Appen Limited

2020 First Half Results Presentation

27th August 2020

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Appen makes AI work in the real world

High growth market

- Appen provides essential training data for AI development and maintenance

- AI spend growing at 28%[1]

- Potential for AI adoption to accelerate in post-crisis environment[2]

Strong performance

- Proven supplier of high-quality speech, natural language, image, video and relevance data

- Track record of high growth. 54% revenue CAGR 1H 2015 to 1H 2020

Positioned to win

- Market leading position

- AI-enabled technology platform that opens markets and improves scalability and automation

- On-demand 1M+ crowd, covering 180 languages, 70K locations, 130 countries

- Highly skilled, resilient and experienced staff

- Proven, scalable and uninterruptible at-home business model

- 24 years of operations

Appen maintains high growth in 1H 2020

H1 2020 Highlights

		Change on PCP
Group Revenue	**$306.2M**	**+25%**
Relevance	$273.9M	+34%
Speech & Image	$31.9M	-20%
Underlying EBITDA	**$49.1M**	**+6%**
Margin	16.0%	
Underlying EBITDA ex Growth Investments[1]	**$62.5M**	**+35%**
Margin	20.4%	

4 of 5 major[2] customers using Appen annotation platform (former Figure Eight platform)

Enterprise-wide platform agreement with existing major customer. Includes US $80M annual commitment

405% increase in annual contracted value (ACV) to US $103M

No material change to growth investments through the pandemic

$126M in cash at 30 June 2020

Interim dividend of 4.5 cps, 50% franked, up 12.5% from 1H 2019

1. Incremental growth investments in H1 2020 for sales and marketing, China, engineering and government market
2. Appen's major customers include the world's largest technology customers

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4

Relevance high growth continues

Relevance

(A$M)

- Revenue: 204.9 (H1 FY2019), 273.9 (H1 FY2020)
- EBITDA: 44.1 (H1 FY2019), 52.2 (H1 FY2020)

- Revenue of $273.9M up 34%
- EBITDA up 19% to $52.2M. Includes growth investments
- Major customers and projects healthy and growing
- At-home crowd ideally placed in pandemic

Relevance Revenue Half on Half

AU $ M

1H15		1H16		1H17		1H18		1H19		1H20
22.7	28.0	35.0	38.2	53.3	72.9	131.2	181.7	204.9	262.9	273.9

- Long-term growth trajectory
- 64% CAGR 1H 2015 to 1H 2020
- Consistent demand from relevance customers to ensure search and social media applications are up to date, relevant and unbiased
- New project wins in 1H 2020

Speech & Image maintains positive long-term trend

Speech & Image

Revenue: 39.9 (H1 FY2019), 31.9 (H1 FY2020)
EBITDA: 14.7 (H1 FY2019), 4.7 (H1 FY2020)

(A$M)

Speech & Image Revenue Half on Half

AU $ M

1H15: 13.1, 18.8, 1H16: 18.4, 19.3, 1H17: 20.7, 19.6, 1H18: 21.5, 29.9, 1H19: 39.9, 27.8, 1H20: 31.9
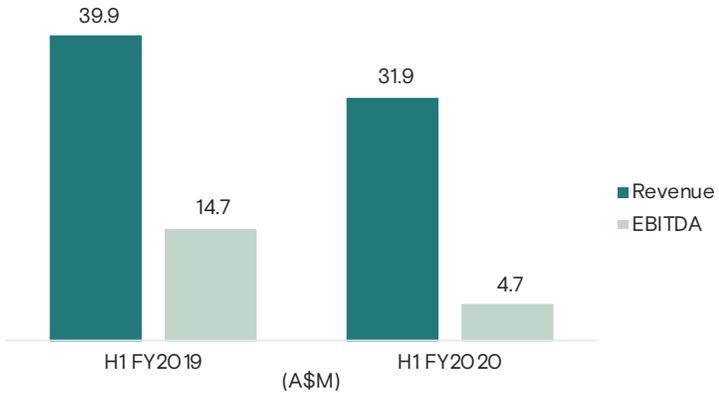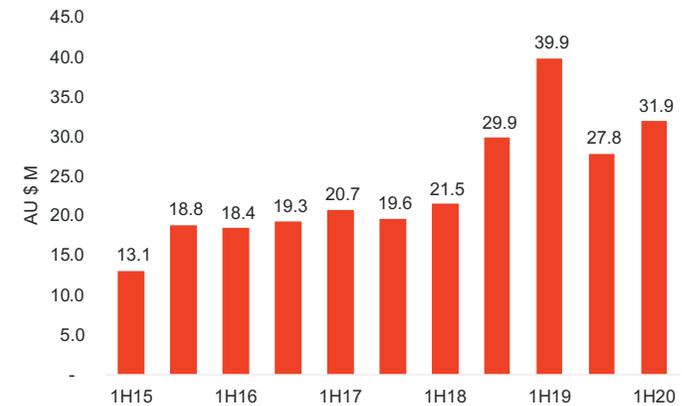
- Revenue of $31.9M down 20% vs breakout 1H 2019
 - Revenue cyclicality due to timing and size of projects
  - New business and data collection impacted by pandemic
  - 1H 2020 up on 2H 2019
- EBITDA down 68% due to lower revenue and growth investments
- No expense reductions undertaken or planned

