

ASX Announcement

24 May 2024

2024 Annual General Meeting – CEO address and presentation

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

Authorised for release by the CEO and Managing Director of Appen Limited.

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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 languages¹, in over 200 countries², 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 territories.

Appen AGM | CEO and Managing Director address 24 May 2024

Thank you Richard, and good morning everyone.

It is a pleasure to meet with you this morning and provide an update on the progress we've made to reset Appen's business.

I'll start by providing an overview of Appen's FY23 performance and an update on Appen's strategy.

I will also share an update of our year-to-date trading performance and provide an updated outlook statement.

Turning to our FY23 performance

Revenue declined approximately 30% to \$273.0 million in FY23.

As Richard mentioned, this is a disappointing result for the business and our shareholders.

The reduction in revenue was driven by reduced spending from a large customer, along with a general slowdown in tech spending and the uncertainty related to generative AI investments.

In response, to the revenue slowdown we reduced our costs by \$60 million throughout 2023.

The reductions focused on removing some of the direct costs related to revenue, streamlining existing operations, minimising organisational layers, and optimising growth investments.

Because of the cost out timing, the first full year benefit was only realised in FY24, and therefore negatively impacted FY23 profitability.

Excluding the impact of foreign exchange, we recorded an underlying EBITDA loss of negative \$20.4 million dollars, compared to \$13.6 million dollars in FY22.

In December we realised some of the benefit of our cost reduction measures and exited the year cash EBITDA positive.

While Appen's full year revenue declined, we did see some positive trends in Q4 FY23.

China produced a record Q4 revenue as we gained significant traction across multiple generative AI projects.

Outside of China, the New Markets business also experienced growth in Q4 when compared to Q3.

Our business typically experiences Q4 seasonality – especially the Global Services business. While Q4 performance for Global Services was significantly down on the prior year, we did see improvement compared to Q3.

In 2023, many customers were testing different approaches to building LLMs which led to a lot of pilot projects and customers scaling their data needs. In turn, we saw a 410% half-on-half revenue increase from LLM related work.

These are very pleasing trends and have carried through to our YTD performance which I will share with you in a moment.

Generative AI is fuelling the next wave of AI growth

Appen has been supporting the development of AI since the company was founded in 1996.

The industry has evolved significantly since then and now with the introduction of generative AI the potential for AI is at an all-time high.

As a proof point, Bloomberg and IDC forecast the generative AI market to reach 1.3 trillion by 2032, growing at a 42% CAGR.

We are very bullish on the impact of generative AI, and our strategy is strongly focused on capturing value from the market.

AI market opportunity

The impact of generative AI has a significant impact on Appen's total addressable market or TAM.

Since inception, we have been providing data services to technology companies that build AI deep learning models. Analysts estimate this market to be between \$12 billion and \$17 billion by 2030.

The introduction of generative AI expands our TAM in two areas.

The first relates to Generative AI model builders who are building the foundation models. This group includes both very large tech companies and many well-funded start ups.

We estimate that Appen is already working with approximately 80% of these companies, mostly providing data that is used to improve their models.

The second opportunity to increase our TAM relates to enterprises who adopt generative AI models into their products and services.

We estimate that new generative AI opportunities will expand our TAM by \$4 to \$8 billion by 2030.

Growth strategy: high quality data for leading AI

Turing to our strategy which is aligned to both the deep learning and generative AI opportunities.

There are five pillars to our strategy.

The first element of our strategy is to re-platform our core internal system for crowd and project management. We are using best of breed technology to embed AI as a core capability in our platform which will add significant automation to our internal operations. This is well underway and on track to be implemented early in the second half of FY24.

Secondly, we are employing a greater focus on using automation in how we create data for our customers. We have recently launched a function in our data annotation platform that enables LLMs to be deeply integrated into the data annotation process for greater efficiency and quality controls.

The third element is a SaaS platform that supports enterprises who are customising LLMs for internal use. The focus is to provide a software suite that enables internal data science teams to connect with internal experts for model training data and feedback. This solution uses Appen's existing data annotation platform known as ADAP.

