**appen**

**ASX ANNOUNCEMENT**

24 February 2021

**INVESTOR PRESENTATION**

Further to the Company's announcement to the market today on its results for the year ended 31 December 2020, please find attached the presentation to be delivered to investors and analysts this morning.

**Authorised for release by the Board of Appen Limited.**

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Real world AI

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**Appen Limited**

2020 Full Year Results Presentation

24 February 2021

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# Artificial intelligence...

Appen makes AI work in the real world by delivering high-quality training data at scale.

Our clients include the world's largest technology companies, global leaders in automotive, financial services, retail, healthcare, and government agencies.

**...informed by Appen.**

# Making AI work in the real world

## Search
**3.5bn+**

online searches per day

## Drive
**40** terabytes

of data for every eight hours of autonomous driving

## Immerse
**1 in 5**

US consumers used virtual reality (VR) in 2020

## Chat
**30%**

annual growth in the chatbot market

## Interact
**128m**

people in the US will use a voice assistant at least monthly

## Shop
**21%+**

of total retail sales in the US are online

Sources: Internet Live Stats 2020, Auto Tech Review 2020, ARtillery Intelligence 2020, Markets and Markets 2019, eMarketer 2020, Digital Commerce 360 2021.

# Solid growth maintained in FY20

| A$ | FY2020 | vs FY2019 |
|---|---|---|
| Group revenue | **$599.9M** | **+12%** |
| Relevance | $538.2M | +15% |
| Speech & Image | $61.2M | -10% |
| Underlying EBITDA[1] | **$108.6M** | **+8%** |
| Underlying EBITDA margin | 18.1% | vs 18.8% |
| Dividend per share | **10.0c** | **+11%** |

High growth and performance in 1H20

Moderated in 2H20 due to strong Australian dollar and COVID-19 impacts including:

- impact of lower digital ad revenue and uncertain outlook on customer spend
- deferral and reprioritisation of projects
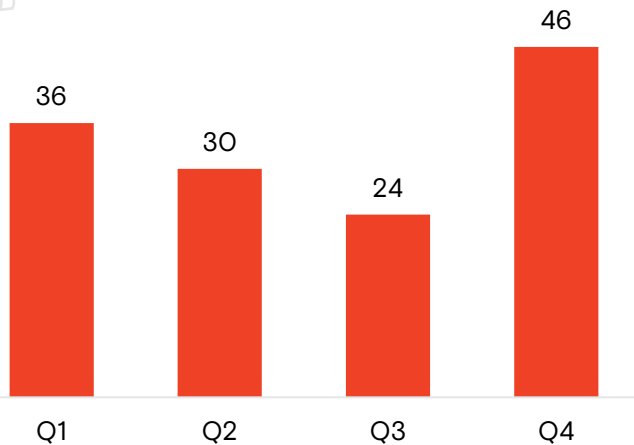- restricted face-to-face sales and customer engagement

Strong balance sheet - $78M in cash and no debt as at 31 December 2020

Final dividend of 5.5cps and interim dividend of 4.5cps, both 50% franked

1. Underlying EBITDA excludes transaction costs, acquisition related share based payment expenses and fair value adjustments (consideration adjustments) for the Figure Eight acquisition

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# New customer and project wins strengthen our position

**Customer wins**



36  30  24  46
Q1  Q2  Q3  Q4

**Project wins**

**+34%**
in 2020

**China revenue**
A$M

+60% QoQ

0.7  1.3  1.9  2.8
Q1  Q2  Q3  Q4

- 136 new customers in 2020

- Multiple industries, geographies, data modalities and use cases

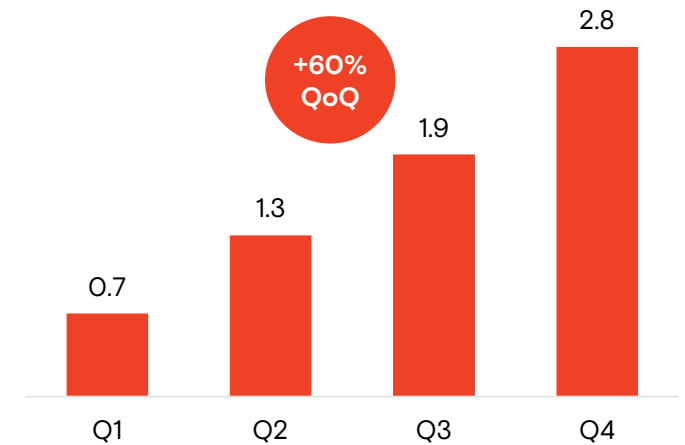- Growth enabled by sales and marketing investment and annotation platform capabilities

- 34% increase in projects with existing major customers

- Customer use of our annotation platform is growing, enabling more data types and use cases, tighter integration and greater retention

