



Appen Limited

Global Leader in Language Technology Solutions

FY2014 Results Presentation

| Topic: | Speaker: |
|-----------------------|--|
| Introduction to Appen | Chris Vonwiller (Chairman) |
| Financial Performance | Mark Byrne (CFO) |
| Growth and Outlook | Lisa Braden-Harder (Managing Director) |
| People and Leadership | Chris Vonwiller |



Introduction to Appen

Company snapshot

Global leader in language technology solutions

- Established in 1993 and provides language technology data and services to leading technology companies and government agencies
- Coverage in over 100 markets and over 140 languages and dialects
- 150 staff globally – mainly based in North America and Australia
- Support facilities in United Kingdom, Europe, Middle East, Indian subcontinent and the Philippines
- Ability to leverage a proprietary data base of 150,000 global independent contractors



Business snapshot

Appen has two business divisions:

- **Content Relevance:**
 - provides data annotation for improving search products
 - search products include search via web, e-commerce and social engagement technologies
- **Speech and Data Collection:**
 - provides training data for products including speech recognisers, machine translation and speech synthesisers
 - for use in internet-connected devices, in-car automotive and consumer electronics

*Location of Appen's office and support facilities
*Appen's coverage

FY2014 Pro-Forma Financial Highlights

Appen has exceeded FY14 prospectus forecasts

- Revenue A\$51.0m up 4.0% vs prospectus forecast of A\$49.1m ✓
- EBITDA A\$6.7m up 15.2% vs prospectus forecast of A\$5.8m ✓
- NPAT A\$3.6m up 5.4% vs prospectus forecast of A\$3.4m ✓
- Net cash A\$8.6m ✓
- ASX Listing in January 2015 ✓
- FY2015 outlook – on track to achieve Prospectus forecast ✓



Summary Income Statement

Pro-forma vs Prospectus

| \$ in millions | Pro forma actual | Prospectus forecast | Growth | |
|---------------------------------|------------------|---------------------|--------------|--------------|
| | FY14 | FY14 | V\$ | V% |
| Sales revenue | 51.0 | 49.1 | 1.9 | 4.0% |
| Cost of sales | (22.5) | (21.4) | (1.1) | 4.9% |
| Employee Costs | (17.9) | (17.8) | (0.1) | 0.5% |
| Other operating expenses | (3.9) | (4.1) | 0.2 | (5.0%) |
| Total operating expenses | (44.3) | (43.3) | (1.0) | 2.3% |
| EBITDA | 6.7 | 5.8 | 0.9 | 15.2% |
| Depreciation and amortisation | (1.0) | (1.0) | - | - |
| EBIT | 5.7 | 4.8 | 0.9 | 19% |
| Net finance costs | - | - | - | - |
| Profit before tax | 5.7 | 4.8 | 0.9 | 19% |
| Tax (expense)/benefit | (2.1) | (1.4) | (0.7) | 65% |
| NPAT | 3.6 | 3.4 | 0.2 | 5.4% |

Commentary

- Revenue increased by 4.0% driven by better than expected results from both divisions
- Pro-Forma EBITDA increased by 15.2%
 - EBITDA margins have improved to 13.1% from 11.8%
- NPAT ahead of prospectus 5.4%
- Expenses (excluding non-recurring items) of \$44.3m were 2.3% higher driven by increase cost of sales to support the additional sales.
- Public company costs of \$400,000 which were included in the prospectus for historical comparison have been excluded from the pro-forma results given costs were incurred in 2014 due to listing 7 January 2015



Statutory vs Pro Forma Reconciliation

Statutory vs Pro-forma

| \$ in millions | Actual | Prospectus* | | 2013 | |
|--|------------|-------------|-------------|------------|------------|
| | FY14 | FY14 | % | FY13 | % |
| Statutory EBITDA | 4.8 | 3.1 | 52% | 5.3 | -9% |
| Change in fair value of contingent consideration | 1.9 | 2.1 | -9% | 1.7 | 12% |
| IPO costs | 1.1 | 0.4 | 158% | 0 | na |
| Other | 0 | 0.1 | -100% | 0 | na |
| Excise net tax refund | (1.2) | 0 | 0% | 0 | na |
| Pro Forma EBITDA | 6.7 | 5.8 | 15% | 7.0 | -5% |
| Statutory NPAT | 1.6 | 0.8 | 107% | 1.7 | 2% |
| Change in fair value of contingent consideration | 1.9 | 2.1 | -9% | 1.7 | 12% |
| Excise tax refund | (1.2) | 0 | 100% | 0 | na |
| Interest expense | 0.1 | 0.1 | 8% | 0.1 | -11% |
| Pro Forma NPAT | 3.6 | 3.4 | 5% | 3.5 | 5% |

