Q2 2021 Earnings Prepared Remarks

August 9, 2021

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Zhao Bin, founder, chairman and CEO

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

Time flies. Agora has been a public company for one year now. Before walking through our Q2 performance and highlights, please let me spend a few moments looking back on Agora's accomplishment over the last year.

We have reached the milestone of powering 50 billion minutes of video and audio engagements each month, and we have expanded our product portfolio to include interactive whiteboard, instant messaging, flexible classroom and many others.

More importantly, together with developers on our platform, we are changing the way people work, study, and how they play and live their lives.

Let's start with work. According to a study from Gartner, 82% of business leaders plan to let employees continue to work remotely at least some of the time, while 47% plan to allow employees to do so permanently. This means modern enterprises must embrace technologies that enable employees to stay productive from anywhere, anytime. In the past year, virtual office, collaboration tools and virtual events are among the most rapidly growing use cases on our platform.

How we play has also evolved. We are seeing a strong convergence of video games and live streaming, where the virtual world and real world are combined to create even more immersive experiences.

Movies, and TV shows are no longer restricted to the living room. You are just as likely to watch a program with your friends across the country as with your family in the living room.

Developers are using Agora from the most casual applications to the most highly regulated and mission critical use cases. Today, our technology is used by doctors and licensed therapist to provide patients instant access to professional healthcare services. With Agora's HIPAA-compliant and low latency network, patients and doctors can talk about any sensitive topics anywhere, anytime.

We are extremely proud that our customers continue to put their trust and confidence in Agora!

Now, let's shift to our Q2 performance.

I'm pleased to report that our revenues for the second quarter were 42 million dollars, up 25% year-over-year.

At the end of June, we had more than three hundred thirty thousand registered apps on our platform.

Our number of active customers reached 24 hundred, adding 65% year-over-year.

Let's take a moment now to discuss the recent regulations in China that will impact K12 academic tutoring services. This new policy requires such services in China to be non-profit and not to be provided on weekends or public holidays, among other things.

We anticipate the new regulation will have a negative impact on our revenue from the China K12 tutoring sector in the near term. It does not, however, change our long-term vision or business fundamentals. K12 academic tutoring is just one of the many use cases of our technology.

In fact, online education is here to stay and will grow in the long term. Our commitment to the global education industry remains unchanged. Agora is dedicated to continuing to provide technology that enables online learning and makes quality education more accessible.

To manage the short-term implication, we will be making some adjustments. In China, we will shift our resources previously focused on K12 academic tutoring towards the public-school education system and non-traditional academics such as music, art, computer programming, and adult education. We will also continue to strengthen our go-to-market efforts in the US, Europe, and Asia Pacific, where we are seeing tremendous growth momentum and more diversity in demand.

Next, I want to highlight our advancement on product, technology and use cases in Q2.

In this quarter, we launched Agora App Builder, which allows developers to create their own video chat and streaming apps with customizable functionalities and UI without any coding required. Since launch, we have seen very strong adoption from both developers and creators with no technical background. Their positive feedback motivates us to make continued efforts in the low code and no code direction, to make it even easier for creators to connect with audiences, engage with customers, and drive more business outcomes.

On the technology front, we recently announced Agora Silver, our proprietary audio codec using artificial intelligence to optimize quality of experience under poor network conditions. Compared with traditional audio codecs, Agora Silver achieves superior quality at extremely low bitrates. Even compared with leading AI-based audio codecs such as Google Lyra, Agora Silver enjoys lower computational complexity and more robust noise suppression. With Agora Silver, we will be able to offer developers and end users an immersive experience under challenging network conditions. It is a perfect example of our commitment to cutting edge innovation at Agora.

We also made solid progress on enabling innovative new use cases using our technology.

We partnered with Migu, a leading music and digital content platform, to develop a one-stop solution for online karaoke. The solution includes both the technology enabling people to sing songs together remotely, and a usage-based copyright solution for the soundtrack. We believe social singing will become a key feature in many social apps, just like livestreaming did in the last few years.

In gaming, we teamed up with HP to power real-time engagement for HP OMEN gaming PCs. Our voice, video, messaging, and interactive live streaming capabilities are pre-installed on all OMEN PCs, which allow gamers to engage during gameplay and turns games into watch parties, enabling players and viewers to share the excitement.

