



Q4 2023 Earnings Prepared Remarks

February 26, 2024

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Zhao Bin, founder, chairman and CEO

Thanks operator, and welcome everyone to our earnings call.

Let me first quickly review our operating results in Q4. Revenue was 15.3 million dollars for Agora, flat compared to last quarter, and 148.3 million RMB for Shengwang, an increase of 5 percent quarter-over-quarter, mainly driven by revenue growth from digital transformation customers.

As of the end of 2023, we had close to 17 hundred active customers for Agora and more than 41 hundred for Shengwang, an increase of 18 percent and 12 percent, respectively, compared to one year ago.

I'm pleased to announce that we achieved a non-GAAP net income of 1.4 million dollars in Q4, despite a very challenging operating environment, thanks to our effective cost controls and relentless drive for revenue growth. Jingbo will discuss in more detail shortly.

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

Let's start with Agora. In this quarter, we held a series of Webinars to discuss how real-time engagement, when combined with state-of-the-art technologies in artificial intelligence and AR/VR, can greatly influence or even transform various industries, including Live Shopping, Telehealth, and Internet of Things.

For example, in Live Shopping, we see more and more retail brands and platforms relying on interactive livestreaming to redefine the way consumers make their buying decisions. By creating a personalized, social, and engaging experience for the audience, a loyal community of repeated buyers will thrive and help drive sales.

The combination of RTE, AI and AR/VR is driving a rapid revolution of IoT use cases. For example, heavy machinery operators can work remotely with an enhanced view that sees beyond blind spots, enabling them to carry out challenging tasks in a safe and efficient manner. For autonomous vehicles or AI-powered robotics, human operators can monitor their operations from remote locations and take over whenever necessary.

This series of webinars was well-received and attracted thousands of participants globally. We believe Agora is uniquely positioned to facilitate innovation in these industries, by leveraging our cutting

edge RTE technology and deep understanding of industry specific use cases.

In this quarter, we also released a brand-new beta version of our Signaling product, which provides real-time data synchronization and low-latency event notifications between devices and servers. The new version can now accommodate an unlimited number of users per channel, deliver better synchronization, support storage, and manage conflicting messages effectively. It enables a wide range of use cases, such as real-time bidding in live shopping, virtual gifting in livestreaming, player status synchronization in online games, live polling in education, and remote command of IoT devices.

In December, Twilio announced the upcoming end of life of its Programmable Video product, which was a competing solution with our Video Calling product. We have published a series of blogs covering guidance and best practices for migrating from Twilio to Agora across major operating systems and developer platforms. Additionally, we are offering up to 2 months free to customers who switch from Twilio. We believe Agora is the ideal alternative for Twilio's video customer base and expect to enhance our global market share following Twilio's exit.

We are also thrilled to see OpenAI's recent launch of Sora, a powerful AI model that can create realistic and imaginative video clips based on text instructions. It aligns with our earlier view that multimodal capabilities of generative AI models would advance rapidly, eventually enabling human users to directly interact with AI models in voice and video formats. This technology breakthrough in AI will greatly expand the boundaries of real-time engagement and bring about tremendous new possibilities. I believe Agora is well-positioned to play a critical role in facilitating massive data transmission between AI models and human users.

Moving on to Shengwang. Following the availability of the Apple Vision Pro earlier this month, we have enabled many customers to launch applications in the Vision Pro App Store. I have personally used Vision Pro and I believe it marks an important breakthrough in XR technology. The high video resolution and see-through capability of Vision Pro demand higher quality video content and open the possibility for hologram video content consumption and interaction. For example, people will be able to watch a live keynote speech in hologram format on Vision Pro. Our network is well suited to power such content and interaction.

Over the past few months, mini games that overlay on video livestreaming have been gaining popularity among social platforms. For example, a round of Ludo can serve as icebreaker in a matchmaking room. Livestreaming channels can incorporate team-based mini games where audiences can participate by sending bullet chats and gifts.

We have partnered with leading mini game developers to offer our customers a wide range of mini games that can be easily embedded into their applications. Early data from our customers shows that the mini game integration has resulted in increased user participation, longer session durations, and more monetization opportunities.

In this quarter, we also introduced Virtual Soundcard, an advanced feature that simulates key components of a professional hardware soundcard, such as the exciter, compressor, equalizer, and reverberator, to process end users' voice in real-time. Users can now easily enhance and modify their voices with only a cellphone, without the need to purchase a computer with a professional soundcard.