The fourth is a modernised approach to sales and marketing. We have strengthened the technical capabilities of our go-to-market teams, including the addition of a Field CTO to support more technical discussion with our customers. We also now have dedicated account managers in place for our largest customers that oversee existing projects, new expansion areas and overall account health. The final change I have made is to flatten our sales and marketing function, and as part of this change our CRO and CMO have departed Appen.

Our final pillar is to implement tight financial controls. We remain laser focus on managing costs and as highlighted by the Chair we are committed to proactively managing costs in line with business performance.

Overall, our strategy seeks to deliver a higher quality data for our customers, a better experience for our crowd, and improved operational efficiencies.

April FY24 trading update

I will now provide a trading update.

Before I start, I'd like to mention that we will continue to provide monthly financials as we get the business back to cash EBITDA positive. Also, the numbers on the slide are based on our unaudited management accounts.

Starting with revenue, you will see that at a group level our revenue has declined throughout 2024. This decline is driven by the termination of the Google contract, which ended on 19th March.

Revenue excluding Google shows a continuation of the stabilisation that we saw in the second half of 2023. We are pleased to see revenue levels in March and April that are well above the non-Google revenue in Q3 2023.

Moving to EBITDA. As mentioned earlier we achieved our commitment of exiting 2023 cash EBITDA positive in December.

However, the revenue loss from Google in Q1 impacted our profitability. To offset the loss, we took swift action to reduce our cost base and have been able to control our losses.

FY24 Outlook

Now moving onto our outlook statement.

As discussed earlier, revenue stabilisation has continued through the first four months of the year when we account for the loss of Google revenue.

We are seeing positive signals on LLM related growth in 2024, including from our Global customers.

Tight cost controls remain in place, in keeping with the company's focus on managing costs in line with revenue. And in FY24, we will see the first full year benefit of our \$60 million FY23 cost reduction program.

Following the loss of the Google contract, we announced \$13.5 million of cost out initiatives which was incremental to the \$60 million cost out in FY23.

We achieved around 80% of the benefit in March this year and remain on track to be complete by end of June FY24.

Our cash balance at 30 April 2024 was \$36.4 million and we are confident in our cash position.

We remain highly focused on ongoing cash positivity, and our target is to reach cash EBITDA positive on a run-rate basis in the early second half of FY24.

Closing

In conclusion, I'd like to thank you for your continued support of Appen.

Appen has played a major role in the development of industry leading AI, and I strongly believe that this will continue as generative AI matures.

It is a privilege to lead Appen and I am confident that we are well positioned to return to growth.

I look forward to speaking with you after meeting. I will now hand back to Richard.

Ryan Kolln
CEO & Managing Director

FY23 performance overview

Business reset to major customer reduction

- Reductions from a large customer resulted in revenue reduction
- Resized cost base – with \$60m cost reduction initiatives complete
- Further \$13.5m cost saving to mitigate loss of Google contract