- 4 of 5 major customers using Appen annotation platform (former Figure Eight platform), driving multiple projects in text, audio, image and video data. Pilots and production projects
- New customer wins in 1H 2020 in speech, natural language and image data
- Positive long-term growth trend. 20% CAGR 1H 2015 to 1H 2020

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Continued demand from long-standing customers

- Ongoing demand for high quality training data from major customers underpins consistent revenue growth

- New business development adds customers and diversifies revenue base

- Future revenue to benefit from growing volume of committed revenue

	FY2015	FY2016	FY2017	FY2018	FY2019	H1 FY2020
	82.6	110.9	166.6	364.2	535.5	305.8

AU $M
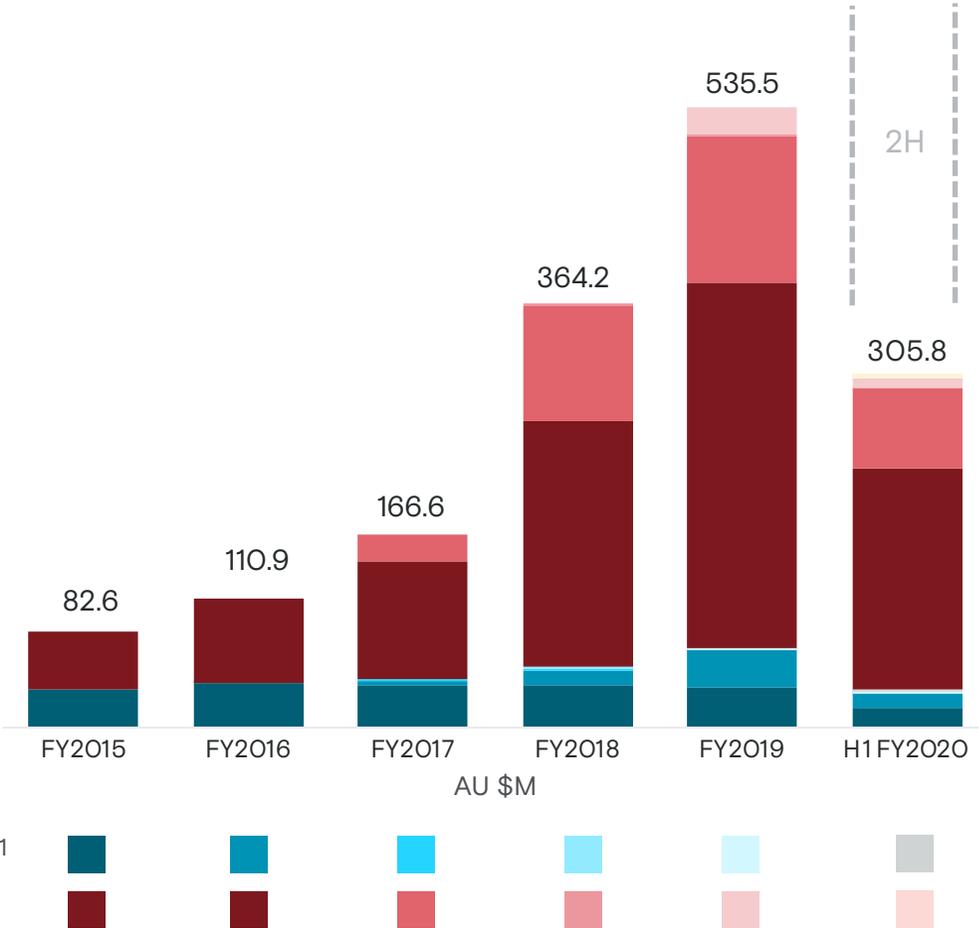
Speech and Image[1]

