



Q1 2024 Earnings Prepared Remarks

May 22, 2024

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Zhao Bin, founder, chairman and CEO

Thanks operator, and welcome everyone to our earnings call.

I will first review our operating results in the past quarter.

Agora revenues were 15.8 million dollars in the first quarter, up 3 percent quarter over quarter. This is a great result, considering the macroeconomic challenges under the high interest rate environment, and is mainly driven by usage growth from emerging use cases such as live shopping. As of the end of this quarter, Agora had over 17 hundreds active customers, up 16 percent compared to one year ago.

Shengwang revenues were 122.6 million renminbi in the first quarter, down 16 percent year over year, mainly due to challenging macroeconomic and regulatory environment, as well as the disposal of the customer engagement cloud business in the first quarter of 2023. As of the end of this quarter, Shengwang had over 38 hundreds active customers, down 2 percent compared to one year ago.

Now moving on to our business, product and technology updates for this quarter. Despite a challenging operating environment, we continued to focus on enhancing the fundamental performance of our products. In both markets, we released new versions of our SDKs that set new standards for stability and performance, demonstrating our strong commitment to creating long-term value for customers.

Let's first talk about Agora. We recently launched our Adaptive Video Optimization technology that can deliver exceptional live video quality and enhance the overall user experience. It leverages our 10 years of real-world experience and expertise accumulated through hundreds of billions of minutes of video usage.

This advanced technology leverages various machine learning algorithms to dynamically adjust parameters and optimize performance at every step along the video processing pipeline. From the moment that video is captured to its final rendering and display on the viewer's screen, our technology continues to adapt to changing network conditions and device capabilities.

Our Adaptive Video Optimization technology empowers our customers to differentiate their live video applications in three key areas: optimized image quality, unmatched video fluency and ultra-low latency.

For example, KUMU, a social live streaming application, recently adopted our Adaptive Video Optimization technology. Users now experience smooth, high-quality video without freezing, even on older devices and with slow internet connections. Since implementing our Adaptive Video Optimization technology, KUMU has seen a 30% increase in session length and overall user engagement.

This quarter, we also made concrete progress in engaging with Twilio customers as Twilio's Programmable Video product continues its sunset process. Additionally, we saw increased traffic to our website and developer community, reflecting our growing mind share among developers. I believe this will help us reach a broader spectrum of developers and customers going forward.

Last week, OpenAI launched GPT-4o, a true end-to-end multimodal ChatGPT that can directly reason across audio, video, and text in real time. It confirms our earlier prediction that generative AI models would soon gain the capabilities to interact with human users directly in voice and video formats. We anticipate a paradigm shift in the interaction between humans and AI models, which will inspire the next generation of "killer" applications. As this shift will lead to a substantial increase in the amount of voice and video feeds transmitted globally in real time, the importance of a low-latency and highly reliable transmission network will be higher than ever. This will put us in a unique position to become the critical infrastructure in the AI-first future of human-computer interaction.

Next, let's turn to Shengwang. We are thrilled to announce the launch of our new solution for live sports broadcasting. This summer, major sporting events such as the European Football Championship and the Paris Olympic Games will attract billions of viewers globally. Our cloud-native solution is designed to provide customers an alternative to traditional satellite and studio-based broadcasting.

Compared to traditional solutions that rely on satellite and private lines, our solution uses our global network and in-house algorithms to significantly reduce latency and enhance image quality. Apart from the technical advantages, our solution also offers cost savings and greater operating flexibility for our customers.

Traditionally, hosts and commentators had to be in the same studio room or in the sports arena to cover a game. This approach incurs significant costs and also limits the number of commentators that can work simultaneously. So, most of the time, viewers could only listen to the same commentators. However, with our cloud broadcasting

solution, hosts and commentators can now be anywhere with an internet connection. Our technology ensures that the video and audio feeds of co-commentators in the same channel are highly synchronized with the sporting event broadcast. As a result, many athletes, experts, and celebrities can create their own channel to cover the same game, allowing end users to choose their preferred commentators to enjoy the game.

Shengwang has partnered with leading sports broadcasting platforms in China to bring end users an elevated viewing experience for the upcoming European Football Championship and Paris Olympic Games this summer. I believe this new experience will trigger a major transformation in sports broadcasting, and our powerful, flexible, and cost-effective solution will become widely adopted by additional platforms to power many other live sporting events throughout the year.

