

## Q3 2020 Presentation Script

**Operator:** Good morning and good evening ladies and gentlemen, thank you for standing by and welcome to uCloudlink Group Inc. third quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After prepared remarks by the management team, there will be a question-and-answer session. Today's conference call is being recorded. I would now like to turn the call over to your host today, Mr. Bob Shen, Senior IR Manager of the company. Please go ahead.

### 01 Opening (Presenter: Bob Shen)

Thanks everyone for joining us on our third quarter 2020 earnings call today. An earnings release is now available on our IR website at [ir.ucloudlink.com](http://ir.ucloudlink.com) as well as via newswire services. Here I give a brief introduction to our uCloudlink team.

- Zhiping Peng, is our co-founder and chairman of board of directors.
- Chaohui Chen is our co-founder, director and chief executive officer.
- Zhigang Du, is our director and chief operating officer.
- Yimeng Shi is our chief financial officer.
- Xinquan Xu is our chief sales officer.

Our CEO will begin with an introduction of our company overview and business highlights, this will cover Section 1 and Section 2 of the earnings presentation posted on our IR website. And then our CFO Yimeng Shi will discuss our financial results in Section 3.

Before we proceed, please note that this call may contain forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and observations that involve known and unknown risks, uncertainties and other factors not under the company's control, which may cause actual results, performance or achievements of the company to be materially different from the results, performance or expectations implied by these forward-looking statements.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements, risk factors and details of the company's filings with the SEC. The company does not assume any obligation to revise or update any forward-looking statements as a result of new information, future events, changes in market conditions or otherwise, except as required by law.

Please also note that uCloudlink's earnings press release and this conference call include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. uCloudlink's press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures.

I will now turn the call over to our co-founder and CEO, Mr. Chaohui Chen. Please go ahead.

## 02 Company Overview (Presenter: Chaohui Chen)

From Page 4 to Page 9, there are similar contents as the earnings presentation of the second quarter of 2020, I will not repeat in detail and I will pass through quickly.

### Page 4 Vision and Mission

Thanks everyone, let us turn to **Page 4** of the earnings presentation which shows our vision and mission.

We are the world's first and leading mobile data traffic sharing marketplace with advanced cloud SIM technology which enables consumers to enjoy superior connections on any available network at any time. We also enable partners to be an over the top carrier worldwide solving coverage, roaming and utilization problems. We are the pioneer of introducing the sharing economy business model into the telecommunications industry, creating a marketplace for mobile data traffic.

We redefined the mobile data connectivity experience, allowing users to gain access to mobile data traffic allowance shared by network operators on our marketplace. So far, we have aggregated mobile data traffic allowances from 216 mobile network operators (MNOs) in 144 countries and regions in our cloud SIM ecosystem.

### Page 5 The World's First and Leading Mobile Data Traffic Sharing Marketplace

Let us move to **Page 5**. The left-hand side of the slide shows the source of data from the market. We can simply buy SIM cards from carriers or their partners around the world ("first hand" mobile data). Our system can also utilize the unused data from end users ("second-hand" mobile data). The right-hand side of the slide shows the various users of data in the marketplace. This marketplace enables an end-user's device to connect to any available network at anytime and anywhere. It also enables the carrier to easily share their network capacity, operating business to worldwide users. They can then act as an over the top carrier worldwide to solve roaming, coverage, utilization and other related problems.

We have redefined the traditional telecommunication business model allowing customers from "connected" to "superior connection".

### Page 6 Instant Switching of Cloud SIM – The Engine of the 5G Cloud Era

#### - Accelerating 5G Cloud Computing times come alive early

Let us move to **Page 6** and talk about 5G opportunities for us. 5G is coming and brings massive opportunities to our business. For instance, in the early stage, 5G coverage and the infrastructure are not sufficient and there are significant incremental capex requirements related to spectrum and network equipment and infrastructure. We dedicated to R&D investment related to 5G and the

recent launch of our instant switching network technology of Cloud SIM is the engine to accelerate the 5G Cloud Era.

