Appen

ASX Announcement

24 May 2024

2024 Annual General Meeting – Chair's address

Appen Limited (Appen) (ASX:APX) provides the attached Chair's address to be delivered at today's Annual General Meeting commencing at 10.00am AEST.

Authorised for release by the Chair of Appen Limited.

For further information, please contact:

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About Appen

Appen is a global market leader in data for the AI Lifecycle. With over 28 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 500 languages[1], in over 200 countries[2], as well as our advanced AI data 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.

[1] Self-reported.
[2] Self-reported, include terrorities.

Appen

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I wanted to acknowledge that 2023 was a disappointing year for shareholders.

While the rise of generative AI has created growth expectations, difficult macro conditions, and a slowdown in tech spending has significantly impacted Appen's performance.

I will start with a discussion of the key areas the board has focused on – including improving Appen's financial performance and resetting the company. I will then provide some commentary about the various items of business.

I will then ask Ryan, as the CEO, to focus on the performance of the business, strategy and trading update in detail.

Note that values referred to are US dollars unless otherwise stated.

FY23 financial performance

Turning to the financials.

The company recorded a statutory loss of $118.1 million which included a non-cash impairment of $69.2 million related to its Global Services business. It is important to note that the impairment is a non-operating and non-cash item and in no way impacted Appen's liquidity.

Total operating revenue declined 29.7% to $273.0 million, primarily due to the slowdown in spending by our largest customer and general slowdown in tech spending.

In turn this led to a significant reduction in the company's profitability as Appen recorded an underlying EBITDA loss (before FX) of ($20.4) million, compared to $13.6 million in the prior year.

The board made the decision not to declare an interim or final dividend in 2023. This decision was considered appropriate due to Appen's financial performance and to ensure an appropriate allocation of capital.

In response to the challenging external conditions, we committed to decisive action of resetting the business. The immediate focus was to refresh leadership, remove costs and position Appen to participate in the generative AI services market.

In support of our strategy reset, the company raised A$60 million of equity in June 2023 and a further A$30 million of equity in December 2023.

We also implemented a $60 million cost reduction program, made operational improvements to the business, for example in project delivery and crowd management.

Generative AI was an important focus of the industry in 2023. While there were some early benefits from our generative AI initiatives, these were insufficient to offset the revenue and earnings declines in our core business.

Earlier this year, Google advised of its decision to end it global services contract with all work ceasing on 19 March. In FY23, Appen's revenue from Google was approximately $83 million, or 30% of total revenue.

In line with Google's decision, we have taken action to reduce our cost base by a further $13.5 million. To date, approximately 80% has been implemented with the remaining cost reductions expected to be achieved by 30 June 2024.

We are very focused on profitability. As such, we are committed to managing of costs in line with revenue and will implement further cost reduction initiatives if required.

Change in Leadership

As part of our reset, we refreshed our leadership and management team.

On 5 February 2024, Ryan Kolln was appointed as our new CEO and Managing Director. Ryan joined Appen in 2018 and has made extraordinary contributions during his time with the company.

He has a deep understanding of Appen, coupled with a strong technical understanding of the AI market and a proven strategy background. Ryan is the ideal leader to guide Appen through its next phase and navigate the evolving generative AI market. He is based in North America.

We have also assembled a refreshed management team, with deep operational experience and a clear structure to maximise opportunities going forward.

Non-financial metrics

In addition to our financial metrics, we are also focused on good social and governance outcomes.

Despite the challenges faced by our business, our commitment to the crowd and customers remains as strong as ever.

In 2023, we invested in systems and processes to improve the crowd and customer experience. While we experienced a significant uplift in Customer NPS, crowd NPS declined due to a variety of factors, including lower project availability.

An integral part of our strategy is our commitment to responsible AI and to ensure that AI performs correctly.

Fostering diversity among the crowd and continued high ethical treatment of the crowd is key to building responsible AI that reflects the real world. In support of our commitment, our team conducted further research programs to understand representation across the Crowd and address any gaps.

Diversity across our organisation also remains a priority with female representation among our employees at 55% at the end of the year. An unintended consequence of organisational change has seen a reduction in female representation of the senior leadership team from 30% to 22%. Despite this, our target of 30% female representation in senior management positions remains.

Our social impact work is an important priority. Last year, we stablished five partnerships with global non-profits to foster diversity and offer work opportunities within our Crowd to underrepresented individuals, including refugees.

Governance

Maintaining a strong focus on governance is a key priority of the board. Our policies and practices remain consistent with the latest ASX Corporate Governance's Principles and Recommendations.