In 2024, we continue to host our ChaoYinSu program, which strives to facilitate start-ups to explore and build innovative RTE applications. Over the past years, we have collaborated with renowned VC funds, ecosystem partners and industry leaders to bring one-stop support to start-ups. This year, we have brought in Moonshot AI, a prominent player in foundation generative AI models, to accelerate the development of applications that harness the power of RTE and generative AI. Participating startups will have access to Moonshot's latest functionalities and our full portfolio of product offerings as building blocks to bring their ideas to life. We are excited to see what these innovative start-ups will create. The start-ups with the most compelling and ground-breaking applications will be showcased at our upcoming RTE conference in October.

Before concluding my prepared remarks, I want to thank both the Agora and Shengwang teams for their hard work and commitment during this challenging period. Let's stay focused to strengthen our technology leadership and increase market share, meanwhile moving towards sustained profitability in 2024.

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 first quarter of 2024 and then I will discuss outlook for the second quarter.

Total revenues were \$33 million in the first quarter, a decrease of 8.4% quarter over quarter, and a decrease of 9.4% year-over-year.

Agora Revenues were \$15.8 million in the first quarter, an increase of 3.3% quarter-over-quarter, and an increase of 4.6% year-over-year. The increase was primarily due to business expansion and usage growth in certain verticals, such as live shopping, as well as business resilience in the U.S market and other developed markets.

Shengwang Revenues were RMB122.6 million in the first quarter, a decrease of 17.3% quarter-over-quarter, and a decrease of 16% year-over-year. The quarter-over-quarter decrease was primarily due to seasonality, since Q4 is generally the high season for digital transformation projects and Q1 is generally the low season for social and education customers, which tend to have lower usage during Lunar New Year. The year-over-year decrease was primarily due to slowing demand from internet customers due to regulation and general economic conditions.

Dollar-Based Net Retention Rate is 92% for Agora and 78% 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, depreciation of property and equipment and amortization of land use right.

Adjusted gross margin for the first quarter was 63.2%, which was 3.9% lower than Q1 2023 and 2% lower than Q4 2023. The decreases were mainly due to change in product mix and lower utilization rate of infrastructure in Q1.

Our adjusted R&D expenses decreased 13.6% year-over-year to \$14.6 million in Q1. Adjusted R&D expenses represented 44.2% of total revenues in the quarter, compared to 46.3% in Q1 last year.

Adjusted sales and marketing expenses were \$6.3 million in Q1, decreased 25% year-over-year. Sales and marketing expenses represented 19.2% of total revenues in the quarter, compared to 23.0% in Q1 last year.

Adjusted G&A expenses were \$6.5 million in Q1, slightly increased 6.6% year-over-year, primarily due to the increase of expected credit loss. G&A expenses represented 19.6% of total revenues in the quarter, compared to 16.8% in Q1 last year.

Adjusted EBITDA was negative \$6.1 million, translating to a 18.4% adjusted EBITDA loss margin for the quarter, compared to 17.7% in Q1 last year.

Non-GAAP net loss was \$4.8 million in Q1, translating to a 14.5% net loss margin for the quarter, significantly lower than net loss margin of 25.1% in Q1 last year.

Now turning to cash flow, operating cash flow was negative \$6.5 million in Q1, compared to negative \$8.9 million last year. Free cash flow was negative \$7.1 million, compared to negative \$9.1 million last year.

Moving onto balance sheet. We ended Q1 with \$380.8 million in cash, cash equivalents, bank deposits and financial products issued by banks, or \$4.13 per ADS. Net cash inflow in the quarter was mainly due to deposit received in relation to the disposal of a small portion of the land for headquarters project of \$19.3 million, which was offset in part by free cash flow of negative \$7.1 million and share repurchase of \$3.4 million.

Now turning to guidance. For the second quarter of 2024, we currently expect total revenues to be between US\$34 and 36 million. This forecast reflects our current and preliminary views on the market and operational conditions, which are subject to change.

In closing, we will focus on enhancing our technology, increasing our market share and moving toward sustained profitability in 2024. Thank you to both Agora and Shengwang teams for your hard work and contributions during this challenging period.

Thank you everyone for attending the call today.

Let's open it up for questions.