



Appen Limited
Annual General Meeting
31 May 2019

Chairman's Address

Dear Shareholders

2018 was another successful year for our company. Revenue and profit continued to grow pleasingly, and we laid the foundations for our next phase of growth.

Financial Performance

The financial results for 2018 were excellent in all dimensions, with significant increases on the corresponding figures for 2017.

Our revenue increased by 119% to \$364.3M. This result included the full year contribution from Leapforce, which we acquired in late 2017.

The underlying EBITDA grew from \$28.1M to \$71.3M, up 153%. The statutory EBITDA (excluding transaction costs and acquisition-based share based payments, totalling \$3.2m) was \$68.1M, up 206%.

The Underlying NPAT increased from \$19.7M to \$49.0M, up 148%. Statutory NPAT was \$41.7M, an increase of 192%.

Importantly, we improved our margins. The underlying EBITDA margin increased from 16.9% to 19.6%, due to scale and technology-led improvements provided by the Leapforce acquisition.

The balance sheet at year end was strong with a cash balance of \$40.0M.

Based upon this performance, the board was able to declare a final dividend of 4 cents per share. Together with the interim dividend of 4 cents per share paid last September, the total dividend for 2018 was 8 cents per share.

Strategy and Growth

Earlier this year, we successfully completed the acquisition of Figure Eight, a Silicon Valley best of class machine learning software platform, which uses highly automated annotation tools to transform unstructured text, image, audio and video data into highly customised high-quality artificial intelligence training data. The platform is offered to wide range of customers on a subscription basis. Mark Brayan will provide an update on this later.



We now have a presence in China, including software development professionals and operational staff, and we are ready to participate in the dramatic growth of artificial intelligence and machine learning adoption in that country. Our China office is structurally separate from our global business to enable it to react to local market conditions and protect data privacy.

The acquisition of Leapforce and Figure Eight, together with our own technology developments, and the China initiative, have advanced the strategic priorities which we announced in previous reports to shareholders. We have reduced our unit cost base and sharpened our responsiveness to evolving customer requirements. We have broadened our client base, with new sources of revenue, part of which is SaaS regularly recurring revenue. Diversity of revenue sources and revenue types remains a key objective for our company, and the board is continuing to give this high priority.

The Figure Eight Share Purchase Plan

The board recognises the desirability of rewarding loyal shareholders where possible by allowing participation when Appen seeks to raise new capital. In the capital raise for the recent Figure Eight acquisition, we provided for a Share Purchase Plan which was limited to \$15M. We know that some shareholders were disappointed that we could not provide for a larger proportion of the capital raise to be through this SPP.

Because of the time critical circumstances of the acquisition, it was necessary for the board to engage in a quick and certain funding route to close the transaction. The board was unable to rely on funds being raised through the SPP, due to the longer offer period, the voluntary nature of participation and the risk that this may not be underwritten.

The board will seek to maximise opportunities for participation by all shareholders in future transactions of this type.

Leadership and Staff

We have strengthened our top management team, particularly in the technology and operations areas. Both Leapforce and Figure Eight have added key skills and areas of experience. Overall, our workforce grew to 513 full time employees by the end of 2018, up from 374 at the end of 2017.

We aim to pay management fairly and provide appropriate short-term and long-term incentives. The skills we require are sought after globally in one of the fastest growing business domains. The board is careful to design employee reward structures which are aligned with long-term shareholder wealth. The basis of our long-term incentive plan is growth in earnings per share, with a rigorously applied hurdle. Bill Pulver, the chair of our Nominations and Remuneration Committee, will speak to the Remuneration Report later in the meeting.



Environmental, Social and Governance

Appen gives priority to its Environmental, Social and Governance responsibilities. Appen has a richly diverse employee base, with a blend of gender, nationalities, ethnicities and religion which we believe would be among the best of Australian enterprises.

However, at the most senior management levels, and despite ongoing efforts, we have yet to achieve an acceptable balance of gender. The board has committed itself to remedy this, with a target of at least 30% of our first line executives being female. We have implemented plans to progressively achieve a more balanced outcome in this dimension.

Due to the professional, knowledge-based nature of our workforce, Appen has a relatively low environmental footprint and we take steps to minimise travel and encourage re-cycling where applicable. We have an active Corporate Social Responsibility program, that supports those in need in the countries in which we operate. Appen is an active supporter of people with disabilities.

Acknowledgements

Our business could not have prospered without the ongoing support of our customers. They drive the inspiration and excitement of our business and we value their relationships.

The board is active and engaged in oversight of the company and its strategy, and I thank my fellow directors for their engagement and contributions. Among the directors, there is a strong combination of industry expertise, finance, strategy formulation, governance and operations. We regularly review board effectiveness to ensure we can meet the challenges of the fast-moving and innovative industry in which we operate. We consider it valuable that one of our directors – Stephen Hasker – is US based, and we are considering adding a second US based director in the coming months.

Under our CEO Mark Brayan's leadership, the management team and staff have responded in outstanding fashion to the challenges and stress of continuing growth. The board is deeply appreciative of our employees' sustained contributions throughout the year.

Finally, we appreciate your loyalty and trust as shareholders. At all times, we are conscious of our obligations to you for the future successful performance of our company.