



Challenged by a fast-moving market Appen must hasten to adapt.

Company/ASX Code	Appen Limited / APX
AGM date	Friday 27 May 2022
Time and location	10am AEST Hilton Hotel 488 George Street Sydney plus online and phone
Registry	Link Market Services
Webcast	Hybrid
Poll or show of hands	Poll on all items
Monitor	Peter Gregory assisted by Orlene McKinlay
Pre AGM Meeting?	Yes, with Chair Richard Freudenstein and Rosalie Duff - Investor Relations

Please note any potential conflict as follows: An individual (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for meeting

Appen’s performance has been disappointing, and this has been reflected in poor total shareholder return over the past 18 months.

A refocus of the business, including a restructure to address customers beyond the traditional core business and new management/board renewal to implement new strategies has yet to generate a needed turn around.

The changing nature of the AI business, the competitive landscape and increasing risks present additional challenges to Appen.

The Appen Crowd (1 million subcontractors who annotate data) is a strength for the business, but also is a high cost which results in a lower margin than is expected for tech companies.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Shareholder returns

While Appen is profitable and has regular paid dividends (10 cents in FY21), the share price movement (from a 52-week high of \$14.67 to \$6.35 on 6 May 2022) has been very disappointing for shareholders.

Appen FY21 performance

Appen view their business from both a product and customer perspective, which can make it sometimes difficult to understand its performance by segment. To give some clarity ASA has

extracted information from the Annual Report that provides indicative revenue by customer segment as follows:

Appen revenue by customer segment US\$m	FY20	FY21	% change
Total revenue	412.6	447.2	8%
Global customers Non advert \$	233.0	262.0	12%
Global customers Advert \$	95.1	82.7	-13%
Global customers Products	45.4	41.7	-8%
Total global customers	373.5	386.4	3%
New markets customers - China	4.8	24.8	422%
New markets customers - Enterprise, Government (including Quadrant)	34.3	36.0	1%
Total new market customers	39.1	60.8	51%
Total revenue without China	409.4	422.6	3%

Source: Australian Shareholders Association and Appen 2021 Annual Report

The core Global business comprises the 5 major tech companies, with the Non-advertising business showing growth – while this is largely due to new product development, Appen expect this is levelling off and will not return to historic growth. The Global Advertising business is subject to advertising volume and changing delivery of advertising and is expected to fluctuate over time. Sales of product to Global customers, while small, contracted during the year due to the end of a single large project.

With new market customers, China, while off a very small base, was the stand out performer. This contributed 5% of the total company growth, meaning that the remainder of Appen only grew 3%.

With the Government business, this segment experiences longer sales and budget cycles impacted by early-stage market dynamics. It won't grow as rapidly as other segments.

While not directly disclosed, it appears that the Enterprise segment (tech companies outside of the 5 core customers) results are disappointing especially considering the 136 new customers gained in 2020 should have significantly contributed to FY21 revenue.

It is noted that the stated 31% annual increase in the global demand for training data suggests Appen's market penetration is declining and that a strategic refocus is required to improve returns for shareholders. The company has a FY26 target of doubling FY21 revenue and expects the new markets business to grow slightly ahead of the market. At the pre-AGM we discussed actions that have recently been taken including:

- Board advisory committee established to support management with strategic guidance,
- Appointment of a Chief Product Officer to drive development and introduction of new value adding products, a Chief Transformation Officer to build internal processes that enhance and streamline Appen's operation, and a Chief People Officer,
- Rebuilding of the Enterprise group under new and appropriately experienced leadership,

- Product expansion including the acquisition of Quadrant and the recently announced investment in and strategic partnership with Mindtech Global to give Appen access to the growing synthetic data market,
- The continued application of automation to the human elements of the Appen business model will contribute to efficiency, added value and margin improvement,
- With the increasing size and breadth of the training data market Appen will focus on those parts of the market where it can succeed and lead. Acquisitions, where that can add value, may be part of that.

During the pre-AGM Richard Freudenstein, newly appointed Chair, said that he believed the strategy was strong and that the company focus on building the business outside of the traditional Global customers would reward shareholders.

The Annual Report and the [Appen CEO 2021 Results Presentation](#) provide some explanation of the business, its markets and strategies and it is expected that at the AGM an expansion of this will give shareholders reassurance of Appen's path going forward.

FY26 Target

Underlying Appen's transformation plans are clearly stated FY26 targets of:

- At least doubling 2021 revenue
- More than one third of revenue from Non-global customers
- EBITDA margin of 20%

Risk management

The Annual Report clearly outlines Appen's risk identification and management process. An important part of this report is the description of how each risk is changing giving shareholders a good appreciation of the challenges Appen is facing and its responses to these. It is a fast-changing environment that Appen operates in, as seen by their description of increasing risks from customer, market, competitor and technology related risks.