Positive Q4 momentum

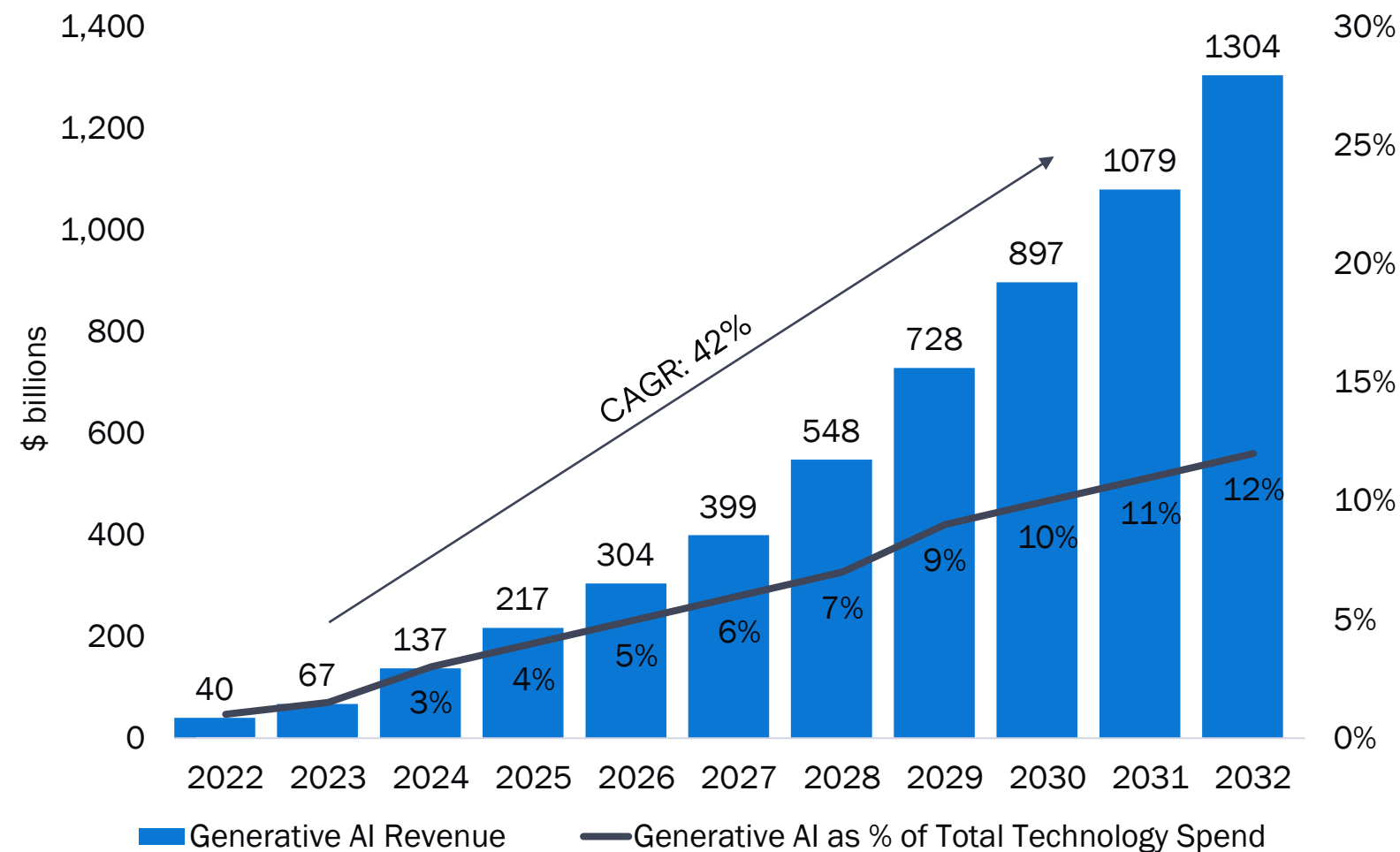
- Q4 on Q3 growth in Global Services and New Markets (incl. China)
- Decline from major customer stabilised
- China achieved record Q4 revenue growth

Generative AI wins

- Currently working with 22 LLM model builders globally, including >80% of leading model builders
- Generative AI-related revenue significantly increased in 2H FY23 (+410% vs 1H FY23)

Generative AI is fueling the next wave of AI growth

Generative AI Market (2020—32F)¹



- Generative AI industry forecast to grow from \$40 billion in 2022 to \$1.3 trillion in 2032¹
- Generative AI is becoming a top investment priority, forecast to account for 12% of total technology spending in 2032
- Generative AI is forecast to contribute \$7 trillion to the global economy over the next 10 years²

AI market opportunity: Generative AI has expanded our TAM by \$4-8B

Appen's traditional TAM

New Generative AI opportunities

Deep learning model builders

Description Technology and software companies that have built AI into their core product offering

- Main customer segments*
- US and China major tech companies
 - Global software companies
 - Ecommerce
 - Federal

Estimated TAM for data services and software by 2030

\$12-17B¹

Mostly data services

Generative AI model builders

Well-funded start up and technology companies that are building foundation models

- US and China major tech companies
- LLM startups (i.e, OpenAI, Cohere, Anthropic)

