



Q2 2024 Earnings Prepared Remarks

August 19, 2024

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 operator, and welcome everyone to our earnings call.

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

Agora revenues were 15.6 million dollars in the second quarter, up 2 percent year over year, mainly driven by business expansion in certain use cases such as live shopping.

Shengwang revenues were 132 million renminbi in the second quarter, up 0.3 percent year over year and 8% quarter over quarter, mainly due to usage growth of digital transformation and Internet-of-Things customers.

I am glad to see that both Agora and Shengwang delivered year-on-year revenue growth this quarter despite a very challenging macro environment. This success is due to our relentless innovation in driving new use cases and enhancing the quality and value of our products in existing use cases.

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

Let's first talk about Agora. Recently, our real-time speech-to-text product transitioned from beta to general availability. As I mentioned in our previous earnings call, this product enables customers to transcribe the audio of each user in a channel. Text can be distributed as live captions to all channel participants to enhance accessibility and user experience. Throughout the development and beta testing stages, we have improved the performance of our product to accommodate up to 3 simultaneous speakers and added support for all major languages and dialects. Additionally, our product is integrated with large language models, allowing customers to receive automatically generated summaries of meetings or events, and gain insights at the end of each session.

For example, HelloTalk, a leading language-learning platform with more than 50 million users, has been one of our customers to first adopt our real-time speech to text product. With the integration of our product and large language models, HelloTalk can now provide their users advanced capabilities including live language analysis, live translation, language proficiency assessment, creating contextual and personalized learning experiences.

Additionally, I'm happy to announce the launch of Agora's new website. At Agora, we believe all our customers are developers at heart. Recognizing this innovative spirit, our new website boasts an intuitive interface, enhanced navigation, and a more modern design to create a cool and sleek user experience. It also offers a wealth of resources tailored to both developers and key business decision-makers.

Next, let's turn to Shengwang. We are excited to announce our recent partnership with Unity China to integrate our in-game voice calling capabilities in Unity China's UOS engine. This collaboration allows game developers to seamlessly add multi-player voice channels into their games. It is especially appealing to small game studios and independent developers, who often lack the skillset and resources to address all the technical challenges on their own. In addition, our proprietary advanced features, such as 3D spatial audio, AI noise suppression and echo cancellation, are available to developers, enabling them to create immersive experiences for players.

In this quarter, we have also facilitated wider application of AI in our customers' use cases. For example, we helped XiaoTianCai add real-time transcription for video calling in their latest flagship smartwatch. Previously, when users conducted video calls on a smartwatch in noisy environments, it was often difficult to hear the other party clearly. Moving the wrist and watch closer to the ear would make it impossible to see video on the screen, therefore forcing users to make a hard choice between audio and video. Now, with our cloud AI real-time transcription capabilities, users can enjoy video calls with captions on their smartwatch, significantly enhancing their experiences.

Last September, we became the first company to offer real-time voice SDK that enables conversation with generative AI models. Since then, we have facilitated our customers to launch conversational AI applications in various use cases such as AI companion, productivity assistant, language tutor and customer service. Although these applications are still in their early stage, we have already seen promising user adoption and engagement trend. Looking forward, we are committed to staying at the forefront of technology advancement to enable developers to innovate at a faster pace and build the conversational AI applications of tomorrow.

This year marks the 10th anniversary of our iconic Real-Time Engagement, or RTE conference. This coming October, we will host our RTE conference in Beijing, focusing on the intersection of AI and

RTE technologies and the exciting possibilities that lie ahead. Experts and practitioners from both the AI and RTE communities will gather to share their visions and efforts to create revolutionary technologies, products and applications. There will also be forums focusing on more traditional verticals such as digital transformation, entertainment, education and Internet of Things. We welcome you all to attend this conference and experience firsthand the vibrant spirit of the industry.

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 on creating long-term customer value and strengthening our leading market position.

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

Total revenues were \$34.2 million in the second quarter, an increase of 3.6% quarter over quarter, and an increase of 0.5% year-over-year. We have finally overcome the impact of the pandemic, the macroeconomic turmoil, and regulatory changes and returned to year-over-year revenue growth for the first time since 2021.

Agora Revenues were \$15.6 million in the second quarter, a decrease of 1.3% quarter-over-quarter, and an increase of 2% year-over-year. The quarter-over-quarter decrease was primarily due to reduced usage from customers in emerging markets. The year-over-year increase was primarily due to business expansion and usage growth in certain verticals, such as live shopping.

Shengwang Revenues were RMB131.9 million in the second quarter, an increase of 7.6% quarter-over-quarter, and an increase of 0.3% year-over-year. The increases were primarily due to increase in revenues from certain verticals such as Internet of Things.

Dollar-Based Net Retention Rate is 92% for Agora and 79% 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, 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 second quarter was 63.4%, which was 3.8% lower than Q2 last year and 0.2% higher than Q1 this year. The year-over-year decrease was mainly due to change in product mix. The quarter-over-quarter increase was mainly due to improved utilization rate of infrastructure.

Adjusted R&D expenses decreased 6.6% year-over-year to \$15.5 million in Q2, mainly due to our continued cost control measures. Adjusted R&D expenses represented 45.4% of total revenues in the

quarter, compared to 48.8% in Q2 last year.

Adjusted sales and marketing expenses were \$5.9 million in Q2, decreased 16.9% year-over-year. Sales and marketing expenses represented 17.3% of total revenues in the quarter, compared to 20.9% in Q2 last year.

Adjusted G&A expenses were \$6.6 million in Q2, slightly increased 6.5% year-over-year, primarily due to the increase of expected credit loss. G&A expenses represented 19.1% of total revenues in the quarter, compared to 18.2% in Q2 last year.

Overall, adjusted operating expenses were 6.1% lower than the same period last year, thanks to our effective cost control. Adjusted operating expenses were 2.2% higher than Q1 this year. The sequential increase was mainly because we decided to replace certain share-based compensation with cash compensation for employees, to reduce dilution for our shareholders when shares are trading at below cash value.

Adjusted EBITDA was negative \$6 million, translating to a 17.6% adjusted EBITDA loss margin for the quarter, compared to 19.5% in Q2 last year.

Non-GAAP net loss was \$6 million in Q2, translating to a 17.5% net loss margin for the quarter, lower than net loss margin of 19.4% in Q2 last year.

Now turning to cash flow, operating cash flow was negative \$7.6 million in Q2, compared to negative \$5.3 million last year. Free cash flow was negative \$7.9 million, compared to negative \$5.6 million last year.

Moving onto balance sheet. We ended Q2 with \$371 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 free cash flow of negative \$7.9 million and share repurchase of \$2.3 million.

Now turning to guidance. For the third quarter of 2024, we currently expect total revenues to be between US\$31.5 and 33.5 million. This forecast reflects our end of sale of certain products with unsatisfactory profitability. Such products generated approximately \$2.4 million of revenues in the third quarter of 2023 and \$3.3 million of revenues in the second quarter of 2024. The average gross margin

of such products was below 10%, so we expect the end of sale of such products will lead to a meaningful increase in our gross margin, and a positive impact on our bottom line in the third quarter. This outlook also reflects our current and preliminary views on the market and operational conditions, which are subject to change.

In closing, returning to year-over-year revenue growth is an inspiring turning point under a challenging operation environment. We are excited about emerging cases, especially the intersection between real-time engagement and conversational AI, and we remain confident about our long-term growth potential. Thank you to both Agora and Shengwang teams for your hard work and contribution during this period.

Thank you everyone for attending the call today.

Let's open it up for questions.