

APX: Strategic Transformation to Generative AI Drives Emerging Turnaround

FY2024 Results Analysis

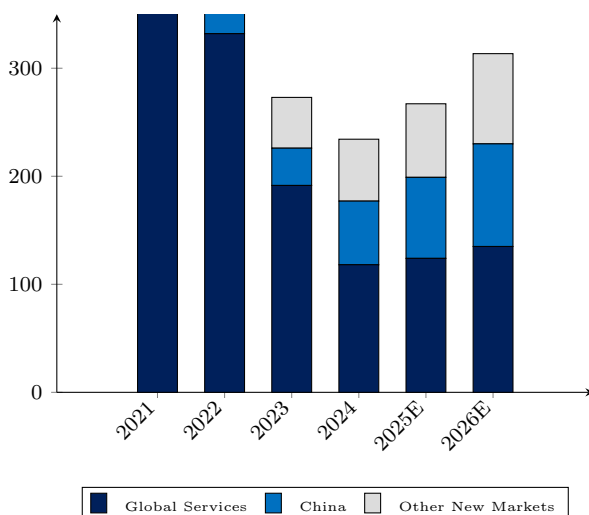
Executive Summary

Appen Limited (APX) has emerged from a transformative year with a successful strategic pivot toward higher-growth generative AI opportunities, despite significant headwinds from the loss of Google as a major customer in Q1 2024. The company delivered FY2024 sales revenue of \$234.3 million (down 14.2% YoY), but adjusted revenue excluding Google grew impressively by 16.0% to \$220.9 million, demonstrating the effectiveness of management's strategic redirection. Underlying EBITDA turned positive at \$7.8 million (a \$32.3 million improvement from FY2023's loss of \$24.5 million), highlighting successful cost management and operational discipline following the implementation of a \$13.5 million cost reduction program.

The company's strategic transformation is most evident in its segment performance, with New Markets revenue increasing 42.6% to \$116.2 million, now representing 49.6% of total revenue (up from 29.8% in FY2023). This growth was driven by exceptional performance in China (+70.7%) and Global Product (+221.9%), both benefiting from accelerating generative AI adoption which now constitutes 22% of total revenue compared to just 4% in FY2023. The balance sheet has strengthened considerably with cash increasing to \$54.8 million following a successful \$65 million capital raise in Q4 2024, providing ample runway to navigate ongoing market evolution.

Appen's investment case centers on its successful pivot to high-growth generative AI opportunities, strategic positioning across both Western and Chinese AI ecosystems, and technological differentiation through its AI Data Platform (ADAP). However, challenges remain with Enterprise and Government segment underperformance (-30.2%) and still-elevated customer concentration at 67.3% of revenue from the top five customers. Our valuation analysis yields a base case of \$1.62 per share (16% upside), with significant potential in the bull case of \$2.28 (63% upside) if management successfully executes its generative AI transformation strategy while accelerating enterprise market penetration.

Revenue by Segment (\$M)



Outlook

Appen's outlook appears increasingly favorable as the company progresses through its strategic transformation, with quarterly momentum demonstrating accelerating adoption of the company's generative AI capabilities. Management has provided measured commentary on near-term prospects, noting that "year to date, LLM project volumes are tracking lower than Q4 FY24 largely due to annual planning by major customers," while maintaining confidence in growth potential for 2025. This cautious optimism is supported by observable market trends, with generative AI projects expanding from 9% of revenue in Q1 2024 to 35% in Q4 2024, indicating strong directional momentum despite quarter-to-quarter variability.

Revenue growth is expected to accelerate in FY2025, with projections of 14.0% expansion to \$267.1 million, followed by 17.4% growth to \$313.5 million in FY2026. This growth trajectory will be driven primarily by continuing expansion in generative AI services, particularly within the China and Global Product segments which together are expected to deliver 25-30% annual growth. The rapid adoption of Appen's AI Data Platform (ADAP) by global customers instead of using their internal tools represents a significant strategic advancement, as it deepens customer relationships and increases technological lock-in. Management's commentary suggests generative AI will continue expanding as a proportion of total revenue, potentially reaching 35-40% by FY2026.

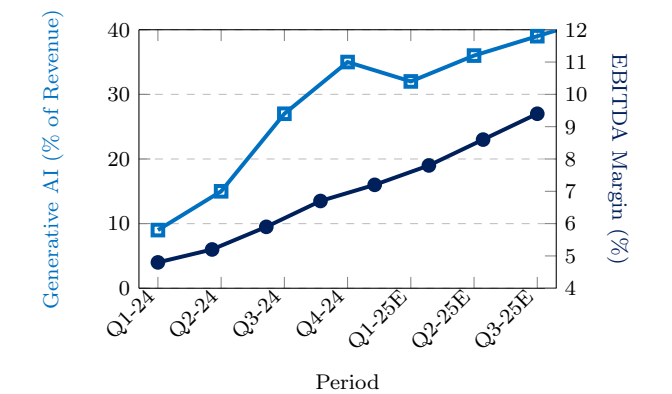
Profitability metrics are projected to improve substantially as the company benefits from both revenue growth and operational leverage following extensive cost restructuring. Gross margins are expected to expand gradually from 39.3% in FY2024 to approximately 41.0% by FY2026, reflecting the increasing mix of higher-value services and early platform efficiencies. EBITDA is forecast to improve from \$7.8 million in FY2024 (3.3% margin) to \$20.5 million in FY2025 (7.7% margin) and \$28.5 million in FY2026 (9.1% margin). This margin expansion will be supported by the company's disciplined cost management, with "tight cost controls remaining in place, in keeping with the company's focus on managing costs in line with the revenue opportunity."

