at data sourcing and labelling, it is only one of the things we do at Appen.

We're a full-service provider and our expertise also covers the AI lifecycle in data preparation and model evaluation. We deliver our products with a combination of our tech platform, our expertise, and our global crowd of over 1 million skilled contractors.

### **Growth and long-term goals**

We have always been ambitious in growing our business.

Today, we are a leading AI data annotation provider and compared to our competitors we generate the most revenue.

Appen is truly a global business, and our scale is unparalleled. We are self-sufficient with our own comprehensive technology stack and global crowd of more than 1 million contractors with expertise in 235 languages.

We have an enviable customer base and are trusted by them to deliver data securely to their high standards of quality. Some of our key customers include the world's largest and most sophisticated participants in the AI sector including Google, Amazon, Microsoft, Salesforce, and many others.

Our strong position as a key supplier to the world's leading technology companies has fuelled our growth. From here, we are conscious of the need to further transform our business, diversify our earnings and improve the unit price economics of doing business.

Our strategy to transform Appen is defined through four pillars. These are to grow and diversify revenue; automate our crowd and labelling processes; expand our product offering and evolve how we do business.

We have organised our business to target our key markets – ‘Global’, the internet hyperscalers, ‘Enterprise’, ‘China’ and ‘Government’ – to ensure growth and the diversification of our customer base. We’re investing in the sales, marketing, and delivery expertise to support and grow each market.

Data collection and labelling processes are human-intensive processes that are relatively expensive and slow to scale. Therefore, automating our crowd and labelling processes requires investment in technology to deliver more quality data quicker and more accurately.

For video and speech data, we’ve successfully developed AI models that reduce the time and cost of labelling by 65% and 80% respectively.

Increasing our addressable market is also key. We’ve developed technology to label 3D lidar data, essential for autonomous vehicles, acquired Quadrant for point-of-interest data capabilities, essential for map-based products, and invested in Mindtech to add synthetic data to our portfolio.

Finally, we need to evolve our internal operations to improve our speed to market and scale. We are investing in new processes so we can automate lower value work and focus on higher value add products.

We’ve set ourselves meaningful long-term goals that align with our strategy and the market opportunity before us. In doing so, we have moved away from providing short term quantitative EBITDA guidance.

Our longer term focus includes seeking to improve the mix of our business, including diversifying our revenue from non-Global customers, and growing our New Markets business at, or slightly above, market growth.

By 2026 we are aspiring to at least double FY2021 revenue of US\$447 million, improve the mix of our business with one-third revenue from non-Global customers and achieve an EBITDA margin of 20%.

### **High quality management team**

Our strategy is only as good as its implementation.

In 2021, we welcomed meaningful additions to our management team.

Sujatha Sagiraju, our Chief Product Officer, joined us from Microsoft where she led their machine learning operations products. She has deep AI experience and an extensive product background, essential for our product-led strategy.

Eric de Cavaignac joined as our Chief Transformation Officer. His experience, at McKinsey, Christies, and Westpac, will guide us through our digital transformation.

Jen Cole joins us to head our Enterprise team. Jen has a solid track record of growth in tech-enable service companies. Jen has been busy rebuilding the Enterprise teams and is achieving some early wins.

We welcomed Mike Davie and his team with the acquisition of Quadrant. Mike founded Quadrant to provide real-world point of interest data.

Earlier this year, Andrea Clayton joined Appen as our Chief People Officer. Andrea has substantial experience in PE-backed and public companies, including Genworth in Australia. She brings the necessary focus on our people as we transform and grow.

Our new team members join our existing team – Kevin Levine, Wilson Pang, Tom Sharkey, Roc Tian and David Poirier to round out our capabilities and accelerate our focus on our transformation journey.

Importantly, the team is highly engaged and very excited about our mission.

### **Financial highlights**

Turning to our 2021 financial highlights.

We report in US dollars – so, unless I state otherwise the amounts referenced here are in US dollars.

Our business is organised into five-customer facing business units – being Global, Enterprise, Government, China, and Quadrant. Our two operating and reporting segments reflect our growth strategy and comprise of Global Services and New Markets.

