

Q4 and Full year 2022 Earnings Call Management's Prepared Remarks

01 Opening (Presenter: Jillian Zeng)

Thanks everyone for joining us on our fourth quarter and full year 2022 earnings call today. The earnings release is now available on our IR website at <https://ir.ucloudlink.com> as well as via newswire services. I will give a brief introduction to our UCLOUDLINK management team.

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

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

Yimeng Shi is our chief financial officer.

Zhu Tan is our vice president of marketing and sales.

Our CEO Chaohui Chen will begin with an overview of the Company's recent business highlights and UCLOUDLINK's 2023 business outlook, which will cover the earnings presentation posted on our IR website. Our CFO Yimeng Shi will then discuss Company's operation 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 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)

Thank you, Jillian. And good morning, everyone. Thank you for joining us on our year-end 2022 earnings call today. We appreciate everyone's time.

2022 was truly a pivotal year for uCloudlink, characterized by achieving great success and overcoming tremendous challenges. We are pleased to have achieved positive operating cash flow of US\$4.4 million for the year ended December 31, 2022, a significant milestone for our Company as this is the first time we have done since the COVID-19 pandemic. Having overcome the difficulties we faced during the COVID-19 pandemic and working to strengthen the diversity of our business as well as increasing its resilience with new growth opportunities, we are excited about the Company's long-term growth prospects and believe we are well-positioned to be an industry leader.

uCloudlink 1.0 is our international data connectivity services business, which tends to be a higher margin line of business and one which we believe will continue to be a key growth driver for the Company. During the fourth quarter of 2022, uCloudlink 1.0 business revenues increased 48.2% year over year to US \$7.7 million. For 2022, uCloudlink 1.0 business revenues increased 29.6% year over year to US\$28.1 million. This improvement is a reflection of international travel recovering across our major markets over the course of the year. This was accompanied by an increase in average daily active terminals for the uCloudlink 1.0 business during the fourth quarter and full year 2022. Average daily active terminal increased 20.5% year over year in 2022. In 2022, we have become a leading 5G roaming solution provider in the wireless network industry and have continued to provide reliable and high-quality international data connectivity services in more than 140 countries, enabling Single Operator Entry Point to access more than 300 global MNOs' available networks.

uCloudlink 2.0 is our local data connectivity services business, which has been a significant driver of revenue growth since 2020. Over the past two years, we have continued to strengthen our presence in markets like Japan, North America and Southeast Asia, where we have 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\$7.4 million in revenues, up 55.5% in 2022, from US\$4.7 million in 2021.

On the Internet of Things (IoT) side, our customers were able to realize reduced operating costs and improved data connectivity experiences through these cutting-edge IoT solutions and we continue to

explore opportunities where we can broaden the applications of our technologies for partners with IoT needs, covering application scenarios like Wi-Fi router, IP Cameras and electric vehicles.

We continue working to grow our uCloudlink 1.0 business, strengthening our leading global position in the international data roaming solutions market. Since the beginning of 2023, we have observed an accelerated recovery in international travel. The United Nations' World Travel Organization expects 2023 international tourist arrival numbers will recover to about 80-95% of pre-pandemic levels, which presents a significant opportunity for us. Following China's move away from the zero-COVID policy and the subsequent opening of the nation's borders, we acted quickly to establish provider data solution coverage at many of our partner airports, airlines, and travel agencies, allowing us to meet the recovering demand for our uCloudlink 1.0 Roamingman business in China, Malaysia and Singapore. We believe the improving macro environment represents a great upside for our uCloudlink 1.0 business in 2023, and we will continue strengthening our leading position as a 5G roaming solution provider and launch uCloudlink 1.0 products and solutions, such as the eSIM solution, to satisfy the various needs of our customers and users in multiple industries.

For the uCloudlink 2.0 business, we have gained more industry recognition and have continued to expand our PaaS and SaaS platform ecosystem. While continuing to establish and nurture customer relationships for the uCloudlink 2.0 business in existing key markets like Japan and North America, we have garnered more industry recognition in China, which is expected to accelerate uCloudlink 2.0 business growth. In January 2023, our wireless Multi-Network Intelligent Connection Engineering Technology Research Center was approved as one of the Guangdong Engineering Technology Research Centers by the Department of Science and Technology of Guangdong Province. We believe this recognition serves as a testament to our continued technological advancements in mobile data connectivity technologies, and brings in new momentum for U-CLOUDLINK to expand our presence in the mainland China market and beyond.

On the IoT side, the Company continues to serve existing partners with our superior, more reliable mobile network solutions, while proactively exploring opportunities in new industries and new application scenarios, including Augmented Reality and Virtual Reality (AR/VR), electric vehicles, etc. We expect to make a breakthrough in Japan market where we have a strong presence, helping business partners to further improve their data connectivity experience in the IoT field. We remain on track in the long-term development of our PaaS and SaaS platform ecosystem, which we believe is key to the success of our mobile data sharing marketplace.

With that, I'd like to touch on U CLOUDLINK's near-term initiative, uCloudlink 3.0, to initiate a mobile data traffic sharing marketplace application, based on our efforts in building a scalable user base through our uCloudlink 1.0 and 2.0 models. This marketplace enables an end-user's device to connect to any available network anytime and anywhere, utilizing the GlobalMe App. The GlocalMe App is designed to support various application scenarios without the limitation of devices, including Top up and go (GlocalMe terminals), Activation online (eSIM), GlocalMe Data (APP only solution), GlocalMe SIM, GlocalMe Inside (Third party devices), Mobile Wi-Fi Rental, etc. Backed by our cloud SIM, HyperConn and Web 2.0 technologies, we aim to build a data traffic marketplace for operators, customers and users, where data traffic can be shared simply and efficiently via day-to-day market behavior. Once this marketplace application launches in near future, we expect to continue to make investments into optimizing the system on an ongoing basis, incorporating more state-of-the-art technologies such as blockchain technology.