Free cash flow is expected to follow a delayed improvement pattern, with early years showing negative FCF due to continued platform investments and working capital requirements (\$-8.3 million in FY2025), before turning positive in FY2027 (\$2.4 million) and accelerating thereafter (\$7.7 million in FY2028, \$13.2 million in FY2029). This pattern aligns with typical SaaS business models, where upfront investment in platform development and customer acquisition precedes cash flow inflection. The company's strong cash position (\$54.8 million) provides sufficient runway through this transition period, with no debt creating additional financial flexibility.

The most significant risks to this outlook include continued underperformance in the Enterprise Government segments, which have shown limited traction despite management's conviction in their long-term potential. Additionally, customer concentration remains elevated at 67.3% of revenue from the top five customers, creating vulnerability to further client losses similar to the Google contract termination. However, the company's successful diversification efforts to date, particularly the rapid growth in China and Global Product segments, suggest management has the capability to navigate these challenges.

while executing its strategic transformation.

Generative AI Revenue Growth



Valuations

Our primary valuation approach for Appen utilizes a Discounted Cash Flow (DCF) methodology, which most appropriately captures the company’s complex transition dynamics, evolving business mix, and projected cash flow inflection point. This approach allows us to model the differentiated growth patterns across segments (accelerated growth in China and Global Product, measured recovery in Enterprise Government) while accounting for the significant operational leverage expected as the company scales its platform strategy. The high discount rate (15.3% WACC) appropriately reflects both execution risk and uncertainty in the generative AI market, while the 3.0% terminal growth rate balances long-term AI data market expansion against eventual competitive normalization.

Methodology	Implied Price Per Share
DCF - Base Case	\$1.62
DCF - Bull Case	\$2.28
DCF - Bear Case	\$0.85
EV/EBITDA Multiple - NTM	\$1.85
P/E Multiple - NTM	N/A
EV/2P Reserves Multiple	N/A
PEG Ratio (P/E to Growth)	\$1.70
Implied Valuation Range	\$1.40 - \$2.00
Current Share Price	\$1.40
Up/Downside to Base Case	+15.7%

Our DCF model yields a base case valuation of \$1.62 per share, representing 15.7% upside from the current share price of \$1.40. This valuation reflects our projections of revenue growing at a 12.5% CAGR over the next five years, with EBITDA margins expanding from 3.3% in FY2024 to 12.0% by FY2029 as the company benefits from operational leverage and higher-margin generative AI services. The base case assumes generative AI contribution expands from 22% to 60% of total revenue, and China revenue maintains a 25% CAGR over the forecast period, while Enterprise Government segments experience gradual recovery from FY2026 onwards.

Multiple-based valuations using EV/EBITDA (NTM) at 9.7x yields \$1.85 per share, while PEG ratio analysis results in \$1.70 per share. These approaches provide important cross-validation but face inherent limitations given Appen’s transitional state. P/E-based methods have limited applicability due to negative near-term earnings, though our PEG analysis incorporates the expected return to profitability in FY2027.

Our DCF model employs a weighted average cost of capital (WACC) of 15.3%, reflecting Appen’s risk profile as a company

in transition with significant customer concentration and market uncertainties. This calculation incorporates a risk-free rate of 4.25%, equity risk premium of 5.5%, levered beta of 1.40, size premium of 2.0%, and company-specific premium of 2.5% accounting for project execution uncertainties and concentration risks. For terminal value calculation, we apply a perpetual growth rate of 3.0%, reflecting the long-term growth potential in AI data services.

Sensitivity Factor	Change	Impact
China Growth Rate	±5% CAGR	±\$0.24
Generative AI Penetration	±10% of revenue	±\$0.41
WACC	±50bps	±\$0.17
Terminal Growth Rate	±50bps	±\$0.15
Enterprise Recovery Timing	±1 year	±\$0.32

The bull case scenario (\$2.28 per share, +63% upside) envisions accelerated generative AI adoption and faster enterprise segment recovery, driving an 18.2% revenue CAGR and margins expanding to 18.0% by FY2029. Key assumptions include China growth at 35% CAGR, generative AI reaching 75% of revenue by FY2029, and Enterprise segment adoption accelerating from FY2025. Conversely, the bear case (\$0.85 per share, -39% downside) models intensified competition and limited enterprise traction, constraining growth to 6.8% CAGR and margins to 8.0%, with generative AI penetration limited to 45% by FY2029 and China growth moderating to 15% CAGR.

