



Q3 2021 Earnings Prepared Remarks

November 15, 2021

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Zhao Bin, founder, chairman and CEO

Thanks, Fionna, and welcome everyone to our earnings call.

In the past two months we hosted our RTE2021 conference in both the US and China, which attracted thousands of developers, product managers, entrepreneurs, and investors worldwide.

At the conference, we announced the “atlas of real-time engagement use cases”, which covers over twenty industries and more than two hundred use cases in entertainment, social, IoT, education, finance, healthcare, enterprise collaboration, and even smart cities. We also released important new products such as Fusion CDN Livestreaming, which I will talk about later.

Now, about our Q3 performance.

We delivered another quarter with outstanding results. I’m pleased to report that our revenues for the third quarter were 45 million dollars, up 46% year-over-year. At the end of September, we had more than 372 thousand registered apps on our platform. Our number of active customers reached more than 2,500, adding over 700 year-over-year.

Next, I want to highlight our advancements on product and use cases in Q3.

On the product side, we released two important new products this quarter.

First, we recently unveiled full-path accelerator, or FPA, our global end-to-end network acceleration product. Unlike traditional network accelerators that mainly improve backbone transmission from one region to another, FPA takes the entire transmission path into consideration, including backbone and last mile, and optimizes the speed and reliability of transmission in a holistic fashion. FPA is based on our proprietary Software-Defined Real-Time Network, and can accelerate any kind of data, not just video or audio, and for any application, whether it’s gaming, e-commerce, collaboration, or metaverse. With just a few lines of code, developers can integrate FPA into their application and let all their users enjoy a smooth and responsive experience, no matter where they are.

Second, we announced our Fusion CDN Livestreaming product at the RTE 2021 conference. Together with our current interactive live streaming product, we can now deliver a complete solution for live

streaming use cases, from low-latency streaming with our interactive live streaming API, and standard latency streaming with our Fusion CDN product. It is important to note that our Fusion CDN is not a mere repackaging of traditional CDN, or content delivery network. Our Fusion CDN leverages our proprietary SD-RTN network to enhance the resilience of uplink transmission, and adaptively chooses the best CDN for downlink distribution depending on end users' location, therefore achieving superior end-to-end performance compared to traditional CDN. It also works seamlessly with our existing products, reducing the complexity of integration for developers.

Currently, both FPA and Fusion CDN Livestreaming products are available in China and we are working very hard to bring both products to developers in US, Europe, and other markets in the coming quarters.

In addition, we also launched our brand-new Extensions Marketplace at RTE 2021 conference. Our Extensions Marketplace gives developer access to an ecosystem of partner extensions which enhance real-time-engagement, such as AI-based noise filter from Bose, Face Filters from Banuba and Voice Changer from Voicemod. This marketplace is the first of its kind in the RTE category, allowing developers to instantly activate extension capabilities, and accelerate time to market for their innovative applications.

Moving onto new use cases.

We are very happy to see that social deduction games are gaining popularity in more and more regions.

Wildlife Studios is one of the largest mobile gaming companies in the world. They recently launched the Suspects game using Agora to power the native voice chat among players. The voice chat provides players with a frictionless experience and saves them from having to use a third-party tool to talk to each other during a game, and helps to differentiate Suspects from other social deduction games. We see this as one evidence of the convergence of social deduction games, we believe there will be more in other regions.

Recently, we have seen an accelerating trend of real-time engagement in extended reality environment, creating the infrastructure of Metaverses.

A good example is our partnership with Dreamland Maker, a leading virtual idol operator in China. We worked jointly to deliver a best-in-

class solution for virtual idol concert. Performance of the virtual idol is driven by a human performer through motion capture, and Agora powers the transmission of motion data and audio data to the physical concert site, and simultaneously streams the concert to audience online.

Virtual idols can engage with their audience in detailed 3D environments, which bridges the gap between the physical and virtual worlds, creating a beautiful fantasy world for users.

We are also working closely with several metaverse operators to build a fully interactive spatial audio solution. In the real world, we can easily distinguish sound coming from different directions, and such direction changes when we move our body or when the speaker moves. If we were to build a truly immersive metaverse, its audio must take into account the locations and directions of all users and the surrounding environment. And this is exactly what we are working on. Our solution constantly tracks users' movements in real time, synchronizes every user's location with others, and updates the spatial audio they hear accordingly.

If we extend our horizon a little bit, people always talk about a metaverse like the one we saw in "Ready Player One".

In my view, the industry needs to solve the at least following three problems, namely, real-time media connectivity, virtual environment construction, and large-scale control signaling, before we can have a "Ready Player One" like experience.

