



**It's (h)Appening at Appen**

<b>Company/ASX Code</b>	Appen Limited /APX
<b>AGM date</b>	Friday 31 May 2019
<b>Time and location</b>	10am at KPMG, Level 38, Tower 3, 300 Barangaroo Avenue, Sydney
<b>Registry</b>	Link Market Services
<b>Webcast</b>	No
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Mary Curran assisted by Orlene McKinlay
<b>Pre AGM Meeting?</b>	Yes with Chairman, Chris Vonwiller & Chair of Nominations & Remuneration Committee, William Pulver

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

**Summary of ASA Position**

This is the first time ASA has monitored Appen, which has had a stellar rise since listing in January 2015 at 50cents. (share price \$24 at time of writing). The company has a global outlook and provides data annotation services to the very large US tech giants as well as to the automotive and government sectors. Data annotation services involve providing data sets to train artificial intelligence and machine learning applications to help these applications understand and interpret speech, natural language, images and human judgement. It is part of the Australian WAAAX group (Wisetech, Altium, Appen, Afterpay and Xero). It leverages the growing use of artificial intelligence. At its most basic the data might be used to train voice assistants such as Alexa or Cortana. Part of the secret to its success is its 1.3 million home workers located all over the globe. Appen has in excess of 500 permanent employees. Nevertheless, it does have an ISO27001 rated centre in the Philippines and a secure facility in Exeter in the UK for government and sensitive work. Throughout the past year Aussie tech stocks have been among the best performing stocks on the ASX 200. The information technology sector outperformed the miners, the financials, and the index itself, returning around 30% in the past year. Appen share price has risen from \$8.33 January 2018 to \$12.70 in January 2019 and has continued to climb to current levels around \$24. Revenue was up 119%, earnings before interest tax depreciation and amortisation (EBITDA) was up 206% and net profit after tax (NPAT) was up 192%. There was a final dividend of 4 cents per share with annual total being 7 cents. Due to mostly overseas revenue, dividends are most likely to be partially or unfranked.

During the last 18 months, there were two capital raisings for acquisitions which were scaled back by 90% and 70% for the retail shareholders. (Share purchase plan (SPP) price respectively \$5.80 and \$21.50). We questioned the Chair as we considered the ratio offered was unfair given that

retail is approximately half the register and asked for greater consideration should a future capital raising be required.

The Board states it considered it important that its existing loyal shareholder base should be able to participate in some way with Appen's need to raise new capital, including being given the opportunity to acquire shares at a discount to the market price. Since the predominant use of the funds being raised was to fund the acquisition of Figure Eight, it was necessary for the Board to engage on a quick and certain funding route, hence the fully underwritten Placement which provided Appen with sufficient funds to pay the upfront consideration for Figure Eight by the end of March 2019.

These acquisitions were Leapforce in late 2017 which now is integrated and its software forms the centrepiece of highly automated Appen Connect platform and a San Francisco company called Figure Eight. Although initially Figure Eight is not expected to be earnings accretive, in the longer term it gives Appen access to a larger customer base and should boost efficiencies and provide a vertically integrated end to end solution for all data annotation requirements.

Risks to the company are concentration in customer but these customers tend to have various projects and data breaches for which the company states it has stringent procedures in place. Going forward the company will provide more detail on all its Material Risks. Appen has met its requirement with the GDPR (General Data Protection Regulation 2016/679) data protection and privacy principles.

With regard to the workforce, the Chair stated that he is committed to better gender balance and that 61% of the workplace are women. They are actively recruiting ideally a new female independent non-executive director (NED) in the USA. However, competition for talent is steep and this may not be possible. New recruits include Wilson Pang as Chief Technology Officer who will over time be a key management personnel (KMP) and Senior Vice President Tom Sharkey in Content Relevance. Chairman, Chris Vonwiller and his wife Julie founded the company in their spare room in their Gordon home and remain significant shareholders (approx. 10%). In this respect, he does not meet the ASA guideline as independent, but, given the company background, we are accepting of this for the short term.

### Summary

(As at FYE)	2018	2017	2016	2015
NPAT (\$m)	41.728	14.282	10.49	8.31
UPAT (\$m)	49.028	19.749	10.49	8.31
Share price (\$)	12.83	8.45	2.84	1.65
Dividend (cents)	7	6	5	1.2
TSR (%)	53	198	75	232
EPS (cents)	39.25	14.55	10.81	8.67
CEO total remuneration, actual (\$m)	2.309	NA	NA	NA

For 2018, the CEO's total actual remuneration was **26 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

<b>Item 2</b>	<b>Adoption of the Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

As would be expected the KMP remuneration, in brief, is divided into three parts, the fixed annual remuneration (FAR), the 'at risk' pay which is short term incentive (STI) and long-term incentive (LTI), three years, shares.