During the pre-AGM meeting we suggested Appen go beyond ISO 27000/1 and implement ISO 31000 for risk management with the appointment of a Chief Risk Officer to oversee their Global Risk management– they have agreed to consider these.

Board renewal – skills matrix

At the commencement of FY21 Appen had 5 out of 6 NEDs appointed prior to 2019. With changes in the Board expected at the conclusion of the AGM, Appen will have 2 out of 5 NEDs appointed prior to 2019, with plans for the appointment of a further director who would be US based. ASA consider these changes appropriate to lead Appen through the necessary transformation of the business.

At the pre-AGM we discussed the importance of disclosing the level and nature of the skills of each of the directors so that shareholders are able to make more informed decisions when voting at AGMs. The chair has agreed to look at the skills matrix we proposed.

Environment

Appen have described their Scope 1 and 2 emissions and plans to minimise these in the Annual Report. Given Scope 3 emissions of their contracted Crowd of 1 million people around the world, during FY22 they will include Scope 3 in their measurement and instigate Scope 3 reduction strategies. Appen are focused on setting a pathway to net zero emissions by 2030.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$Am) *	38,132	50,514	41,611	41,728	14,282
UNPAT (\$USm) #	40,597	45,276	44,902	35,989	14,789
Share price (\$A)	11.16	24.69	22.46	12.83	8.31
Dividend (A cents)	10.0	10.0	9.0	8.0	6.0
Simple TSR (%)	-54.6%	9.9%	74.4%	53.7%	195%
Diluted EPS (A cents) *	30.55	40.85	34.60	38.55	14.36
CEO total remuneration, actual (\$Am)	\$3.486	\$4.061	\$4.791	\$2.309	\$0.829

Note * Appen in FY21 changed to reporting in \$US. With NPAT and EPS they have not provided a 5-year history so the US\$ data for FY21 has been converted to A\$ using the average exchange rate provide by Appen.

Note # Appen have provided a 5-year history of UNPAT in US\$ and this has been provided here.

For 2021, the CEO's total actual remuneration was **37 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Note – For May 2021, the Full-time adult average weekly total earnings (annualised, original) was \$93,444 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

In deciding how to vote on the Appen remuneration report we have considered both remuneration outcome in FY21 and the FY22 adjustments made to the plan following the strike at the FY20 AGM.

FY21

As discussed in item 1 sales revenue growth without the exceptional contribution of the China business was only 3%. Statutory NPAT (US\$) fell 20%.

The CEO did not meet the FY21 STI threshold and did not receive an STI payment. The STI target was revenue growth of 25% and underlying EBITDA growth of 31%.

His actual remuneration for FY21 includes an LTI provision for the issue of performance rights (55,908) to the value of \$A1.5 million that will vest in 2025 subject to the achievement of 73% growth in underlying basic EPS (UBEPS).

He also has unvested performance rights from 2019 (160,000) and 2020 (78,125). However, as the UBEPS growth in FY20 was -2.2% and in 2021 -11.3%, the 73% 3 year growth target to have these rights fully vested will be extremely challenging. For example, it will require 96% growth in UBEPS in FY22 for the CEO to receive the full vesting of 2019 performance rights.

In this current year the CEO received an LTI of benefit of 173,153 vested performance rights to the value of \$A2,735,817 due to 2018 UBEPS growth of 125%.

The Board did not exercise discretion to make any adjustment to the CEO's remuneration.

In ASA's view there is a good alignment between the CEO's reward package (that includes the future performance tested LTI benefit) and the company performance.

FY22

The new plan for the CEO is summarised:

- There is no change to the Fixed Remuneration, or the total amount paid for on target performance
- The STI will change from group only financial results to
 - 30% total revenue
 - 20% non-global customer revenue
 - 20% EBITDA
 - 10% customer NPS
 - 10% Crowd NPS
 - 10% employee engagement

FY22 targets for these metrics have not been disclosed, although clearly there needs to be an alignment with achievement of the FY26 objectives.

- The STI payment will comprise cash (75%) and 12 month vested equity (25%). ASA would also prefer 50% of the STI being equity and will work with Appen to encourage this further adjustment in the future.
- The LTI now has two equally weighted performance metrics – UBEPS and revenue. The retesting provision has been removed.

