



Q2 2022 Earnings Prepared Remarks

August 15, 2022

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Zhao Bin, founder, chairman and CEO

Thanks Fionna, and welcome everyone to our earnings call.

Our revenue for the quarter was 41 million dollars, a decrease of 3% year-over-year, and an increase of 6% quarter-over-quarter, bringing us back on a growth track after the regulatory change in the K12 education sector in China. During this quarter, 36 thousand new applications registered on our platform. At the end of June, our number of active customers exceeded 28 hundred, adding over 4 hundred compared to one year ago.

In the US and in international markets, demand for our real-time engagement platform remained strong. Our revenue for this segment recorded a 63% increase compared with the same period last year, with a dollar-based net expansion rate consistently above 130% since 2021. Following our announcement of the promotion of several key executives in May, I'm confident that we are well positioned to enhance our go-to-market efficiency and expand our platform globally.

In recent months, we have witnessed a strong response for our sub-second interactive livestreaming product globally. We believe this product has the potential to disrupt the traditional CDN-based livestreaming market, as it can deliver livestreaming experiences at lower latency in a highly synchronized fashion, with only a moderately higher cost.

We already have several benchmark customers in the sports and gaming livestreaming sectors. Powered by this product, our customers can create a wide range of engaging and interactive experiences for their end users, such as chat among audiences and in-game live betting.

For example, MBC Group, the largest media company in the Middle East and North Africa, uses this product on their social gaming platform WIZZO to offer game players high-quality interactive livestreaming and it has become one of the biggest attractions of the WIZZO platform. With Agora-powered live streaming in place, MBC has already seen a 10% increase in new user growth.

And South Asia's leading video live streaming platform, Bolo Live, is also powered by this product. We provide the platform's technology backbone, powering live streaming and interactive features that enable content creators, entertainers, and influencers to broadcast

interactive live streamings to their audience and monetize directly through consumer transactions from their fans.

We believe this product will substantially enlarge our total addressable market as more and more livestreaming platforms with legacy technology embrace our sub-second livestreaming solutions.

Next on to our new products. In US and international markets, we beta released Agora Chat, which is a powerful tool for developers to add messaging to any application. Agora Chat provides comprehensive features and functions, such as rich-media messages, message translation, user presence and typing indicator, chat history export, content moderation, and much more.

Agora Chat has the broadest compatibility with operating systems and third-party development frameworks among similar messaging API products in the market. It is also very easy to use, especially for those who are already using our real-time video or voice products. Through a few lines of code, developers can seamlessly create an immersive and engaging experience for their end users to send messages, emojis and multi-media files from within their real-time engagement sessions.

I'm also glad to say that Agora Chat is a perfect demonstration of the business synergies from our integration of Easemob over the past year. By combining Easemob's experience in providing messaging APIs in Asia market, with Agora's industry-leading global infrastructure, we are able to offer a highly competitive product for customers in the US and international markets.

Now let's move to our business updates in China. Revenue from China in this quarter recorded a 1% quarter-over-quarter increase as the shortfall in K12 academic tutoring sector was more than compensated for by the growth in other sectors. Our revenue in sectors other than K12 continued to grow healthily with an approximately 13% increase compared with the same period last year.

Our leading market position in China is once again demonstrated by IDC's recently published report on the video cloud market in 2021. According to the IDC report, Agora maintained its number one position in RTC solutions in China, with a market share greater than the next 7 companies combined. Agora also recorded the largest revenue growth among all players.

In China, we formed a partnership with the China Audio-Video Copyright Association, also known as CAVCA, the only association approved by the National Copyright Administration to undertake collective rights management for copyright and related rights in video and audio works in China. Through this partnership, we are now able to provide a one-stop solution for our customers to manage the use of music works in their livestreaming sessions, and more importantly, in full compliance with the latest copyright laws and regulations in China.

Under a digital rights management system that covers more than one hundred thousand music works in high definition, each and every usage of these works in our customer's applications is now traceable. Our customers can choose from paying per usage or a flat fee with unlimited access, and the copyright owners will then be duly compensated.

We believe our partnership with CAVCA and this one-stop solution brings profound value to our customers and will help make our MetaKTV a go-to product for delivering immersive real-time karaoke experiences in the metaverse.