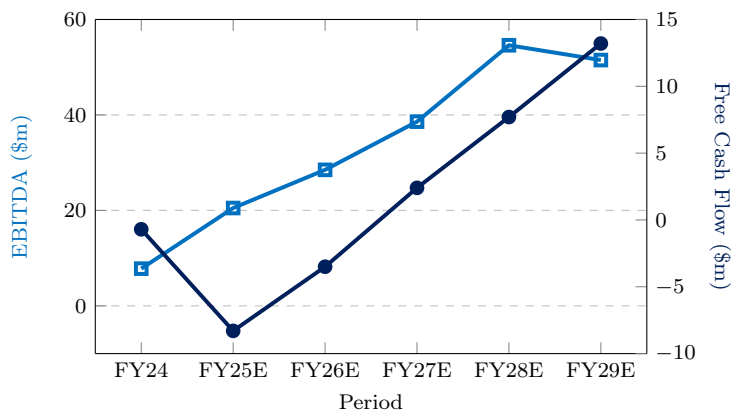
The valuation model is most sensitive to three key factors: China growth trajectory (10% variance in growth rates impacts overall valuation by approximately ±15%), Enterprise Government segment recovery timing (accelerated adoption adds 20% to valuation, while continued underperformance reduces it by 12%), and generative AI penetration (the difference between 45% and 75% revenue contribution by FY2029 results in a ±25% valuation impact).

Our comprehensive analysis suggests Appen represents a potentially attractive opportunity for investors with specialized knowledge of AI markets who can monitor execution progress closely. The current share price of \$1.40 appears to discount considerable execution risk while still offering asymmetric upside potential if management successfully executes its generative AI transformation strategy.

Free Cash Flow Transformation

Appen’s cash flow profile is in the midst of a significant transformation as the company transitions from a services-heavy business model to a more balanced approach incorporating platform elements with improved economics. The current free cash flow pattern reflects the investment phase of this strategic shift, with near-term cash consumption expected to transition to sustainable cash generation as the platform strategy scales and operational leverage increases.

Free cash flow from operations improved substantially in FY2024, with operating cash outflow narrowing to \$0.7 million from \$22.9 million in FY2023, representing a \$22.2 million year-over-year improvement. This progress was driven by both the return to positive EBITDA (\$7.8 million in FY2024 compared to -\$24.5 million in FY2023) and more efficient working capital management. Capital expenditure was disciplined at \$11.1 million for intangibles (down 38.3% from \$18.0 million in FY2023), reflecting more focused investment in the AI Data Platform (ADAP) capabilities that are driving the exceptional growth in the Global Product segment (+221.9% in FY2024).



The company's cash position strengthened significantly to \$54.8 million at the end of FY2024, a 70.2% increase from \$32.2 million in FY2023, bolstered by a successful \$65 million capital raise in Q4 2024. This enhanced liquidity provides substantial runway through the continued transformation period, with the company maintaining zero debt throughout this transition. The strengthened balance sheet significantly reduces execution risk as Appen navigates its strategic pivot, providing flexibility to weather potential volatility while continuing strategic investments in platform development.

Looking forward, free cash flow is projected to follow a delayed improvement pattern typical of businesses transitioning

toward platform models, with early years showing negative FCF due to continued platform investments and working capital requirements (\$-8.3 million in FY2025), before turning positive in FY2027 (\$2.4 million) and accelerating thereafter (\$7.7 million in FY2028, \$13.2 million in FY2029). This progressive improvement will be driven by three key factors: revenue growth (12.5% CAGR projection), margin expansion (EBITDA margins improving from 3.3% to 12.0%), and stabilizing capital requirements as the platform reaches maturity.

The free cash flow trajectory's key inflection point is expected in FY2027, when the convergence of sufficient scale and improved unit economics is projected to drive sustainable positive cash generation. This transition represents a fundamental shift in Appen's business model, with free cash flow conversion (FCF as a percentage of EBITDA) projected to improve from below 50% in the near term to approximately 75% by FY2029 as platform investments mature and deliver increasing returns.

The primary drivers of this cash flow transformation include the growth in high-margin segments, improved platform economics with operational leverage, enhanced operating efficiency following cost restructuring, and reduced capital intensity as the platform matures. The successful execution of this cash flow transformation represents one of the most significant aspects of the investment thesis, as it would demonstrate the business model's evolution toward sustainable profitability and potentially support higher valuation multiples consistent with technology platform companies rather than pure services providers.

About the Company

Appen Limited (ASX: APX) is a global market leader in data for the AI lifecycle, specializing in data sourcing, annotation, and model evaluation. Founded in 1996 and listed on the Australian Securities Exchange, the company has established itself as a critical partner for organizations developing artificial intelligence systems over its 28-year history. Appen's core expertise lies in providing high-quality training data that enables the development and enhancement of AI models, including both traditional machine learning and cutting-edge generative AI applications. Their operations span over 200 countries, supported by a global crowd of more than 1 million skilled contractors who collectively speak over 500 languages.

The company operates through two main segments: Global Services, which represents services provided to major US technology customers using their own data annotation platforms; and New Markets, which encompasses Appen's product-led growth strategy using their proprietary AI Data Platform (ADAP) and tools for Global, Enterprise, Government, and China customers. This segmentation reflects Appen's strategic evolution from a pure services provider to a more balanced technology platform company with SaaS characteristics. Revenue is generated through two primary channels: providing platform and tools for subscription customers for specified periods, and delivering collected, annotated, and evaluated data.