Relevance[1]

appen + **figure eight**

Personal use only

- Platform plus crowd provides full-suite solution
- Breadth of functionality opens markets
- AI scales and automates crowd work
- ACV improves earnings quality

High value combination

4 of 5 major customers

using Appen annotation platform (former Figure Eight platform)

US$80M annual commitment

Enterprise-wide platform agreement with existing major customer

405% ACV increase

in 1H 2020 to $103M

75% increase in committed revenue

in 1H 2020

New customer wins

Multiple projects in text, audio, image and video

Figure Eight integration substantially complete

Earnout payment of $39M for a total investment of $286.5M

Substantial increase in committed revenue

Annual Contracted Value (ACV) at end of period

USD $ M

- H2 FY2018
- H1 FY2019: 20.4
- H2 FY2019: 25.0
- H1 FY2020: 103.0

Revenue by Type

AU $ M

- H2 FY2018: 211.1
- H1 FY2019: 244.8 — 3%
- H2 FY2019: 290.7 — 7%
- H1 FY2020: 306.2 — 12%

■ Annual contract ■ Project
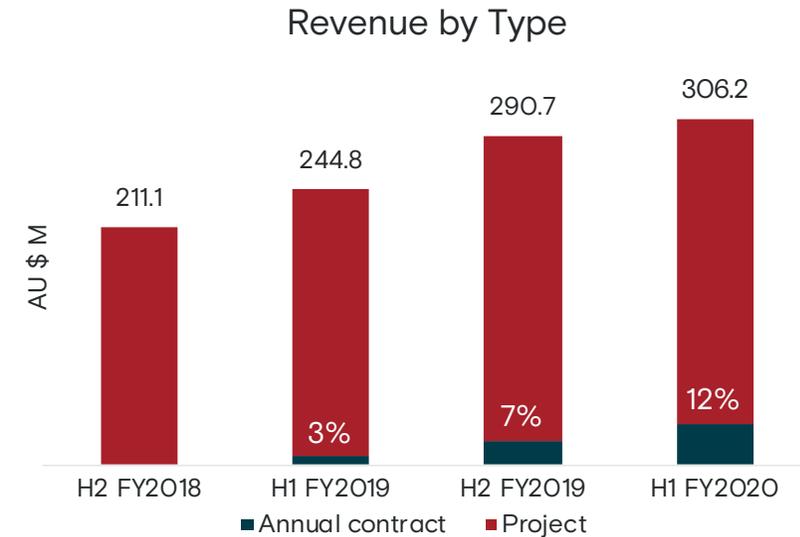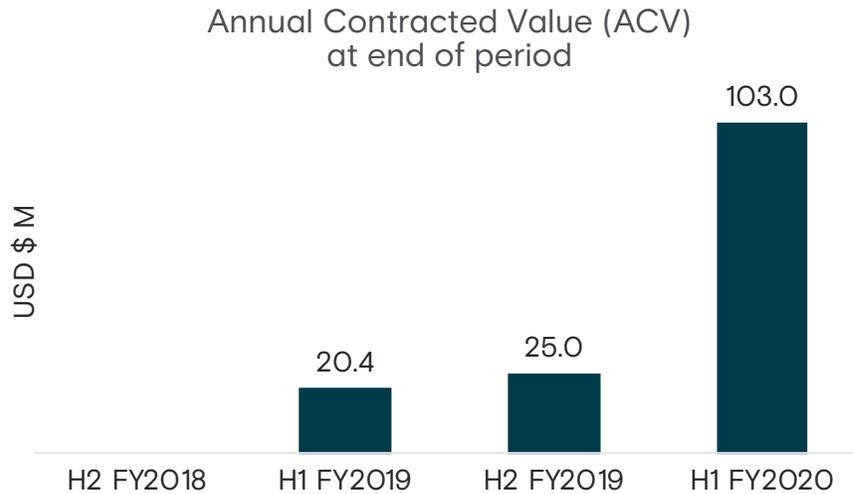
- 405% increase in annual contracted value (ACV) to US $103M
- Increase underpinned by enterprise-wide platform agreement with existing major customer that includes US $80M annual commitment

