



# **Q3 2023 Earnings Prepared Remarks**

**November 21, 2023**

## Legal Disclaimer

This document contains forward-looking statements about our future financial performance and other future events and trends, including guidance. These statements are only predictions that are based on what we believe today, and actual results may differ materially. These forward-looking statements are subject to risks, uncertainties, assumptions, and other factors that could affect our financial results and the performance of our business. We will discuss them in detail in our filings with the SEC, including today's earnings press release, and the risk factors and other information contained in the final prospectus relating to our initial public offering. Agora assumes no obligation to update any forward-looking statements we may make on this document.

**Zhao Bin, founder, chairman and CEO**

Thanks operator, and welcome everyone to our earnings call.

In the third quarter, our revenue was 15.3 million dollars for Agora, flat compared to last quarter, and 141 million RMB for Shengwang, an increase of 7.4 percent quarter-over-quarter.

As of the end of this quarter, we had more than 16 hundreds active customers for Agora and more than 4 thousand for Shengwang, an increase of 26 percent and 6 percent, respectively, compared to one year ago.

Now moving on to our business, product, and technology updates for the quarter.

Let's start with Agora. We recently announced the general availability of our video-based solutions to power live shopping experiences. In recent years, live shopping has disrupted and transformed the entire e-commerce market in China. We believe that the US and other developed markets will soon catch up and embrace live shopping as the next big trend. According to McKinsey, live shopping could account for 20% of all e-commerce sales by 2026, and the US live shopping market is estimated to be worth \$35 billion by 2024. We are also proud to mention that Agora was highlighted as a leading vendor in Gartner's recent Market Guide for Live Commerce in Retail.

With Agora, brands, marketplaces, and platforms can now seize the live shopping opportunity with ease. For example, we recently helped CommentSold, the leading fashion live shopping platform for retailers, to introduce a new functionality that allows sellers to invite external participants into their shows simply by sending them a link or QR code. Sellers can easily add professional hosts, celebrities, influencers or VIP customers to join their live shopping session via video to provide more engaging content and boost conversion.

This quarter, we also partnered with The Sandbox, a leading decentralized gaming virtual world, to promote real-time engagement and social interaction within the metaverse through voice, video, and chat. The Sandbox chose Agora because of our comprehensive product stack, which can seamlessly integrate 3D Spatial Audio, persistent text chat, and interactive live-streaming functionalities at scale. As a result, players' ability to connect, collaborate, and form meaningful communities in the metaverse is significantly enhanced.

Moving on to Shengwang. We recently launched our AIGC RTE SDK, a real-time engagement solution connecting human users with large language models. So far, people have largely interacted with AI models in text format. Only recently, companies such as OpenAI have beta launched direct voice conversations between human users and AI models. However, there is usually a significant delay of 6 to 7 seconds or more to receive a simple response.

Our solution has been designed to tackle this latency issue so that the user can hear the response within 2 seconds. This near-real-time response is close to the natural pause expected in human-to-human conversations, and therefore provides a much more engaging experience for users.

Our AIGC RTE SDK also comes with great flexibility. Developers can easily create their application with the freedom to choose from a wide range of large language models, speech-to-text engines, and synthetic voices to fit their unique use case. A video demo of our AIGC RTE solution can be found in our earnings presentation with more details on its features and capabilities. Please also feel free to download the demo application and try it yourself.

Next, let's move to real-world factories to see how we assisted BMW in their digital transformation journey. Historically, when local engineers needed technical support from a specialist at BMW headquarters in Germany, they had to wait at least 24 hours before the specialist could arrive on site, which could impact manufacturing timeline and even cause delays in delivery.

Our solution enables the remote specialist at BMW headquarter to remotely inspect even the smallest details with HD video and low latency. In addition, when the specialist makes inquiries or provides instructions, local engineers can see exactly where the specialist is marking with the help of AR devices. This solution demonstrates our commitment to becoming a trusted partner of large enterprises for their digital transformation initiatives.

Last month, we held our RTE conference for the ninth consecutive year, where we discussed the role artificial intelligence plays in real-time engagement.

We have been leveraging AI to enhance the quality of experience in real-time engagement for a long time. We developed AI-powered

real-time on-device noise suppression and echo cancellation algorithms that significantly improve audio quality. On the video front, our AI-based real-time on-device algorithms such as super resolution, perceptual video coding, object segmentation, adaptive coding, and video quality assessment enable us to deliver optimal video quality and viewing experiences up to 4K resolution. Many of our customers worldwide have integrated our latest SDKs with these AI technologies, and more are in the process to upgrade.

With our constant pursuit of more efficient AI-powered SDKs to overcome the limits of devices and network infrastructure, we have substantially reduced the barriers to high-quality RTE. This means that people around the world, even those without the latest smartphones or access to high-speed internet, can now enjoy a wide range of RTE use cases, just like how they have access to basic utilities such as clean water and electricity. With billions of smartphones and devices powered by our SDK with AI-driven capabilities, we are making solid progress to realize our mission of making real-time engagement ubiquitous, and allowing everyone to interact with anyone, anytime and anywhere.

We have also closely followed the development of large language models and generative AI around the world. As mentioned earlier, our AIGC RTE solution enables developers to put AI-powered characters into voice conversations with users. We have been working closely with some customers and expect to see them launch their innovative use cases soon, such as AI companions or personal assistants, social deduction games with AI players, and AI tutors to help users learn foreign languages.

As large language models continue to advance in their ability to process and generate multimodal information, substantial amounts of data in video and audio form will need to be transmitted between human users and AI models. The volume of such data will one day surpass today's human-to-human traffic, and we are uniquely positioned to become the critical infrastructure that enables human users and AI models to interact with each other through video and audio.