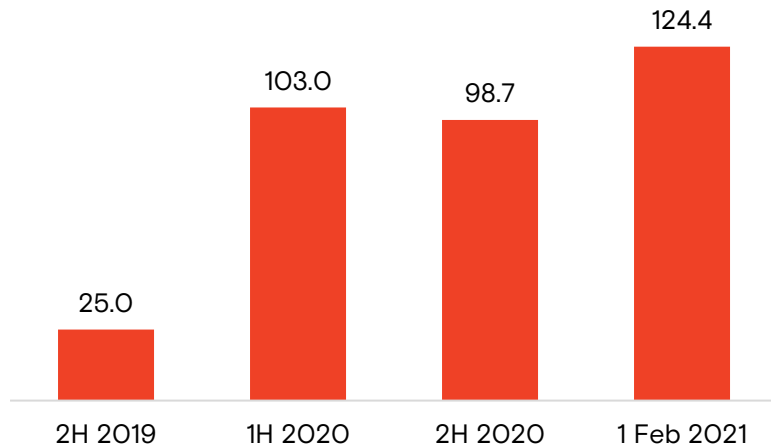- Capabilities aligned with customers' new product development priorities

- China revenue growth 60% quarter on quarter

- Customers include major Chinese technology players plus autonomous vehicle, health and education companies

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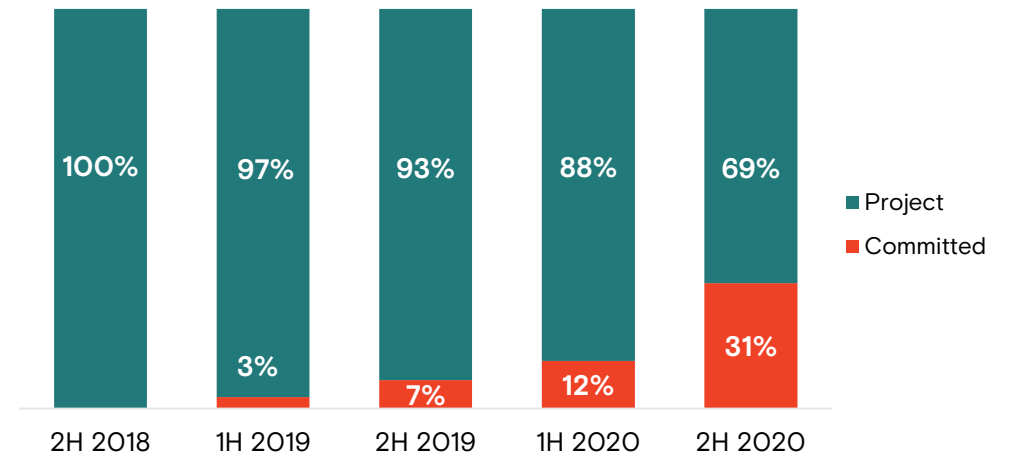# Ongoing growth in committed revenue

## Annual contract value (ACV)
At end of period
US$M



- 399% increase in ACV to US$124.4M (1 Feb 21 v 2H19)

- Increase underpinned by expansion of enterprise-wide platform agreement with existing major customer

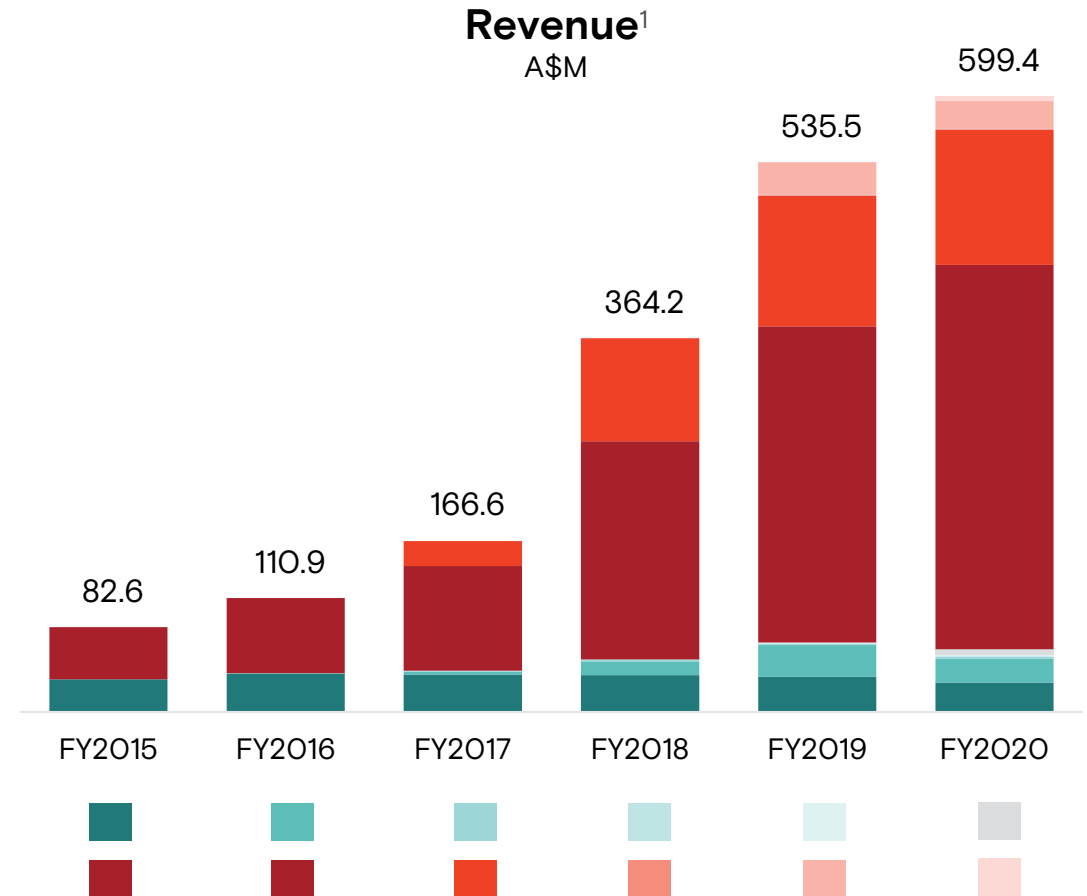- Some smaller customers continued to be impacted by COVID-19 in 2H20

