Q1 2023 Earnings Prepared Remarks

May 30, 2023

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Zhao Bin, founder, chairman and CEO

Thanks Fionna, and welcome everyone to our earnings call.

Before diving into our operational results for the quarter, I would first like to make a few remarks regarding recent changes in the organizational structure of our company.

Since our inception 9 years ago, we have mostly operated under the "Agora" brand globally. To better meet the requirements of our customers and compete more effectively in the unique markets we serve, we will now operate two independent divisions under the same holding company. Our Agora division will focus on our business in the US and international markets and our Shengwang division will focus on our business in the China market.

Agora and Shengwang will each be run by a local management team and adopt local standards and best practices. We have appointed Stanley Wei as Chief Operating Officer of Agora and Robbin Liu as Chief Operating Officer of Shengwang.

We believe this strategic reorganization will allow us to optimally focus our resources on the specific needs and priorities of each business. Agora will focus on the acceleration of growth and on gaining market share in US and international markets, leveraging our leading technology and comprehensive product offerings. Shengwang will focus on enhancing our quality of experience advantage and improving the ease of adoption of our products, further strengthening our competitive position in the China market.

By empowering the local management team of each division, we will be able to respond more quickly to the needs of our customers and become more agile as new opportunities emerge.

From this quarter onward, we will report our revenues and operating metrics separately for Agora and Shengwang to help investors better understand the dynamics and our operational results in each of these markets.

Our revenue for the first quarter was 15.1 million dollars for Agora, up 10 percent year on year, and 21.3 million dollars for Shengwang, down 14 percent year on year. Agora's revenue growth was primarily due to business expansion and usage growth in US and international markets. Shengwang's decrease in revenue was primarily due to the appreciation of US dollars, our disposal of Easemob's customer engagement cloud business, and decrease in usage from K12 academic tutoring customers. After adjusting for these factors, Shengwang's revenue would have increased by 3 percent compared to the same quarter last year.

As of the end of this quarter, we had nearly 1,500 active customers for Agora and nearly 4,000 for Shengwang, an increase of 31 percent and 2 percent, respectively, compared to one year ago.

Now moving on to our product and technology updates.

First, starting with Agora, the Flexible Classroom, our low-code aPaaS solution designed for building scalable and customizable online classrooms, has continued to gain momentum in the US and global market as the demand for online learning continues to grow. Recently, the Flexible Classroom was named a finalist by 2023 The EdTech Awards in the "e-learning, blended, flipped solution or remote solution" category.

Previously, we mentioned our partnership with HTC to accelerate the adoption of real-time engagement in VR applications. In HTC's VIVE ecosystem, developers use our video SDK to power real-time collaboration between end users within virtual environments. Recently, we were recognized as a Webby Award honoree under the category Metaverse, Immersive & Virtual – Best Realtime Experience, for how our technology is used in HTC's VIVE Sync VR ecosystem.

To further increase the value of our Premium and Enterprise Support packages for our customers, we have added integrations with Okta and Datadog. The Okta integration enables customers to manage team members' access to the Agora Console through Okta identity management tools. The Datadog integration with Agora Analytics enables customers to push analytics data covering usage, quality, and performance directly to the Datadog platform for analysis and visualization.

Moving on to Shengwang, we recently upgraded our real-time Karaoke product. When this solution was first launched in 2021, it could accommodate two users singing together at the same time. If a third user wanted to join, one of the two current users would have to give up their microphone. This limitation was mainly due to the technology challenges at the time of mixing multiple real-time soundtracks in a highly synchronous manner and delivering the output to all users with low latency. With our latest version, up to eight users can now sing together, which unlocks a wide range of new features for our customer's applications. For example, all users in a virtual Karaoke room can now participate in a singing battle or take random turns singing parts of a song together. Empowered by our upgraded product, our customers can now replicate the in-person Karaoke experience within their applications.

Next, I would like to discuss the combination of generative AI and real-time engagement, and the enormous opportunity this combination holds for the future.

Since the end of last year, the world has been captivated by the latest advances in large language models and generative AI. People widely believe that generative AI, despite being in its early stages, will drive significant paradigm shifts in many industries.