Commentary

- Statutory EBITDA ahead of prospectus by 52%
 - Stronger sales leading to higher profitability
 - Excise net tax refund of \$1.2m
- Proforma EBITDA 15% ahead of prospectus
 - Higher IPO costs offset by excise net tax refund
 - FV adjust closely in line with forecast
- Statutory NPAT double forecast
 - Excise net tax refund of \$1.2m
 - Higher tax charges on higher pre tax result and tax timing differences
- Proforma NPAT in line with forecast



Divisional Earnings

Divisional Earnings

| Sales Performance (\$ in millions) | Speech & Data Collection | Content Relevance | Company Revenue |
|---------------------------------------|--------------------------------|----------------------|-------------------------|
| Forecast Revenue ¹ | 21.9 | 27.7 | 49.1 |
| Additional sales | 0.9 | 0.8 | 1.7 |
| Foreign exchange impact | 0.0 | 0.2 | 0.2 |
| Actual Revenue | 22.8 | 28.3 | 51.0 |
| | | | |
| Profit Performance | 2014 | 2013 | Variance (%) |
| Speech and data collection | | | |
| Sales revenue | 22.7 | 22.6 | 1% |
| Segment profit | 7.2 | 3.3 | 117% |
| % revenue | 32% | 15% | 115% |
| | | | |
| Content Relevance | | | |
| Sales revenue | 28.2 | 37.9 | -26% |
| Segment profit | 5.1 | 7.7 | -34% |
| % revenue | 18% | 20% | 115% |

Commentary

- Strong last quarter revenues from both businesses
 - Speech and Data Collection continued to win new work and execute quickly and efficiently
 - Content Relevance generated additional revenue with new customers
- Speech and Data Collection business :
 - Revenue was flat in 2014 on top of a record growth year in 2013 of 54%.
 - Strong margin of 32% - an increase of almost double over last year was due to
 - Strong operational efficiencies
 - Large amounts of work with the high margins
- Content Relevance business:
 - Revenue declined 26% decline year on year due to an exceptional 2013 year which was impacted by a significant global initiative from a major customer.
 - Continues to maintain margins
 - 2014 was a year of reinvesting in this business through the extension of offerings to new customers including leading ecommerce and social media companies.



Balance Sheet

Balance Sheet

| \$ in millions | FY14 | FY13 | % |
|--------------------------------------|-------------|-------------|-------------|
| Cash | 8.6 | 5.8 | 50% |
| Trade and other current assets | 10.3 | 11.9 | -13% |
| Total current assets | 18.9 | 17.7 | 7% |
| Intangibles | 10.9 | 10.0 | 8% |
| Other non-current assets | 0.4 | 0.5 | -33% |
| Total non-current assets | 11.2 | 10.6 | 6% |
| Total Assets | 30.1 | 28.2 | 7% |
| Trade and other current liabilities | 8.6 | 8.1 | 7% |
| Borrowings | 0.0 | 0.5 | -100% |
| Provisions | 0.7 | 7.1 | -90% |
| Total current liabilities | 9.3 | 15.6 | -40% |
| Borrowings | 0.0 | 2.6 | -100% |
| Other non-current liabilities | 1.2 | 2.3 | -49% |
| Total non-current liabilities | 1.2 | 4.9 | -76% |
| Total Liabilities | 10.5 | 20.6 | -49% |
| Net Assets | 19.6 | 7.7 | 157% |
| Issued Capital | 18.5 | 8.1 | 127% |
| Other | 1.2 | 0.0 | 8279% |
| Total Equity | 19.6 | 8.1 | 141% |

Commentary

- Total assets increase due to higher cash balances
- Intangibles impacted by FX rates
- Borrowings paid off prior to listing in December as per prospectus
- Provisions reduced due to payment of contingent liabilities
- Share capital increase due to new shares being issued



Cash Flow

Cash Flow

| Cash Position (\$ in millions) | FY14 |
|--------------------------------|------------|
| Cash per Prospectus forecast | 2.4 |
| Lower supplier payments | 0.5 |
| Delayed tax payment | 0.5 |
| Customer collections | 3.5 |
| Delayed IPO costs | 1.5 |
| Foreign exchange impact | 0.3 |
| Actual cash as at FY14 | 8.7 |