\$2-4B²

Mostly data services

Companies adopting generative AI

Companies that are customising foundation models for their internal use cases

- Fortune 2000 companies, mostly non-tech

\$2-4B³

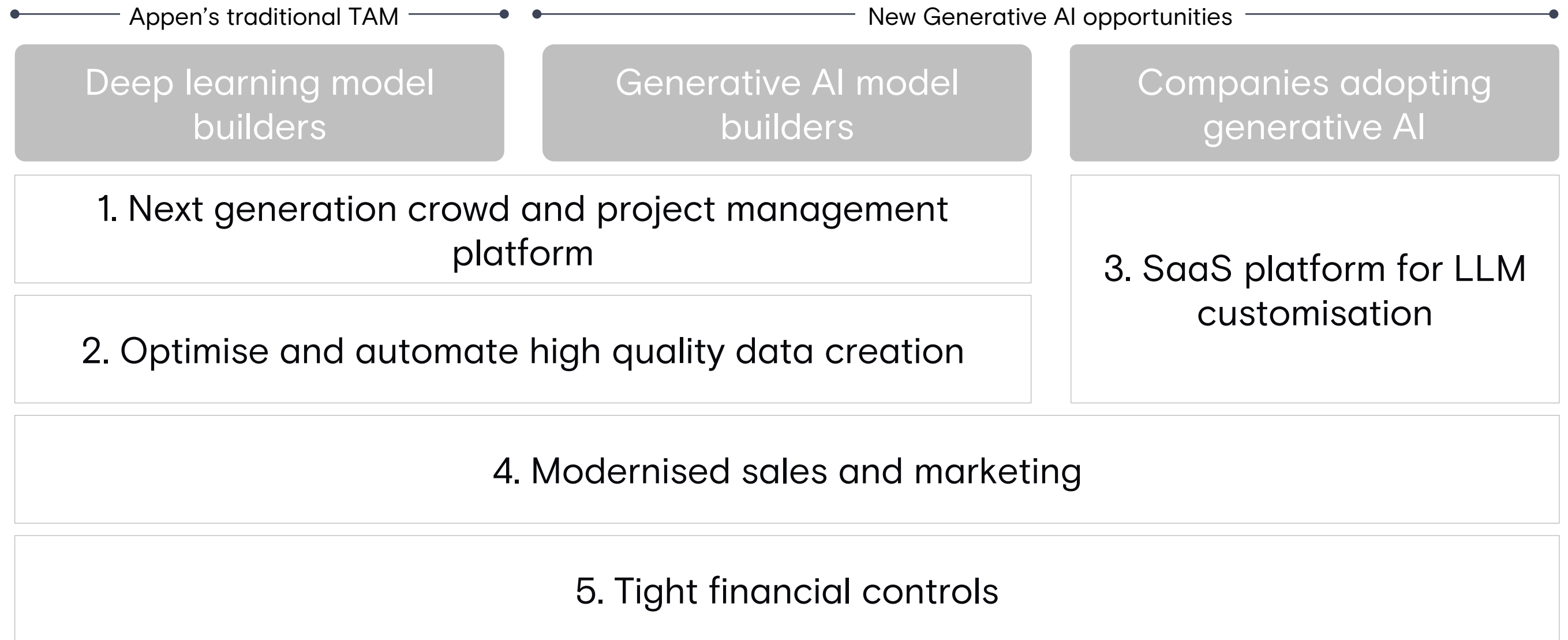
Mostly software

1. \$17B market size from Grandview Research. \$12.75B market size from Research and Markets, \$15.5B market size from Spherical Insights.

2. Management estimates of data services market based on extrapolation of current estimate spend from major LLM vendors.

3. Management estimates based on expected adoption rate of LLM in enterprises and willingness to spend on software platforms to support implementation and ongoing model performance optimization.

