



Q3 2024 Earnings Prepared Remarks

November 25, 2024

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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 15.7 million dollars in the third quarter, up 3 percent year over year, mainly driven by business expansion in certain use cases such as live shopping.

Shengwang revenues were 113 million RMB in the second quarter, down 9 percent year over year if excluding revenues from certain end-of-sale low-margin products, mainly due to challenging regulatory and macro environment.

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

As many of you already know, we recently launched our Conversational AI SDK in collaboration with OpenAI's Realtime API to allow developers to bring voice-driven AI experiences to any application. Our joint solution has two distinct advantages. First, OpenAI's GPT-4o model is multimodal, which means it can process voice input from human directly, without the need to convert voice to text, and therefore can understand and respond to human emotions much better than previous text-based models. Second, end users can enjoy Agora's advanced noise suppression and echo cancellation features, as well as low-latency conversation even under challenging network conditions thanks to our global real-time network and optimization algorithms.

Since our joint launch with OpenAI in early October, we have seen many fascinating and innovative use cases being developed and brought to market by developers across various verticals. One area where we believe conversational AI will have a significant impact is Internet of Things, or IoT. Many of us have had unpleasant experiences with previous generations of so-called smart speakers or smart assistants, which often struggle to understand our requests and lack the ability to speak naturally or make real-time decisions. Now with our Conversational AI SDK, IoT devices connected to an advanced AI model can easily understand complex requests, hold natural conversations, and take actions based on live video feeds.

For example, our customer Miko makes advanced educational robots for kids between the ages of 5 and 10. Previously, Miko used our

video calling SDK to enable parents to monitor and talk to their children, and our Signaling SDK to allow parents to move the robot around and follow a child during a video call. Thanks to our Conversational AI SDK, Miko can now add interactive storytelling by advanced AI models in their content platform. The robot can adapt its responses and behaviors based on a child's emotions and interactions, providing a dynamic learning companion that grows with a child.

Last month in Beijing, we hosted our 10th annual RTE conference with a focus on the intersection of AI and RTE technologies. Both registration and attendance hit record highs, demonstrating continued developer interest in RTE technology and industry-wide excitement around real-time conversational AI, its huge market potential, and our unique place within its ecosystem.

At the conference, we demoed several conversational AI solutions jointly developed with leading AI companies such as Minimax. We believe that for conversational AI to succeed, there needs to be a vibrant ecosystem of foundational models and building blocks such as text-to-speech, speech-to-text, streaming, orchestration and other developer tools. We are now working closely with several leading foundational model companies and other key players to build such an ecosystem together.

As part of this effort, we sponsored an open-sourced project in our developer community called Transformative Extensions Network, or TEN for short. TEN is an orchestration framework for building AI agents with real-time multimodal AI capabilities. It supports integration with a wide range of large language models, speech-to-text and text-to-speech extensions, and offers flexibility in edge-cloud architecture. With TEN, developers can easily create AI agents that not only talk to users naturally but also understand video feeds from a device's camera. Throughout this process, our global network ensures high-performance and low-latency interactions between users and cloud-based AI models.

To summarize, we believe multimodal AI agents that can interact with human through natural voice will gain widespread adoption in many use cases such as customer support, education and wellness. In these use cases, RTE technology is essential for enhancing the user experience to the point where AI agents can match and even outperform human. This will drive significant usage growth and create new opportunities for the RTE industry. As an industry pioneer and

leader, we are well positioned to become a key infrastructure provider for real-time conversational AI.

To support this vision, we recently made some structural changes, aligning our organization to fully leverage the accelerating conversational AI opportunities, and operate in a faster, leaner, and more responsive fashion. These changes will help us build the next generation real-time engagement technology for the Generative AI era and strengthen our position as the leader in real-time engagement space.

Today we also announced that Mr. Roger Hale will leave the Company after serving two and half years as our Chief Security Officer. We are grateful for Roger's dedication and expertise. His leadership has been invaluable in strengthening our security and compliance foundation. Moving forward, Patrick Ferriter and Robbin Liu will assume responsibility for security and compliance, and we will continue to uphold the highest standards to protect our customers and stakeholders. Roger will continue to provide strategic advice as an advisor to the Company.

Before concluding my prepared remarks, I want to thank both the Agora and Shengwang teams for their resilience, dedication, and belief in what we can accomplish together. I believe we are well positioned to harness emerging technologies and innovations to build the best real-time engagement experiences in the Generative AI era.

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

Total revenues were \$31.6 million in the third quarter, a decrease of 7.7% quarter over quarter, and a decrease of 9.8% year-over-year. If excluding revenues from certain end-of-sale low-margin products, total revenues increased 2.3% quarter-over-quarter and decreased 3.1% year-over-year.

