



# **Q1 2022 Earnings Prepared Remarks**

**May 23, 2022**

## **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 Fionna, and welcome everyone to our earnings call.

As many of you may have known, one of our global headquarters, Shanghai, was hit by an outbreak of Omicron in March. The city has been in lockdown for nearly two months now and has just started the process of resuming offline business activities. During this time, our teams in Shanghai have been working remotely, and there has been no interruption of our business operations or research and development efforts. Here I would like to express my sincere gratitude and care to all our team members impacted by COVID.

Before going through our performance in Q1, let's take a look at our leading market position and recognition by independent market observers.

According to a recent industry report from CIC, Agora continued to be the undisputed leader in the global Real-Time Engagement Platform-as-a-Service market, with more than twice market share than our nearest competitor, both in terms of revenue and number of minutes delivered in 2021.

As of March 2022, we maintained our number 1 market share in RTE SDK installation globally. In regions like the North America, Southeast Asia and Middle East, our SDK installation market share is dominant compared to other RTE or public cloud service providers. For example, if we look at the top 10 social dating apps globally, all of them have RTE features embedded and half of them are powered by Agora. And if we further look at different regions, we power 5 out of the top 10 social dating apps in North America and 7 out of the top 10 in China.

Also in this quarter, Agora was selected as a Finalist for Fast Company's World Changing Ideas 2022. Every year Fast Company honors the businesses and organizations driving change in the world. This year in the Workplace category, Fast Company selected Agora as a Finalist to recognize our innovations in connecting virtual worlds of the metaverse to the physical one.

None of those would be possible without our team's strong commitment to driving technology and product innovation, and our customers' trust and confidence in us.

Next, let's move to our business update in Q1. Our revenue for the quarter was 38.6 million dollars, a decrease of 4% year-over-year. During this quarter, 34 thousand new applications registered on our platform. At the end of March, our number of active customers exceeded 27 hundred, adding nearly 4 hundred compared to one year ago.

Our results in this quarter were impacted by the drop in demand from K12 academic tutoring customers in China due to regulation. On the other hand, we continued to see strong growth momentum in markets such as Middle East, Southeast Asia and Europe, which not only offset most of the shortfall from the K12 use case, but further diversified our revenue mix and enhanced our business resilience.

More importantly, we are excited to see solid evidence of a long-lasting shift in people's mindset and behavior as they continued to move their lives online and spent more time in virtual engagement sessions, even in countries where lives have largely returned to pre-pandemic norms. We believe this is an irreversible trend across all regions and verticals, which will bring tremendous market opportunities for us.

Next, I will walk you through some important updates on our use case solutions, and technology and product advancement during the quarter.

In our last earnings call, we talked about our MetaChat, MetaLive and MetaKTV solutions that enable developers to easily create immersive and entertaining voice chat, live streaming and karaoke experiences within 3D virtual spaces. Recently, we launched Meta Interactive Game to further strengthen our metaverse product offerings. Through partnership with game developers, we bring lightweight party games to video and voice chat rooms or livestreaming sessions, which add another dimension of fun and engagement to the users, in addition to video and voice engagements. Our customers can seamlessly embed such games in their social and entertainment applications to enhance user engagement and experiences.

Moving to another vertical where we see many new use cases that strive to make the world a better place – the internet of things, or IoT. We recently launched a turn-key software solution for IP cameras such as video doorbell or smart speakers. Our solution powers critical functions of the device, including real-time monitoring, two-way video

calling, remote control, and recording. Leveraging our knowledge and expertise on RTE, devices with our solution can establish video sessions in 1-2 seconds with very low latency. Our module is efficient in power usage and is compact enough to fit on almost any small and low-cost devices.

Another interesting use case in the IoT space is NuEyes, a leading Augmented Reality smart glass that allows users hands-free access to the visualization of real-time information, including 3D models, designs, and data. Whether being used for an underground utility safety check or on the construction site of skyscrapers, workers can leverage our video APIs to safely transmit visual information to make informed decisions quickly.

Our low-code and no-code platforms continued to gain traction among developers globally. For example, Study.com, a leading online education platform, is using our low-code solution App Builder to accelerate its digital transformation. Study.com has traditionally been an on-demand offline course powerhouse but will soon enable live tutoring as a part of their offerings using App Builder.

On the technology front, we launched our proprietary AI-powered noise suppression algorithm in the quarter. Traditional noise suppression algorithm works fine on general occasions but sometimes fails to catch unique noises in specific use cases, such as the sound of breathing and swallowing when singing songs. Our AI-powered algorithm can deal with over 100 types of background noises, which gives developers the flexibility to build the best noise suppression for their specific use cases. In addition, our algorithm is designed to be compact and efficient and therefore performs very well on web browsers.

Lastly on our team, I'm glad to announce that Mr. Roger Hale, former Chief Security Officer at personal data privacy and protection company BigID, has joined Agora in the same role. Roger will work with our executive team to navigate compliance and security and determine risk management and security best practices for the organization. He will also serve as the process owner of all assurance activities related to the availability, integrity, and confidentiality of customers, business partners, employees, and business information.

