5 March 2025

Appen (APX, $1.38, mkt cap $361M)

PT $2.80

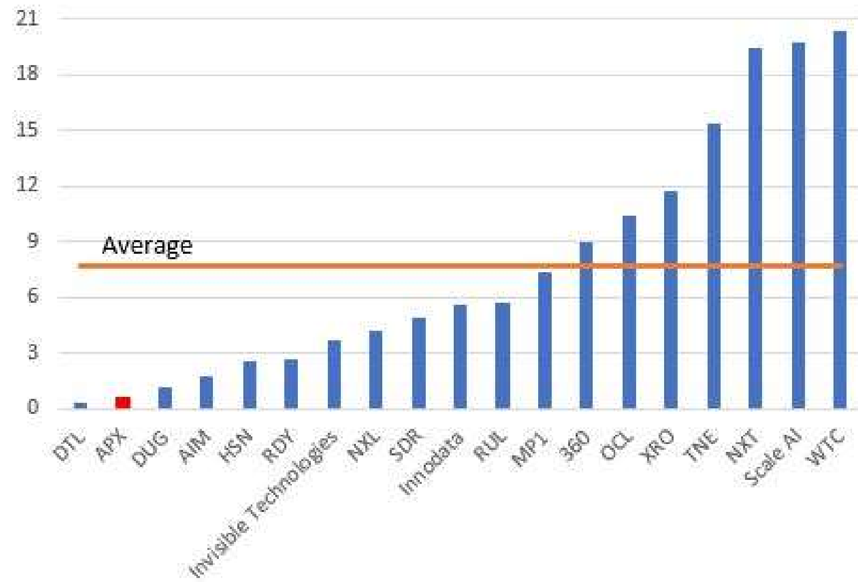
Double-digit growth clarified amidst panic

- **PCP trading update finally provided.** APX yesterday responded to an ASX Aware Letter that was issued following three days of a brutal share price sell-off. On page 4 APX referred to the statement in its FY24 result release that had spooked the market "…*LLM project volumes are tracking lower than Q4 FY24 largely due to annual planning*…". While the company called out on its results conference call that there was seasonal impact, it had declining to disclose PCP growth. The riposte yesterday did - "*year to date revenue is tracking at approximately 16% higher than the prior corresponding period (pcp) excluding the impact of the Google termination*."

- **Double-digit growth in-line with consensus *prior* to result.** The 16% YoY growth ex-Google is welcome relief, supporting the double-digit growth trajectory the market had been expecting - it being actually in-line with the consensus expectations prior to the results release. In other words, it should not have been surprising. Despite yesterday's pcp update, the market seemingly did not respond with the share price falling, the general tech sell off on Wall Street not helping.

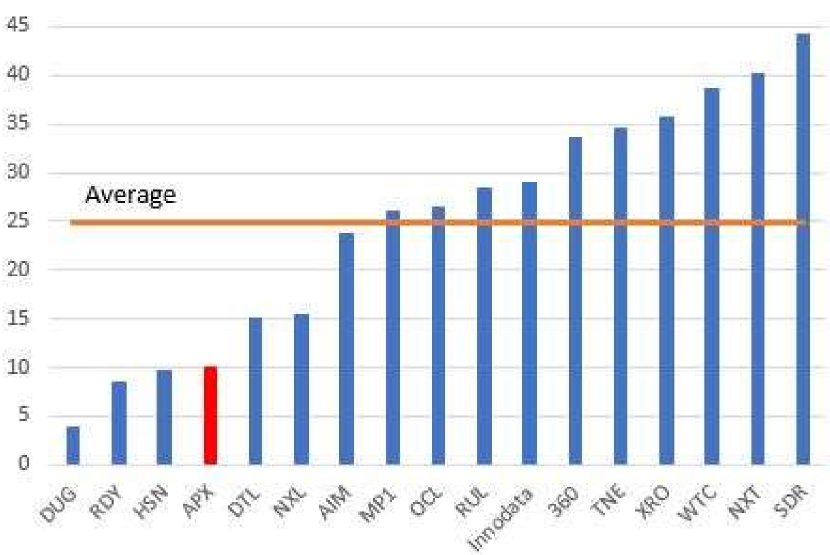
- **Comparison to peers.** The savage sell-off has thrown APX at the bottom end of two key comparisons vs other tech stocks - EV/Sales and EV/EBITDA. Given ASX-listed techs are not ideal peers because of APX's unique business model and AI exposure, we have also included overseas listed Innodata - self-described as a picks and shovels beneficiary of AI and GenAI, similar to APX. We also included unlisted companies Scale AI and Invisible Technologies in our EV/sales comparison.

Forward 12-months EV/sales (x):



Source: Companies; IRESS consensus; Industry sources; Foster Stockbroking estimates.

Forward 12-months EV/EBITDA (x):



Source: Companies; IRESS consensus; Foster Stockbroking estimates.

- **Trading in the cellar vs peers.** The charts highlight that the savage sell-off has thrown APX into the bottom of the range vs techs, trading on EV/sales of 0.6x vs mean of 7.2x, and at an EBITDA multiple of only 10.1x vs the average of 24.9x. While sceptics may cite that APX is not yet net profitable, neither are many of the stocks hovering around the mean. While the company also has single-digit EBITDA margin (currently at least, it has been high double-digit in the past), so do some stocks trading at higher multiples.

- **Too much focus on lumpiness, not enough on the trend.** We suspect the lumpy nature of APX's work is key for its low multiples vs other techs, especially those that have the visibility of SaaS models. Nevertheless, we believe APX more than compensates for this irregularity by its exposure to the high-growth offered by AI and gen AI. McKinsey forecasts >20% CAGR over 2024-29 for gen AI services, including those surrounding data and models to power LLMs, while Bloomberg Intelligence forecasts 40% to 2032, cited by Innodata.

- **Benefiting from both China and US spend.** We again stress the unique position APX enjoys – serving both the largest gen AI markets China and the US. Spend is aggressive across the two nations as they attempt to out-manoeuvre each other. While many assumed the US had an unattainable lead due to BigTech, such complacency has been unwound due to the arrival of DeepSeek, while companies such as Alibaba and BYD are spending heavily on AI.

- **$2.80/share valuation.** We have arrived at valuation and price-target of $2.80 for APX, by applying the mean multiple of 24.9x to its 12-month forward EBITDA, (US$16M), which in turns places it on a modest EV/sale of 1.6x. We think the current share price is an attractive entry point for investors seeking to capitalise on a panicked market reaction to a statement that was later clarified. The company had ample cash of US$54.8M end 2024.

The analyst owns 16,793 APX shares. Foster Stockbroking, staff, and Cranport own <1% of APX's shares on issue.

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