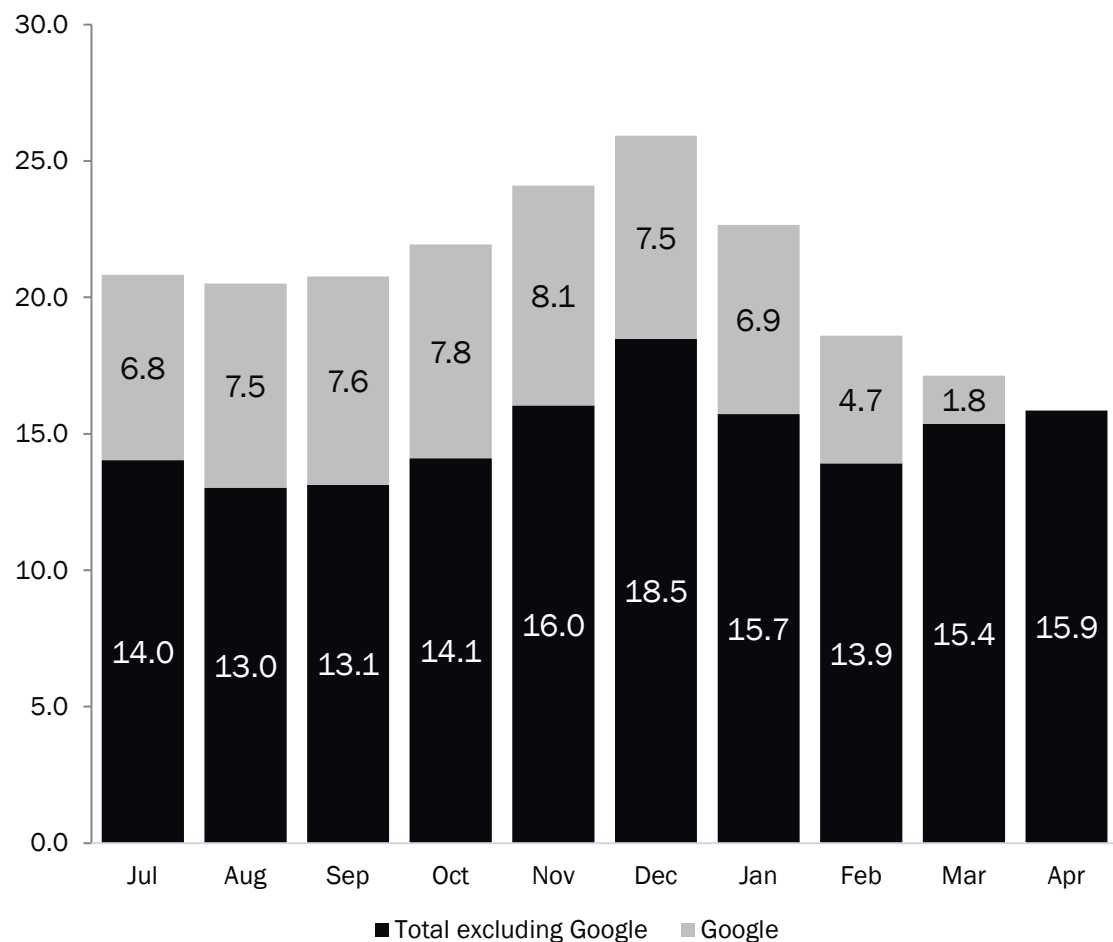
Growth strategy: high quality data for leading AI