Last year, there were no changes to the board's structure. The board comprises eight directors – including the Managing Director.

Appen has three non-executive directors based in Australia -, Robin Low, Stuart Davis and me. The four remaining non-executive directors, Vanessa Liu, Steve Hasker, Mini Peris and Lynn Mickleburgh are based in the US.

The composition of Appen's Board maintains the right mix of skills and includes relevant diverse backgrounds. Board gender diversity also continues to meet our target – with female representation of non-executive directors at 50%.

Today, Robin and Vanessa are standing for re-election and will address shareholders on their candidacies later in the meeting.

Remuneration

I will now make some comments on remuneration and, in particular:

- item 5 on the agenda, the grant of long-term incentive performance rights to the CEO and Managing Director; and
- item 8 on the agenda, the Approval of the Appen Long Term Incentive Plan – Terms and Conditions and the subsequent issue of securities under that plan.

Steve Hasker, Chair of the Board's People and Culture Committee will speak to the Remuneration Report in more detail.

We devote significant time to strike a balance between setting remuneration for executives at levels that reflect company performance and shareholder expectations, while also being sufficient to attract and retain talent in highly competitive technology markets in North America and Australia.

In keeping with this approach, we made significant changes to our remuneration framework in FY22 and further updates in FY23. Steve will address these.

I will keep my comments brief with respect to 2023 remuneration outcomes.

As revenue and earnings performance targets were not met, there is no STI payable for the company's financial performance.

In terms of our non-financial performance, customer NPS was 140% of target and employee engagement was 91.9% of target (which was above the 90% payout threshold).

In recognition of these results a partial STI, which equates to 10.6% of the maximum payable, was paid.

There was no STI payable to the former CEO.

Turning to the CEO & Managing Directors remuneration arrangements and **item 5** on the agenda.

Ryan's package includes a base salary of $600,000.

His STI is the equivalent of $600,000 (per annum) with a maximum opportunity of 150% of fixed remuneration. The STI will be delivered 75% in cash and 25% in deferred equity, which vests over 12 months subject to continued service.

The LTI component of Ryan's remuneration is valued at $1,500,000. If, at the end of a three-year period, Appen's share price reaches $1.60, 50% of the LTI will vest.

For 100% to vest, the share price needs to be over $2.30 to trigger full vesting. These targets are aligned with the annual LTI plan for other executives that participate in the plan.

As you can see, for any vesting to occur the share price must be significantly higher than it is today. Therefore, Ryan will only be rewarded for delivering significant shareholder value.

The board considers his package to be fully aligned with shareholders' interests.

Turning to item 8 on the agenda which seeks approval of Appen's Long Term Incentive Plan and the subsequent issue of securities under that plan.

Appen wishes to exclude issues of securities under its long-term incentive plan from the 15% limit in ASX Listing Rule 7.1.

ASX Listing Rule 7.2, exception 13(b) provides that ASX Listing Rule 7.1 does not apply in respect of the issue of securities by the Company under an employee incentive scheme, if within 3 years before the issue date of the relevant securities, the Shareholders have approved the issue of securities under that employee incentive scheme as an exception to ASX Listing Rule 7.1.

Shareholder approval was last obtained on 18 May 2018 and was valid until 2021. Since 2021, the issue of securities under Appen's long term incentive plan have been under ASX Listing Rule 7.1 – and not as an exception under ASX listing rule 7.2.

The Directors consider the securities issued under the Incentive Plan as a cost effective, well-aligned and efficient incentive to retain key employees when compared with other forms of incentive such as cash bonuses or increased remuneration.

The maximum number of securities proposed to be issued of item 8, subject to shareholder approval today is 33 million securities.

Other items

Outside of remuneration related items, we are also seeking to ratify the prior issue of shares under the equity raise completed in December 2023 as per item 6 and the prior issue of shares and Warrants to the vendors of Quadrant as per item 7.

The issue of these shares effectively uses up part of the 15% limit under ASX Listing Rule 7.1. If approved, the issue of these shares related to items 6 and 7 will be excluded in calculating the company's 15% limit in ASX Listing Rule 7.1.

Closing comments

In closing, I would like to reiterate our commitment to improving Appen's performance and delivering better returns for shareholders. While good progress has been made to reset the business, there remains much to be done.

On behalf of the Board, I would like to thank Appen's shareholders for your ongoing support and patience.

I also thank all Appen employees for their contribution and commitment.

I now welcome Ryan Kolln to give his first AGM address as CEO and Managing Director.

Richard Freudenstein
Chair