Appen's business model has undergone significant transformation following the loss of Google as a major customer in early 2024, which prompted substantial cost restructuring and accelerated the strategic pivot toward generative AI opportunities. The company's customer base remains concentrated with approximately 67.3% of revenue derived from its top five customers in 2024, though this represents improvement from 74.8% in 2023. Appen serves over 80% of the world's leading LLM foundation model builders, with 26 LLM model builders as customers globally, positioning it at the forefront of the rapidly evolving generative AI ecosystem.

The company is led by CEO and Managing Director Ryan Kolln, who was appointed on February 5, 2024, after previously serving as the company's Chief Operating Officer. Kolln brings over 20 years of experience in technology and telecommunications, including strategy consulting at The Boston Consulting Group specializing in technology sectors. The Board is chaired by Richard Freudenstein, who joined as a non-executive director in August 2021 before becoming Chair in October 2021, with Justin Miles serving as Chief Financial Officer since February 2024. The leadership team recently navigated a significant transition following the departure of former CEO Armughan Ahmad in early 2024, demonstrating organizational resilience during a critical transformation period.

Tailwinds

Generative AI Market Expansion: The generative AI market is experiencing explosive growth, creating unprecedented demand for high-quality training data and human feedback loops. This structural market shift directly benefits Appen, as evidenced by generative AI revenue expanding from 4% of total revenue in FY2023 to 22% in FY2024, and reaching 35% in Q4 2024 alone. Industry analysts project the broader AI market to grow at a CAGR of 30-40% through 2030, with the data preparation and annotation segment representing a critical component of this ecosystem. As models become more sophisticated, the demand for human expertise in providing nuanced feedback and evaluation grows correspondingly, creating a sustainable market opportunity despite advances in AI-assisted annotation techniques. Appen's established global crowd of over 1 million contractors with diverse language capabilities and domain expertise positions the company to capture disproportionate value from this market expansion.

Platform Adoption Acceleration: The exceptional growth in Global Product revenue (+221.9% in FY2024) demonstrates rapid customer adoption of Appen's AI Data Platform (ADAP), with Global customers increasingly utilizing Appen's platform for generative AI projects instead of using their internal tools. This shift represents a significant strate-

gic advancement, as it deepens customer relationships and increases technological lock-in, while simultaneously improving margin potential through operational leverage. Platform-based approaches create technological differentiation and improved economics compared to pure service offerings, with increasing returns to scale as fixed costs are distributed across growing revenue. The platform transition also enables more consistent, subscription-like revenue streams compared to project-based service work, potentially reducing quarter-to-quarter volatility as the transition progresses. Management commentary indicates accelerating platform adoption, suggesting this tailwind will strengthen over time.

China Market Leadership: Appen has established a strong and growing position in the Chinese AI market, with China revenue increasing by 70.7% in FY2024 to \$58.9 million, now representing 25.1% of total revenue. This growth was driven by capturing multiple generative AI opportunities across a diversified customer base, establishing Appen as a leading AI data company in the region. The Chinese AI market continues to expand rapidly, with substantial investment in both foundation models and commercial applications, creating sustained demand for Appen's services. The company's unique ability to serve both Western and Chinese AI ecosystems represents a distinctive advantage amid increasing geopolitical tensions, as few competitors can effectively bridge these increasingly separate development paths. Sequential quarterly improvement throughout FY2024 culminated in a record Q4 performance of \$17.7 million, suggesting continued momentum in this key growth market.

Improving Operating Leverage: Following extensive cost restructuring in response to the Google contract loss, Appen has established a more efficient operating base from which to scale. The company executed a \$13.5 million cost reduction program in FY2024, following a larger \$60 million cost reduction initiative in FY2023, creating a significantly streamlined cost structure. This operational efficiency is evident in gross margin expansion of 3.0 percentage points to 39.3% in FY2024 and the reduction in employee expenses by 29.2% to \$55.1 million. As revenue grows on this leaner cost base, particularly through higher-margin platform services, Appen should experience accelerating operating leverage with disproportionate flow-through to EBITDA and cash flow. Management has maintained "tight cost controls... in keeping with the company's focus on managing costs in line with the revenue opportunity," suggesting continued discipline in balancing growth investments with profitability improvement.

Headwinds

Customer Concentration Risk: Despite diversification efforts, Appen remains highly dependent on its top customers, with 67.3% of revenue coming from the top five in FY2024. While this represents improvement from 74.8% in FY2023, it still creates significant vulnerability to client decisions as demonstrated by the Google contract termination in Q1 2024, which removed \$82.8 million in annual revenue (approximately 30% of FY2023 total). The loss of another major customer would severely impact financial performance and potentially require additional restructuring. This concentration risk is particularly acute in the Global Services segment, which primarily serves major U.S. technology companies using their own data annotation platforms rather than Appen's proprietary tools, creating lower switching barriers. Management's diversification efforts through China expansion and customer acquisition show promising results, but building sufficient scale to meaningfully reduce concentration will require multiple years of successful execution.