- 75% increase in committed revenue[1]
- $36.3M of committed revenue in 1H 2020 (12% of total), up from $20.8M in H2 2019 (7% of total)
- New customers wins for bundled software and services ACV

Ongoing investments in future growth

Strong EBITDA growth of 35%
(excluding incremental growth investments)

Waterfall chart (AU$M):
- Underlying EBITDA 1H 2019: 46.3
- Underlying EBITDA Increase 1H 2019 to 1H 2020: 16.2
- Underlying EBITDA 1H 2020 excluding incremental growth investments: 62.5
- +35%
- Sales & Marketing: (8.5)
- China: (3.0)
- Tech: (1.6)
- Government: (0.3)
- Underlying EBITDA 1H 2020 including incremental growth investments: 49.1

Incremental growth investment in 1H 2020
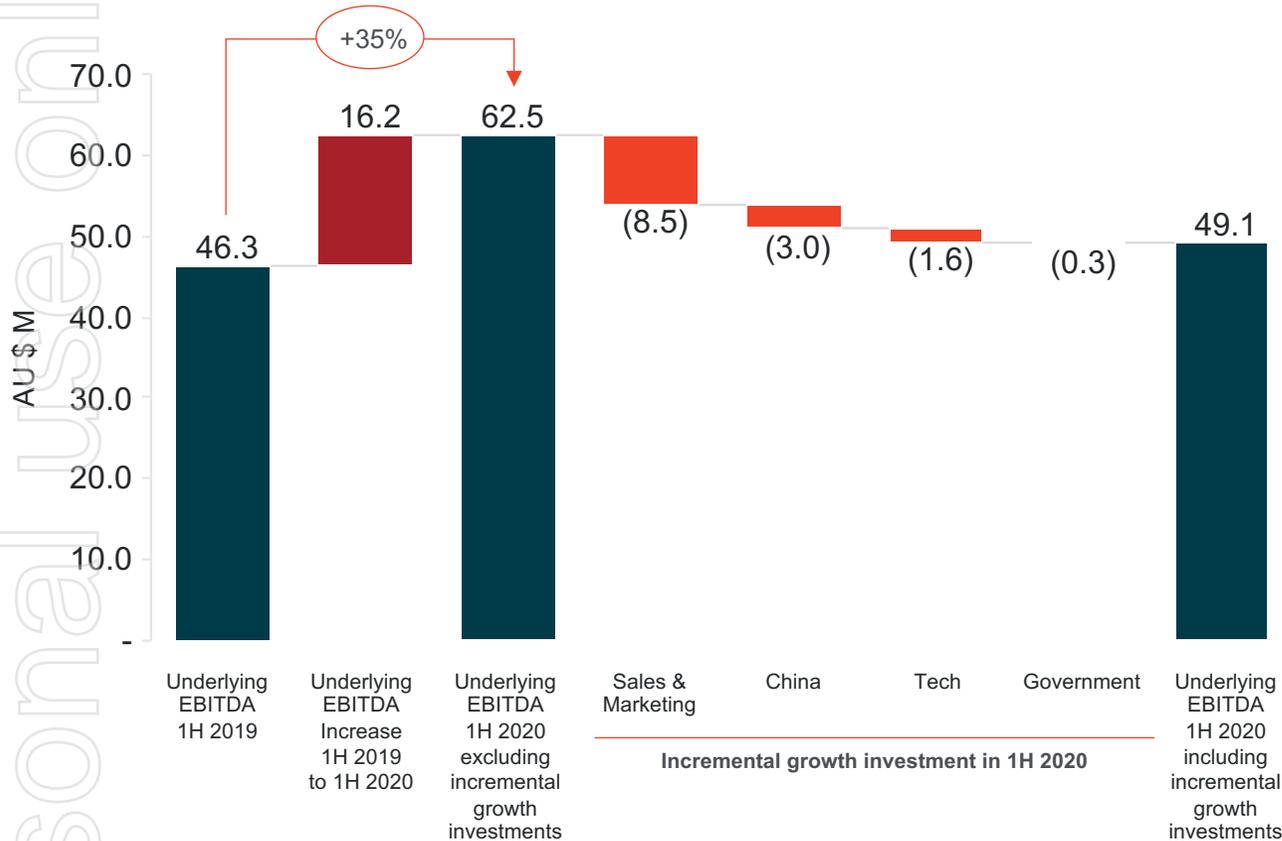
- H1 2020 includes significant growth investments totalling $13.4M
  - Sales and Marketing – to add new customers to improve diversification
  - China – to open a growth market
  - Technology – new and enhanced products to open markets and improve scalability and automation
  - Government – to open a growth market

