

API Earnings Call Transcript

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Quarter: 2

Operator: Good day, and thank you for standing by. Welcome to the Agora Inc. Second Quarter 2025 Financial Results Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. The company's earnings results, press release, earnings presentation, SEC filings and a replay of today's call can be found on its IR website at investor.agora.io. Joining me today are Tony Zhao, Founder, Chairman and CEO; and Jingbo Wang, the company's CFO. During this call, the company will make forward-looking statements about its future financial performance and other future events and trends. These statements are only predictions and are based on what the company believes today. The actual results may differ materially. These forward-looking statements are subject to risks, uncertainties, assumptions and other factors that could affect the company's financial results and the performance of its business in which the company discussed in detail in its filings with the SEC, including today's earnings press release and the risk factors and other information contained in the final prospectus relating in its initial public offering. Agora Inc. remains no obligation to update any forward-looking statements the company may make on today's call. With that, let me turn it over to Tony. Hi, Tony.

Bin Zhao: Okay. Thanks, operator, and welcome, everyone, to our earnings call. I'll first review our operating results from the past quarter. We're proud to deliver our third consecutive quarter of GAAP profitability in Q2, with expanding margins driven by solid revenue growth and continued efficiency improvement. Total revenue in Q2 reached \$34.3 million, up 11% year-over-year. Excluding revenues from certain end of sales, low-margin products with healthy growth momentum from both the Agora and Shengwang site. Our GAAP net profit for the quarter was \$1.5 million, more than triple the previous quarter with a GAAP net margin of 4.3%. Considering seasonality and our strong business outlook, we are confident in our ability to continue improving GAAP profitability through the remainder of the year. At end of Q2, we had close to 1,900 active customers for Agora and approximately 2,000 for Shengwang excluding Easemob, representing an increase of 12% and 1%, respectively, compared to 1 year ago. Now turning to our business product and technology updates for the quarter. Since the launch of our Conversational AI engine product a few months ago, we have rapidly iterated based on our road map and customer feedback. At the World Artificial Intelligence Conference last month, we unveiled a major upgrade with 3 new features. First, we added an advanced attention locking feature, which allows an AI agent to focus on specific users' voice to stay on topic. Even when there are other people talking in the background, this feature is important because without it, those background voices would be fed into the large language model, confusing the model and sometimes making the conversational -- making the conversation impossible to continue. Second, we added real-time vision-based intelligence to our conversational AI engine enabling the AI to understand visual context along with spoken conversation. For example, a user can ask about building or buildings or landmarks while targeting abroad or ask for hub with a mass problem written on a whiteboard. Finally, we introduced natural interactive avatars that can synchronize lifelike facial and body movements with speech, making conversations more engaging for applications in education, customer support and beyond. These new features are all aimed at one goal, making AI conversations as natural as human interactions. Now AI agent can log on to the user's voice, understand what the users see and respond with facial and body movements through avatars. We believe these advancements bring us closer to