Enterprise Government Adoption Challenges: The Enterprise Government segments have consistently underperformed expectations, with revenue declining 30.2% to \$26.0 million in FY2024. Despite management maintaining "conviction in the potential of our Enterprise Government divisions," they

acknowledge "we are yet to see material traction." This persistent gap between potential and performance suggests structural challenges in penetrating these markets, potentially including longer sales cycles, more complex procurement processes, and competition from both specialized providers and in-house capabilities. The slow adoption creates a strategic dilemma, as these segments represent crucial diversification opportunities away from major technology customers, but require continued investment despite limited returns to date. Average Enterprise deal size increased to \$185,000 in H1 2024 (from \$106,000 in H1 2023), suggesting quality improvements, but overall traction remains limited, creating uncertainty about the timeline for meaningful contribution to growth and diversification.

Competitive Intensity: The AI data services market is experiencing increasing competition from both established players and new entrants attracted by the generative AI boom. Companies like Scale AI have captured significant venture funding (\$7B+ valuation) and dominant positions in specific verticals like autonomous driving, while larger organizations like TELUS International (Lionbridge AI) offer diverse services with significant resources. Competition creates pressure on both pricing and talent acquisition, particularly for specialized domain experts needed for high-value generative AI evaluation. Traditional data labeling is increasingly commoditized through automation and offshore labor, forcing providers to move up the value chain toward more specialized services. While Appen's diversified geographic footprint and proprietary platform provide differentiation, maintaining technological leadership requires sustained investment in platform capabilities, creating tension with near-term profitability objectives. The rapid pace of innovation in AI model capabilities also creates risk of disintermediation if models can increasingly evaluate and improve themselves without human feedback.

Market Volatility Customer Planning Cycles: Management has acknowledged that "LLM project volumes are tracking lower than Q4 FY24 largely due to annual planning by major customers," highlighting the volatility and cyclicality inherent in serving major technology companies with evolving AI strategies. This variability creates challenges in resource planning and financial forecasting, potentially leading to periods of under or over-utilization of crowd capacity and overhead resources. The experimental nature of many generative AI initiatives adds additional unpredictability, as customers rapidly iterate on approaches and may suddenly pivot strategies based on technological developments or competitive dynamics. Management notes that "the LLM market is evolving rapidly and there is significant experimentation, therefore we expect to see month-to-month revenue variability." While long-term demand trends appear favorable, this near-term volatility complicates execution and may delay the timeline for consistent profitability.

Competitors

Competitor	Competitive Positioning
Scale AI	Well-funded (\$7B+ valuation) with strong US tech relationships; Advanced ML-assisted annotation capabilities; Specialized in autonomous driving data; US-centric operations with limited presence in China; Higher cost structure but deeper technical integration
TELUS International (Lionbridge AI)	Part of larger organization with diverse service offerings; Strong enterprise relationships and established sales channels; Multilingual capabilities from translation heritage; Less specialized in generative AI; Services-heavy approach with less platform differentiation
Sama	Quality-focused approach with social impact mission; Computer vision expertise and specialized annotation capabilities; Managed workforce model with greater quality control; Smaller scale with limited language coverage; Less presence in generative AI applications
CloudFactory	Cost-effective pricing targeting mid-market and specific verticals; Managed workforce model with flexible deployment; Quality management framework for consistent outputs; Limited specialized technology and platform capabilities; Smaller scale and geographic footprint

Appen occupies a distinctive position in the AI data services market with its truly global scale (operations in 200+ countries) and ability to serve both Western and Chinese AI developers. This geographic advantage is particularly signifi-

cant given increasing geopolitical tensions creating barriers for US-only providers in accessing the rapidly growing Chinese AI market. The company's 28-year operating history and specialized expertise working with foundation model builders provides credibility that newer entrants struggle to match, particularly important when serving risk-averse enterprise customers.

Compared to Scale AI, Appen's most direct competitor in the high-growth AI data space, Appen offers broader language capabilities (500+ languages supported), greater geographic diversity, and more balanced exposure to multiple AI application domains rather than concentration in autonomous driving. However, Scale AI benefits from substantially greater funding (\$7B+ valuation), potentially enabling more aggressive technology investment and customer acquisition, as well as deeper technical integration with customer workflows. Both companies are navigating the transition from pure services to platform models, creating similar strategic challenges.

Appen's competitive positioning relative to TELUS International (Lionbridge AI) centers on specialized AI expertise versus diversified BPO capabilities. While TELUS International benefits from enterprise relationships and established sales channels that could accelerate enterprise penetration, Appen's focused approach allows greater technological differentiation through its proprietary ADAP platform. Similarly, versus Sama and CloudFactory, Appen offers significantly greater scale and global reach, though potentially with less granular quality control than these managed workforce models.

The most significant competitive dynamic may be against in-house alternatives, as major technology companies evaluate build-versus-buy decisions for AI data capabilities. The advanced completion status of Appen's AI Data Platform (ADAP) creates a compelling case for partnership rather than internal development, as evidenced by Global Product revenue growth of 221.9% in FY2024 as customers increasingly adopted Appen's platform instead of internal tools. This trend of "platformization" potentially creates a more sustainable competitive advantage than pure service relationships, with technological differentiation and switching costs providing enhanced defensibility.