- H1 2020 EBITDA of $62.5M excluding incremental growth investments, up 35% on 1H 2019

- Limited change to growth investments in the pandemic, taking a long-term focus

10

Growth initiatives

China

China Monthly Revenue YTD 2020

High growth revenue. July 6x January

Customers include Chinese technology giants

Strong position for international data

Growing volume of local data projects

Providing speech, text, image, video and relevance data.

Air-gapped operations and technology stack for privacy and IP protection

Growth initiatives

Build the platform

Accelerate scalability

Crowd management

Client Workspace

Annotation Tools

1. Product breadth

2. Crowd productivity

3. Internal efficiency

Revenue growth and quality
- Increased market share by supporting more use cases and customers
- Diversified customer base and greater stickiness

Improved margins
- Lower cost to serve due to crowd and internal productivity gains

Competitive advantage
- Technology and scale creates competitive moat

Technology

New features opening markets

- 3D point cloud / LiDAR annotation for autonomous vehicles, robotics, manufacturing and retail
- Pixel-level image and video annotation for high-quality computer vision data

AI providing scalability and automation

- Pilot projects in transcription achieving over 100% productivity gains with improved quality
- Workflows with embedded AI to accelerate image and speech data production
- Automated crowd worker onboarding and job matching

Fair pay functionality for crowd workers

Growth initiatives

Global FMCG company

Speech data for ASR for customer service

Global aerospace company

Speech data for ASR for air traffic control

Global fast-food chain

Speech data for ASR for customer service

Online car sales

Image annotation to improve customer service

Online photo provider

Image annotation for search

Global data provider

Image annotation for insurance

Online expert marketplace

Text annotation for natural language understanding

Social network

Text annotation for sentiment analysis

European industrial manufacturer

Speech data for call centre ASR

Sales and Marketing

Significant expansion in global go-to-market team

- US by sector
- Government
- UK / Europe
- Asia Pacific
- China
- Technical experts

New customer wins

- Underpinned by annotation platform

New customers will grow over time

Growth initiatives

Government

Government setup complete

- Prime contractor eligibility
- Experienced team in place
- Washington DC office open
- Air-gapped technology and operations

Business development ongoing

- Growing pipeline of platform and service opportunities
- Known government AI budgets include $5BN in the US[1] and £2.3BN in the UK[2]

1. Bloomberg Government
2. UK Ministry of Defence

Profit and loss

Statutory Results AU $M	H1 FY2020	H1 FY2019	% change	% change constant currency
Relevance	273.9	204.9	34%	24%
Speech & Image	31.9	39.9	-20%	-25%
Other	0.4	0.3		
Total Revenue	**306.2**	**245.1**	**25%**	**16%**
Statutory EBITDA	**50.9**	**35.3**	**44%**	**34%**
Underlying EBITDA	**49.1**	**46.3**	**6%**	**-2%**
Underlying EBITDA Margin	16.0%	18.9%		
Statutory NPAT	**22.3**	**18.6**	**20%**	**8%**
Underlying NPAT	**28.9**	**29.6**	**-3%**	**-12%**

Revenue up 25%

- Continued strong growth in Relevance
- Speech & Image revenue mainly impacted by cyclicality and pandemic
- Growth largely driven by current projects with existing customers supported by some new projects from existing and new customers

Underlying EBITDA up 6%[1]

- EBITDA margins reduced to 16.0% from 18.9% due to growth investment of $13.4m. Excluding this investment, underlying EBITDA is up 35.0% with margin of 20.4%

Underlying NPAT down 3%[2]

- Impacted by growth investment of $10.3M (net of tax) and increased amortisation. Excluding this, underlying NPAT is up 32.4%
- Effective tax rate reduced to 23.3% from 28.2% mainly due to tax effect relating to share based payments. Normalised tax rate (excluding share-based payment related items) ~28%

1. Underlying EBITDA excludes transaction costs, acquisition related share based payment expenses and fair value adjustments (consideration adjustments) for the Figure Eight earn out liability
2. Underlying NPAT excludes after tax impact of items relating to acquisitions, including amortisation of identifiable assets, share based payment expenses, transaction costs and fair value adjustments (interest unwind and consideration adjustments) for the Figure Eight earn out liability

