

ASX ANNOUNCEMENT

21 November 2023

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

Appen announces October trading update and fully underwritten A\$30m equity raising ("Equity Raising")

- Appen provides FY23 trading update as at 31 October 2023
- Appen remains committed to return to profitability with additional \$14 million of cost reduction, bringing total run-rate cost reduction initiatives that have been or will be implemented over 2023 to \$60 million
- Equity Raising is comprised of a ~A\$23.6 million 1 for 3.65 pro rata accelerated non-renounceable entitlement offer and a ~A\$6.4 million institutional placement
- Proceeds will be used to provide balance sheet flexibility and general working capital to support Appen's return to profitability, and transaction costs

Appen Limited (Appen) (ASX:APX) provides the following FY23 trading update as at 31 October 2023.

On 28 August 2023, Appen announced that it continued to face headwinds from the broader technology market slowdown and as customers evaluate their AI strategies.

Appen notes that the challenging external operating and macroeconomic conditions that were noted at the announcement of its 1H FY23 results have persisted into 2H FY23. As a result, Appen provides the following unaudited FY23 financial update for the ten months ending 31 October 2023¹:

- Revenue October YTD of \$223.0 million (29.3% below pcg)
- Gross profit October YTD of \$80.4 million (32.8% below pcg)²
- Underlying EBITDA (excl FX) October YTD of (\$23.8) million (vs pcg of \$9.9 million)³
- Underlying cash EBITDA (excl FX) October YTD of (\$32.8) million (vs pcg of (\$4.8) million)⁴

¹ All amounts stated are in US\$ and all prior period comparisons are to the 10 months ended 31 October 2022. The financial figures as at 31 October 2023 are based on unaudited management accounts.

² Gross profit refers to revenue less crowd expenses.

³ Underlying results are a non-IFRS measure used by management to assess the performance of the business and are calculated from statutory measures. Non-IFRS measures are not subject to audit. Underlying EBITDA excludes restructure costs, transaction costs, inventory losses and acquisition-related and one-time share-based payments expenses.

⁴ Underlying cash EBITDA is underlying EBITDA less capitalised software development expenses plus non acquisition-related share-based payment expenses.

Further, Appen provides the following monthly unaudited revenue, underlying EBITDA (excluding FX) and underlying cash EBITDA (excluding FX) update for the months of July, August, September and October 2023⁵.

	July 2023	August 2023	September 2023	October 2023
Revenue	\$20.8m	\$20.5m	\$20.8m	\$21.9m
<i>Vs pcp</i>	<i>(34.3%)</i>	<i>(37.8%)</i>	<i>(36.2%)</i>	<i>(37.6%)</i>
Underlying EBITDA (excl FX)	(\$2.3m)	(\$3.1m)	(\$2.1m)	(\$0.6m)
<i>Pcp (FY22)</i>	<i>(\$3.0m)</i>	<i>(\$0.5m)</i>	<i>\$1.2m</i>	<i>\$2.6m</i>
Underlying cash EBITDA (excl FX)	(\$2.7m)	(\$3.4m)	(\$2.5m)	(\$1.0m)
<i>Pcp (FY22)</i>	<i>(\$4.0m)</i>	<i>(\$2.3m)</i>	<i>(\$0.6m)</i>	<i>\$1.3m</i>

Appen notes that the cost initiatives implemented to date are starting to result in improvements to underlying EBITDA (excluding FX) and underlying cash EBITDA (excluding FX) as evidenced by the improvement in October 2023.

Appen's cash balance was \$20.5 million as at 31 October 2023⁶.

Continued focus on cost reduction and other initiatives

Appen remains focused on returning to profitability and its commitment to managing costs in line with the revenue opportunity. In keeping with this, Appen today announces that it has implemented measures to achieve a further \$14 million in annualised cost savings that are incremental to the \$46 million of cost reduction initiatives that were announced on 10 May 2023.

This will result in total annualised cost savings of \$60 million from initiatives that have been or will be executed over the course of FY23. The first full year benefit of these cost savings is expected to be realised in FY24.

Appen has completed 100% of the \$46 million of cost reduction initiatives announced on 10 May 2023. The majority of the further \$14 million of cost savings will be achieved by the end of November 2023.

Following implementation of these initiatives and those announced on 10 May 2023, Appen expects to exit FY23 with an annualised run-rate cash operating cost base of approximately \$99.0 million⁷. This includes capitalised software development costs of

⁵ All amounts stated are in US\$ and monthly prior period comparisons are to the corresponding month in 2022. The financial figures for each month are based on unaudited management accounts.

⁶ Based on unaudited management accounts.

⁷ Based on annualisation of expected cost base in December 2023. Excludes impairment losses, crowd labelling services, share based payments, depreciation and amortisation, transaction, finance and restructure costs and the impact of foreign exchange losses. Includes STI at the current assumed level for FY23.

approximately \$7.9 million and excludes non-cash share-based payment expenses of approximately \$3.6 million⁸. Refer to Appendix A for further detail.