Results Summary

Appen delivered a transformative financial performance in FY2024, successfully navigating the significant challenge of losing Google as a major customer while executing a strategic pivot toward higher-growth generative AI opportunities. The headline numbers show total revenue declined 14.2% to \$234.3 million, but adjusted revenue excluding Google grew impressively by 16.0% to \$220.9 million, demonstrating the effectiveness of management’s strategic redirection. This growth was driven primarily by generative AI opportunities, which represented 22% of total revenue in FY2024, up from just 4% in FY2023, highlighting the company’s successful positioning at the forefront of this rapidly expanding market.

Key Metrics	FY2024	FY2023	YoY
Revenue	\$234.3M	\$273.0M	-14.2%
Adjusted Revenue (excl. Google)	\$220.9M	\$190.4M	+16.0%
Gross Margin %	39.3%	36.3%	+3.0pp
Underlying EBITDA	\$7.8M	(\$24.5M)	+\$32.3M
Underlying NPAT	(\$10.5M)	(\$52.8M)	+\$42.3M
Statutory NPAT	(\$20.0M)	(\$118.1M)	+\$98.1M
Cash and cash equivalents	\$54.8M	\$32.2M	+70.2%
Net assets	\$114.3M	\$92.8M	+23.2%
Operating cash flow	(\$0.7M)	(\$22.9M)	+\$22.2M

Profitability metrics demonstrated a clear turnaround trajectory, with underlying EBITDA improving to \$7.8 million from a loss of \$24.5 million in FY2023, representing a \$32.3 million year-over-year improvement. This dramatic enhancement was driven by both revenue growth in high-margin segments and aggressive cost management, with the company executing a \$13.5 million cost reduction program in response to the Google contract loss, following a larger \$60 million cost reduction initiative in FY2023. These operational efficiencies are evident in gross margin expansion of 3.0 percentage points to 39.3% in FY2024 and the reduction in employee expenses by 29.2% to \$55.1 million.

While the company still reported statutory and underlying net losses, the magnitude of these losses decreased substantially. Underlying net loss after tax improved to \$10.5 million from \$52.8 million in FY2023, while statutory net loss improved dramatically to \$20.0 million from \$118.1 million in FY2023, which had included \$69.2 million in impairment charges. This progression toward profitability demonstrates the effectiveness of management’s transformation strategy and cost discipline.

The balance sheet strengthened considerably during FY2024, with cash increasing to \$54.8 million from \$32.2 million, bolstered by a successful \$65 million capital raise in Q4 2024. The company maintained zero debt throughout this period, providing significant financial flexibility during its transition. Working capital management improved substantially, with operating cash flow improving to an outflow of \$0.7 million from an outflow of \$22.9 million in FY2023, representing a \$22.2 million year-over-year improvement. Capital expenditure was disciplined, with product development investment reduced from \$34.6 million in FY2023 to \$19.6 million in FY2024 (8.4% of revenue), while still advancing the AI Data Platform capabilities that are driving growth in the Global Product segment.

Performance by Segment

Appen’s segment performance in FY2024 reveals a company in transition, with dramatically divergent results across its business units reflecting both challenges and emerging opportunities.

Segment	Revenue (\$M)	YoY Change	EBITDA (\$M)	Growth Driver
Global Services	118.1	-38.3%	14.7	Strategic pivot post Google exit
China	58.9	+70.7%	N/A	Generative AI adoption
Global Product	31.3	+221.9%	N/A	ADAP platform adoption
Enterprise & Government	26.0	-30.2%	N/A	Adoption challenges
New Markets (Total)	116.2	+42.6%	(8.1)	Progress toward profitability
Total	234.3	-14.2%	7.8	Successful transformation

Global Services revenue declined 38.3% to \$118.1 million primarily due to the Google contract termination, which removed \$82.8 million in annual revenue. Excluding Google, the segment showed resilience with only a 3.9% revenue decline, demonstrating core stability. Despite significant revenue reduction, the segment maintained profitability with EBITDA of \$14.7 million and improved its margin by 3.3 percentage points to 12.4%, reflecting successful cost management and an improved project mix. Second half performance showed encouraging signs with revenue growth of 7.7% compared to H2 2023 (excluding Google), suggesting successful adaptation through increased penetration with existing clients and early-stage LLM projects. The segment continues to serve the majority of leading global LLM foundation model builders, though at reduced volumes compared to pre-Google termination levels.

New Markets demonstrated exceptional growth with revenue increasing 42.6% to \$116.2 million, driven primarily by generative AI opportunities. The segment’s financial performance improved substantially, with EBITDA losses narrowing by \$24.6 million to (\$8.1 million), demonstrating progress toward profitability as scale increases. New Markets now represents 49.6% of total revenue, up from 29.8% in FY2023, highlighting the success of Appen’s strategic pivot toward product-led growth and diversification. The Q4 performance was particularly strong, with generative AI projects contributing 35% of total revenue, up from just 9% in Q1, illustrating the rapid transformation of Appen’s business model toward higher-growth opportunities.

Within New Markets, China and Global Product emerged as primary growth engines. China delivered 70.7% growth to \$58.9 million with sequential quarterly improvement culminating in a record Q4 performance of \$17.7 million. China’s success stemmed from capturing multiple generative AI opportunities across a diversified customer base, establishing Appen as a leading AI data company in the region. Global Product achieved explosive growth of 221.9% to \$31.3 million as Global customers increasingly adopted Appen’s AI Data Platform (ADAP) for generative AI projects instead of using their internal tools. This shift represents a significant strategic advancement, as it deepens customer relationships and increases technological lock-in.

