

Q1 2023 Earnings Call Management's Prepared Remarks

01 Opening (Presenter: Jillian Zeng)

Thanks everyone for joining us on our first quarter 2023 earnings call today. The earnings release is now available on our IR website at <https://ir.ucloudlink.com> and via newswire services. I will give a brief introduction to our UCLOUDLINK management team.

Mr. Zhiping Peng is our co-founder and chairman of board of directors.

Mr. Chaohui Chen is our co-founder, director and chief executive officer.

Mr. Yimeng Shi is our chief financial officer.

Mr. Chaohui Chen, our co-founder and CEO, will begin with an overview of the Company's recent business highlights, which will cover the earnings presentation posted on our IR website. Mr. Yimeng Shi, our CFO, will then discuss the Company's operational highlights and financial results.

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 and 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)

Thank you, Jillian. And good morning, everyone. Thank you for joining us on our first quarter of 2023 earnings call today. We appreciate everyone's time.

We are pleased to start off 2023 with strong First Quarter results, which is the first time that we achieved both positive net income and positive cash flow generated from operations with growth in revenue since the outbreak of the COVID-19 pandemic. The average daily active terminals continued to be in an upward trend and reached a historical high of over 300,000 in this quarter as we continued to expand our global PaaS and SaaS ecosystem, reflecting the accelerated market demand for uCloudlink's services across the global market.

uCloudlink 1.0 is our international data connectivity services business, which tends to be a higher margin line of business and has historically been one of our key growth drivers. During the first quarter of 2023, uCloudlink 1.0 business revenues increased 38.5% year over year to US\$7.8 million. We are delighted that our uCloudlink 1.0 business demonstrates significant growth as a result of accelerated international travel recovery across our major markets, particularly in Japan. We also have observed increased demand for our 1.0 Roamingman business in mainland China and Southeast Asia, which are historically strong markets with wide coverage of the Roamingman brand. Average daily active terminals for the uCloudlink 1.0 business increased by 55.3% compared with the same period of 2022, which indicates the significant growth of our business. We remained optimistic in our ability to further grow uCloudlink 1.0 business, thereby solidifying our leading global position in the international data roaming solutions market, and we look forward to serving our users globally as the market continues to pick up.

uCloudlink 2.0 is our local data connectivity services business which focuses on local residents and solves challenges among carriers. This business line took off during the pandemic as we seized the opportunities in the local markets by offering reliable local data connection services. Over the past two years, we continued to strengthen our presence in local markets including Japan and North America, where we helped operators and business partners improve their data connectivity services and resolve data connection problems through our PaaS and SaaS platform based on our patented technologies, including cloud SIM and HyperConn technology solutions. Our uCloudlink 2.0 business reported US\$2.2 million in revenues, up by 37.0% in the first quarter of 2023, as compared to US\$1.6 million in the same period of 2022. We received recognition from business partners in established markets like Japan and North America and continued our efforts in expanding our PaaS and SaaS platform ecosystem. We expect our high-quality, reliable data connectivity services based on our innovative HyperConn technology will receive more

industry recognitions and applications, especially in the mobile and fixed broadband industry. We expect to launch more innovative HyperConn products catering to the needs of a diverse set of mobile network operators, business partners and individual customers in the near future.

On the Internet of Things (IoT) side of our business, we have shared updates on multiple application scenarios supported by our IoT modules, including Wi-Fi router, IP cameras etc., which have been welcomed by our customers in various markets for their competitive advantages. In Japan, we are actively working with our business partners to explore and expand application scenarios for the IoT business to further improve data connectivity experience for their customers.

At the same time, our team continues to leverage existing resources in the research and development to develop uCloudlink 3.0 business. The one-stop mobile data traffic sharing marketplace application is planned to launch (the first version) in the near future, which leverages our efforts in building a scalable user base through our uCloudlink 1.0 and 2.0 models. This marketplace enables end-users' devices to connect to available networks anytime and anywhere, utilizing the GlocalMe app (new version).

We remained confident in the market conditions ahead for the remainder of 2023 and are well-prepared to take advantage of the peak season of international travel during the summer. We believe our track record of delivering reliable and high-quality data connectivity experience and our history of introducing innovative products and solutions enable us to maintain a leading position in the international data connectivity services industry. We are always committed to the continuous development of innovative solutions and plan to expand our cloud SIM and HyperConn technology solutions to more application scenarios. Our business aims to deliver value-added services to our customers by continuously improving their mobile data connectivity experience, and we will continue to execute our growth strategies with our expanding portfolio of offerings.

I will now turn the call over to our CFO Mr. Yimeng Shi.

03 Operation highlights and Financial results (Presenter: Yimeng Shi)

Thank you, Mr. Chen. Hello everyone, I will go over our operational and financial highlights for the first quarter of 2023.

Average daily active terminals (DAT) is an important operating metric for U-CLOUDLINK as it measures the trend of customer usage over the period, reflecting our ongoing business performance. In the first quarter of 2023, average daily active terminals were 304,121 (3,483 owned by the Company and 300,638 owned by our business partners), up by 11.0% from 273,870 in the first quarter of 2022. The average DAT for our uCloudlink 1.0 and uCloudlink 2.0 businesses accounted for around 42.7% and 57.3% of total DAT, respectively, during the first quarter of 2023. Average daily data usage per terminal was 1.62 GB in March 2023.

Total revenues for the first quarter of 2023 were US\$18.0 million, representing an increase of 15.3% from US\$15.6 million in the same period of 2022. Revenues from services in the first quarter of 2023 were US\$12.9 million, an increase of 31.4% from US\$9.8 million in the same period of 2022. Revenues from services as a percentage of total revenues was 71.7% during the first quarter of 2023, up from 62.9% during the same period of 2022.

During the first quarter of 2023, Japan contributed 43.1%, North America contributed 33.6%, Mainland China contributed 5.1% and other countries and regions contributed the remaining 18.2% of the total revenues, compared to 40.2%, 37.9%, 3.9% and 18.0%, respectively, in the first quarter of 2022.

Overall gross margin improved to 47.8% in the first quarter of 2023, as compared to 37.4% in the same period of 2022, and our gross margin on services increased to 60.5% in the first quarter of 2023 from 49.0% in the same period of 2022.

Excluding share-based compensation, our total operating expenses decreased to US\$6.9 million, or 38% of total revenues, in the first quarter of 2023, as compared to US\$9.3 million, or 60% of total revenues, in the same period of 2022.

We realized net income of US\$2.1 million in the first quarter of 2023, which represents a significant improvement on our bottom-line results, as compared to a net loss of US\$7.9 million in the same period of 2022. Similarly, adjusted EBITDA improved to US\$2.1 million during the first quarter of 2023, as

compared to negative US\$3.9 million in the same period of 2022. We are pleased as this is the first time that we achieved positive net income since the outbreak of the COVID-19 pandemic and adjusted EBITDA has remained positive for three consecutive quarters.

We have achieved positive operating cash flow of US\$1.6 million during the first quarter of 2023, which compares to negative US\$4.4 million during the same period of 2022.

We have significantly improved our bottom line in the first quarter of 2023 and have generated positive cash flow from operations for four consecutive quarters. Our strengthened financial position enables us to execute our growth strategies.

With that, operator, let's open it up for Q&A.

04 Q&A Session

Jillian:

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 contact our Investor Relations firm the Equity Group. Look forward to speaking to you all again on our next quarterly call. Thank you.