Also, our 5G-ready cloud SIM platform offers a ready-to-use solution for MNOs and smartphone manufacturers that enables roaming-free inter-carrier 5G network access domestically and internationally. As network operators start to roll-out 5G networks, mobile data traffic sharing between MNOs, via our cloud SIM architecture, can reduce capital spending and roaming agreements negotiation costs, ensuring low network latency for end users and expansive network coverage.

## Page 7 The Evolution of Cloud SIM Business Models

**Page 7** shows the evolution of our Cloud SIM business models. At Stage 1, it is B2C retail. We have proven the technology and proven the business is successful and profitable. We are now the largest portable Wi-Fi service provider for international roaming for Chinese outbound travelers in 2018, according to Frost & Sullivan.

Stage 2 is B2B2C wholesale, where we can work with partners in different countries to use their brand while copying our business model. It is faster than expanding by ourselves and requires less spending.

For Stage 3, PaaS and SaaS platform. Our business partners can rely on our PaaS and SaaS platform for SIM and data traffic management, and focus on sales and marketing, which will facilitate and consolidate a full marketplace of customer and business partner resources on our platform. Our advanced PaaS and SaaS platform can optimize the utilization efficiency of SIM card pool and improve the algorithms for better network quality with the improvement for OTT management capabilities.

We are gradually becoming more platform-centric from Stage 1 to Stage 3 to further expedite our global expansion by establish a global partner ecosystem.

## Page 8 Our Innovative Cloud SIM Technology-Enables Marketplace Access to the Best Connectivity Globally

Let us turn to **Page 8**. In summary, there are four critical advantages of our innovative Cloud SIM technology compared with other technology:

Firstly, with our innovative cloud SIM technology, we can create a full marketplace including first-hand and second-hand of data traffic with massive user base. Secondly, with Cloud SIM APP, the device or handset can dynamically connect to different networks by changing to a different SIM card in remote sites. Thirdly, it simplifies the relationship with carriers, just buy SIM cards from carriers and their channel, making supplementing easy. Fourthly, the physical SIM card has over 20 years' history and it is secure, reliable, and mature. Acquisition is much easier and there is very low risk and barrier for SIM card supplement.

With these advantages, our Cloud SIM technology facilitates a valuable service to both users and carriers, enabling not just “connected” but “superior connection.” As of September 30, 2020, we have 53 patents approved and 79 patents pending for approval globally.

## Page 9 Clear Growth Strategies Across Business Models

**Page 9** shows our three growth strategies. uCloudlink 1.0 (“uCloudlink 1.0 international data connectivity services”) focuses on cross border travelers and is keeping stable profitability, increasing its penetration and market share by launching more channels, in more countries, more GMI and providing better service quality than other roaming technologies.

uCloudlink 2.0 (“uCloudlink 2.0 local data connectivity services”) focuses on local residents and solves challenges between carriers. It has started gaining fast growth to be a huge volume user number company. We are developing GMI with handset vendors, building local operation successfully with local partners and catching local mobile broadband and IOT GMI opportunities.

uCloudlink 3.0 is a full marketplace of data traffic in trials which is technologically ready.

## Page 10 Strategic Development and 5G Opportunities of Our Business

Let us move to **Page 10**. Page 10 is the most important page, which shows the progress of the third quarter of 2020 and updates the change we made. The COVID-19 pandemic continued to linger longer and deeper than anticipated, so did its negative impact on international tourism and consequently, our third quarter 2020 results. However, we expect international travel will recover with the launch of COVID-19 vaccines and effective testing and tracing. Our uCloudlink 2.0 local data connectivity services continue to be a very important business for us. The sales of mobile Wi-Fi terminals and services were steady during the second and third quarter of 2020 through online sales and offline distribution channels with our business partners.