And real-time engagement is no exception. Generative AI can empower our customers to dramatically enhance end user experiences in their applications, or to create new use cases that were previously impossible. Let's look at some examples.

The advent of powerful large language models has significantly improved the performance of chatbots in text format, as can be seen in the growing popularity of ChatGPT and AI-powered search engines. However, this is only the beginning. As AI models continue to evolve and gain more powerful multimodal capabilities, they will become more adept at processing voice and video feeds and generating responses in real-time. Using IoT hardware as input/output devices, people will have an all-powerful human-like AI buddy that can provide information, carry out tasks, or engage in casual chats, all through voice and video.

Education is another industry where people have strong hopes that generative AI can help revolutionize experiences. By analyzing student data, AI-powered tutors can generate personalized learning plans and deliver learning content in an interactive manner, with everything tailored to best match a student's learning progress, patterns, and real-time feedback. In addition, AI tutoring can

also provide affordable and tailored education opportunities to those who previously did not have access to a quality education.

There is also huge potential for generative AI to disrupt the social, entertainment and gaming industries. A virtual matchmaker can do the job of making initial introductions and facilitating conversations just as well as a real person in a dating application. If you need to leave an interactive session for a short while, your digital twin can take over and continue the conversation. When you come back, a summary can be immediately available for you to catch up. For online social gaming, it will become almost impossible to tell if your teammates or opponents are real players, or AI-controlled non-player characters.

Looking at the examples above and many others, we see something in common. Generative AI can significantly expand the scope and opportunity of real-time engagement. Previously, real-time engagement largely took place among groups of people. With the help of LLM, RTE can now occur between among people, digital twins of people, and fully virtual AI-based characters, opening the door to a much broader range of possible use cases. In addition, with greatly enhanced user experiences, RTE will become more intelligent, immersive, and enjoyable.

This trend will likely increase the overall usage of real-time engagement solutions multi-times and bring more business opportunities. We have been working closely with our customers to create pilot applications in certain verticals and we will continue monitoring the latest developments while assisting our customers in utilizing generative AI in their real-time engagement use cases.

Before concluding my prepared remarks, I want to thank both the Agora and Shengwang teams for their hard work during this transitional period. I believe

this strategic reorganization will sharpen our identity and strengthen our position in both the global and China markets, and most importantly, allow us to serve developers and customers in a more agile and efficient way.

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 discussing certain reporting and disclosure adjustments in our financial results. Then I will review financial results for the first quarter and outlook for the second quarter of 2023.

Following our recent reorganization, Agora, Inc. is now the holding company of two independent businesses, Agora and Shengwang, which will operate under their own unique brands and distinct legal entities, and will be run by separate local management teams. Beginning from the first quarter of 2023, we will report revenues separately for Agora and Shengwang based on the legal entities with which customers entered into contracts.

This differs from our previous practice, which was to separately report revenues for China and U.S. & International based on geographies of usage. For example, certain Chinese customers operate applications that primarily target end users outside China. Such revenues were previously included under "US & International". We now include such revenues under Shengwang to reflect the domicile of contractual relationships.

For the same reason, we will report number of active customers and Dollar-Based Net Retention Rate, or DBNRR, separately for Agora and Shengwang. Our definition for active customers remains unchanged. The calculation methodology of retention rate is same as expansion rate, which is the term we used previously. As almost all revenues generated from Agora customers are denominated in U.S. dollar, and almost all revenues generated from Shengwang customers are denominated in Renminbi, we calculate DBNRR in U.S. dollars for Agora and in Renminbi for Shengwang, instead of converting everything into U.S. Dollars.

Revenues of Easemob's Chat API business will also be included in calculating active customers and retention rate for Shengwang business.

A detailed explanatory note including our recast historical results reflecting these adjustments can be found on our investor relations website.

Moving onto our financial results for Q1.

Agora Revenues were $15.1 million in the first quarter of 2023, an increase of 10.2% year-over-year, and a decrease of 4.4% quarter-over-quarter. The year-over-year increase was primarily due to our business expansion and usage growth. The quarter-over-quarter decrease was primarily due to challenging macroeconomic environment. As we mentioned in previous earnings calls, the interest rate hikes, worldwide inflationary pressure, and tightening of venture capital funding starting from the second half of last year, had negatively impacted some of our customers' financial conditions and their ability to raise funding, which led to reduced usage of our products and increased pricing sensitivity.

