Mark Brayan, Chief Executive Officer, Appen Limited
Remarks at Macquarie Australia Conference – 6 May 2021

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Mark Brayan: I'd like to start with a quick recap on 2020.

Revenue of $599.9M in 2020 was up 12% on the prior year, and underlying EBITDA of $108.6M up 8% on 2019.

This is solid growth on any measure but not to our usual standards for a few reasons:

- The AUD strengthened through 2H 2020, dampening translated revenue.
- COVID impacted our face to face selling motion but this appears to be in the past now given the uptick in wins we saw in Q4 last year.
- COVID interrupted many businesses last year and that in turn reduced their digital ad spend for a period. This impacted our major customers' sources of revenue, and although digital ad spend has bounced back nicely, that experience is driving them to invest in new AI products that are less reliant on advertising.
- Our major customers are also responding to data privacy and anti-trust concerns, as well as heightened competition amongst each other. These issues are also driving new AI product developments, ones that rely less on personal data and make them more independent.

Clearly, ours is a dynamic market. Our customers, large and small, are responding to market forces, including those above, and developing AI products at speed, to better their competitors.

Coupled with this is the fact that AI product development is experimental. The performance of the underlying model is unknown until it's built and tested in the real world. This results in an iterative process in which models are built, tested, tuned, re-tested and so on. Training data is an essential component of machine learning and is tied to our customers' product development lifecycles. As such, training data volume requirements are not always linear.

This is the primary reason behind the recent choppiness in our growth. Our major customers are reprioritising their product development projects as they iterate and build new products in response to dynamic market forces. This has resulted in changing data volumes on a handful of large projects and this impacted our revenue.

There's a lot going on in our market and the AI market in general. Here's what we're seeing from the front line.

Firstly, some things that are unchanged:

- There's no change in the need for training data. More companies are investing in AI and they all need training data. The high growth in the number of customers we're winning, including in China, supports that.

- There's no systemic change to the demand for relevance data. Our relevance team delivered 90% of our revenue in 2020 supporting our major customers' search, ad and social media applications. Relevance relies on human judgements that are very difficult if not impossible to automate. Margin expansion comes from scale and supporting systems that improve crowd productivity.
- The competitive environment for relevance is unchanged with us and Lionbridge AI the key providers.
- We don't see unusual pressure on pricing. Our customers want a good deal and they negotiate well, but they will pay for quality and reliability and our reputation is strong in these areas.
- We don't see a shift to insourcing. Our customers run small-scale experiments with internal resources before shifting to external specialist providers such as us for at-scale production volumes of data. There are a handful of exceptions for reasons including confidentiality, but these have been known to us for a while and we haven't seen an increase in this area.
- We don't see meaningful changes in AI development techniques. AI models have and will continue to rely on a range of techniques to operate properly in the real world and hence high-quality labelled training data will continue to be a requirement for AI development. Unsupervised and self-supervised machine learning techniques are complementary to other techniques including supervised learning and using pre-trained models via transfer learning.
- Our customers continue to be in competition with each other. They are chasing supremacy and becoming more independent. This has and will continue to impact their product roadmaps and near-term data requirements.

That said, there are a few notable changes:

- Our customers are developing new AI products in response to COVID's impact on online advertising last year and regulatory pressures such as anti-trust and data privacy. This dictates the data they need for product development and impacts their engineering resource allocations and the volumes and types of data they need from us. As stated before, machine learning is an iterative process, and our customers are switching resources between development projects as they pursue new break-out products. This in turn has impacted a handful of our larger programs.
- Our competitors outside of relevance are maturing. This is unsurprising. Their presence and funding demonstrate that ours is an attractive market. We maintain our leadership position and our customers rely on us for quality, scale, security and reliability but it means that we have to maintain our flow of new product features and fight harder to stay ahead.

Overall, our customers, large and small, continue to require high volumes of high-quality training data flexibly and at speed. We continue to deliver exactly that for them despite the near-term challenges that their flexibility demands of us.

So while some things in our space are relatively unchanged including our customers' need for quality data, the strength of our relevance business, pricing, competition, outsourcing vs. insourcing and a reliance on data-heavy deep learning for real world AI, ours is a dynamic market and we continue to invest to stay ahead.

- Our push into new markets is ongoing and bearing fruit. Our business in China is growing rapidly at 60% quarter on quarter in 2020 and we won 136 new customers worldwide as well.
- Business with our large customers is expanding too. We increased the number of projects with them by 34% last year on the year before, reflecting our deep expertise and reliability
- Our technology is becoming a bigger part of what we do.
- We continue to invest in our products for scale and speed. Our crowd and annotation platforms, along with our recently released mobile platform, act as a marketplace that provides work for 50,000 to 100,000 crowd contractors per month across hundreds of customers and projects.
- We're driving more work through our platforms. For all of our customers, including our large customers. This gives us the opportunity to deliver higher-quality data more efficiently across a greater range of use cases.
- We continue to invest in AI. We use AI to pre-label data to make the crowd more efficient, and to automate back-office functions such as matching workers to projects, checking data quality and detecting fraud.
- We're developing new product features, such as data set validation to reduce data and AI bias.
- We're looking beyond data collection and labelling for additional growth paths in the broader AI market. We expect that these will be technical in nature and build on our products, customer base and market position.

We are in a high growth and dynamic space and that comes with some challenges from time to time due to the changing priorities of our large customers as they respond to strategic, regulatory and competitive shifts. We don't see material impacts from pricing, insourcing and technologies such as self and unsupervised learning. We also don't see a decline in the need for high quality training data as our new customer numbers and growth in China attest.

But our competitors outside of relevance are maturing. We see an increased reliance on our platforms to stay ahead of the competition and we're maintaining our investments in our products to improve the speed, scale and quality of training data production and to set us up for new growth paths.

We will go into more detail on our platforms in our Investor Technology Day on May 20th.

The AI market will grow and evolve and offer opportunities. We are the leader in our space and we'll continue to invest to maintain and expand our position.

Thank you.