

Q3 2023 Earnings Call Management Prepared Remarks

01 Opening (Presenter: Jillian Zeng)

Hello everyone and thank you for joining us on UCLOUDLINK's third quarter 2023 earnings call. The earnings release and our earnings presentation are now available on our IR website at <https://ir.ucloudlink.com>. Joining me on today's call are

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

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

Mr. Yimeng Shi, our chief financial officer.

Mr. Chen will begin with an overview of our recent business highlights. Mr. Shi will then discuss our financial and operational highlights for the third quarter of 2023. They will all be available to take your questions in the Q&A session that follows.

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 most directly comparable unaudited GAAP measures. I will now turn the call over to Mr. Chen. Please go ahead.

02 Company Overview (Presenter: Chaohui Chen)

Thank you, Jillian, and good morning, everyone. Thank you for joining us today, we appreciate everyone taking the time.

We delivered another strong set of results during the quarter, highlighted by a 31% year-on-year increase in total revenues to US\$23.9 million and a sixth consecutive quarter of positive cash flow from operations. Average daily active terminals, our key operational metric, increased once again to a new all-time high of over 320,000.

This was a well-rounded performance across our entire business. During the quarter, we continued to consolidate and develop our UCLOUDLINK 1.0 international data connectivity services, driving an excellent performance in this segment. Total revenues from UCLOUDLINK 1.0 business increased 42.7% year-on-year to US\$11.4 million. The recovery of international travel is creating significant tailwinds for this business, with growth from Japan and Mainland China as significant growth drivers during the quarter. While Chinese outbound travel remained soft, Chinese international travelers during the peak summer holiday season increasingly chose to use our Roamingman brand services, and are accounting for a growing share of our international data connectivity services. Because of that, revenues from mainland China increased to 17.2% of our total revenues during the quarter, as compared to 2.4% during the same period last year.

This strong performance was enabled by the continuous development of our technology, product and service offerings, and value-added services. During the quarter, we consolidated our leading position as a 5G roaming solution provider, as cross-border travelers continued to discover our 5G portable Wi-Fi terminals, 5G data traffic packages and the unparalleled user experience they provide. One of our most popular mobile Wi-Fi devices is now equipped with an artificial intelligence services assistant, especially provided for Chinese cross-border travelers, meaning that our products are not just data traffic connectivity terminals, but also intelligent travel assistants. We launched the GlocalMe SIM card, which currently offers coverage across 10 high-demand travel destinations, and a GPS tracker-enabled portable Wi-Fi terminal that we believe is currently the smallest of its kind in the world. In addition, we piloted an eSIM solution in October 2023, which will enable us to satisfy a wider range of data connectivity needs from our customer side.

Taken together, we believe our high-margin UCLOUDLINK 1.0 business will remain a key driver of our business as the long-term recovery of international travel continues. We are confident that our expanded and upgraded portfolio of products and services will help us and our business partners achieve further market share gains and enhance our leadership in the international data roaming business.

We are working on expanding from data connection to more daily life application scenarios by enriching our portfolio offerings. Our Internet of Things, or IoT, solutions are a key part of this strategy, and during the quarter, third party devices utilizing UCLOUDLINK's cloud SIM technology powered IoT solutions went to market in Japan. Besides embedding our IoT module into third party devices, we also expect to cooperate with major IoT module manufacturers on integrated cloud SIM technology. We also continued to conduct commercial testing of our high-performance 5G Customer Premises Equipment, or CPE, which we expect to launch in the near future. The upgraded CPE provides home and office internet connections that transition

seamlessly between fixed and mobile networks, making it a reliable substitute for traditional fixed broadband offerings. We believe this new offering will bolster U-CLOUDLINK's position in the fast-growing market for home and office internet connectivity, helping us expand our user base and gain additional market share in the fixed broad band market. In addition, we launched retail sales of our GPS-enabled portable Wi-Fi terminal in Hong Kong during the quarter, which marks the beginning of our efforts to provide more daily life services. We believe this GPS-enabled device will become an indispensable assistant in consumers' daily lives, offering an easy way to keep track of personal belongings and monitor the location of family members, including elderly relatives, kids, and pets. As I mentioned before, our offerings include cloud SIM products, the GlocalMe SIM card, and an eSIM solution, and we plan to launch various Hyper-connectivity solutions compatible with cloud SIM, Soft SIM and eSIM technologies in the future.

