

ASX ANNOUNCEMENT

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16 May 2023

Appen announces a fully underwritten ~A\$60 million¹ equity raising (“Equity Raising”)

- **Appen announces a fully underwritten ~A\$60 million Equity Raising to support the company’s strategic refresh and return to profitability**
- **Proceeds will be used to fund one-off costs associated with Appen’s previously announced cost reduction program, provide balance sheet flexibility and general working capital to support Appen’s return to profitability, and transaction costs**
- **Equity Raising is comprised of a ~A\$38 million 1 for 6 pro rata accelerated non-renounceable entitlement offer and a ~A\$21 million institutional placement**

On 10 May 2023, Appen Limited (“**Appen**”) (ASX: APX) Appen provided an FY23 trading update as at 30 April 2023, announced a new strategy to deliver long term growth and revenue diversification along with the commencement of a significant cost reduction program. Appen stated that should current conditions persist throughout the year, it believes the initiatives announced will result in Appen exiting FY23 with a return to underlying EBITDA and underlying cash EBITDA² profitability on an annualised, run-rate basis. Today, Appen announces a fully underwritten ~A\$60 million Equity Raising to support the business in its effort to return to profitability.

Appen supports AI training data and model evaluation for the world’s leading AI. Generative AI is unlocking the next phase of AI growth and Appen has the required capabilities and expertise to benefit.

Appen has undertaken an operational review of its business as part of its focus on operational rigour. This review identified areas where Appen is not currently realising its full potential or not fully capitalising on opportunities presented to it. Some of the key areas identified for improvement include a leadership and company culture refresh, operational

¹ A\$ refers to Australian dollars. \$ refers to US dollars.

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 losses, restructure costs, transaction costs, inventory losses and acquisition-related share-based payments expenses. Underlying cash EBITDA is underlying EBITDA less capitalised software development expenses plus non acquisition-related share-based payment expenses.

improvements to project delivery and crowd management, a cost reduction program and strengthening of sales and marketing functions.

Appen is undertaking the steps that management believes are necessary to address these areas for improvement and to better realise its potential. On 10 May 2023, it announced a significant cost reduction program to better align costs to the revenue opportunity. Appen is also undertaking a strategic refresh under new leadership. Key focus areas of this refresh include driving operational efficiency, disciplined capital management, enabling enterprise adoption of generative AI, supporting the development of generative AI and increasing channels to market.

Generative AI creates a significant growth opportunity for Appen. The generative AI market is estimated to grow from \$8 billion in 2021 to more than \$110 billion by 2030.³ High performing generative AI models rely heavily on human feedback. Appen provides large volumes of human feedback on AI models and believes it is well positioned to participate and gain share in the generative AI services market. Appen is launching a new set of Large Language Model (“LLM”) fine tuning and assurance products that provide a comprehensive toolset for enterprise customers to capture value from generative AI models.

Appen is focussing on increasing channels to market to increase access points to enterprise customers and broaden its target markets. Appen’s partnership program is an important component of this strategy and is anticipated to provide further access to enterprise clients.

Appen has achieved early progress on its expansion into generative AI related services. It currently has multiple projects underway that relate to generative AI model development and evaluation for both large tech and enterprise customers.

The strategy refresh will address four key focus areas:

1. **Customer diversification** – generative AI expected to create material demand beyond large tech customers
2. **Margin improvement** – greater reliance on technology to improve gross margins
3. **Revenue visibility** – new products to have a greater proportion of recurring revenue
4. **Strong ROI** – generative AI investments will leverage existing technology investments

Further detail on Appen’s strategy refresh will be provided at the Appen Investor Technology Day which will take place after the AGM on 26 May 2023.

The proceeds of the Equity Raising will be used to fund one-off costs associated with implementing the cost reduction program. Estimated costs are expected to be approximately \$4 – 5 million relating to severance and will be reported as a non-recurring expense and excluded from underlying EBITDA for FY23 as well as leave provision payouts of \$1.5 – 2 million that were provided for in the statement of profit or loss in prior periods. The remaining proceeds from the Equity Raising (after transaction costs) are expected to provide balance

³ Acumen Research, December 2022.

sheet flexibility and support general working capital requirements to support Appen's return to profitability.

Appen's lender, Westpac, has granted a waiver of financial covenants in relation to the June testing date for its Credit Facility, conditional on completion of the equity raising.⁴ The facility is currently undrawn.