## Revenue by type
A$M



- 343% increase in committed revenue (2H20 v 2H19)

- $92.0M of committed revenue in 2H20, 31% of total – up from $36.3M in 1H20, 12% of total

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# Growth from new and long-standing customers

- Major programs are highly retentive

- Continued growth in major customers

- Adding new customers each year to diversify the customer base

**Revenue**[1]
A$M



Speech & Image[2]

Relevance[2]

FY2015 — 82.6
FY2016 — 110.9
FY2017 — 166.6
FY2018 — 364.2
FY2019 — 535.5
FY2020 — 599.4

1. Excludes interest and other income.
2. Chart shows revenue by cohort in year of origination and each successive year thereafter.

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# Relevance growth continues

**Relevance**
A$M



**Relevance growth**
A$M
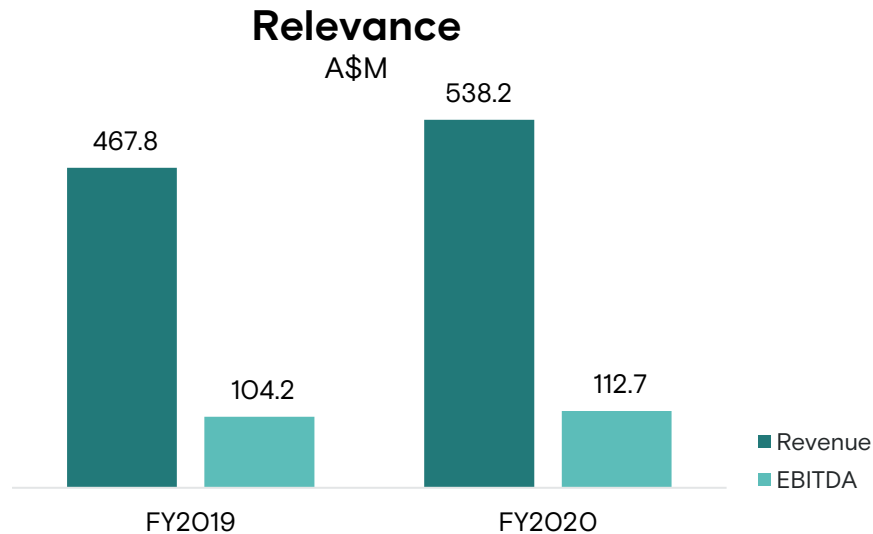


- Revenue $538.2M, up 15%

- EBITDA up 8% to $112.7M, including growth investments

- 2H2O growth impacted by COVID-19 re-shaping customers' activities and priorities

- Continued to deliver high-quality data during pandemic due to resilience and strength of remote work crowd model (1 million+ crowd, 170+ countries)
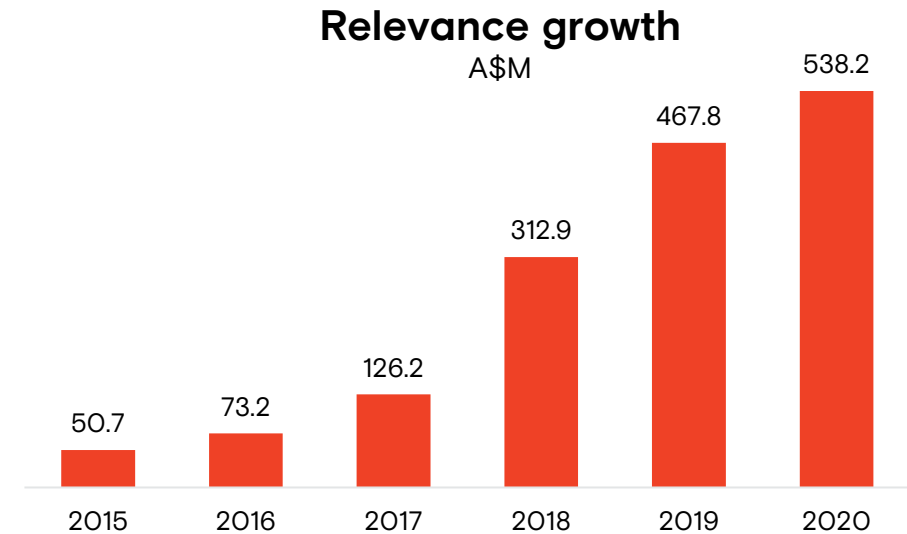
- 60% CAGR FY15–FY2O