Shengwang Revenues were $21.3 million in the first quarter of 2023, a decrease of 14.5% year-over-year, and a decrease of 12.3% quarter-over-quarter. The year-over-year decrease was primarily due to the disposal of Easemob's customer engagement cloud business, the decrease in usage from K12 academic tutoring sector following regulatory changes and the depreciation of Renminbi against U.S. Dollar. If we excluded these factors, revenue denominated in Renminbi would have increased 2.7% year-over-year. The quarter-over-quarter decrease was primarily due to the disposal of customer engagement cloud business, lower usage during Chinese New Year holiday for internet customers and longer than expected sales cycle for traditional enterprise customers.

Dollar-Based Net Retention Rate for Agora is 130%. Dollar-Based Net Retention Rate for Shengwang is 92%, excluding revenues from the K12 academic tutoring sector.

Moving onto cost and expenses. For my following comments, I will focus on non-GAAP results, 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 and impairment of goodwill.

Non-GAAP gross margin for the first quarter was 63.3%, which was 0.3% higher than Q1 2022, mainly due to the disposal of Easemob's customer engagement cloud business which had lower gross margin.

As we mentioned in our previous earnings calls, we restructured and reduced our global workforce in Q4 2022. As a result, non-GAAP R&D expenses were $17.4 million in Q1, a decrease of 31.2% year-over-year. Non-GAAP R&D

expenses represented 47.8% of total revenues in the quarter, compared to 65.6% in Q1 last year.

Non-GAAP sales and marketing expenses were $8.5 million in Q1, a decrease of 26.3% year-over-year. Sales and marketing expenses represented 23.4% of total revenues in the quarter, compared to 30.0% in Q1 last year.

Non-GAAP G&A expenses were $6.9 million in Q1, a decrease of 7.0% year-over-year. G&A expenses represented 18.8% of total revenues in the quarter, compared to 19.1% in Q1 last year.

Non-GAAP operating loss was $9.2 million, translating to a 25.4% non-GAAP operating loss margin for the quarter, compared to an operating loss margin of 49.0% in Q1 last year.

Adjusted EBITDA was negative $6.4 million, translating to a 17.7% adjusted EBITDA loss margin for the quarter, significantly lower than the adjusted EBITDA loss margin of 42.6% in Q1 last year.

Investment loss was $4.4 million in Q1, primarily due to the fair value change in equity investments of $2.9 million, credit loss in debt investment of $1.2 million, as well as a disposal loss of Easemob's customer engagement cloud business of $0.3 million.

Now turning to cash flow, operating cash flow was negative $8.9 million in Q1, compared to negative $15.9 million last year. Free cash flow was negative $9.1 million, compared to negative $17 million last year.

Moving onto balance sheet. We ended Q1 with $416.5 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 $9.1 million, share repurchase of $19.4 million, and cash paid in relation to headquarters project of $5.1 million.

During Q1, we repurchased approximately 21.6 million of our class A ordinary shares, equivalent to 5.4 million ADSs, for US$19.5 million, representing 10% of our US$200 million share repurchase program.

As of the end of Q1, we had in aggregate repurchased approximately 57.4 million of our class A ordinary shares, equivalent to 14.4 million ADSs, for US$61.3 million, representing 31% of our share repurchase program.

Now turning to guidance. Recently we saw increased uncertainties in macroeconomic conditions, such as foreign exchange rate, inflation, and interest rates, which may have greater-than-expected impacts on our customers' business and in turn add more uncertainties to our revenues. Therefore, starting this quarter, we will be providing quarterly revenue guidance instead of full year guidance. For the second quarter of 2023, we currently expect total revenues to be between US$34 and 37 million. This forecast reflects our current and preliminary views on the market and operational conditions, which are subject to change.

In closing, I want to express my deepest appreciation to both Agora and Shengwang teams for your hard work during this challenging period and to our investors for your trust in our vision and our team.

Thank you everyone for attending the call today. Let's open it up for questions.