Agora Revenues were \$15.7 million in the third quarter, an increase of 0.4% quarter-over-quarter, and an increase of 2.6% year-over-year. The increase was primarily due to business expansion and usage growth in certain verticals such as live shopping.

Shengwang Revenues were RMB112.9 million in the third quarter, a decrease of 14.5% quarter-over-quarter, and a decrease of 20% year-over-year. If excluding revenues from certain end-of-sale low-margin products, Shengwang Revenues increased 4.2% quarter-over-quarter, and decreased 8.7% year-over-year. The quarter-over-quarter increase was primarily due to increase in revenues from certain verticals such as Internet of Things, as well as usage increase from education vertical during summer vacation. The year-over-year decrease was primarily due to slowing demand from social and entertainment verticals due to regulation and general economic conditions.

Dollar-Based Net Retention Rate is 94% for Agora and 78% for Shengwang, excluding revenues from certain end-of-sale products and discontinued business.

Moving onto cost and expenses.

As Tony mentioned just now, we made the difficult decision to restructure and reduce our global workforce this month. The associated severance costs of \$4.8 million are reflected in cost of revenues and operating expenses in Q3.

As part of the restructuring, we also cancelled certain equity awards for the remaining employees. These awards were mostly granted in 2021 when our stock price was significantly higher. As a result, share-based compensation expenses are locked in at the stock price at the

time of the grant, although the cash value of the awards is much lower at today's stock price. According to GAAP rules, the cancellation of these awards will cause immediate recognition of share-based compensation expense for the remaining awards, which is \$11.4 million. However, I want to emphasize that these awards are simply cancelled, so the Company is not paying any stock, option or cash to the relevant employees. In another word, there is no actual cost to the Company. The \$11.4 million expenses in Q3 are only an accounting treatment. Going forward, the cancellation of these awards will free us from this accounting burden.

Post the restructuring, we expect to see savings on operating expenses of roughly 4 million in Q4 this year and 7 million in Q1 next year, compared to the baseline in Q2 this year.

Gross margin for the third quarter was 66.7%, which was 2.7% higher than Q3 last year and 4.7% higher than Q2 this year. The increases were mainly due to the end-of-sale of certain low-margin products, which was partially offset by higher severance cost in this quarter. If we exclude severance of \$0.3 million, proforma gross margin is 67.7% for the third quarter.

R&D expenses were \$29.3 million in Q3, which included severance of \$3.6 million and equity award cancellation expense of \$9 million. If we exclude these two items, proforma R&D expenses decreased 17.1% year-over-year to \$16.6 million in Q3, representing 52.5% of total revenues in the quarter, compared to 57.2% in Q3 last year.

Sales and marketing expenses were \$6.9 million in Q3, which included severance of \$0.7 million. If we exclude severance, proforma sales and marketing expenses decreased 20.9% year-over-year to \$6.2 million in Q3, representing 19.6% of total revenues in the quarter, compared to 22.2% in Q3 last year.

G&A expenses were \$9.7 million in Q3, which included severance of \$0.1 million and equity award cancellation expense of \$2.4 million. If we exclude these two items, proforma G&A expenses decreased 19.7% year-over-year to \$7.3 million in Q3, representing 23.1% of total revenues in the quarter, compared to 25.9% in Q3 last year.

Moving on to the bottom line. Net loss for the quarter was \$24.2 million. If we exclude severance of \$4.8 million, equity award cancellation expense of \$11.4 million and losses from equity in affiliates of \$4.1 million, proforma net loss was \$3.9 million, translating to a 12.4% net loss margin for the quarter.

Now turning to cash flow, operating cash flow was negative \$4.6 million in Q3, compared to negative \$3 million last year. Free cash flow was negative \$6 million, compared to negative \$3.2 million last year.

Moving onto balance sheet. We ended Q3 with \$362.6 million in cash, cash equivalents, bank deposits and financial products issued by banks, or \$3.94 per ADS. Net cash outflow in the quarter was mainly due to free cash flow of negative \$6 million and share repurchase of \$3.9 million.

During Q3, we repurchased approximately 6.8 million of our class A ordinary shares, equivalent to 1.7 million ADSs, for US\$3.9 million, representing 1.9% of our US\$200 million share repurchase program.

So far, we have completed 57% of our US\$200 million share repurchase program, which will expire at the end of February 2025, and we intend to continue to undertake this meaningful capital return to our shareholders.

Now turning to guidance. For the fourth quarter of 2024, we currently expect total revenues to be between US\$34 and 36 million, compared to \$31.6 million in the third quarter of 2024, and \$33.3 million in the fourth quarter of 2023 if revenues from certain end-of-sale low-margin products were excluded. We also expect significant improvement in net income / (loss) in the fourth quarter. This outlook reflects our current and preliminary views on the market and operational conditions, which are subject to change.

In closing, 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.