- Core projects ongoing, significant wins in new markets and sectors

- Relevance continues to demand skilled, diverse human annotators at-scale and ongoing data refresh

- Less amenable to automation, insourcing

- No material change in competitive landscape

- Investing in crowd management technology and processes to increase productivity

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# Speech & Image impacted by project timing

**Speech & Image**
A$M
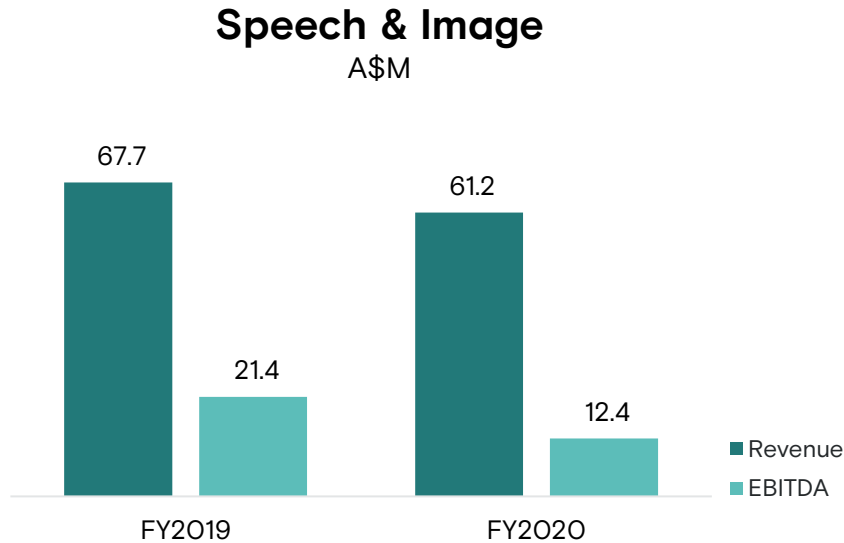


- Revenue $61.2M, down 10%
- Revenue cyclicality due to product life cycle, timing of customer investment
- New business activity hampered by COVID-19
- EBITDA down 42% due to lower revenue and impact of growth investments

**Speech & Image**
A$M
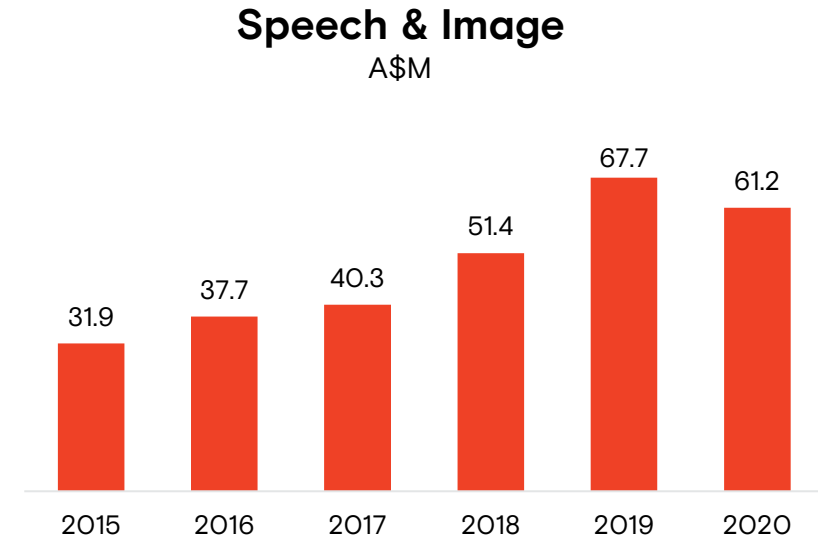


- 14% CAGR FY15-20
- Multiple new customer wins in 2020
- Increased projects in AR/VR and chatbot growth markets
- Operating structure maintained and well-positioned for next wave of investment and product development

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# Maintaining investments for future growth