Enterprise Government faced significant challenges with revenue declining 30.2% to \$26.0 million, reflecting lower volumes within existing large projects and uncertain timing around new generative AI-related spending. Despite management’s stated conviction in these divisions’ potential, the performance divergence between Enterprise Government and other New Markets sub-segments widened during FY2024. Management has adopted a cautious investment approach proportionate to existing volumes until clearer adoption signals emerge. While average Enterprise deal size increased to \$185,000 in H1 (from \$106,000 in H1 2023), suggesting quality improvements, overall traction remains limited.

Balance Sheet & Financial Position

Balance Sheet (\$M)	FY2024	YoY
Total assets	170.6	+9.9%
Net assets/equity	114.3	+23.2%
Cash and cash equivalents	54.8	+70.2%
Trade and other receivables	46.7	-6.4%
Contract assets	19.7	+27.1%
Intangible assets	30.2	-24.3%
Trade and other payables	28.2	+3.7%
Debt	0.0	0.0%
Cash Flow (\$M)		
Operating cash flow	(0.7)	+\$22.2M
Payments for intangibles	(11.1)	-38.3%
Net proceeds from issuance of shares	42.1	-26.7%
Net increase in cash and cash equivalents	24.0	+172.7%

Appen maintained a strong financial position in FY2024 with total assets increasing 9.9% to \$170.6 million and net assets/equity growing 23.2% to \$114.3 million. The most significant improvement was in cash and cash equivalents, which increased 70.2% to \$54.8 million, bolstered by a successful \$65 million capital raise in Q4 2024. This enhanced liquidity provides substantial runway through the continued transformation period, with the company maintaining zero debt throughout this transition.

Working capital management improved substantially, with trade and other receivables decreasing 6.4% to \$46.7 million despite the addition of new customers and expansion in China. This efficiency helped drive the significant improvement in operating cash flow, which narrowed to an outflow of \$0.7 million from \$22.9 million in FY2023, representing a \$22.2 million year-over-year improvement. The increase in contract assets by 27.1% to \$19.7 million reflects the growing volume of work in progress, particularly in the rapidly expanding China and Global Product segments.

Intangible assets decreased 24.3% to \$30.2 million, primarily due to more focused investment in platform development and reduced capitalization of development costs in line with the company’s disciplined approach to capital allocation. Capital expenditure was disciplined, with payments for intangibles reduced by 38.3% to \$11.1 million while still advancing the AI Data Platform capabilities that are driving growth in the Global Product segment.

The company’s zero debt position provides additional financial flexibility during this transition period, eliminating interest costs and debt service requirements that might otherwise constrain investment in growth opportunities. This financial position significantly reduces execution risk as Appen navigates its strategic pivot, providing flexibility to weather potential volatility while continuing strategic investments in platform development.

Strategic Initiatives Status

Initiative	Status	Strategic Importance
AI Data Platform (ADAP)	Operational	Core platform driving 221.9% growth in Global Product segment; creating technological differentiation and increased customer lock-in
China Expansion	Accelerating	Key growth vector with 70.7% revenue increase; provides geographic diversification and access to rapidly growing AI market; successful execution of cross-border strategy
Cost Optimization	Completed	\$13.5M cost reduction program successfully implemented; follows \$60M initiative in FY2023; created more efficient operating base to support scaling with improved margins
Generative AI Development	Accelerating	Generative AI now represents 22% of revenue, up from 4% in FY2023; reached 35% in Q4 2024; specialized evaluation capabilities for hallucination detection and preference ranking
Enterprise Go-to-Market	Challenged	Enterprise & Government segment declined 30.2%; limited traction despite strategic importance; increased deal size but reduced volume; cautious investment approach adopted

Appen is advancing several strategic initiatives as part of its transformation from a services-heavy business to a more balanced approach incorporating platform elements with improved economics. The most successful initiatives have been the development and customer adoption of the AI Data Platform (ADAP), which drove 221.9% growth in the Global Product segment, and the geographic expansion in China, which delivered 70.7% revenue growth year-over-year.

The AI Data Platform (ADAP) represents Appen’s most significant technological initiative, providing a proprietary platform for customers to manage their AI data lifecycle. The platform’s accelerating adoption by global customers instead of using their internal tools represents a significant strategic advancement, as it deepens customer relationships and increases technological lock-in. This platform approach creates differentiation from pure service providers and improves margin potential through operational leverage.

China expansion has emerged as a major growth driver, with revenue increasing 70.7% to \$58.9 million with sequential quarterly improvement culminating in a record Q4 performance of \$17.7 million. This success demonstrates Appen’s ability to operate effectively across both Western and Chinese AI ecosystems, a distinctive advantage amid increasing geopolitical tensions in the technology sector. The China strategy provides both growth and diversification benefits, reducing dependence on major US technology customers.