Balance sheet

AU $M	Jun-20	Dec-19
Cash	126.0	75.3
Receivables	62.0	116.3
Other Current Assets	34.6	11.0
Non-Current Assets	439.2	431.5
Total Assets	**661.8**	**634.1**
Current Liabilities	86.4	128.8
Borrowings	34.1	–
Non-current Liabilities	31.0	23.5
Total Liabilities	**151.5**	**152.3**
Net Assets	**510.3**	**481.8**
Total Equity	**510.3**	**481.8**

- Strong balance sheet
- $126M in cash at 30 June 2020
- Decrease in receivables relates to receipt timing (refer Cash Flow slide)
- Non-current assets include Goodwill of $294.4M and identifiable intangible assets (IIA) of $107.4M. Reviewed for impairment, with significant headroom
- Borrowings relate to Figure Eight earn out payment. Repaid since period end
- Interim dividend of 4.5 cps, 50% franked, up 12.5% from 1H 2019

Cashflow

AU $M	H1 FY2020	H1 FY2019
Receipts	334.4	233.3
Payments and other	(259.0)	(190.6)
Cash flow from operations before interest and tax	**75.4**	**42.7**
Net Interest	(0.4)	(0.4)
Taxes	(3.4)	(10.5)
Total Cashflow from Operations	**71.6**	**31.8**
Cashflows – Investment Activities	(50.7)	(242.7)
Cashflows – Financing Activities	30.1	241.8
Net Cashflows for the period	**51.0**	**30.9**
Opening cash balances	75.3	40.0
FX Impact	(0.3)	(0.1)
Closing cash balances	**126.0**	**70.8**

- Cash balance increased by $55.2M
- Positive impact from receipt timing (Expected Dec 19 receipts received in Jan 20 and some expected Jul 20 receipts received in Jun 20)
- Cash flow from operations increased by 77% and remains strong
- Cash used to pay tax, dividends, capex, opex and growth investments
- Cash conversion from EBITDA remains strong at 154%

Cash flow reconciliation ($M):

AU $M	H1 FY2020	H1 FY2019
Underlying EBITDA	49.1	46.3
Working capital	26.3	(3.6)
Cash flow from operations before interest and tax	75.4	42.7
Underlying EBITDA cash conversion	**154%**	**92%**

Currency

Revenue (A$M)

■ Increase ■ Decrease ■ Total

- H1 FY2019: 245.1
- Currency Neutral Growth: 39.3
- Currency Impact: 21.8
- H1 FY2020: 306.2

Underlying EBITDA (A$M)