Mobile network operators (MNOs) are the major players in the data connectivity service markets and our uCloudlink 2.0 business has great potential through global alliances and cooperation with MNOs and business partners globally. We have already established an alliance ecosystem with various MNOs such as NTT in Japan, one of the major MNOs in mainland China, and certain regional wireless carriers in the United States. We further invested in Beijing Huaxiang Lianxin Technology Co., Ltd. which is one of the licensed mobile virtual network operators (MVNOs) in mainland China. We believe that the alliance with MNOs and MVNOs will further increase the scale of users connected to our platform as we leverage from carriers’ huge number of service subscribers. We will continue to develop strategic alliances with more MNOs, MVNOs and local business partners such as in Europe, the United States, Asia, etc. as we pursue enhancement of our PaaS and SaaS platform ecosystem and provide superior data connectivity services to carriers and business partners.

5G provides great opportunities for us. We can help carriers to improve their coverage, connectivity services and investment efficiency in 5G networks. The recent launch of our instant switching network technology of Cloud SIM accelerates 5G Cloud Era such as autopilot, AR/VR and Cloud computing. Our full series of 5G mobile Wi-Fi, Customer Premises Equipment (CPE) and GlocalMe Inside (GMI) embedded in various brands of 5G related mobile phones are under development for commercial trials in the near future. We believe that there is great potential for the application of those devices in 5G mobile broadband connectivity service due to low network latency and expansive network coverage for end users. We also believe it can facilitate us to establish the leading technological position of our PaaS and SaaS platform in the early stage of 5G.

In order to elevate our local service brand, we are enhancing our e-commerce efforts in strategic key markets with high growth potential such as the United States and Europe, optimizing our websites and streamlining our sales function and team, in order to continue improving the user experience and overall satisfaction.

The recent launch of our instant switching network technology, we call Cloud SIM 2.0 which greatly reduce cross-mobile network switching time from more than 30 seconds to milliseconds, also contributed to the establishment of our leading position. Our Cloud SIM technology, such as instant switching network technology is both highly compatible with and brings unique advantages to various Internet-of-thing (IoT) applications scenarios such as Internet of Vehicles, autopilot, cargos, logistics and other car equipment. We are cooperating with business partners in various aspects of IoT applications such as cargo vehicles and cross-border railway transportations where we see high potential for our business. We make progress with one of the famous China railway transportation companies. I believe all these efforts and progress will bring more opportunities in the future especially for the next year's growth.

### Page 11 New Appointment of CSO and Restructure of Senior Management

**Let us turn to Page 11.** Recently we appointed Mr. Xinquan (Victor) Xu as our Chief Sales Officer and President of Marketing and Sales. Mr. Xu possesses strong track record in developing strategic global marketing of consumer goods such as mobile phone products, in addition to his extensive and deep cross-industry background and experience such as the internet, telecommunications, mobile phone industries. He previously held senior executive roles in various renowned corporations including Huawei Technologies and JD.com, Inc. Zhu Tan assumed the role of Vice President of Marketing and Sales. Wen Gao assumed the role of Chief Strategy Officer. These changes took effect on September 25, 2020.

The move to restructure management roles was designed to better align senior leadership positions with the strategic development of our business, as we continue to improve operational efficiency, explore market opportunities, and deliver sustainable growth.

### 03 Business Highlights (Presenter: Chaohui Chen)

#### Page 13 Our Business Performance and Operating Highlights

Let us turn to **Page 13** for our business highlights. The data of the second and the third quarter of 2020 shows that the impact from COVID-19 is becoming stable. The left-hand side of the slide shows Daily Active Terminals (DAT) as of September 30 2020. A certain portion of DAT and Data Usage Per Terminal are derived from our business partners. You can see from the middle of the slide showing DAT breakdown by uCloudlink 1.0 and 2.0 data connectivity services. The decrease of total DAT during the third quarter 2020 is mainly attributable to the decrease of our uCloudlink 1.0 services due to COVID-19. We expect the launch of vaccines in China and other countries and regions will benefit to our business. 5G and IoT are both a driver for uCloudlink 1.0 as well.