that goal. We are also encouraged by an extremely warm reception from developers and the general audience at the World AI Conference. Over the past quarter, developers and customers across various industry continue to build AI applications using our conversational AI solution. Many of them have made solid progress moving from proof of concept to real-world deployment. For example, a major food delivery platform operating in South America leverage our conversational AI engine to power an AI agent that automatically calls restaurants and local businesses. Currently, our solution supports thousands of agent calls per day, just a small fraction of the total potential volume. As we continue to learn from real world usage, we expect to improve performance and expand into more use cases and higher volume for this customer. We also believe this success will help drive further adoption of our conversational AI solution in the customer service industry. Another inspiring example is Fuzozo, an adorable AI companion toy developed by our customer, Robopoet. Users received the first shipment in mid-July and quickly shared their excitement on social media. Powered by our conversational AI engine, Fuzozo delivers natural and engaging conversations with users. We have observed that a significant portion of sessions between users and Fuzozo last for more than 50 rounds of contraction. Based on our internal assessment, Fuzozo is a top performer among AI companion toys on the market in terms of stability, response, quality and human-like emotional expressions. Venturing into untargeted territory means solving complex problems every day. Our solution is still being optimized and requires ongoing improvement to provide the best performance in some corner cases. That said, we've never been more confident in the transformative potential of human AI conversation. In addition, given the greater value and higher technical complexity of our conversational AI solution, we expect its pricing to be an order of magnitude higher than our standard RTC audio product, unlocking significant revenue potential ahead. Today, we also announced the resignation of Sheng Zhong from his position as our Director, Chief Technology Officer and Chief Scientist due to personal reasons. I'll personally take over his operational responsibilities to strengthen our technology leadership and drive conversational AI innovations. I would like to thank Sheng for his dedicated service and contribution over the past 7 years. Tony Wang, founding member and currently Chief Revenue Officer of the Agora division and Jingbo Wang, our Chief Financial Officer have been appointed as directors of the Board. I'm pleased to welcome Tony and Jingbo to the Board. Their strategic vision and operational expertise will be invaluable to the Board as we continue to drive innovation and deliver long-term value of our -- for our shareholders. Before I continue, I want to express my appreciation to our leadership team for driving transformation and to every member of the Agora and Shengwang team for your dedication. I also want to thank our shareholders for your continued trust and support. And for believing in our long-term vision and the significant market opportunity ahead. Together, we are shaping the future of human AI interaction and engagement. With that, let me turn things over to Jingbo, who will review our financial results.

Jingbo Wang: Thank you, Tony. Hello, everyone. Let me start by first reviewing financial results for the second quarter of 2025. And then I will discuss outlook for the third quarter. Total revenues for the second quarter reached \$34.3 million. Excluding revenues from certain end-of-sale low-margin products, revenues grew 11% year-over-year, representing our second consecutive quarter of double-digit organic growth. Agora revenues reached \$18.2 million in Q2, representing 16.7% year-over-year growth and 2.2% quarter-over-quarter decline. The strong year-over-year growth reflects our successful market penetration and growing adoption, particularly in high-growth verticals such as live shopping and entertainment. A marginal sequential decrease is mainly due to usage fluctuation of customers. Shengwang revenues reached RMB 115.5 million in Q2. Excluding certain end of sale low margin products, Shengwang revenues grew 6.7% year-over-year and 9.5% sequentially, driven by continued business expansion and adoption in key verticals such as digital transformation and IoT. Dollar-based net retention rate is 97% for Agora and 87% for Shengwang, marking the second consecutive quarter of improvement for both businesses. Gross margin for the second quarter was 66.8%. If we exclude gross profit from certain end-of-sale low-margin products, gross margin of continuing business slightly decreased 1.2% year-over-year and sequentially. Moving on to expenses. R&D; expenses were \$14 million in Q2, decreased 23% year-over-year. R&D; expenses represented 40.8% of total revenues in the quarter compared to 53% in Q2 last year. Sales and marketing expenses were \$6.5 million in Q2, increased 4% year-over-year. Sales and marketing

expenses represented 19% of revenues in the quarter, compared to 18.3% in Q2 last year. G&A; expenses were \$6 million in Q2, decreased 26.6% year-over-year. G&A; expenses represented 17.6% of total revenues in the quarter compared to 24% in Q2 last year. Moving on to the bottom line. We delivered net income of \$1.5 million in Q2, more than triple the previous quarter, representing a 4.3% net income margin. This result represents a significant improvement from 23% net loss margin in Q2 last year and marks our third consecutive quarter of GAAP profitability. Based on our current business momentum and visibility into the second half, we expect net income to grow sequentially throughout 2025. Now turning to cash flow. Operating cash flow was negative \$0.4 million in Q2 compared to negative \$7.6 million last year. Moving on to balance sheet. We ended Q1 with \$277 million in cash, cash equivalents, bank deposits and financial products issued by banks. Net cash flow in the quarter was mainly due to share repurchase of \$10.9 million. In the second quarter, we repurchased 13.1 million ordinary shares or 3.3 million ADSs, representing 3.5% of our entire outstanding shares at the beginning of the quarter. Since our board approved the share repurchase program in February 2025, we have repurchased \$127.2 million worth of shares through June 30, 2025. We are fully committed to creating shareholder value through this program, while keeping the financial flexibility to invest in growth opportunities such as conversational AI. Now turning to guidance. For the third quarter of 2025, we currently expect total revenues to be between \$34 million and \$36 million compared to \$31.6 million in the third quarter last year, representing a year-over-year growth rate of 7.6% to 13.9%. This outlook reflects our current and preliminary views on the market and operational conditions, which are subject to change. In closing, I want to take a moment to recognize the exceptional work of the Agora and Shengwang teams. Our double-digit revenue growth and improving profits are a direct result of the effort and focus. To our shareholders, thank you for your trust and support. Together, we are building a lasting company at forefront of AI innovation. Thank you all for joining the call today. Let's open it up for questions.