For example, a customer recently added Virtual Soundcard in their online karaoke rooms. Users can choose from a range of preset specifications to make their voices clearer, sweeter, gentler, or more mature. Slightly off-key notes can also be adjusted automatically. This capability makes users more confident to participate, therefore boosting user engagement and stickiness on our customer's platform.

Before concluding my prepared remarks, I would like to thank both the Agora and Shengwang teams for their commitment and diligence during this challenging period. We not only delivered consecutive quarter-over-quarter topline growth since the second quarter, but also achieved non-GAAP profitability in the fourth quarter. Looking ahead at 2024, we will keep focusing on creating customer value and enhancing our competitive advantage, with the goal of expanding our market share globally.

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 fourth quarter of 2023 and then I will discuss outlook for the first quarter of 2024.

Total revenues were \$36 million in the fourth quarter, an increase of 2.9% quarter over quarter, and a decrease of 10.2% year-over-year.

Agora Revenues were \$15.3 million in the fourth quarter, flat compared to last quarter, and decreased 3.2% year-over-year. The year-over-year decrease was primarily due to reduced usage from customers in emerging markets due to challenging macroeconomic environment and tightening financing conditions starting from the second half of 2022.

Shengwang Revenues were RMB148.3 million in the fourth quarter, an increase of 5% quarter-over-quarter, and a decrease of 9.6% 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. 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 93% for Agora and 82% 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 fourth quarter was 65.2%, which was 0.3% higher than Q4 2022 and 1.7% lower than Q3 2023. The year-over-year increase was mainly due to the change in product mix and the implementation of technical and infrastructural optimizations. The quarter-over-quarter decrease was mainly due to an increase in on-premise solution revenues which had lower gross margin.

As we continued to implement effective expense controls, our adjusted R&D expenses decreased 18% year-over-year to \$13.7 million in Q4. Adjusted R&D expenses represented 38% of total revenues in the quarter, compared to 41.6% in Q4 last year.

Adjusted sales and marketing expenses were \$6.3 million in Q4, decreased 40.6% year-over-year. Sales and marketing expenses represented 17.5% of total revenues in the quarter, compared to 26.4% in Q4 last year.

Adjusted G&A expenses were \$5.8 million in Q4, decreased 20.5% year-over-year. G&A expenses represented 16% of total revenues in the quarter, compared to 18.2% in Q4 last year.

Adjusted EBITDA was negative \$2 million, translating to a 5.6% adjusted EBITDA loss margin for the quarter, significantly lower than the adjusted EBITDA loss margin of 21.1% in Q4 last year.

Non-GAAP net income was \$1.4 million in Q4, translating to a 3.9% net income margin for the quarter, compared to a non-GAAP net loss margin of 39.3% in Q4 last year.

As Tony just mentioned, thanks to our effective cost controls and relentless drive for revenue growth, we achieved profitability on the non-GAAP basis for the first time in more than three years. This demonstrates the resilience of our business amid a very challenging operating environment, as well as our continued discipline and efforts in optimizing our cost structure.

Now turning to cash flow, operating cash flow was positive \$3.7 million in Q4, compared to negative \$4.6 million last year. Free cash flow was positive \$3.4 million, compared to negative \$6.1 million last year.

Moving onto balance sheet. We ended Q4 with \$371.8 million in cash, cash equivalents, bank deposits and financial products issued by banks, or \$4.03 per ADS. Net cash outflow in the quarter was mainly due to share repurchase of \$10.1 million, which was offset in part by free cash flow of \$3.4 million.

Since the board approved our share repurchase program in February 2022 and as of December 31, 2023, we had returned approximately \$104.3 million to shareholders through share repurchases, reducing our share count by roughly 18%. So far, we have completed 52% of

our US\$200 million share repurchase program. We are pleased to announce that our board has authorized another 12-month extension of our \$200 million share repurchase program through February 28, 2025, with all other terms unchanged, which is a vote of confidence in our financial strength and long-term growth prospect.

Now turning to guidance. Due to seasonal impact, especially reduced usage in certain regions during Lunar New Year, for the first quarter of 2024, we currently expect total revenues to be between US\$32 and 34 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 and strong financial results during this challenging period. Returning to profitability is a remarkable milestone. Thank you to both Agora and Shengwang teams for your hard work and sacrifice in the past quarters. Thank you everyone for attending the call today.

Let's open it up for questions.