On the other hand, our uCloudlink 2.0 Local Mobile data traffic is showing steady development and has been less impacted by COVID-19. Our uCloudlink 2.0 service accounted for around 74% of total DAT during the third quarter of 2020. Average daily data usage per terminal was 2.13 GB in September 2020.

## Page 14 Our Business and Revenue are increasingly Diversified Globally

**Page 14** shows global diversification of our business. Mainland China's revenue as a percentage of total revenue continues to decrease as we diversify our global business. We continue to build our ecosystem with our business partners in various countries and regions. As of third quarter 2020, we have 95% of total revenue coming outside mainland China. During the third quarter 2020, Japan contributed to 56% of total revenue. After the investment in (MVNO) Huaxiang Lianxin and cooperation with Chinese MNO, we believe China market will regain growth.

Looking ahead, we expect the launch of vaccines from clinical phase three to the market in China and other countries and regions will lead to the recovery of international travel and benefit to our business accordingly. We expect all of these new opportunities such as our uCloudlink 2.0 business will further develop our business potential in 2021. We are also dedicated to our R&D in traditional and new innovative technologies with further investment in sales and marketing to bring us greater prospects for sustainable growth in the future.

I will now turn it over to our CFO Yimeng Shi who will go through the financial highlights' section.

## 04 Financial Highlights (Presenter: Yimeng Shi)

### Page 16 Percentage of Our Service-Related Revenues and COVID-19 Impact

Thank you, Mr. Chen. Hello everyone, let us turn to **Page 16**.

Our total revenue decreased by 59.2% from US\$44.1 million in the three months ended September 30 2019 to US\$18.0 million in the three months ended September 30 2020. Revenue from services were US\$9.8 million, representing a decrease of 60.8% from US\$25.1 million for the same period of 2019. This decrease was primarily attributable to the decrease in revenues from international data connectivity services and PaaS and SaaS services to certain extent, mainly because of continuous and prolonged impact of pandemic of COVID-19. Service-related revenue as a percentage of total revenue increased from 46.9% in the second quarter of 2020 to 54.7% during the third quarter of 2020.

On the other hand, our 2.0 local data connectivity services was not impacted by COVID-19 and its revenue increased by around 3 times from US\$0.7 million in the third quarter of 2019 to US\$2.5 million in the third quarter of 2020 which partially offset the decrease of our 1.0 international data connectivity services. So far, we have started our 2.0 local data connectivity services in China and Japan. We will expand to other potential markets such as Asia, the United States, Europe, etc.,

Revenues from PaaS and SaaS services were US\$1.5 million, representing a decrease of 30.3% from US\$2.1 million in the same period last year. This decrease was primarily due to the negative impact of COVID-19 on our partners that use our PaaS and SaaS services to provide international data connectivity services. In the meantime, the demand of our local data connectivity services business partners was not affected.

Revenue from sales of products were US\$8.2 million, decreasing of 57.1% from US\$19.0 million in the same period last year. This decrease was primarily due to the continuous negative impact of COVID-19 pandemic.

Our total revenue decreased by 30.7% from US\$104.7 million in the nine months ended September 30 2019 to US\$72.5 million in the nine months ended September 30 2020. Revenue from services decreased by 44.2% from US\$66.6 million in the nine months ended September 30 2019 to US\$37.1 million in the nine months ended September 30 2020. Revenue from sales of products decreased by 7.1% from US\$38.1 million in the nine months ended September 30 2019 to US\$35.4 million in the nine months ended September 30 2020.

### Page 17 Revenue Breakdown by Our Two Business Segments

Let us move to **Page 17** which shows the revenue breakdown of our two business segments, namely revenue from services and sales of products. During the third quarter of 2020, revenue from services and sales of products accounted for 55% and 45% of total revenue, respectively. Compared with the second quarter of 2020, we can see that the percentage of our revenue from services increased. Other than that, we had more business partners which transferred to local data connectivity businesses connected to our PaaS and SaaS platform. The increasing demand from our partners of our PaaS and SaaS services also drove up sales of terminals.