Appen's CEO Armughan Ahmad said: "Appen is committed to its strategy to unlock the value of generative AI for enterprise customers while running the business with operational rigour. The Equity Raising is necessary to support the company as it delivers on identified cost out opportunities and returns to profitability."

Equity Raising

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

- A 1 for 6 pro rata accelerated non-renounceable entitlement offer ("**Entitlement Offer**") to existing eligible shareholders to raise ~A\$38 million; and
- An institutional placement ("**Placement**") to raise ~A\$21 million.

The Equity Raising price of A\$1.85 per share represents a:

- 16.2% discount to the theoretical ex-rights price of A\$2.21 ("**TERP**")⁵
- 19.6% discount to Appen's last closing price of A\$2.30 on 15 May 2023.

Approximately 32.2 million New Shares will be issued under the Equity Raising, representing ~26% 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 16 May 2023. The Institutional Entitlement 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

⁴ Conditional upon Appen raising equity of A\$45m by 28 June 2023, Westpac has granted a waiver of financial covenants that would have otherwise applied and been tested as at 30 June 2023. Upon completion of the Capital Raising, the condition will be satisfied and the Credit Facility will remain available for Appen to access, subject to compliance with other terms and conditions.

⁵ TERP is the theoretical ex-rights price including the Placement shares. TERP is calculated by reference to Appen's closing price of A\$2.30 on 15 May 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 APX shares trade immediately after the ex-date of the Equity Raising will depend on many factors and may not be equal to TERP.

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.

Retail Offer

The Retail Entitlement Offer will open on 23 May 2023 and close at 5:00pm (Sydney time) on 6 June 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 23 May 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 who are existing shareholders on the Record Date have committed to take up their pro rata entitlements under the Retail Entitlement Offer.

Equity Raising timetable⁶

Event	Date
Announcement of the Equity Raising	Tuesday, 16 May
Placement and Institutional Entitlement Offer bookbuild	Tuesday, 16 May
Announcement of results of the Placement and Institutional Entitlement Offer	Wednesday, 17 May
Appen shares recommence trading	Wednesday, 17 May
Entitlement Offer Record Date (7.00pm Sydney time)	Thursday, 18 May
Retail Entitlement Offer opens (Retail Information Booklets made available to eligible retail shareholders)	Tuesday, 23 May
Settlement of New Shares issued under the Placement and Institutional Entitlement Offer	Thursday, 25 May

⁶ 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.

Allotment and trading of New Shares issued under the Placement and Institutional Entitlement Offer	Friday, 26 May
Retail Entitlement Offer closes (5.00pm Sydney time)	Tuesday, 6 June
Settlement of New Shares issued under the Retail Entitlement Offer	Tuesday, 13 June
Allotment of New Shares issued under the Retail Entitlement Offer	Wednesday, 14 June
Commencement of trading of New Shares issued under the Retail Entitlement Offer	Thursday, 15 June

Further information

Further details of the Equity Raising are set out in the investor presentation lodged with the ASX today. The investor presentation also contains important information including key risks and foreign selling restrictions with respect to the Equity Raising.

The Offer Information Line is open from 8.30am to 5.30pm (Sydney time) Monday to Friday until 6 June 2023 when the Retail Entitlement Offer closes.

As Appen will have exhausted its residual capacity to issue equity under ASX Listing Rule 7.1 for the Placement, it expects to call an Extraordinary General Meeting in coming months to seek shareholder approval to facilitate future grants of equity over the next 12 months to management and new hires. Retention and incentivisation of management, along with the ability to attract new talent, is a key component of the company's strategy refresh and return to profitability referred to above.

Investor briefing

An investor briefing will be hosted by Armughan Ahmad, CEO and Helen Johnson, CFO at 10:30am Sydney time on Tuesday 16 May. The briefing will be webcast live at Open briefing.

Those wishing to ask questions during the briefing can join via conference call. Please pre-register for the call at Diamond pass conference call or copy and paste the link into your browser: <https://s1.c-conf.com/diamondpass/10030873-tdg8fj.html>.

Authorised by the Board of Appen Limited.

For more information, please contact:

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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

About Appen

Appen is a global market leader in data for the AI Lifecycle. With over 25 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 235 languages, in over 70,000 locations and 170 countries, and the industry's most advanced AI-assisted data annotation 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.