The STI payments are financially oriented with metrics being both revenue and EBITDA and in 2018 resulted in the full pay-out of 150% (the maximum). There is no pay-out for below 80% of target. In terms of dollar value to the executives, the total STI pay-out to Mark Brayan (CEO) was \$375,000. As a comparison, the previous year 2017 it was \$353,000.

With regard to LTI, this is based on earnings per share (EPS) over three years using EPS growth of 20%. We would prefer four – five years but note with technology companies, three years is may be more acceptable, given the nature of the business. The LTI is also used as a staff retention tool as performance rights only vest if the recipient is still employed. Following vesting, Appen could consider putting a holding lock in place for a further 1 – 2 years. ASA would also generally prefer to have 2 performance hurdles in place.

As only statutory pay is stated in the Annual Report, we have requested the actual pay be disclosed in the following year. The CEO pay FAR is \$484,000 plus STI \$375,000 and total remuneration is \$2,309,000. Note - due to the increase in the share price there is a solid difference between the grant price and the vesting price, which is fine as it aligns with shareholder experience. (ie value at grant date was \$506,010, value at exercise was \$1,434,002).

With regard to Board, NED fees are reasonable at approx. \$85,000 each with total board fees of \$449,000. All directors have sufficient 'skin in the game'. Nevertheless, we have asked the company to have a specific stated policy going forward to which they have agreed.

<b>Item 3.1</b>	<b>Re-Election of Mr William Pulver</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Pulver has been a NED of Appen since 31 January 2013 and was CEO of Appen from 2010 – 2013 so we would not consider him independent. He is currently a director of Smartpay and previously was President of NetRatings and has held leadership roles in ACNielsen. Holds a Bachelor of Commerce (Marketing) degree. He is Chair of the Nominations and Remuneration Committee. **Holds 1,000,000 shares.**

<b>Item 3.2</b>	<b>Re-Election of Ms Robin Low</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Ms Low has been an independent NED since October 2014. Her other listed company directorships include AUB group, CSG Limited and IPH Limited. Previously she has had a 28-year career at Price Waterhouse Coopers where she was a partner. She has a Bachelor of Commerce from University of New South Wales and is a fellow of the Institute of Chartered Accountants Australia New Zealand. She is Chair of Audit and Risk Committee. **Holds 172,743 shares.**

<b>Item 3.3</b>	<b>Re-Election of Ms Deena Shiff</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Ms Shiff has been an independent NED since October 2015. She was a partner in leading law firm Mallesons Stephen Jacques before re-joining Telstra Corporation where she rose to Group Managing Director. She is currently Chair of Marley Spoon and BAI Communications. She was previously a director of Citadel Group. She holds a degree in Law from Cambridge University and a degree in Economics from the London School of Economics, both with honours. She is a fellow of the Australian Institute of Company Directors. **Holds 50,229 shares.**

<b>Item 4</b>	<b>Ratification of the issue of shares</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

On 11 March 2019 Appen announced it had entered into a binding agreement to acquire Figure Eight Technologies Inc for an upfront consideration of US\$175 million plus earn-out consideration payable March 2020 expected to be US\$60-80million and capped at \$125 million. The upfront consideration was funded by the issue of 13,255,814 ordinary shares to institutional investors via a placement. In addition, 697,761 shares were issued via a share purchase plan to retail investors.

As noted in our comments to the Chair, we feel that the retail investors did not receive a fair percentage given the registry breakdown. We requested in future that more consideration be given to retail shareholders should a future capital raising be required. On this understanding we will vote for the ratification.

<b>Item 5</b>	<b>Approval of grant of performance rights to CEO/Managing Director, Mr Mark Braylan</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

See also comments under the remuneration report.

The maximum number of rights that may be granted to Mr Braylan at this meeting is 260,000. These are broken down as follows: At risk LTI 160,000 rights, a one-off grant in respect of the Leapforce acquisition 50,000 rights for exceeding the 2018 Content Relevance EBITDA\$ and % margin targets and 50,000 rights, subject to exceeding the 2019 Content Relevance EBITDA \$ and % margin targets. Page 9 of the notice of meeting clearly sets out the measures, targets, dates and vesting conditions. As per the remuneration report, we feel the targets and quantum are fairly set and align with shareholder interests. (See page 9 of the notice of meeting).

The individual(s) (or their associates) involved in the preparation of this voting intention **has** a shareholding in this company.

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