**Underlying EBITDA growth of 13%**
ex. FX gains and incremental growth investments
A$M
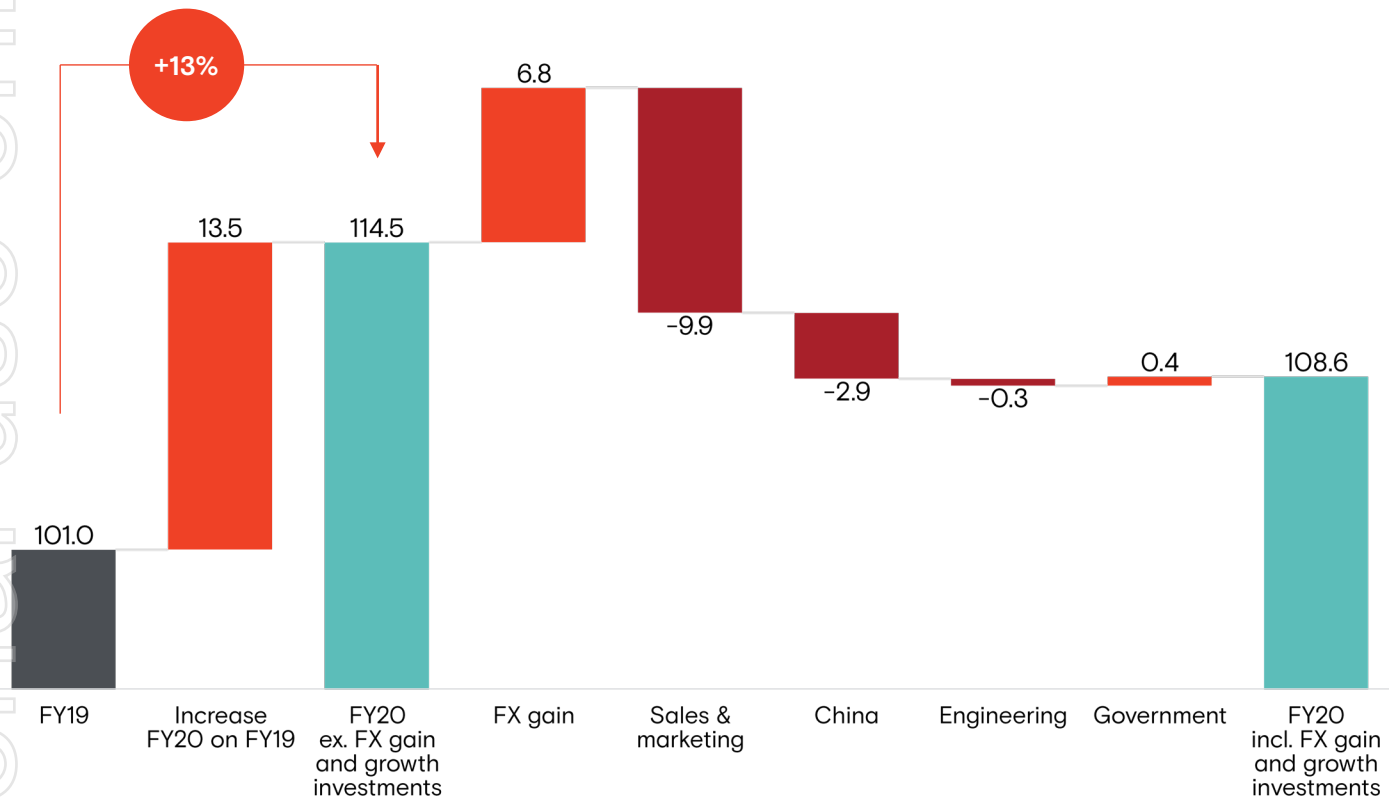


Incremental growth investment in 2020

- FY20 includes significant growth investments totalling $12.7M
  - Sales and marketing – to add new customers to improve diversification
  - China – to open a growth market
  - Engineering investment is normalising
- FX gain of $6.8M due to US$ debt restatement of $4.7M (1H2O: ~$3.6M) and hedge book $2.1M
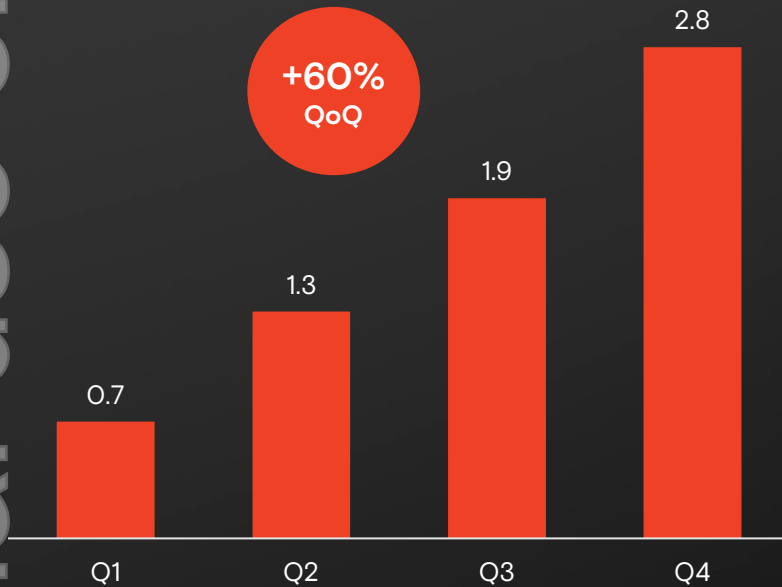
# Growth investments – China

- China revenue growth of 60% quarter on quarter

- Customers include the major Chinese technology players

- Growing position in autonomous vehicles

- Working in all major data modalities

- Gross margins improving quarter on quarter, positive for the year

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

# Growth investments – Sales and marketing

- 136 new customers
- 34% increase in number of projects with major customers
- New customers, projects and use cases in all geographies
- Underpinned by annotation platform