■ Increase ■ Decrease ■ Total

- H1 FY2019: 46.3
- Currency Neutral Growth: -0.8
- Currency Impact: 3.6
- H1 FY2020: 49.1
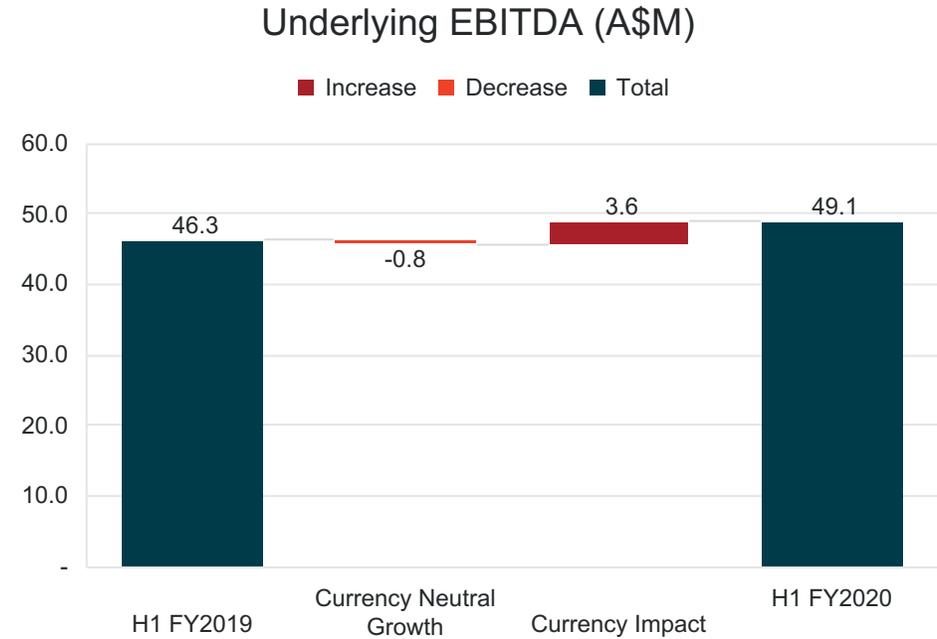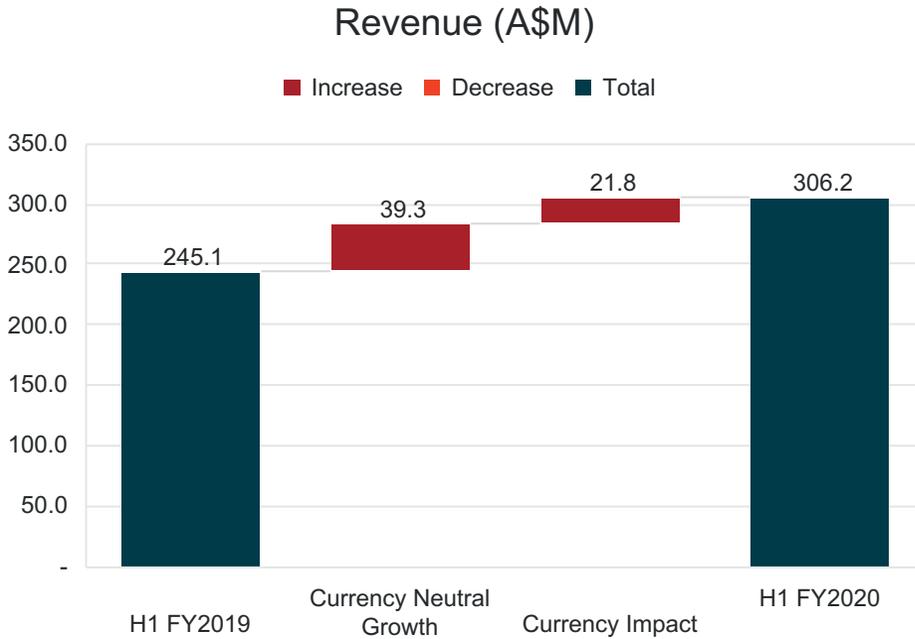
- Almost all revenue and earnings derived offshore, mainly USD
- Meaningful currency impact but less than the impact in the prior corresponding period
- H1 FY19 Impact – revenue: $19.7M or 12.9%; underlying EBITDA: $4.7M or 18.4%

Capital management guidelines

Organic growth

- Appen will continue to invest in new and existing markets and capabilities in support of its growth strategy.

Acquisitions

- The company will pursue M&A opportunities that support its growth strategy and satisfy investment criteria.

- Minority investments will be considered in attractive, early stage and forward-facing opportunities.

- Acquisitions to be funded with available cash, debt and/or equity with a preference to cash and debt to minimise dilution.

Debt

- Debt excluding M&A not to exceed 1x EBITDA.

- Debt to fund M&A plus non–M&A debt not to exceed 2x combined EBITDA

- The company will use its excess cashflow to reduce debt but maintain facilities for optionality

Dividends

- Unless required for M&A or other investment, the company will target a dividend in the range of 20% to 40% of underlying NPAT

- Dividends are at discretion of the Board of Directors.

Delivering non-financial outcomes

Environmental

- Low environmental footprint
- Investment in carbon offsets to be made in 2020

Social

- Member of Global Impact Sourcing Coalition
  - Jobs for disadvantaged communities
- Member of World Economic Forum Global AI Council
  - Standards for responsible AI
- Crowd Code of Ethics for fair treatment of workers
- Translators Without Borders – pandemic language data for at-risk communities

Governance

- Added US-based NED to increase independence and add market knowledge
- Phased implementation of enhanced reporting based on Integrated Reporting Framework (IIRC)

Strong demand tailwinds

US e-commerce penetration, %

10 years' growth in 3 months

35%

30%

25%

20%

15%

10%

5%

0%

2009 2011 2013 2015 2017 2019

Pandemic accelerating growth in advantaged sectors

- Technology
- Ecommerce
- Pharmaceuticals

- Logistics/delivery
- Entertainment streaming and gaming
- Contactless anything

AI and training data at the core of most advantages

- Ecommerce product search and recommendation
- Speech and natural language: on-line communication at scale
- Computer vision: contactless manufacturing, logistics and retail

Market shift to work-from-home

1.

