ASX ANNOUNCEMENT

10 May 2023

April trading update, cost reduction program and strategy refresh

- **Appen provides FY23 trading update as at 30 April 2023**
- **Significant cost reduction program commenced to return to profitability**
- **Strategy refresh to deliver long term growth and revenue diversification with a focus on generative AI**

Appen Limited ("**Appen**") (ASX: APX) provides the following April trading update and outlook for the remainder of FY23.

On 27 February 2023, Appen stated that it expects a soft start to FY23 carrying over from 2022. At that time, Appen also stated that it expects 1H FY23 underlying EBITDA to be materially lower than 1H FY22.

The challenging external operating and macroeconomic conditions that were noted at the FY22 result have persisted into FY23. As a result, Appen provides the following unaudited FY23 financial update for the four months ending 30 April 2023[1]:

- Revenue April YTD of $95.7 million (21.4% below pcp)
- Gross profit April YTD of $35.8 million (24.7% below pcp)[2]
- Underlying EBITDA (excl FX) April YTD of ($12.4) million (vs pcp of $7.9 million)

Renewed focus on operational rigour

On 27 February 2023, Appen stated that its top priority was to establish a greater level of operational rigour and it identified ~$10 million of cost savings.

In keeping with a renewed focus on operational rigour, these previously announced cost savings will now be implemented over the course of FY23. Appen also today announces a series of significant measures to achieve further annualised cost savings to those announced in February. These measures, which will be delivered over the course of FY23, are expected to deliver further annualised cost savings of approximately $36 million. The first full year impact of these measures is expected to be achieved in FY24.

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[1] All amounts stated are in US$ and all comparisons are to the four months ended 30 April 2022 unless otherwise stated. The financial figures as at 30 April 2023 are based on unaudited management accounts.

[2] Gross profit refers to revenue less crowd expenses.

Following implementation of these initiatives and those announced on 27 February 2023, Appen expects to exit FY23 with an annualised run-rate cash operating cost base of approximately $113 million[3]. This includes capitalised software development costs of approximately $11 million and excludes non-cash share-based payment expenses of approximately $7 million. The first full year impact of this is expected to be achieved in FY24. Refer to Appendix A for further detail.

These cost saving initiatives were identified as part of a strategic review and are expected to have minimal impact on Appen's ability to generate revenue.

The one-off costs associated with implementing the cost reduction program are expected to be approximately $4 - $5 million and will be reported as a non-recurring expense and excluded from underlying EBITDA for FY23. Appen is committed to its reshaped vision for the business and will continue to take a disciplined approach to capital investment to ensure maximisation of shareholder value. Appen continues to review options to maximise its balance sheet flexibility.

Going forward, costs will be managed in line with the revenue opportunity and market conditions. This dynamic approach will better place Appen to adapt to ongoing changes in market demand. Appen's cash balance at the end of April was $27 million.

Strategy refresh – long term growth and revenue diversification

Appen has been at the forefront of AI for more than 25 years, delivering AI products and services to many of the world's largest tech and Fortune 500 customers globally.

Generative AI creates a significant growth opportunity for Appen. The generative AI market is expected to grow from $8 billion in 2021 to more than $110 billion by 2030[4], with 98% of global executives agreeing that AI foundation models will play an important role in their organizations' strategies in the next 3 to 5 years[5].

Generative AI models like OpenAI's ChatGPT require large volumes of human feedback to create experiences that are comparable to humans and avoid risks such as hallucination, bias, and toxicity. Furthermore, to increase the value of generative AI and foundation models in specific business use cases, companies will customise pretrained models by fine-tuning.

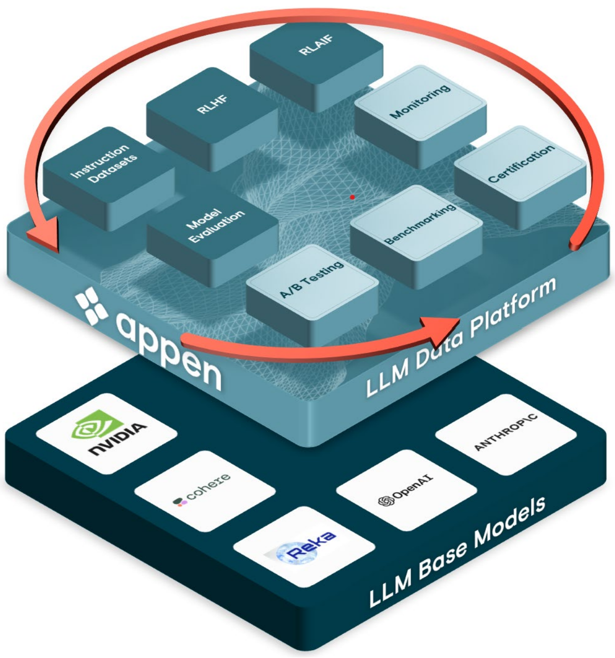
Appen's deep expertise in crowd-based data collection, annotation and model evaluation is highly relevant for generative AI.