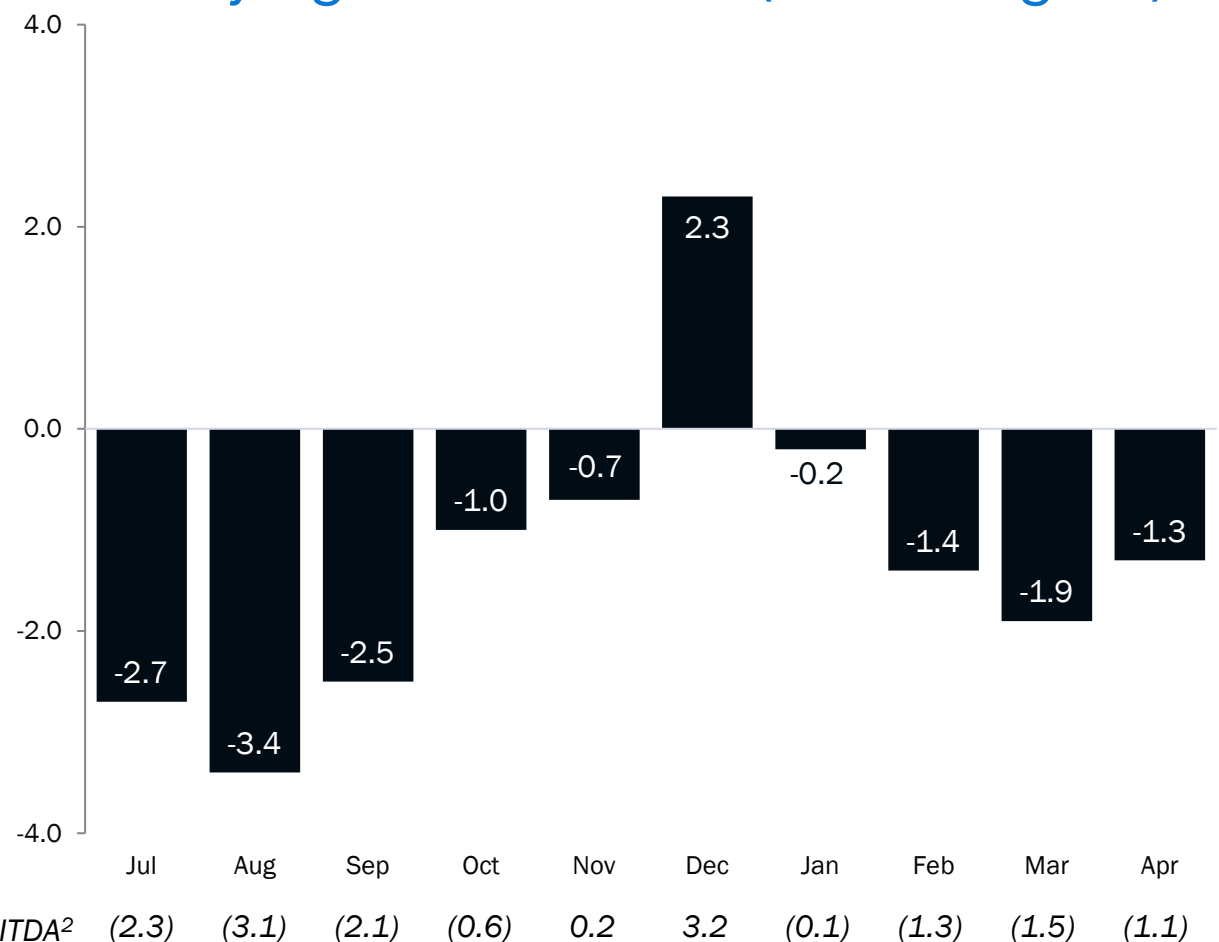
April FY24 trading update

Revenue stabilisation and managing costs

Revenue¹



Underlying cash EBITDA (excluding FX)^{1,2}



1. The figures for January 2024 to April 2024 are based on unaudited management accounts.
2. 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 loss, earn-out adjustment, restructure costs, transaction costs, inventory losses, and acquisition-related and one-time share-based payment expense. Underlying cash EBITDA is underlying EBITDA less capitalised software development expenses plus non acquisition-related share-based payment expenses.

FY24 outlook

- Excluding impact of Google, revenue stabilisation has continued through the first four months of the year
- We are seeing positive signals on LLM related growth including from our Global customers
- Tight cost controls remain in place, in keeping with the company's focus on managing costs in line with revenue
 - FY24 will be the first full year benefit of \$60m FY23 cost reduction program
 - On 12 February 2024, we announced \$13.5m of cost out initiatives, with ~80% achieved in March and the remainder on track to be complete by end of June FY24
- Cash balance at 30 April 2024 was \$36.4m
- We are highly focused on ongoing cash positivity, and our target is to reach cash EBITDA positive on a run-rate basis in early H2 FY24