Before concluding my prepared remarks for this quarter, I would like to invite all of you to attend our RTE2022 conferences. The North America conference will take place from October 10th to October 12th and you are welcome to join either online or in-person in San Francisco. The Asia Pacific conference will be held online from October 21st to October 24th. We expect to bring the brightest minds in the business and technology fields to explore the future of voice, video, Internet of Things, metaverse and more.

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 Q2 and then I will discuss our outlook for the fiscal year of 2022.

Total revenues were \$41 million in the second quarter of 2022, a decrease of 3.2% year over year, and an increase of 6.2% quarter over quarter. As we mentioned in previous earnings call, our revenue growth in this quarter was negatively impacted by the new regulation on K12 academic tutoring sector in China. Our revenues from this sector were approximately \$1 million in the second quarter of 2022, compared to \$12 million from the same quarter last year. On the other hand, our growth momentum in other geographies and sectors remained solid in this quarter. In particular, revenues from US and international markets grew 63.2% year over year and 13.4% quarter over quarter to \$18.6 million in Q2, representing 45.4% of our total revenues.

Our trailing-twelve-months Constant Currency Dollar-Based Net Expansion Rate is 95%, excluding Easemob. Specifically, Dollar-Based Net Expansion Rate was above 130% for the US and International business, which remained strong and healthy and approximately 80% for the China business, which was negatively impacted by the K12 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, amortization expenses of acquired intangible assets and income tax related to acquired intangible assets.

Non-GAAP gross margin for the fourth quarter was 65.8%, which was 4.3% higher than Q2 2021, mainly driven by technical and infrastructural optimizations.

Non-GAAP R&D expenses were \$27 million in Q2, up 30% year-over-year, as we continued to hire talented employees and strengthen our R&D team. Non-GAAP R&D expenses was 66% of total revenues in the quarter, compared to 49.2% in Q2 last year.

Non-GAAP sales and marketing expenses were \$10.9 million in Q2, up 16.8% 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. Sales and marketing expenses represented 26.6% of total revenues in the quarter, compared to 22.1% in Q2 last year.

Non-GAAP G&A expenses were \$7 million in Q2, up 23.1% year-over-year, mainly due to team expansion and expected credit loss provisions. G&A expenses represented 17% of total revenues in the quarter, compared to 13.3% in Q2 last year.

Non-GAAP operating loss was \$17.8 million, translating to a 43.4% non-GAAP operating loss margin for the quarter, compared to an operating loss margin of 22.3% in Q2 last year.

Exchange loss was \$5.3 million in Q2, mainly due to USD appreciation and an increase in the balance of Renminbi-dominated cash and short-term investments held by our subsidiaries in Hong Kong, whose functional currency is the U.S. dollar, in anticipation of funding Renminbi to subsidiaries in mainland China. In addition, USD appreciation adversely affected our revenue in China by approximately 4%.

Now turning to the update on land use rights purchase. As we announced on June 28, we entered into an agreement to acquire the land use rights for approximately 42,000 square meters of land in riverside area of Yangpu District, Shanghai through a Joint Venture with two independent third parties. We hold a 46% equity interest in the Joint Venture. The aggregate consideration for acquiring the land use rights is approximately RMB2.5 billion, and we had fully paid our share of the consideration in July. We plan to build a new headquarters on the premises.

Turning to cash flow, operating cash flow was negative \$23.8 million in Q2, compared to negative \$8.3 million last year. Free cash flow was negative \$24.2 million, compared to negative \$11.5 million last year.

Moving onto balance sheet. We ended Q2 with \$641 million in cash, cash equivalents and short-term investments, compared to \$718 million at the end of Q1. Net cash outflow in the quarter was mainly due to free cash flow of negative \$24.2 million, deposit paid for land use rights purchase of \$34.2 million, cash paid for long-term investments of \$4.2 million and share repurchase of \$12.2 million. By the end of Q2, we repurchased approximately 9.7 million of our

class A ordinary shares, equivalent to approximately 2.4 million ADSs, for approximately \$19.8 million, representing 10% of our \$200 million share repurchase program.

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.

In closing, we are proud of our execution in this quarter under challenging macroeconomic environment. 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.