The LTI does not include TSR as one of the metrics used and this was discussed at the pre-AGM. The Chair explained that this had been considered by the Board, but, given the recent share price variability they were of the opinion that it could result in either an unexpected windfall or unfair disadvantage. He said that this metric may not be a good alignment with company results at this

stage, and that it would be open for further consideration in the future. ASA agrees with this position now, but encourages the use of TSR as an LTI metric as soon as possible.

LTI targets (outlined in Item 6) appear challenging but need to be reviewed for alignment to the FY26 objective. STI and LTI targets will be questioned at the AGM against the context of attracting and retaining the best people to lead the company forward.

Appen has genuinely listened to stakeholder feedback following the strike and ASA will vote all undirected proxies for this resolution.

Item 3	Election of director – Mr Richard Freudenstein
ASA Vote	For

Summary of ASA Position

Richard Freudenstein was appointed a director on 12 August 2021 and was appointed Chair on 28 October 2021 following the retirement of co-founder and long-standing director Chris Vonwiller. Richard's breadth of experience as a director and executive both in Australia and internationally appear to provide the skills required for this challenging time for the company.

Based on our discussion with him at the pre-AGM meeting he has a good grasp of the issues facing Appen and has overseen the implementation of a number of positive changes. Given his other responsibilities he is seen to have time available to focus sufficiently on Appen.

He holds 44,975 shares.

ASA will be voting all undirected proxies for this resolution.

Item 4	Election of director – Mr Stuart Davis
ASA Vote	For

Summary of ASA Position

Stuart Davis was appointed on 29 March 2022.

Following a career in international banking Stuart is now a director of technology companies. It is expected that this experience will equip him to a valuable contributor to Appen as it transitions for the future.

Given his other responsibilities he is seen to have time available to focus sufficiently on Appen.

As of 29 March 2022 he did not hold any Appen shares.

ASA will vote all undirected proxies for this resolution.

Item 5	Re-election of director – Ms Vanessa Liu
ASA Vote	For

Summary of ASA Position

Vanessa Liu was appointed as a director on 27 March 2019 and is standing for early reelection as the company Constitution states that one-third of directors must retire at each annual general meeting.

She is located in the US, and her experience with emerging technology trends and enterprise uptake of artificial intelligence, especially in the US market, is an important contribution to Appen's board. While Vanessa is employed as a CEO (as is common for US directors), she is seen to have time available to focus sufficiently on Appen.

She holds 4000 Appen shares.

ASA will vote all undirected proxies for this resolution.

Item 6	Grant of performance rights to the Managing Director and Chief Executive Officer, Mr Mark Brayan
ASA Vote	For

Summary of ASA Position

LTI grant of 187,500 Rights equating to \$1.5 million for FY22. The \$1.5 million value of the LTI at grant equates to A\$8.00 per share based on the 30-day volume weighted average price (VWAP) up to and including the day of release of the annual results on 24 February 2022.

The number of Rights which may vest in respect of a Performance Period will be determined by reference only to achievement of these Performance Conditions.

- For Group revenue (50% weighting) the threshold target is 15% for 50% vesting up to maximum target of 20% for 100% vesting,
- For Underlying Basic EPS (50% weighting) the threshold target is 7.5% for 50% vesting up to maximum target of 10% for 100% vesting.

ASA will vote all undirected proxies for this resolution.

Item 7	Amendments to Constitution
ASA Vote	For

Summary of ASA Position

Appen are proposing to amend their constitution in preparation for the introduction the CHES replacement, to raise the limit on joint holdings to 4 people and to make current communication channels for directors.

These are non-controversial, and ASA will vote all undirected proxies for this resolution.

Item 8	Renewal of proportional takeover provision
ASA Vote	For

Summary of ASA Position

This proposal for Appen to renew its constitutional provisions which don't allow a predator to only bid for a proportion of a shareholders' interest is not controversial. ASA prefers full takeovers so that shareholders are not left with a controlling shareholder.

ASA will vote all undirected proxies for this resolution.

Item 9	Spill motion (contingent resolution)
ASA Vote	Against

Summary of ASA Position

Appen, in response to the remuneration strike at last year's AGM, has worked with stakeholders to improve its remuneration plan. A Board spill is a dramatic step and in ASA's view is not justified.

ASA will vote all undirected proxies against this motion.

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Appendix 1
Remuneration framework detail

CEO rem. Framework for FY21	Target* \$Am	% of Total	Max. Opportunity \$Am	% of Total
Fixed Remuneration	.75	21.4%	.75	18.1%
STI - Cash	1.25	35.7%	1.875	45.5%
STI - Equity				
LTI	1.50	42.8%	1.50	36.4%
Total	3.5	100.0%	4.125	100%