In FY21, Appen recorded another full year record revenue performance. Our revenue grew 8% to US\$447.3 million. Key drivers of the result included a significant uplift in Global Services revenue in the second half which grew 32% on the first half of FY21. New Markets revenue was also strongly driven by growth in China.

Second half growth in Global Services reflected the expansion of existing projects and several new projects in this period. The increase in new projects also helped to offset ad dependencies. The second half revenue skew was consistent with expected revenue profile that we identified at the half year result in August 2021.

The New Markets division saw a 21% lift in revenue to US\$102.5 million. This was driven by 'break out' revenue growth in China of 422% which was underpinned by our ability to increase market share with new project wins and by growing our customer share. Growth was achieved across a several data modalities, particularly in autonomous vehicles, with 11 AV companies as customers.

While our Enterprise business also had a good year, it has yet to achieve its full potential. We did experience good customer wins with Salesforce, Boeing, Adobe, and Bloomberg. We also have fresh leadership in place and have rebuilt the team, which is firmly focused on accelerating growth.

Elsewhere within the New Markets business, Government saw a 17% revenue decline to US\$4.2 million due to the non-renewal of a large contract. Government customers typically experience longer sales and budget cycles. Despite this, Government remains an important growth opportunity for Appen. And earlier this year we were selected in a partnership for the Joint Artificial Intelligence Centre blanket purchase agreement to support the acceleration of technology capabilities. The purchase agreement is up to US\$249 million and will be allocated across multiple vendors over multiple years.

Underlying EBITDA before foreign exchange grew 12% to US\$78.9 million. This was driven by the revenue growth and some gross margin expansion in the second half.

We maintained a strong balance sheet with US\$48 million in cash and no debt as of 31 December 2021.

We were pleased to provide a final dividend of A5.5 cents per share, franked at 50%. The total 2021 dividend was flat on 2020.

### **Appen trading performance update**

Yesterday, we provided a trading update that was released to the ASX. I'll briefly recap on that announcement.

In February, we stated that we expected FY22 revenue to be weighted to the second half of the financial year, as it was for FY21.

This is largely due to customer delivery schedules generally being skewed to the fourth quarter. We also stated that we expected a larger EBITDA skew in the second half of FY22 when compared to FY21 with higher costs expected as the business invests for growth.

As at the end of April 2022, the Company's year-to-date revenue plus orders in hand for delivery in FY22 is approximately US\$297 million<sup>1</sup>. This is up approximately 14% compared to US\$260 million at the end of April 2021.

Our year-to-date revenue is lower than the prior corresponding period. However, we do expect to recover this and as a result we do expect to see a greater skew of revenue to the second half of FY22 than FY21. This is supported by the growth in the order book which provides a positive read-through for FY22 revenue.

In terms of earnings, we expect first half FY22 EBITDA to be materially lower than the prior corresponding period. This is primarily due to lower than expected revenue and reflects our investment in our transformation office, product and technology. Additionally, we had lower share-based payment expenses in the prior corresponding period.

As flagged in February, these higher costs reflect the investments we are making as part of our long-term strategy, which we expect to yield benefits from FY23. While our near-term margins will be impacted relative to FY21, we continue to seek to balance growth versus profitability in the near term.

Overall, we now expect FY22 EBITDA to be significantly weighted to the second half reflecting the revenue skew and our fixed cost operating leverage.

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1. Consistent with prior year methodology and timing used for the update provided at the Annual General Meeting in May 2021.

Pleasingly, we continue to see solid free cash flow generation and solid cash conversion from EBITDA.

We are committed to our growth strategy and achieving our long-term objectives and remain confident of our prospects in the high growth AI market.

**Closing remarks**

Before I close, I wanted to thank you, our shareholders for your support. I also acknowledge your disappointment with the performance of the company's share price. We are also very disappointed with the share price, and we are determined to implement and realise our strategy to position Appen to capture the strong growth forecast in the industry and improve shareholder value.

I also want to thank our Appen team for their hard work and commitment to supporting our customers. I will now hand back to the Chair.

**Mark Brayan**  
**MD & CEO**