## New customers

| **Payments tech company** | **Medical technology company** | **Financial/banking institute** |
| --- | --- | --- |
| Labelling documents to train OCR models | Classifying images of completed testing devices | Natural language processing for customer support |

| **Writing assistant** | **Robotics system integrator** | **Aviation company** |
| --- | --- | --- |
| Sentiment analysis in messages | Training robotic material handling equipment | Language processing for air traffic control |

| **Autonomous trucking company** | **Vehicle safety system provider** | **Auto manufacturer** |
| --- | --- | --- |
| Image annotation to support autonomous driving | Road positioning and collision avoidance | Natural Language Processing for map data |

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# Growth investments – Technology

## Crowd management

- Appen Connect platform for crowd recruitment, onboarding, management

- AI-driven smart matching connects crowd to projects based on experience and performance

- Speeds project ramp-up and time to value

- Improves recruiter and project manager productivity

## Platform and tools

- Appen annotation platform and tools for at-scale data collection and annotation across data modalities

- AI-assisted annotation for text, speech, image, video and LiDAR, up to 6 times faster

- 3D point cloud annotation for autonomous vehicles

- AI workflow automates and streamlines processes to improve throughput and productivity

## Mobile app

- New mobile app to improve crowd utility and productivity
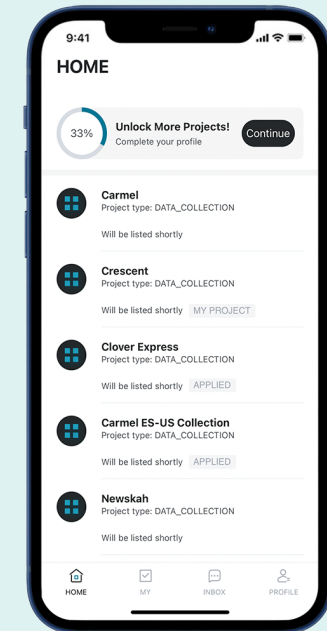
# Growth investments – Government

## Government set up complete

- Prime contractor eligibility

- Experienced team in place

- Washington DC office open

- Air-gapped technology and operations

## 2020 progress

- Hampered by COVID-19 and U.S. presidential election

## Business development ongoing

- Growing pipeline of platform and service opportunities

# Revenue and EBITDA growth

| A$M | FY2020 | FY2019 | % change | % change constant currency |
|---|---|---|---|---|
| Relevance | 538.2 | 467.8 | 15% | 14% |
| Speech & Image | 61.2 | 67.7 | –10% | –11% |
| Other | 0.5 | 0.5 | | |
| **Total revenue** | **599.9** | **536.0** | **12%** | **11%** |
| **Statutory EBITDA** | **107.9** | **87.9** | **23%** | **23%** |
| **Underlying EBITDA[1]** | **108.6** | **101.0** | **8%** | **8%** |
| Underlying EBITDA margin | 18.1% | 18.8% | | |
| **Statutory NPAT** | **50.5** | **41.6** | **21%** | **23%** |
| **Underlying NPAT [2]** | **64.4** | **64.7** | **–1%** | **1%** |

1. Underlying EBITDA excludes transaction costs, acquisition related share based payment expenses and fair value adjustments (consideration adjustments) for the Figure Eight acquisition

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 acquisition

## Revenue up 12%

- Growth largely driven by increase in existing and new Relevance projects with existing customers
- Growth impacted by major customers' response to COVID-19 and the strong AUD in H2 FY20
- Speech & Image revenue mainly impacted by cyclicality and pandemic

## Underlying EBITDA[1] up 8%

- EBITDA margins reduced to 18.1% from 18.8% due to growth investment of $12.7M mainly in sales and marketing and China
- Includes FX gain of $6.8M
- Excluding FX gain and investment, underlying EBITDA is $114.5m up 13% with margin of 19.1%

## Underlying NPAT[2] down 1%

- Impacted by growth investment (net of tax) and increased amortisation
- Effective tax rate reduced to 20.5% from 24.4% mainly due to tax effect relating to share based payments and overseas tax rate differential. Normalised tax rate (excluding share-based payment related items) ~28%

# FX – minimal full year impact, half-on-half swings

**Revenue**
A$M



+$57.9M full year    +$6.0M full year

536.0    39.3    18.6    21.8    −15.8    599.9

FY2019 | H1 Currency neutral growth | H2 Currency neutral growth | H1 Currency impact | H2 Currency impact | FY2020