[3] Excludes crowd expenses
[4] Acumen Research
[5] Accenture: A new era of generative AI for everyone

The generative AI market will be driven by adoption in both technology companies and non-tech enterprises, presenting an opportunity for Appen to meaningfully diversify revenue through a focus on enterprise adoption of generative AI.

Appen is launching a new set of Large Language Model (LLM) data products that provide a comprehensive toolset for enterprise customers capture value from generative AI models. There are two core components:

1. Fine tuning: Customisation, called fine tuning, is a critical step that enables the models to understand and respond to the intended context, while also limiting the ability to provide responses outside of the desired context. Appen's fine tuning products enables enterprises to customise existing generative AI models from Nvidia, OpenAI, Cohere, Google, Anthropic, Reka and open-source channels.
2. Assurance: Models in product must be continually monitored to ensure that performance is maintained and to measure and identify sources of potential negative customer experiences. Appen's assurance products ensure customers' model performance is accurately measured and monitored to avoid risks such as hallucination, bias, and toxicity.



Appen LLM Data Platform

Appen has achieved early progress on its expansion into generative AI related services. It currently has multiple projects underway that relate to generative AI model development and evaluation for both large tech and enterprise customers.

Appen is focussing on increasing channels to market to increase access points to enterprise customers and broaden its target markets. Appen's partnership program is an important component of this strategy and will provide further access to enterprise clients.

Appen's expansion into generative AI and initiatives to increase channels to market will accelerate its focus on revenue diversification. Excluding its largest customer, Appen's revenue grew at a CAGR of approximately 10% over the period from 2018 to 2022 after adjusting for M&A[6].

Further detail on Appen's strategy refresh will be provided at the Appen Investor Technology Day which will take place after the AGM on 26 May 2023.

Additional information on the capabilities of Appen's new LLM data products can be found on Appen's website at [Appen LLM Data Products Overview.]

Outlook

Appen continues to face headwinds from the broader technology market slowdown. As a result, we expect revenue to decline materially in FY23 compared to FY22.

Taking into account these factors, historical fourth quarter seasonal trends, regular dialogue with customers and our pipeline of project work across all clients, we expect an improvement in 2H FY23 revenue relative to revenue achieved in 1H FY23. Should current conditions persist throughout the year, we believe the initiatives announced today will result in Appen exiting FY23 with a return to underlying EBITDA and underlying cash EBITDA[7] profitability on an annualised, run-rate basis.

Longer term, we expect to deliver greater diversification of revenue and profitability through implementation of our operational rigour initiatives and strategy refresh.

Commentary

Appen's CEO Armughan Ahmad said: "Appen has tremendous potential. These important initiatives announced today represent a refresh of the business. We are highly focused on the areas that are within our control and have taken the necessary steps to align our cost structure with current revenue expectations and now expect to exit 2023 as an underlying EBITDA and cash EBITDA positive business. With this stronger foundation, we look to the future to fully capitalise on the exciting growth opportunities enabled by generative AI."

[6] Prior financial performance is not necessarily an indicator of future performance.
[7] Underlying cash EBITDA is underlying EBITDA less capitalised product development costs plus non acquisition related share based payment expense.

Authorised by the Board of Appen Limited.

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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 a global market 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.

Appendix A

Expected, annualised, run-rate cash operating cost base at the end of 2023

US$m	
Annualised, run-rate cash operating costs	**113**
Less: capitalised product development costs	(11)
Add: share-based payment expense	7
Annualised, run-rate P&L operating costs	**108**

Note: Excludes depreciation and amortisation expense. Totals may not sum due to rounding. As costs reductions initiatives are implemented in FY23, the full impact on an annualised basis is expected to be realised from the start of FY24.