

## Appen Ltd (APX)

Information Technology

**HOLD**

**APX A\$4.14**

**TARGET PRICE \$5.94**

Appen Limited (APX) is a globally focused company that provides language technology data and services in more than 180 languages and dialects in over 70,000 locations and 130 countries to range of industries including technology companies and government agencies. APX has two products and services division which are namely Relevance and Speech & Image operating in Australia, USA and Other Countries.

Number of shares	123.4M
Market Capitalisation (\$M)	704.9
Free float (%)	87.5
12-month high/low	\$13.82/\$4.14
Average Daily Turnover (\$m)	4.196
% S&P/ASX200	0.034%
DDM Ranking	300
% All Ordinaries	0.027%
GICS Industry Group	Technology Services

Source: FactSet, BPC

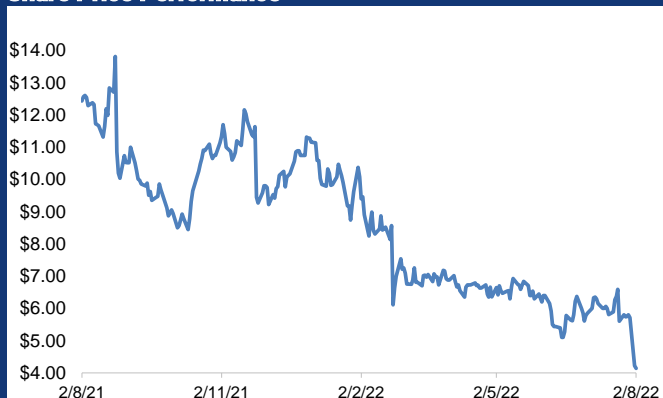
### Earnings Summary (AUD)

Year end December	2021A	2022F	2023F	2024F
Revenue (\$M)	630.0	493.0	680.8	747.1
EBITDA (\$M)	109.4	77.0	109.1	121.9
Reported NPAT (\$M)	40.1	27.4	41.8	47.1
Adjusted NPAT (\$M)	57.2	32.6	47.6	61.3
Reported EPS (c)	32.2	17.1	24.7	25.1
Adjusted EPS (c - FD)	45.8	27.2	39.2	45.5
Adjusted EPS growth (%)	-12.0	-10.7	10.9	14.5
Adjusted P/E (x)	12.5	10.3	11.8	10.2
Dividend (c/sh)	14.1	9.6	13.2	15.2
Gross yield (%)	3.5	2.4	3.3	3.8
Net yield (%)	2.5	1.7	2.3	2.7
ROIC (%)	8.2	6.6	9.9	11.5

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Smartkarma.

### Share Price Performance



Source: FactSet, Barclay Pearce Capital

## Update on 1H 22 results and FY22 Outlook

On 2<sup>nd</sup> of August 2022, Appen Limited (APX) announced its update on 1H 22 results and FY22 Outlook, with the following highlights:

### Highlights:

- Group Revenue of US\$182.9m, down 7%;
- New Markets revenue of US\$45m, down 6%;
- Excluding Global product, New Market revenue was up 35%;
- Underlying EBITDA of US\$9.6m (before FX), down 66%;
- Underlying EBITDA of US\$8.5m (after FX), down 69%;
- Statutory net loss after tax of US\$9.4m, compared to a US\$6.7m statutory net profit after tax in 1H FY21;
- Underlying net loss after tax of US\$3.8m, compared to a US\$12.5m NPAT in 1H FY21; and
- Cash balance of US\$42.2m on 30<sup>th</sup> June 2022.

### Outlook

- APX is expecting higher volumes in the latter part of the second half of FY22 due to the delivery of seasonal projects and ramp up in existing projects;
- However, with no improvement in July trading there remains uncertainty about a continued slowdown of spending from APX's Global customers and their exposure to weaker digital advertising demand;
- As a result, the conversion of forward orders to sales is less certain this year compared to prior years;
- Given the revenue skew and fixed cost operating leverage of the business, APX expect FY22 EBITDA to be weighted to the second half;
- While customers are slowing the pace of their investments, their AI product development is expected to increase; and
- APX remain confident that the AI training data market will continue to grow in the longer term.

### CEO Comments:

APX's CEO Mark Brayan said "The first half of the financial year has been characterised by challenging external operating and macro conditions, which has resulted in weaker digital advertising demand, and a slowdown in spending by some of our major customers.

The fundamentals of our business remain strong and our operational performance and the quality of our service we provide customers continues to improve, evidenced by higher NPS. We are increasing our range of products and through our product investments remain well positioned to serve our customers."

## Earnings changes

APX reported Underlying EBITDA (after FX) of US\$8.5m (AUD\$11.2m using AUD/USD 0.762c conversion rate), which is 60% below market expectations AUD\$29.6m. Given the revenue skew and fixed cost operating leverage of the business, APX expect FY22 EBITDA to be weighted to the second half. Hence, we expect negative earnings revisions of 30% for FY22 and 10% for future periods.

## Valuation

We are updating our 12-month target price from \$9.18 to \$5.94 and updating our recommendation from BUY to HOLD. The price target is underpinned by our valuation.

**Russell Wright**

02 August 2022

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**Buy** – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

**Hold** – Describes stocks that are neither a buy nor underperform.

**Underperform** – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

**Speculative Buy** – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for BPCM to assign a Buy or Underperform rating.

**Russell Wright**

02 August 2022

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## Barclay Pearce Capital Recommendation Proportions

Buy	37.9%	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	22.8%	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	0.0% of stocks with recommendations are Barclay Pearce clients)