**Underlying EBITDA**
A$M



+$8.2M full year    −$0.6M full year

101.0    −0.8    9.0    3.6    −4.2    108.6

FY2019 | H1 Currency neutral growth | H2 Currency neutral growth | H1 Currency impact | H2 Currency impact | FY2020
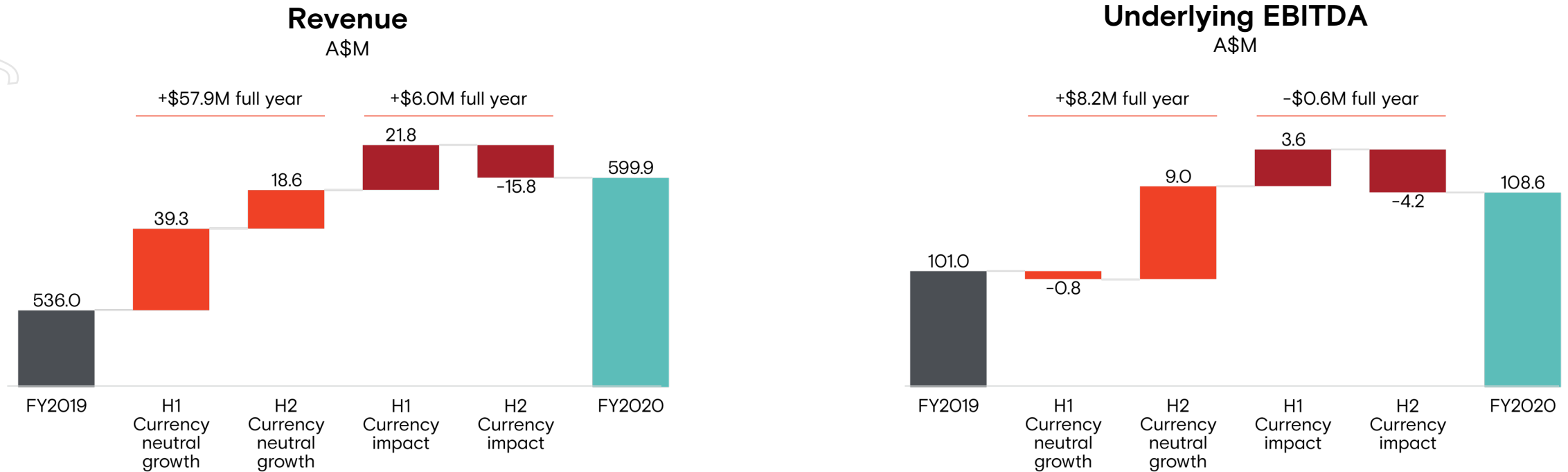
- Almost all revenue and earnings are derived offshore, mainly in US$
- The full year FX impact was not meaningful, however the swings between H1 and H2 were significant:
  - H1 FY20 Impact – revenue: +$21.8M or +7.1%; underlying EBITDA: +$3.6M or +7.3%
  - H2 FY20 Impact – revenue: −$15.8M or −5.4%; underlying EBITDA: −$4.2M or −7.1%

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# Balance sheet continues to strengthen

| A$M | Dec 2020 | Dec 2019 |
|---|---|---|
| Cash | 78.4 | 75.3 |
| Receivables | 65.7 | 116.3 |
| Contract assets | 40.9 | 7.9 |
| Other current assets | 15.8 | 3.1 |
| Non-current Assets | 399.6 | 431.5 |
| **Total assets** | **600.4** | **634.1** |
| Current liabilities | 77.8 | 128.8 |
| Non-current liabilities | 36.7 | 23.5 |
| **Total liabilities** | **114.5** | **152.3** |
| **Net assets** | **485.9** | **481.8** |
| **Total equity** | **485.9** | **481.8** |

- Strong balance sheet, impacted by year end translation at high AUD rate
- $78.4M in cash at 31 December 2020
- Decrease in receivables relates to year end timing related to billing milestones (see increase in Contract assets)[1] and 2019 receipt timing (refer Cash flow slide)
- Non-current assets include Goodwill of $262.8M and identifiable intangible assets (IIA) of $96.6M. Reviewed for impairment, with significant headroom
- Borrowings repaid in August 2020 from cash reserves
- Final dividend of 5.5 cps, 50% franked, up 10% from 2019 final dividend

1. Invoices have since been raised for the majority of contract assets outstanding at 31 December 2020. As at 16 February 2021, 80% of these invoices had been paid.

# Cash flow generation and conversion was strong

| A$M | FY2020 | FY2019 |
|---|---|---|
| Receipts | 597.8 | 488.6 |
| Payments and other | (485.1) | (405.8) |
| **Cash flow from operations before interest and tax** | **112.7** | **82.8** |
| Net interest | (1.6) | (2.0) |
| Taxes | (17.5) | (13.5) |
| **Net cash from operations** | **93.6** | **67.3** |
| Cash flows – investing activities | (67.5) | (256.0) |
| Cash flows – financing activities | (12.8) | 221.9 |
| **Net cash flow for the period** | **13.3** | **33.2** |
| Opening cash balance | 75.3 | 40.0 |
| FX impact | (10.2) | 2.1 |
| **Closing cash balance** | **78.4** | **75.3** |

Numbers are subject to rounding

- Cash balance increased by $3.1M, negatively impacted by translation at high AUD rate
- Positive impact from receipt timing (expected Dec 19 receipts received in Jan 20)
- Cash flow from operations increased by 39% and remains strong
- Cash used to repay debt and pay tax, dividends, capex, opex and growth investments
- Cash conversion from EBITDA was 104%

| Cash flow reconciliation (A$M) | FY2020 | FY2019 |
|---|---|---|
| **Underlying EBITDA** | **108.6** | **101.0** |
| Working capital | (4.1) | (18.2) |
| **Cash flow from operations before interest and tax** | **112.7** | **82.8** |
| **Underlying EBITDA cash conversion** | **104%** | **82%** |