To sum up, we believe our new offerings open up a new range of application scenarios for our solutions and hold significant long-term growth potential. Many of these solutions are designed to generate not just revenues from sales of product and data connectivity services, but also PaaS or SaaS revenues that recurs on a monthly, quarterly, or annual basis. Our team is working diligently to expand our offering to serve a broader customer base and a wider variety of use cases.

We also believe that we are well-positioned to create a mobile data traffic sharing marketplace that re-defines the mobile data connectivity experience. All of our efforts are geared towards reinforcing the competitive advantages that will facilitate the development of this marketplace: our growing user base, our extensive relationships with global mobile network operators, and our innovative technology. We will continue building out our offerings and working toward our objective of enabling everyone to enjoy a more intelligent and convenient life through reliable and high-quality data connections.

For the fourth quarter of 2023, U-CLOUDLINK expects total revenues to be between US\$22.0 million and US\$26.2 million, representing an increase of 12.2% to 33.7% compared to the same period of 2022.

I will now turn the call over to Mr. Shi.

03 Operational Highlights and Financial Results (Presenter: Yimeng Shi)

Thank you, Mr. Chen. Hello everyone, I will now walk you through our operational and financial highlights for the third quarter of 2023.

Average daily active terminals (DAT) measures customer usage trends and reflects the overall performance of our business. In the third quarter of 2023, average daily active terminals were 325,078, up by 9.3% from the same period last year and composed of approximately 12 thousand owned by the Company and 313 thousand owned by our business partners. The uCloudlink 1.0 and uCloudlink 2.0 businesses accounted for around 50.4% and 49.6% of total DAT, respectively, during the third quarter of 2023. Average daily data usage per terminal was 1.56 GB in September 2023.

Total revenues for the third quarter of 2023 were US\$23.9 million, representing an increase of 31.0% from US\$18.2 million in the same period of 2022. Revenues from services were US\$16.6 million, an increase of 31.9% from US\$12.6 million in the same period of 2022. Revenues from services as a percentage of total revenues was 69.7%, up from 69.2% during the same period of 2022.

During the third quarter of 2023, as a percentage of our total revenues, Japan contributed 44.2%, North America contributed 26.3%, Mainland China contributed 17.2% and other countries and regions contributed the remaining 12.3%, as compared to 35.1%, 41.5%, 2.4% and 21.0%, respectively, in the same period of 2022. Revenues from Mainland China increased significantly, primarily driven by Chinese travelers using Roamingman brand services as they increasingly resumed outbound international travel.

Overall gross margin was 51.2% in the third quarter of 2023, as compared to 47.7% in the same period of 2022. Gross margin on services was 55.9% in the third quarter of 2023, as compared to 57.9% in the same period of 2022.

Excluding share-based compensation, total operating expenses were US\$8.7 million, or 36% of total revenues, in the third quarter of 2023, as compared to US\$7.3 million, or 40% of total revenues, in the same period of 2022.

We recorded net income of US\$3.5 million in the third quarter of 2023, as compared to a net loss of US\$4.6 million in the third quarter of 2022. Adjusted EBITDA (non-GAAP) improved to US\$4.1 million during the third quarter of 2023, as compared to US\$0.9 million in the same period of 2022.

We achieved positive operating cash flow of US\$2.8 million during the third quarter of 2023, as compared to US\$1.2 million during the same period of 2022. We successfully achieved positive cash flow from operations for a sixth consecutive quarter, accumulating operating cash inflow of \$16.7 million through the previous six quarters.

In sum, our financial performance continued to improve during the third quarter, and we believe that we are well positioned to execute on our strategic growth initiatives. With that, operator, let's open it up for Q&A.

04 Q&A Session (Presenter: Jillian Zeng)

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, Christensen Advisory. We look forward to speaking to you all again on our next quarterly call. Thank you.