

ASX Announcement

30 August 2024

H1 FY24 results and FY24 outlook

Appen Limited (Appen) (ASX: APX) today reported its half-year results for the six months ended 30 June 2024 and outlook for FY24.

Appen's H1 result reflects a stabilisation and return to revenue growth during Q2 FY24, as well as tightly controlled costs during the period.

Appen's H1 FY24 result¹ includes:

- **Group operating revenue** of \$113.4 million decreased 18.4%, primarily due to termination of Google contract. Excluding the impact of Google, revenue decreased a modest 1.5%
- **New Markets revenue** of \$49.8 million up 28.3%, benefiting from strong growth in China and Global Product
- **Gross margin**² improved 0.4 percentage points to 37.7% due to customer and project mix
- **Underlying EBITDA**³ (before FX) of (\$2.3) million, a \$13.4 million improvement compared to prior corresponding period (pcp). Improvement reflects execution of cost out programs in FY23 and H1 FY24
- **Underlying EBITDA (including FX losses)** of (\$2.6) million, a \$15.5 million improvement compared to pcp
- **Underlying net loss after tax**⁴ of (\$11.8) million, a \$22.4 million improvement compared to pcp
- **Statutory net loss after tax** of (\$17.8) million, a \$25.5 million improvement compared to pcp
- **Cash balance** of \$34.7 million at 30 June 2024

Commenting on the performance for the half, Appen's CEO & Managing Director Ryan Kolln said, "H1 FY24 was pleasing given we reacted swiftly to the Google announcement, executed on cost out, and the early positive indicators of LLM-related growth have started to develop into significant opportunities."

"Appen's success in generative AI is resulting in a positive revenue trajectory. We saw strong growth in China and Global Product driven by generative AI projects, with China achieving consecutive revenue records across the quarters."

¹ All amounts stated in US\$ and all comparisons are to the half-year ended 30 June 2023, unless stated otherwise. Numbers presented throughout the announcement may not add due to rounding.

² Gross margin refers to revenue less crowd expenses.

³ Underlying EBITDA excludes restructure costs, transaction costs, and acquisition-related and one-time share-based payment expense.

⁴ Underlying NPAT excludes after tax impact of restructure costs, transaction costs, acquisition-related and one-time share-based payment expense, amortisation of acquisition related intangibles, and deemed interest on earn-out liability.

"The Enterprise software market remains nascent, and we are yet to see material traction, but market signals remain positive."

"Generative AI development depends on vast amounts of high-quality data. The competitive edge for model builders is largely based on accessing unique and superior data. Appen's expertise, platform, and global crowd workforce are becoming crucial sources of data for many leading model builders."

"Profitability is a key focus for Appen. Underlying cash EBITDA loss before the impact of FX has improved month-on-month as we continue to manage costs in line with the revenue opportunity. Appen continues to target reaching cash EBITDA positive on a run-rate basis in early H2 2024."

Financial and Operating Performance

Group revenue

Global Services

Global Services revenue decreased 36.5% to \$63.6 million and was impacted by the termination of the Google contract in Q1 FY24. Excluding Google, revenue decreased 20.1% to \$50.8 million.

Global Services won 30 new projects during the period (H1 2023: 45), including early stage LLM projects.

New Markets

New Markets revenue increased 28.3% to \$49.8 million. The increase was driven by strong growth in China and Global Product revenue.

Within New Markets:

- *Global Product* revenue increased 79.4% to \$10.9 million, primarily due to new generative AI projects for one of the Global customers delivered on Appen's technology.
- *China* revenue increased 66.0% to \$25.4 million, with momentum continuing from a strong Q4 FY23. Growth drivers include capturing generative AI opportunities across multiple customers and projects.
- *Enterprise and Government* revenue decreased 22.4% to \$13.6 million, driven by lower volumes within existing large projects and uncertain timing around new generative AI related spend in Enterprise. We continue to have conviction in the potential of our Enterprise and Government divisions.
- New Markets secured 58 new customers, including 37 across China, Japan, Korea and 21 for Enterprise.

Financial performance

Underlying EBITDA improved by \$15.5 million to (\$2.6) million. Before the impact of foreign exchange losses, underlying EBITDA improved by \$13.4 million to (\$2.3) million.

The improvement in underlying EBITDA reflects the cost out programs executed during FY23 and H1 FY24. Operating expenses (excluding share-based payments, transaction costs, restructuring costs, depreciation and amortisation) for H1 FY24 decreased 33.3% or \$21.9 million compared to H1 FY23.

Statutory NPAT improved by \$25.5 million to (\$17.8) million. Statutory results include one-off restructure costs of \$2.1 million relating to the cost out program and \$0.6 million associated with the refresh of executive leadership.

Cost reduction program

\$13.5 million cost out program previously announced was executed during H1 FY24. 80% of the cost out was achieved in March 2024, with the remainder executed by the end of June 2024.

July 2024 trading update⁵

At the Group level, Appen recorded revenue of \$17.6 million in July 2024. Despite a revenue decrease compared to June, underlying cash EBITDA (before FX) improved to (\$0.3) million and underlying EBITDA (before FX) was break-even at \$0.0 million.

As at 31 July 2024, Appen had \$30.6 million cash on hand, a decrease from June due to the working capital cycle.

Outlook

Excluding the impact of Google, revenue momentum is positive.

We continue to see positive signals on LLM related growth including from our Global and China customers.

Tight cost controls remain in place, in keeping with the company's focus on managing costs in line with the revenue opportunity.

- FY24 will be the first full year benefit of the \$60m FY23 cost reduction program
- On 12 February 2024, we announced a further \$13.5m of cost out initiatives that are now complete

We remain highly focused on ongoing cash EBITDA positivity, and our target is to become underlying cash EBITDA positive on a run-rate basis in early H2 FY24.

⁵ The figures for July 2024 are based on unaudited management accounts.

Investor briefing

A result briefing will be hosted by Ryan Kolln, CEO & Managing Director and Justin Miles, CFO at 11:00am (AEST). 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 Invitation \(c-conf.com\)](#) or copy and paste the link <https://s1.c-conf.com/diamondpass/10039944-jd8y67.html> into your browser.

Financial summary	H1 FY24	H1 FY23
Revenue	113.4	138.9
Global Services revenue	63.6	100.1
New Markets revenue	49.8	38.9
Revenue (excluding Google)	100.0	101.6
Gross Margin%	37.7%	37.3%
Underlying EBITDA before FX	(2.3)	(15.7)
Underlying EBITDA after FX	(2.6)	(18.1)

Authorised by the Board 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 languages⁶, in over 200 countries⁷, as well as our 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.

⁶ Self-reported.

⁷ Self-reported, includes territories.