Security and compliance have never been more critical than they are today. With an impressive track record and many years of experience and expertise, we're excited to welcome Roger to the team.

In addition to the hiring of Roger, we are also growing our executive team through internal promotions, including Chief Strategy Officer, Chief Revenue Officer, and Chief Experience Officer. These moves are aimed at streamlining our global go-to-market efforts and further enhancing our developer experience. I'm confident that our expanded executive team will continue to drive innovation at Agora and help create a world where real-time engagement is ubiquitous.

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 Q1 and then I will discuss our outlook for the fiscal year of 2022.

Total revenues were \$38.6 million in the first quarter of 2022, a decrease of \$1.6 million or 4.1% year over year. Our revenue growth in this quarter was negatively impacted by the new regulation on K12 academic tutoring sector in China. Our revenues from K12 academic tutoring sector in China were approximately \$40 million in the fiscal year of 2021. Our revenues from this sector were approximately \$1.3 million in the first quarter of 2022, a decrease of approximately \$10 million from the same quarter last year. On the other hand, our growth momentum in other geographies and sectors remained strong in this quarter. In particular, revenues from US and other markets outside China grew 49.1% year over year and 16.3% quarter over quarter to \$16.4 million in Q1, representing 42.5% of our total revenues. As we continued to expand globally, our revenue base also became more balanced and resilient. In this quarter, revenue contribution from top 10 customers was 22%, compared to 35% in the same quarter last year.

Our trailing-twelve-months Constant Currency Dollar-Based Net Expansion Rate is 95%, excluding Easemob. The expansion rate was also negatively impacted by the K12 sector and expansion rate in other sectors remained healthy.

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, amortization expenses of acquired intangible assets and income tax related to acquired intangible assets.

Non-GAAP gross margin for the quarter was 63%, 4.6% higher than Q1 2021. As we mentioned in previous earnings calls, the increase was mainly driven by technical and infrastructural optimizations we have been implementing since the beginning of 2021.

Non-GAAP R&D expenses were \$25.3 million in Q1, up 45.3% year-over-year, as we continued to hire talented employees and strengthen our R&D team. Non-GAAP R&D expenses were 65.6% of total revenues in the quarter, compared to 43.3% in Q1 last year. With the enormous opportunities RTE technology presents globally, we will continue to invest heavily in R&D to strengthen our technology leadership and empower emerging use cases. In the near term, our plan is to keep R&D expenses at a relatively stable level in dollar terms and focus our resources on high ROI projects to maximize long-term impact.

Non-GAAP sales and marketing expenses were \$11.6 million in Q1, up 54.5% year-over-year, mainly attributable to team expansion and increased advertising and event expenses, as we continued to step up our go-to-market efforts globally. Non-GAAP sales and marketing expenses represented 30% of total revenues in the quarter, compared to 18.6% in Q1 last year.

Non-GAAP G&A expenses were \$7.4 million in Q1, up 64.7% year-over-year, mainly due to team expansion and expected credit loss



provisions. Non-GAAP G&A expenses represented 19.1% of total revenues in the quarter, compared to 11.1% in Q1 last year.

Non-GAAP operating loss was \$18.9 million, translating to a 49% non-GAAP operating loss margin for the quarter, compared to an operating loss margin of 13.9% in Q1 last year.

Turning to cash flow, operating cash flow was negative \$15.9 million in Q1, compared to negative 2.7 million last year. Free cash flow was negative \$17 million, compared to negative \$8 million last year.

Moving onto balance sheet. We ended Q1 with \$718 million in cash, cash equivalents and short-term investments, compared to \$755 million at the end of Q4 last year. Net cash outflow in the quarter was mainly due to free cash flow of negative \$17 million, cash paid of long-term investments of \$13.9 million and share repurchase of \$7.6 million.

Now turning to guidance, COVID-19 is still an unprecedented variable to our business model, where historical experience may not apply. Our guidance on full year revenues reflects various assumptions that are subject to change based on uncertainties related to the impact of the COVID-19 pandemic. With that, for the full year 2022, we maintain our previous guidance that total revenues for the full year are expected to be in the range of \$176 million to \$178 million.

Now turning to the update on status under Holding Foreign Companies Accountable Act, or "the HFCAA". On May 4, 2022, the SEC provisionally named Agora as a Commission-Identified Issuer under the HFCAA, following our filing of annual report on Form 20-F

for the fiscal year ended December 31, 2021. We understand the SEC made such identification pursuant to the HFCAA and its implementation rules issued thereunder, and this indicates that the SEC determines that Agora used an auditor whose working paper cannot be inspected or investigated completely by the PCAOB to issue the audit opinion for our financial statements included in the 2021 Form 20-F.

In accordance with the HFCAA, if the SEC determines that Agora filed audit reports issued by a registered public accounting firm that has not been subject to inspection for the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit Agora's shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the US.

We will continue to monitor market developments, actively explore possible solutions to protect the interest of stakeholders and strive to maintain our listing status on the Nasdaq.

In closing, we delivered a strong first quarter performance in this challenging year. We are excited and very confident about the long-term prospect of our global business. Thank you to the entire Agora team for your hard work and everyone attending the call today and hope you are healthy and safe.

Let's open it up for questions.