Positioned to win

Market leading position

AI-enabled technology platform that opens markets and improves scalability and automation

On-demand 1M+ crowd, covering 180 languages, 70K locations, 130 countries

Highly skilled, resilient and experienced staff

Proven, scalable and uninterruptible at-home business model

24 years of operations

Growth investments yielding benefits

$126M of cash at 30th June 2020, net debt positive and cash conversion of 154% of underlying EBITDA

Near term pandemic impact

Small business impact

Annual Contracted Value (ACV) at end of period

USD $ M

| | H2 FY2018 | H1 FY2019 | H2 FY2019 | H1 FY2020 |
| Value | | 20.4 | 25.0 | 103.0 |
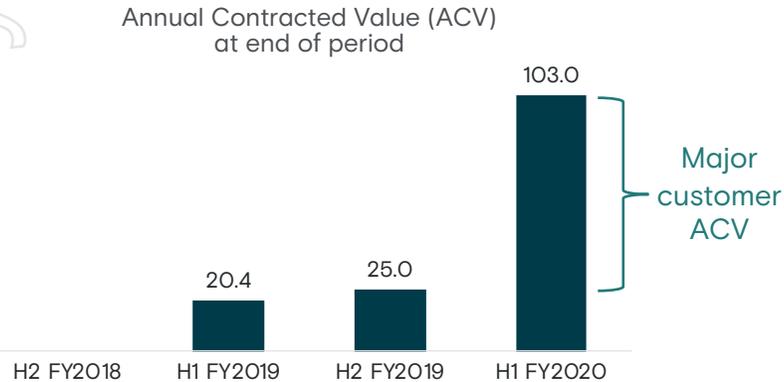
Major customer ACV

- Small customers under pressure
- Renewals deferred
- Discounts offered
- Small customer ACV effectively flat in 1H 2020

New business impact

Speech & Image Revenue Half on Half

AU $ M

| 1H15 | 1H16 | 1H17 | 1H18 | 1H19 | 1H20 |
| 13.1 | 18.8 / 18.4 | 19.3 / 20.7 | 19.6 / 21.5 | 29.9 / 39.9 | 27.8 / 31.9 |
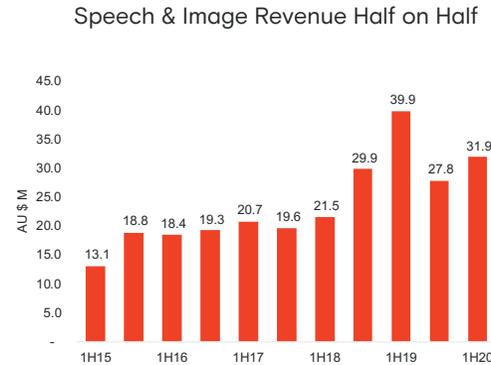
- New business and data collection impacted by pandemic
  - No face to face data collection
  - Projects re-prioritized
  - Decisions delayed
  - Customers adjusted to work-from-home

Global Online Ad Spending[1]

US $ BN

2017	2018	2019	2020	2021	2022	2023	2024
252	293	325	333	389	441	485	526
	17%	16%	2%	17%	13%	10%	8%

Digital ad spend (US$b) — % change YoY

- Search and social media platforms rely on online ad spend.
- Slowdown in global online ad spend in 2020. Forecast to rebound strongly in 2021
- Lower ad spend to have a small impact on ad-related relevance projects in 2H 2020

23

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Outlook

- Appen continues on its long-term growth trajectory

- Positioned to win in a high growth market that will accelerate post-pandemic

- No material change to growth investments. Taking a long-term focus

- Pandemic to have a small impact on 2H revenue

- Guidance maintained based on current information:

    - YTD revenue plus orders in hand for delivery in FY20 of ~$475M at August 2020

    - The Company's full year underlying EBITDA for the year ending Dec 31st, 2020 is expected to be in the range $125M - $130M (at A$1 = US$0.70, Aug-Dec 2020)

    - Full year underlying EBITDA margins at high teen percentages

Outlook susceptible to upside or downside from factors including timing of work from major customers and Australian dollar fluctuations.

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Thank you

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