Before concluding my prepared remarks, I would also like to announce a change in our board of directors. Mr. Tuck Lye Koh has tendered his voluntary resignation due to personal reasons. Tuck has been working with us since our inception a decade ago, first as an

investor, then as a director since 2018. I would like to sincerely thank Tuck for his dedicated service and invaluable advice to our board.

Mr. Shawn Zhong, currently our Chief Technology Officer and Chief Scientist, has been appointed as a director. I would like to warmly welcome Shawn to join our board, and I'm confident that Shawn's insights and expertise will help the board and the Company stay on the forefront of real-time engagement technology and create long-term value for our shareholders.

With that, let me turn things over to Jingbo, who will review our financial results.

**Jingbo Wang, CFO**

Thank you, Tony. Hello everyone.

Let me start by first reviewing financial results for the third quarter and then I will discuss outlook for the fourth quarter of 2023.

Total revenues were \$35 million in the third quarter of 2023, an increase of 2.9% quarter over quarter, and a decrease of 14.6% year-over-year.

Agora Revenues were \$15.3 million in the third quarter, flat compared to last quarter, and decreased 8.9% year-over-year. The year-over-year decrease was primarily due to reduced usage and increased pricing sensitivity from customers in emerging markets due to challenging macroeconomic environment and tightening financing conditions starting from the second half of last year.

Shengwang Revenues were RMB141.2 million in the third quarter, an increase of 7.4% quarter-over-quarter, and a decrease of 9.2% year-over-year, excluding revenues from the disposed CEC business. The quarter-over-quarter increase was primarily due to an increase in revenues from digital transformation customers, or large enterprises. This is an area where we have seen strong revenue growth in the past two years. Going forward, we believe digital transformation market will become an increasingly important revenue and profit contributor for the Shengwang business. The year-over-year decrease was primarily due to slowing general economic conditions and fast evolving regulations in certain downstream markets.

Dollar-Based Net Retention Rate is 98% for Agora and 89% for Shengwang, excluding revenues from discontinued business.

Moving onto cost and expenses. For my following comments, I will focus on non-GAAP adjusted financial measures, which exclude share-based compensation expenses, acquisition related expenses, financing related expenses, amortization expenses of acquired intangible assets, income tax related to acquired intangible assets, impairment of goodwill, depreciation of property and equipment and amortization of land use right.

Adjusted gross margin for the third quarter was 66.9%, which was 3.3% higher than Q3 2022, mainly due to the change in product mix and the implementation of technical and infrastructural optimizations.

As mentioned in previous earnings calls, we restructured and reduced our global workforce in Q4 last year, and we have continued to implement effective expense controls. As a result, adjusted R&D expenses were \$15.7 million in Q3, decreased 36.4% year-over-year. Adjusted R&D expenses represented 44.8% of total revenues in the quarter, compared to 60.2% in Q3 last year.

Adjusted sales and marketing expenses were \$6.6 million in Q3, decreased 48.8% year-over-year. Sales and marketing expenses represented 18.9% of total revenues in the quarter, compared to 31.5% in Q3 last year.

Adjusted G&A expenses were \$6.2 million in Q3, decreased 15.1% year-over-year. G&A expenses represented 17.6% of total revenues in the quarter, compared to 17.7% in Q3 last year.

Adjusted EBITDA was negative \$4.4 million, translating to a 12.7% adjusted EBITDA loss margin for the quarter, significantly lower than the adjusted EBITDA loss margin of 40% in Q3 last year.

Investment loss was \$13.4 million in Q3, primarily due to the fair value change in an equity investment of \$7 million and loss on investments in certain private companies of \$6.3 million.

Non-GAAP net loss, excluding investment loss, was \$2.2 million in Q3, translating to a 6.3% net loss margin for the quarter, compared to a non-GAAP net loss margin of 42.9% in Q3 last year and 19.4% in Q2 this year.

Now turning to cash flow, operating cash flow was negative \$3 million in Q3, compared to negative \$8.8 million last year. Free cash flow was negative \$3.2 million, compared to negative \$9.9 million last year.

Moving onto balance sheet. We ended Q3 with \$373.4 million in cash, cash equivalents, bank deposits and financial products issued by banks. Net cash outflow in the quarter was mainly due to free cash flow of negative \$3.2 million, and share repurchase of \$12.5 million.

Since the board approved our share repurchase program in February 2022 and as of September 30, 2023, we had returned approximately \$94.3 million to shareholders through share repurchases, demonstrating the board's commitment to safeguarding shareholder value and its confidence in the long-term prospect of the Company.



As of September 30, 2023, the Company had approximately 94.3 million ADSs outstanding, reflecting a 16% reduction of total shares outstanding, from January 31, 2022, before the share repurchase program started.

So far, we have completed 47% of our US\$200 million share repurchase program, which will expire at the end of February 2024, and we intend to continue to undertake this meaningful capital return to our shareholders.

Now turning to guidance. For the fourth quarter of 2023, we currently expect total revenues to be between US\$35.5 and 37.5 million. This forecast reflects our current and preliminary views on the market and operational conditions, which are subject to change.

In closing, we are very proud of our execution in this quarter, especially the significant improvement in profitability. We will stick to our strategy and be laser-focused on driving revenues and improving efficiency. For the long run, as Tony just mentioned, we are excited to see emerging AIGC use cases and we are well prepared to help developers combine the power of generative AI and real-time engagement. Thank you to both Agora and Shengwang teams for your hard work and to our investors for your trust. Thank you everyone for attending the call today.

Let's open it up for questions.