### Page 18 Higher Service Gross Margin Over Overall Gross Margin

Let us turn to **Page 18** for gross margin of our business. Our services gross margin and overall gross margin were increased to 36.6% and 31.3% in the third quarter of 2020 compared to 35.1% and 26.1% in the second quarter of 2020 respectively. It was mainly because we improved efficiency of our revenue and cost structures during the third quarter of 2020. The pandemic impacted our services gross margin and also the overall gross margin.

To mitigate the prolonged uncertainty of COVID-19, we reviewed comprehensively at our costs during the pandemic. We will continue to work on measures to optimize our cost structure going forward.

### Page 19 Controlled Operating Expense During Pandemic of COVID-19

Let us move to **Page 19** which shows the breakdown of our operating expense, excluding share-based compensation and others. Total operating expense decreased 17.5% from US\$14.3 million during the third quarter of 2019 to US\$11.8 million during the third quarter of 2020. We took comprehensive mitigation measures such as risk and cost control, liquidity and cash flow management to offset the negative impact from COVID-19. Total operating expense as a percentage of total revenue increased from 32% during the third quarter of 2019 to 65% during the third quarter of 2020. This was mainly due to the decrease of overall revenue. Compared to the second quarter of 2020, the increase of operating expenses in the third quarter of 2020 was mainly because a bad debt provision due to the deferred payment of couple of customers caused by the pandemic and a special bonus for certain sales team.

We continued to dedicate to R&D with optimized efficiency in key project outputs to keep our leading position in the long run. Excluding share-based compensation and others, our R&D expense accounted for 24% of overall operating expense during the third quarter of 2020. G&A expense accounted for 44% of total operating expense with US\$1.3 million of account receivable bad debt

provision included.

## Page 20 Asset Light Business Model with Normal Cash Flow

Let us turn to **Page 20**. Operating cash flow was negative US\$0.4 million during the third quarter of 2020 compared to positive US\$0.3 million during the third quarter of 2019. Our cash flow was normal with sufficient cash and cash equivalents as at September 30 2020.

Our CAPEX was US\$0.14 million during the third quarter of 2020 compared to US\$1.2 million during the third quarter of 2019. CAPEX as a percentage of total revenue decreased from 2.7% during the third quarter of 2019 to 0.8% during the third quarter of 2020. It was mainly due to the decrease of uCloudlink 1.0 expenditures.

## Page 21 Net Income & Adjusted EBITDA

Let us move to **Page 21**. Net income during the third quarter of 2020 was negative US\$9.7 million compared to positive US\$3.8 million during the third quarter of 2019. Adjusted EBITDA was negative US\$5.0 million during the third quarter of 2020 compare to positive US\$4.6 million during the third quarter of 2019.

Looking ahead, we are cautiously optimistic. We continued to increase investment in R&D and sales and marketing such as e-commerce and promotional campaign in key markets, with the intention of opening more new business opportunities globally. We will continue to improve and optimize our revenue and cost structures with increasing operational efficiency, together with the abovementioned business opportunities to facilitate our business growth and performance in the future. With that let me conclude today's presentation. Thank you and we start our Q&A session.

## 05 Q&A Session

[Standard Q&A instruction] + For the benefit of all participants on today's call, if you wish to ask your question to management in Chinese, please immediately repeat your question in English.

[After Q&A]

**Operator:** As there are no further questions, now, I'd like to turn the call back over to management for closing remarks.

**Bob Shen:**

Thank you once again for joining us today. If you have further questions, please feel free to contact uCloudlink's investor relations through the contact information provided on our website or TPG Investor Relations.



**Operator:** This concludes the earnings conference call. You may now disconnect your line.  
Thank you.