Commentary

- Year end cash has been driven by the timing of receipts and payments
- We expect some reversal of these items over the next few months to bring the cash balances consistent with our 2015 plans
- Business continues to generate strong cashflows

Foreign Exchange impact

| Movement | Weaker AUD | | Neutral | Stronger AUD | |
|---------------------|------------|-----|---------|--------------|-------|
| | 5% | 10% | 0% | -10% | -5% |
| % Change | | | | | |
| Total AUD Revenue | 3% | 7% | 0% | -6% | -3% |
| Total AUD EBITDA | 3% | 6% | 0% | -5% | -2% |
| Total AUD NPAT | 2% | 5% | 0% | -4% | -2% |
| Change (\$m) | | | | | |
| Total AUD Revenue | 1.9 | 3.9 | 0 | (3.2) | (1.7) |
| Total AUD EBITDA | 0.2 | 0.4 | 0 | (0.3) | (0.2) |
| Total AUD NPAT | 0.1 | 0.2 | 0 | (0.1) | (0.1) |

Commentary

The assumptions behind this are:

- All changes are off the numbers reflected in the prospectus at an FX rate of \$0.90
- That the Speech and Data Collection division is fully hedged and no timing between receipt of invoices and execution of foreign currency contracts
- The mix of revenue between the US and Australian business is in line with the prospectus

Appen is benefitting from favourable movements in currency:

- The majority of revenue is USD
- The majority of costs are in USD and AUD, so a natural hedge exists for USD
- Appen's policy is to hedge at least 80% of its USD revenue generated by the Speech and Data Collection business (where significant costs are in AUD) for the subsequent 12 months



Appen reaffirms FY2015 prospectus forecast

Appen reaffirms its FY2015 prospectus forecasts – Revenue \$53.6m and EBITDA \$6.8m (pro-forma)

- Current operating results with revenue and business won thus far in FY2015 is on track with forecast
- Pipeline and order book
- Prospectus AUD exchange rate is A\$0.90

We continue to implement our strategy

- Pursuing opportunities for Content Relevance in social media and e-commerce
- Expanding our client base and reducing customer concentration
- Reducing the cost structure through globalisation of our workforce and ongoing technology innovation
- Reinforcing our leadership position in range of languages and markets supported, and the breadth of services covered
- Strengthening our scalability through ongoing development of our technology platform



Strategic Growth Opportunities

Industry drivers are positive across all segments

- Search, social media, e-commerce, government, automotive

New client acquisition in Content Relevance

- Master Service Agreements in place with 7 Fortune 500 companies and initial engagements continue with others
- Expansion of current offerings to new customers in social media and e-commerce search

Appen's new technology platform is in place

- Facilitates scalable growth
- Strong competitive advantage
- Faster response to new customer needs
- Yields a reduction in unit costs as business volumes grow

Appen's growing strength across both speech and text aligns with industry convergence

- Global workforce and operations provides capability to benefit from the forecast growth in internet non-English languages



People and Leadership

Appen has a stable and long serving board and senior management team

Managing Director transition

- Current Managing Director and founder of Butler Hill, Lisa Braden-Harder, will transition from her executive role to a non-executive role within a few months
- Lisa has successfully led the integration of Appen and Butler Hill (acquired in 2011)
- Lisa has also led the transition of Appen to a publicly listed company
- The board acknowledge Lisa for her 23 years in leadership in the Company and is looking forward to her continuing role as a non-executive Director

Board has commenced a search for a new Managing Director

- We expect a smooth transition without a change of strategic direction
- Appen's strong senior management team is supported by an experienced board with deep familiarity of the Appen's customers and business

Additional non-executive strength

- As outlined in the prospectus, an additional independent non-executive director will be announced shortly
- Will bring complementary skills and experience including relevant US technology sector expertise

People and Leadership

A Long Term Incentive Plan has been introduced covering senior management

- We have continued to strengthen our global workforce to optimise our capability-base and our cost structure
- LTIP covers a three-year period and is based upon target growth in EPS

Company wide staff satisfaction increased for the third consecutive year

- Appen's global Corporate Social Responsibility program supports local and international causes and employees in need, reflecting a strong culture of philanthropy and service within the company

Awards

- Appen was named in Forbes magazine as one of the Top 100 Companies Offering Flexible Jobs in 2014, winner of Deloitte Technology Fast 50 Award and Deloitte Leadership Award



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Investor Relations contact details

Mark Byrne (CFO and Joint Company Secretary) mbyrne@appen.com +612 9468 6322

Leanne Ralph (Company Secretary) leanne.ralph@boardworx.net.au