We also worked with a leading e-commerce platform in Southeast Asia, to introduce interactive shopping to their vast user base. In the app, the merchandise is demonstrated by a host through livestreaming. The audience can place orders and interact with the host through real-time video or voice chat. Sales conversions have increased significantly as a result of the interactive experience.

Next, I want to talk about our developer community.

Just about this time last year we announced our new Global Startup Program, designed to support all early-stage startups no matter where they are and who they are.

Now we have over 200 startups from 6 continents and 24 countries participating in our program, and we have seen so many innovative ideas that will profoundly change our lifestyle.

As our developer base continues to grow globally, we have been

working on our own internal diversity and inclusion programs. I am proud to see that our employees now support 24 different languages.

I also want to take this opportunity to invite you to join me at RTE2021, the annual real-time engagement industry event, hosted by Agora. We will showcase exciting announcements, feature many amazing industry leaders and unique RTE innovations that are changing our lifestyles all over the world.

The US time zone live event will be on September 1st and 2nd, and the China time zone event will be on October 22nd and 23rd. I look forward to seeing you there!

Lastly, I would like to thank our developers, customers, and partners for their trust in us. I also want to say thank you to all the Agorans for their hard work and dedication to our customers' success. We will continue to invest in enabling meaningful human connections and creating more real time engagement possibilities.

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 Q2 and then I will discuss our outlook for the full year.

Total revenues grew 25% year over year and 5% quarter-over-quarter to $42.3 million in the second quarter of 2021. Number of active customers reached more than 24 hundred, excluding those for Easemob, up 65% year-over-year. The growth in revenue and active customer was mainly driven by continued adoption of our technology by developers and the emergence and growth of new use cases. We reached more than 330 thousand registered app accounts at the end of June, excluding those for Easemob, adding over 10,000 per month in the quarter. Additionally, Easemob contributed over $3 million to our top line.

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. When comparing to Adjusted Total Revenues in Q2 last year, our total revenues grew 57% year over year in this quarter.

Our trailing-twelve-months Constant Currency Dollar-Based Net Expansion Rate is 110%, excluding Easemob. If we use Adjusted Total Revenues, the adjusted expansion rate would be 140%.

Moving onto cost and expenses. For my following comments, I will focus on Non-GAAP results, which exclude share-based compensation expense, acquisition related expenses, amortization expense of acquired intangible assets and income tax related to acquired intangible assets.

Non-GAAP gross margin for the second quarter was 61.5%, which was 5.3% lower than Q2 last year and 3.1% higher than Q1 this year. The quarter-over-quarter increase was mainly driven by technical optimizations and advancement we have been implementing since the beginning of this year. The year-over-year decrease was mainly due to the continuous growth in new international markets that we are expanding into, where infrastructure costs are higher.

Non-GAAP R&D expenses were $20.8 million in Q2, up 113.4% 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 49.2% of total revenues in the quarter,

compared to 28.8% in Q2 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 $9.3 million in Q2, up 72.3% year-over-year, mainly attributable to team expansion and increased advertising and event expenses. Sales and marketing expenses represented 22.1% of total revenues in the quarter, compared to 16% in Q2 last year.

Non-GAAP G&A expenses were $5.6 million in Q2, up 139.7% year-over-year, mainly due to team expansion and professional service fees. G&A expenses represented 13.3% of total revenues in the quarter, compared to 6.9% in Q2 last year.

Non-GAAP operating loss was $9.4 million, translating to a 22.3% non-GAAP operating loss margin for the quarter, compared to an operating loss margin of 13.9% in Q1 this year, and an operating income margin of 17.4% in Q2 last year.

Turning to cash flow, operating cash flow was negative $8.3 million in Q2, compared to positive $7.5 million last year. Free cash flow was negative $11.5 million, compared to positive $3.6 million last year. Net cash outflow in the quarter was mainly due to capital expenditure as we continued to scale our network and the consideration paid for Easemob acquisition and long-term investments.

Moving onto balance sheet. We ended Q2 with $827 million in cash, cash equivalents and short-term investments, compared to $877 million at the end of Q1.

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 Tony mentioned earlier, we expect that the new regulation on K12 academic tutoring sector will have a negative impact on our revenue in the near term. With that, for the full year 2021, we lower our previous guidance and now expect total revenues for the full year to be in the range of $159 million to $161 million.

In closing, we are proud of the strong performance in Q2 and continue

to be confident about the long-term prospect of our business. We will continue to implement our technical optimization to further reduce infrastructure cost, invest in innovation and R&D capabilities, and support our developers and customers around the world. 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.