Agora has built industry leading technology in all these three areas. For example, we have been raising the bar for real-time video and audio experiences. Our content moderation, virtual background and spatial audio products, together with extensions from our partners, can significantly simplify virtual environment construction. And our full-path accelerator and signaling products are designed exactly for enabling low-latency control signals at scale. Our plan is to further enhance our capabilities in these areas and become an instrumental infrastructure provider for metaverse.

Next, I want to update everyone on our business in the US&RoW market.

US&RoW has been a key strategic focus for Agora. In the past three years, we have invested significant resources into this market, and have increased its revenue contribution from less than 10% to nearly

30%. However, I believe we are far from reaching our full potential in this market, given the rapidly increasing RTE penetration and our technology advantage.

In the past a few months, we have worked very hard to bring in additional talent, and better align our strategy and priorities within the team.

Reggie Yativ, CRO and COO of our subsidiary in the US, will depart at the end of the year for personal reasons related to relocation. Reggie will transition his operational responsibilities to Stanley Wei, our Chief Strategy Officer, who has a lot of entrepreneurship experiences in both Silicon Valley and China. We will continue to hire additional highly qualified leaders to further strengthen our team in the US&RoW market.

Lastly, I would like to take the opportunity to thank all of our customers around the world, for trusting Agora to power your real-time-engagement applications. I also want to thank all the Agorans for their hard work and dedication to our customers' success. I am extremely excited about the opportunities ahead of us and look forward to co-innovating with our customers and developers together.

Now 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 Q3 and then I will discuss our outlook for the full year.

Total revenues grew 46% year over year and 6% quarter-over-quarter to \$45 million in the third quarter of 2021. Number of active customers reached more than 25 hundred, excluding those for Easemob, up 41% year-over-year. The growth in revenue and active customer was mainly driven by continued adoption of our technology by developers, as well as the emergence and growth of new use cases. Revenue growth in the quarter was negatively impacted by the new regulation on K12 academic tutoring sector in China, and we expect such impact to be more significant in the next two quarters, as the government continues to enforce the new regulation.

Our trailing-twelve-months Constant Currency Dollar-Based Net Expansion Rate is 104%, excluding Easemob. As we mentioned in previous earnings calls, in order to help investors better understand our organic growth excluding the impact from one-off events, such as the complete lock-down in China in the first half of 2020 due to COVID-19, we calculated Adjusted Total Revenues for these periods. If we use Adjusted Total Revenues, the adjusted expansion rate would be 126%.

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 third quarter was 65.5%, which was 2.7% higher than Q3 last year and 4% higher than Q2 this year. As we mentioned in previous earnings calls, the increases were mainly driven by technical and infrastructural optimizations we have been implementing since the beginning of this year.

Non-GAAP R&D expenses were \$22.9 million in Q3, up 112% year-over-year, as we continued to hire talented employees and strengthen our R&D team, as well as the consolidation of Easemob's R&D team. Non-GAAP R&D expenses was 50.9% of total revenues in the quarter, compared to 35.1% in Q3 last year. Again, our strategy is to focus on long-term growth opportunities and innovation instead of maximizing short-term profitability. We've been investing significant resources in our R&D capabilities, in order to further strengthen our technology

leadership, provide a more diverse product portfolio and empower emerging use cases around the world.

Non-GAAP sales and marketing expenses were \$11.1 million in Q3, up 88% year-over-year, mainly attributable to team expansion and increased advertising and event expenses, including expenses related to our RTE 2021 conference in the US. Sales and marketing expenses represented 24.6% of total revenues in the quarter, compared to 19% in Q3 last year.

Non-GAAP G&A expenses were \$6.8 million in Q3, up 121% year-over-year, mainly due to team expansion and professional service fees. G&A expenses represented 15.1% of total revenues in the quarter, compared to 10% in Q3 last year.

Non-GAAP operating loss was \$11.1 million, translating to a 24.6% non-GAAP operating loss margin for the quarter, compared to an operating loss margin of 22.3% in Q2 this year, and an operating loss margin of 0.8% in Q3 last year.

Turning to cash flow, operating cash flow was negative \$14 million in Q3, compared to negative \$1.9 million last year. Free cash flow was negative \$15.6 million, compared to negative \$5.1 million last year.

Moving onto balance sheet. We ended Q3 with \$767 million in cash, cash equivalents and short-term investments, compared to \$827 million at the end of Q2. Net cash outflow in the quarter was mainly due to free cash flow of negative \$15.6 million, consideration paid for Easemob acquisition of \$20.9 million, and long-term investments of \$20.8 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. In addition, as mentioned earlier, we expect the new regulation on K12 academic tutoring sector in China will have a significant negative impact on our revenue in the near term. With that, we expect total revenues for the full year of 2021 to be in the range of \$163 million to \$165 million.

In closing, we are proud of the execution and strong performance in Q3 and continue to be confident about the long-term prospect of our business. Thank you to the entire Agora team and everyone attending the call today and hope you are healthy and safe.

Let's open it up for questions.