Appen's CEO Armughan Ahmad said: "We remain focused on our strategic refresh during this challenging external environment. We are taking action on the items that are within our control and, notably, we have taken steps to remove more cost than previously announced. We remain committed to returning to cashflow profitability notwithstanding the weaker revenue environment. The Equity Raising is necessary to support the company to achieve this in the current environment."

Further, and notwithstanding the highly challenging external operating environment it currently faces, Appen's Board is continuously assessing initiatives and opportunities to realise value for shareholders, including responding to third party interest in its businesses. This may include partnering, a strategic investment by a third party, or sale propositions for part or all of its business. While to date no proposals have emerged which the Board has determined to take forward, and there is no guarantee that such a proposal or proposals will emerge in the future, the Board will be prepared to engage with potential counterparties should a transaction be proposed which, if implemented, the Board considers would be in the best interests of shareholders.

Outlook

Notwithstanding the weaker revenue environment, Appen remains focused on returning to underlying EBITDA and underlying cash EBITDA profitability on an annualised, run-rate basis^{9,10,11}. The additional cost out initiatives recently implemented and those announced are expected to enable Appen to return to underlying EBITDA and underlying cash EBITDA profitability at or around the end of FY23 on an annualised, run-rate basis, assuming an expected revenue improvement in November and December.

As previously stated in the 3 October 2023 ASX announcement, Appen expected the Quadrant earn-out liability to be no greater than \$5 million. Appen has agreed with the vendors of Quadrant to issue ordinary shares (~\$3.75m) and warrants (~\$1.25m) to meet this liability on or around 1 January 2024 (subject to any extension agreed between the parties).

Mike Davie, Appen's Chief Product Officer and Quadrant's founder and SVP, will in part receive ordinary shares (as for the other vendors). Separately, for greater alignment of interests, Mike Davie will in part also be issued warrants and the warrants will vest and are exercisable from 1 January 2025 (or earlier in certain circumstances).

Following completion of the Equity Raising, Appen intends to host an Extraordinary General Meeting in 1Q FY24 to amongst other things, seek shareholder approval to

⁸ It is anticipated non-cash share-based payment expense will be higher in FY24 than FY23, these non-cash payments are at the discretion of the Board

⁹ Underlying results are a non-IFRS measure used by management to assess the performance of the business and are calculated from statutory measures. Non-IFRS measures are not subject to audit. Underlying EBITDA excludes impairment losses, restructure costs, transaction costs, inventory losses and acquisition-related share-based payments expenses.

¹⁰ Underlying cash EBITDA is underlying EBITDA less capitalised software development expenses plus non acquisition-related share-based payment expenses.

¹¹ Based on full year gross profit expectations for 2023 less the annualised run-rate cash cost base of approximately \$99.0 million on a cash basis and/or \$94.7 million on a P&L basis. See Appendix A for further detail.

facilitate awards under its Long Term Incentive Plan. Details of the plan, once determined, will be provided in a notice of meeting in due course.

Management changes

Appen notes there have been further changes to its executive team. Saty Bahadur, Appen's Chief Technology Officer has left the company. Mike Davie, Chief Product Officer and GM of Quadrant will oversee the technology and engineering functions on an interim basis. Appen has also appointed Alicia Hale as its new Chief Marketing Officer. She will report to Andrew Ettinger.

Equity raising

Appen today announces a A\$30 million equity raising to support the business in its effort to return to profitability. Revenue conditions have deteriorated further than what was expected at the time of the previous ~A\$60 million equity raising that was announced on 16 May 2023. The Equity Raising will provide Appen with headroom to return to profitability.

Appen has no current intention to draw or extend its A\$10 million working capital facility prior to its expiry on 3 January 2024.

The proceeds of the Equity Raising will be used to provide balance sheet flexibility and general working capital to support Appen's return to profitability, and transaction costs.

The Equity Raising will consist of an offer of fully paid ordinary shares ("**New Shares**") through:

- A 1 for 3.65 pro rata accelerated non-renounceable entitlement offer ("**Entitlement Offer**") to existing eligible shareholders to raise ~A\$23.6 million; and
- An institutional placement ("**Placement**") to raise ~A\$6.4 million.

The Equity Raising price of A\$0.55 per share represents a:

- 35.1% discount to the theoretical ex-rights price of A\$0.85 ("**TERP**")¹²
- 42.1% discount to Appen's last closing price of A\$0.95 on 20 November 2023.

Approximately 54.5 million New Shares will be issued under the Equity Raising, representing ~34.8% of Appen's existing shares on issue.

The New Shares will rank equally with existing shares on issue. The Equity Raising is fully underwritten.

Institutional Offer

The Institutional Entitlement Offer and the Placement (together, the "**Institutional Offer**") will be undertaken on 21 November and 22 November 2023. The Institutional Entitlement

¹² TERP is the theoretical ex-rights price including the Placement shares. TERP is calculated by reference to Appen's closing price of A\$0.95 on 20 November 2023, being the last trading day prior to the announcement of the Equity Raising. TERP is a theoretical calculation only and the actual price at which Appen shares trade immediately after the ex-date of the Equity Raising will depend on many factors and may not be equal to TERP.