# Creating value for our stakeholders

## Global crowd

**Our goal:** Have a happy, engaged and diverse crowd

Crowd Code of Ethics

- Fair pay
- Inclusion
- Crowd voice
- Privacy and confidentiality
- Communication
- Wellbeing

1 million+ crowd in 170+ countries, expertise in 235 languages

New Crowd Care Team

Crowd NPS 48, up 1 on 2019

## Appen employees

**Our goal:** Make Appen a great place to work

Our values

- Performance
- Honesty
- Humility
- Grit

1,125 employees, up 44%

58% of workforce is female, 30% target for senior leaders

29,380 hours of employee training

Employee engagement 82%, up 6 percentage points on 2019

## Social and environment

**Our goal:** Manage our impacts and make a positive contribution

Responsible AI Standards partnership with the World Economic Forum

COVID-19 translation initiative with Translators without Borders – datasets for 70,000 key COVID terms and phrases for 38 languages

Member of the Global Impact Sourcing Coalition

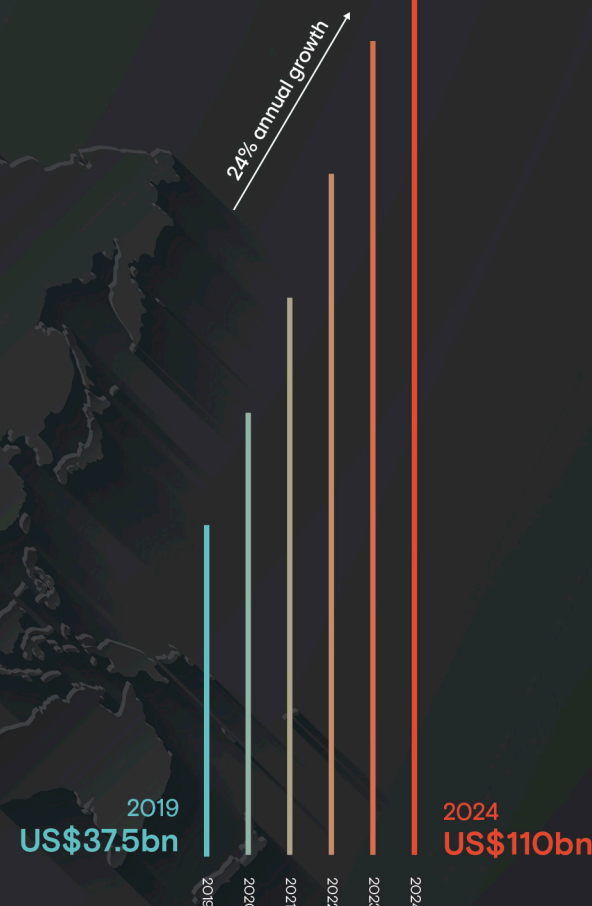New Environment Position Statement

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# Capturing the market opportunity

The growth in AI-enabled products and services highlights the growing demand for quality training data.

**Global spend on AI**

## $110bn
by 2024

24% annual growth

2019
**US$37.5bn**

2024
**US$110bn**

2019 2020 2021 2022 2023 2024

## Accelerators

Growth in online advertising

E-commerce acceleration

Uptake of voice interface systems

New AI use case adoption

Autonomous driving

Automated machine learning (AutoML) for model building

Source: Global spend on AI – IDC Worldwide Artificial Intelligence Spending Guide 2019 and 2020

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# Outlook

- While providing guidance is challenging given near-term uncertainty, we remain committed to transparency

- Year-to-date revenue plus orders in hand of ~A$240M at February 2021, consistent with prior year methodology and timing

- 1H21 earnings growth will be impacted by the near-term challenges, a greater skew in timing of project delivery to 2H21, and the lower pcp cost base

- Underlying EBITDA for FY21 is expected to be in the range of A$120M - A$130M at constant currency[1] representing growth of 18-28% on FY20 underlying EBITDA (ex. FX gain) of $101.8M

- This is equivalent to an underlying EBITDA range for FY21 of US$83M - US$90M representing growth of 17-27% on FY20 underlying EBITDA (ex. FX gain) of US$70.7M

- Full year EBITDA margins at high teen percentages

## Near-term challenges

- Strong Australian dollar

- Impact on major customers' priorities and resource allocation due to:
  - uncertainty re post COVID-19 economic trends
  - evolving regulatory environment
  - new product development

## Strongly positioned for the long-term

- AI-industry tailwinds – growing adoption, use cases

- Largest global player – crowd, technology, expertise

- Growth investments delivering new customers, more projects, growth in China, higher ACV

- AI-enabled technology platform opening new markets and delivering automation and scalability

- Adapting in sync with our major customers - capabilities aligned with their evolving needs

1.     FY20 constant currency A$1 = US$0.6904.

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