Operator: [Operator Instructions] Our first question will come from the line of David Lee with BofA.

David Lee: Firstly, congrats on the strong results and solid growth. And I have 2 questions. Number one, regarding the AI-related business. You mentioned like for the downstream demand from the IoT and also the AI companion toys. Do we expect which application area will see the faster application and the potential revenue contribution to us going forward? My second question is about the gross profit margin in Q2 achieved of 4.8 percentage points year-over-year expansion. Well, quarter-on-quarter, see some -- suddenly drop. And is this a seasonality or any other reasons? How do you see the future trend for gross profit margin and net profit margin?

Bin Zhao: Thank you for the question. So for AI use cases, in conversational AI applications, currently, 3 use cases have progressed to a more advanced stage, namely call centers, education and companionship toys. For these use cases, we already see some customers have moved from proof of concept phase to real world production. Given the vast scale and potential usage of those verticals, we expect the success then of those customers will drive broader adoption.

Jingbo Wang: Okay. So in terms of margins, so the gross margin of the current RDCO RTE business has been quite stable in the past year, fluctuating between 66% and 68%. And I expect this to continue in the coming quarters, and the sequential and year-over-year decline of 1% in this quarter is more due to like normal fluctuation. And as to the new products, the conversational AI products, I think it's still too early to say about gross margin. We might have a lower margin initially due to ramp-up and testing and prototyping cost. But once we reach a more steady state, I expect the gross margin on this product to be at least same as RTC, if not higher, because of the higher value and higher technical sophistication of this new product. So in terms of net margin, we expect the expenses to be relatively stable. So as we ramp up on revenues, we do expect the net margin to improve in the coming quarters this year. And in the longer term, as we guided before, we do think we should be able to achieve an operating margin of between 15% and 20%, but that's for the medium to long term.

Operator: [Operator Instructions] Our next question comes from the line of Chenyuan Wang with CICC.

Chenyuan Wang: I'm Chenyuan Wang from CICC. My question concerns the market reception of your newly launched the advanced attention locking and the avatar feature? So could you please share the early adoption trends and also the client feedback on these innovations.

Bin Zhao: Okay. Thank you for the question. When we initially planned and designed these features,

we have already taken real-world applications and customer needs into consideration. This actually comes from some of the corner cases received we from early adoption of our conversational AI engine. Advanced attention locking is an essential feature in a noisy environment, especially with other people talking in the background. For example, our customers AI companion toy, Fuzozo will naturally be carried around by users. When users want to talk to Fuzozo in a place like subway station or shopping mall, attention locking is crucial to ensure a seamless user experience. Interactive avatars, on the other hand, must-have to -- for users -- for use cases like education and customer service, as they enable more lifelike engaging interruptions. So those are all coming from demand of solving certain corner case or providing a better expense experience for certain use cases.

Operator: [Operator Instructions] I am showing no further questions. This concludes today's question-and-answer session. Thank you, everybody, for attending the company's call today. As a reminder, the recording is in the earnings release and will be available on the company's website at investor.agora.io. And if there are any questions, feel free to e-mail the company. You may now disconnect. Everyone, have a great day.