Cost optimization initiatives have been successfully implemented, with a \$13.5 million cost reduction program completed in FY2024, following a larger \$60 million initiative in FY2023. These efforts created a significantly streamlined cost structure evident in gross margin expansion of 3.0 percentage points to 39.3% in FY2024 and the reduction in employee expenses by 29.2% to \$55.1 million. This more efficient operating base supports improved profitability as revenue scales.

Generative AI development has accelerated, with this segment now representing 22% of total revenue in FY2024, up from just 4% in FY2023, and reaching 35% in Q4 2024. Specialized capabilities for generative AI evaluation, including hallucination detection and human preference ranking, position Appen at the forefront of this rapidly growing market with high-value services that resist commoditization.

Enterprise go-to-market initiatives have faced challenges, with the Enterprise Government segment declining 30.2% to \$26.0 million. Despite management’s conviction in the long-term potential of these segments, execution has been challenging with limited traction to date. Management has adopted a cautious investment approach proportionate to existing volumes until clearer adoption signals emerge.

Financial Forecasts

Income Statement (\$M)	FY24A	FY25E	FY26E	FY27E	FY28E	FY29E
Revenue	234.3	267.1	313.5	351.1	389.7	429.6
Growth (%)	-14.2%	+14.0%	+17.4%	+12.0%	+11.0%	+10.2%
EBITDA	7.8	20.5	28.5	38.6	54.6	51.5
EBITDA Margin (%)	3.3%	7.7%	9.1%	11.0%	14.0%	12.0%
Depreciation	8.9	9.9	10.6	11.2	11.9	12.4
EBIT	-1.1	10.6	17.9	27.4	42.7	39.1
EBIT Margin (%)	-0.5%	4.0%	5.7%	7.8%	11.0%	9.1%
Tax Expense	9.4	14.8	16.1	18.5	24.0	14.8
Underlying NPAT	-10.5	-4.2	1.8	8.9	18.7	24.3
EPS (€)	-4.58	-1.83	0.79	3.88	8.17	10.61
Cash Flow & Balance Sheet						
NOPAT	-1.1	10.6	17.9	27.4	42.7	39.1
D&A	8.9	9.9	10.6	11.2	11.9	12.4
Capex	13.1	22.7	25.1	24.6	23.4	25.8
Capex/Revenue (%)	5.6%	8.5%	8.0%	7.0%	6.0%	6.0%
Free Cash Flow	-0.7	-8.3	-3.5	2.4	7.7	13.2
Cash Balance	54.8	42.3	34.2	36.1	43.5	56.2
Debt	0.0	0.0	0.0	0.0	0.0	0.0
Operational KPIs						
Generative AI (% of revenue)	22%	35%	45%	52%	58%	60%
China (% of revenue)	25%	28%	30%	32%	33%	35%
Enterprise & Govt (% of revenue)	11%	10%	12%	15%	18%	20%
Top 5 Customers (% of revenue)	67.3%	65.0%	63.0%	62.0%	61.0%	60.0%
Gross Margin (%)	39.3%	40.0%	41.0%	42.0%	42.5%	43.0%

Our financial forecasts reflect Appen’s transformation journey, with significant improvements driven by continued growth in generative AI adoption, China market expansion, and platform scaling. The most significant inflection points include:

1. **Accelerating Revenue Growth:** Revenue is projected

to increase 14.0% in FY2025 and 17.4% in FY2026 as generative AI adoption accelerates and China continues its strong growth trajectory, partially offset by continued challenges in Enterprise Government segments.

2. **Progressive Margin Expansion:** EBITDA margin is forecast to improve from 3.3% in FY2024 to 7.7% in FY2025, reaching 14.0% by FY2028 as the company benefits from operational leverage, higher-margin platform services, and a more efficient cost structure following restructuring initiatives.

3. **Shifting Business Mix:** Generative AI contribution is projected to expand from 22% of revenue in FY2024 to 35% in FY2025 and 60% by FY2029, while China’s contribution increases from 25% to 35% over the same period. This evolution toward higher-growth, higher-margin segments drives both revenue growth and profitability improvement.

4. **Path to Sustainable Profitability:** Underlying NPAT is forecast to remain negative in FY2025 at (\$4.2 million) before turning positive at \$1.8 million in FY2026 and accelerating thereafter to \$24.3 million by FY2029, demonstrating the extended timeline for full financial recovery from the Google contract loss.

5. **Free Cash Flow Inflection:** Free cash flow is projected to follow a delayed improvement pattern, remaining negative through FY2026 before turning positive in FY2027 (\$2.4 million) and accelerating to \$13.2 million by FY2029. This pattern reflects the continued investments in platform development and the working capital requirements of a growing business before reaching sufficient scale for positive cash generation.

6. **Customer Diversification:** Top 5 customer concentration is expected to gradually improve from 67.3% in FY2024 to 60.0% by FY2029, with China growth and modest recovery in Enterprise Government segments providing diversification from major US technology customers. This gradual pace reflects the reality that meaningful diversification requires multi-year execution.

7. **Cash Utilization:** The cash balance is projected to decline from \$54.8 million in FY2024 to a low point of \$34.2 million in FY2026 before rebuilding as free cash flow turns positive, reaching \$56.2 million by FY2029. This trajectory provides sufficient runway through the transformation period without requiring additional capital raising, assuming execution progresses as planned.