

ASX Announcement
10th December 2020

Trading Update
COVID-19 and Exchange Rate Impacts

Appen Limited (“Appen”) (**ASX:APX**) a global leader in the development of high-quality, human annotated datasets for machine learning and artificial intelligence (AI), has today announced a trading update for the year ending 31st December 2020.

The Company advised the market on 15th April 2020 that the COVID-19 pandemic may dampen 2020 performance through a slowdown in digital ad spending, a reduction in IT/digital spending, reduction or cancellation of services from Appen’s smallest customers, interruptions to global hardware supply chains and suspension of face-to-face projects such as audio data collection.

When we released our 1H20 results on the 27th of August 2020, we reported strong growth despite a slowdown in new business development and deferred renewals due to COVID. We also expected the slowdown in online advertising spend to have a small negative impact on our ad-related programs in 2H.

While Q3 revenue was lower than expected, our major customers released strong Q3 results and online advertising bounced back. This, and the fact that our Q4 revenue has historically averaged 30% of our full year results, gave us the confidence to maintain in-market guidance.

November results, just finalised, show that while Q4 has improved on Q3 the usual ramp up we traditionally see at this time of year is not occurring. COVID has clearly disrupted and reshaped the priorities and activities of our customers, especially in California, the home of our biggest customers, where pandemic lockdowns have recently intensified. It has also impacted our face-to-face sales and customer engagement practices.

We now expect FY20 underlying EBITDA - including the impact of the stronger Australian dollar – to be in the range \$106M to \$109M (at actual exchange rates to November and A\$1 = US\$0.74 for December). This is equivalent to a guidance range of \$108M-\$111M applying the originally assumed exchange rate of US\$0.70 for the second half. Second half underlying EBITDA is expected to grow at 30% plus over the first half, applying first half exchange rates to second half performance.

Our major clients are reprimoting resources towards new product areas that enhance their long-term resilience and value which is currently impacting work volumes on some large mature projects. This new product development trend is positive for us and we are seeing a significant increase in the number of new projects amongst our major customers, albeit some are early in their lifecycle.

We also continue to win new customers in markets less impacted by COVID, including in new business areas such as shipping, automotive, education and health care.

The long-term trends for our business remain very positive. Spending on artificial intelligence is growing rapidly at 28% annually¹ and AI adoption should accelerate in a post-pandemic environment². Further, online advertising, a major source of revenue for our key customers and a reasonable indicator of their spend, is forecast to rebound strongly in 2021 according to analyst forecasts.

These structural tailwinds, as well as the strength of our existing pipeline for 2021, support a return to strong growth rates in 2021 in line with industry trends.

Appen will host a teleconference for investors and analysts at 11am AEDT on Thursday 10 December 2020. Registration details for the teleconference will be provided separately to the Australian Stock Exchange.

The release of this announcement was authorised by the Board of Directors.

For more information:

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About Appen

Appen is a global leader in the development of high-quality, human annotated datasets for machine learning and artificial intelligence. Appen brings over 20 years of experience collecting and enriching a wide variety of data types including speech, text, image and video. With deep expertise in more than 180 languages and access to a global crowd of over 1,000,000 skilled contractors, Appen partners with leading technology, automotive and eCommerce companies - as well as governments worldwide - to help them develop, enhance and use products that rely on natural languages and machine learning.

¹ IDC Worldwide Artificial Intelligence Systems Spending Guide, September 2019

² www.bcg.com/publications/2020/business-applications-artificial-intelligence-post-covid