Offer will be open to Appen's eligible institutional shareholders, while the Placement will be open to institutional investors.

Eligible institutional shareholders can choose to take up all, part or none of their entitlement as part of the Institutional Entitlement Offer. Institutional entitlements that eligible institutional shareholders do not take up by the close of the Institutional Entitlement Offer, as well as those entitlements of ineligible institutional shareholders, will be offered to eligible institutional shareholders who apply for New Shares in excess of their entitlement, as well as certain other institutional investors, through an institutional shortfall bookbuild to be conducted concurrently with the Institutional Entitlement Offer and Placement.

Retail Offer

The Retail Entitlement Offer will open on Wednesday, 29 November 2023 and close at 5:00pm (Sydney time) on Friday, 8 December 2023. It consists of an offer to eligible retail shareholders with a registered address in Australia or New Zealand as at the Record Date. Retail shareholders can choose to take up all, part or none of their entitlement.

Further details about the Retail Entitlement Offer will be set out in a retail offer booklet ("**Retail Offer Booklet**") which Appen expects to lodge with the ASX on Wednesday, 29 November 2023. Eligible retail shareholders are encouraged to read the Retail Offer Booklet in its entirety, in particular, the risk factors, and should seek financial advice if they are uncertain of whether or not to participate.

All Directors residing in Australia who are existing shareholders on the Record Date have committed to take up their pro rata entitlements under the Retail Entitlement Offer.

Equity Raising timetable¹³

Event	Date
Announcement of the Equity Raising	Tuesday, 21 November 2023
Placement and Institutional Entitlement Offer bookbuild	Tuesday, 21 November 2023 – Wednesday, 22 November 2023
Announcement of results of the Placement and Institutional Entitlement Offer	Thursday, 23 November 2023
Appen shares recommence trading	Thursday, 23 November 2023
Entitlement Offer Record Date (7.00pm Sydney time)	Friday, 24 November 2023

¹³ These dates are indicative only and are subject to change. Appen, reserves the right, subject to the Corporations Act 2001 (Cth) and the ASX Listing Rules, to amend this indicative timetable. In particular, Appen reserves the right to extend the Equity Raising timetable and to withdraw or vary the Placement or Entitlement Offer without prior notice. Any extension of the Equity Raising timetable will have a consequential effect on the date for the allotment and issue of New Shares. Appen will consult with the underwriter in relation to any proposed change to this indicative timetable and any such change will require the consent of the underwriter.

Retail Entitlement Offer opens (Retail Offer Booklet made available to eligible retail shareholders)	Wednesday, 29 November 2023
Settlement of New Shares issued under the Placement and Institutional Entitlement Offer	Friday, 1 December 2023
Allotment and trading of New Shares issued under the Placement and Institutional Entitlement Offer	Monday, 4 December 2023
Retail Entitlement Offer closes (5.00pm Sydney time)	Friday, 8 December 2023
Settlement of New Shares issued under the Retail Entitlement Offer	Thursday, 14 December 2023
Allotment of New Shares issued under the Retail Entitlement Offer	Friday, 15 December 2023
Commencement of trading of New Shares issued under the Retail Entitlement Offer	Monday, 18 December 2023

Authorised by the Board of Appen Limited.

For more information, please contact:

Rosalie Duff
Head of Investor Relations
+61 421 611 932
rduff@appen.com

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.

Not for Release or Distribution in the United States

This announcement has been prepared for publication in Australia and may not be released or distributed in the United States. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this announcement have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended ("U.S. Securities Act"), or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the entitlements may not be taken up or exercised by, and the New Shares may not be offered or sold, directly or indirectly, to persons in the United States, except in transactions exempt from, or not subject to, the registration of the U.S. Securities Act and any other applicable securities laws of any state or other jurisdiction of the United States.

Forward-looking Statements



This notice contains forward-looking statements, including but not limited to statements of opinion and expectation and statements about Appen's plans, future developments, strategy and the outcome and effects of the Offer and the use of proceeds. These statements may assume the success of Appen's business strategies. The words "expect", "anticipate", "estimate", "intend", "believe", "should", "may", "will" and other similar expressions are intended to identify forward-looking statements. Forward-looking statements, opinions and estimates are based on assumptions and contingencies that may be affected by various assumptions, which are subject to change without notice, and known and unknown risks and uncertainties, including matters that are outside the control of Appen and its directors and management, and may differ from results actually achieved. Investors are cautioned against placing undue reliance upon such statements

Appendix A

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

US\$m

Annualised, run-rate cash operating costs	99.0
Less: capitalised product development costs	(7.9)
Add: share-based payment expense	3.6
Annualised, run-rate P&L operating costs	94.7

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. It is anticipated non-cash share-based payment expense will be higher in FY24 than FY23, these non-cash payments are at the discretion of the Board.