We are committed to the continuous development of innovative solutions and plan to expand our cloud SIM and HyperConn technology solutions to various application scenarios, including media, video conference, outdoor live-broadcasting, etc. Based on these innovative cloud SIM and HyperConn technology solutions, we expect to launch more innovative products catering to the needs of a diverse set of enterprise and individual customers in 2023, one of which is the one-stop data connectivity solutions application I mentioned earlier, the GlocalMe App, on various smart hardware supporting various types of SIM.

Finally, I will briefly discuss guidance for 2023. For 2023, we expect total revenues of between US\$85.0 and US\$100.0 million, representing an increase of 19.0%-40.1% compared to 2022. We expect to build a more solid financial and operational position to fuel better results in the future.

We are pleased with our achievements in 2022, and I would like to extend a heartfelt thank you to all the uCloudlink team members for their efforts and dedication to strengthening our Company. We feel confident in the opportunities and challenges ahead of us in 2023. Leveraging our portfolio of advanced technical offerings and more mature commerce experience and look forward to continuing to serve our customers and partners throughout our global markets. U CLOUDLINK remains focused on scaling our user base and constantly improving the technology and business operational model to build a mobile data traffic sharing marketplace, which will fuel the Company's long-term growth.

I will now turn the call over to our CFO 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 fourth quarter and full year of 2022.

Average daily active terminals (DAT) is an important operating metric for U-CLOUDLINK as it measures the trend of customer usage trends over each the period, which is reflective of our ongoing business environment. In the fourth quarter of 2022, average daily active terminals were 297,884 (2,299 owned by the Company and 295,585 owned by our business partners), up 12.2% from 265,595 in the fourth quarter of 2021. Our uCloudlink 2.0 services accounted for around 62.1% of total DAT during the fourth quarter of 2022. Average daily data usage per terminal was 1.68 GB in December 2022.

Total revenues for the fourth quarter of 2022 were US\$19.6 million, representing an increase of 11.6% from US\$17.6 million in the same period of 2021. Revenue from services in the fourth quarter of 2022 were US\$12.5 million, an increase of 30.3% from US\$9.6 million in the same period of 2021. Revenue from services as a percentage of total revenues was 63.9% during the fourth quarter of 2022, up from 54.8% during the same period of 2021.

During the fourth quarter of 2022, Japan contributed approximately 43.7%, Mainland China contributed 3.0%, and other countries and regions contributed 53.3% of total revenues compared to 37.4%, 3.1% and 59.5%, respectively, in the same period of 2021.

Overall gross margin improved to 51.3% in the fourth quarter of 2022, compared to 31.0% in the same period of 2021, and our gross margin on services increased to 59.4% in the fourth quarter of 2022 compared to 46.1% in the same period of 2021.

Excluding share-based compensation, our total operating expenses decreased to US\$10.4 million, or 53% of total revenues, in the fourth quarter of 2022, compared to US\$10.9 million, or 62% of total revenues, in the same period of 2021.

As a result of a more favorable business mix and significantly decreased operating expenses, we reported narrowed net loss of US\$1.1 million in the fourth quarter of 2022, compared to a net loss of US\$15.5 million in the same period of 2021. Similarly, adjusted EBITDA improved to US\$1.6 million during the fourth quarter of 2022, which compares to negative US\$5.1 million in the same period of 2021.

We were proud to have achieved positive operating cash flow of US\$5.2 million during the fourth quarter of 2022, which compares to negative US\$3.2 million during the same period of 2021.

Moving to 2022 financial results.

Total revenues for 2022 were US\$71.4 million, compared to US\$73.8 million in 2021. The decrease was primarily due to decreased sales of certain terminals and data related products, partially offset by an increase in international and local data connectivity services. Revenue from services for 2022 were US\$46.2 million, an increase of 22.3% from US\$37.8 million for 2021. Revenue from services as a percentage of total revenues was 64.7% during 2022, up from 51.2% during 2021. In 2022, revenues from international data connectivity services were US\$28.1 million and local data connectivity services were US\$7.4 million, increasing by 29.6% and 55.5%, respectively, year over year. This increase in revenues from data connectivity services was mainly attributable to the gradual recovery of international travel and the continuous development of our local data connectivity services business.

Overall gross margin improved to 45.5% in 2022, compared to 29.6% in 2021, and our services gross margin increased to 56.0% in 2022 compared to 43.0% in 2021. The increase of our services gross margin during 2022 was primarily attributable to a more favorable business mix with a larger proportion of revenues coming from international data connectivity services, which tends to have higher margins.

During 2022, we streamlined our business operations, which led to significantly reduced operating expenses. Excluding share-based compensation, total operating expenses decreased to US\$34.4 million, or 48% of total revenues, in 2022, compared to US\$47.1 million, or 64% of total revenues, in 2021.

In 2022, we significantly narrowed net loss, which was US\$19.9 million, compared to US\$46.0 million in 2021. Adjusted EBITDA narrowed to negative US\$2.3 million during 2022 compared to negative US\$22.6 million in 2021.

During 2022, our CAPEX was US\$0.4 million compared to US\$0.9 million in 2021.

For the full year 2022, we achieved positive operating cash flow of US\$4.4 million compared to negative US\$21.7 million during 2021.

Moving on to balance sheet items, our cash and cash equivalents, and short-term deposits increased to US\$15.1 million at December 31, 2022, compared to US\$8.1 million at December 31, 2021. We are pleased to have strengthened the Company's financial position over the course of 2022 and are well positioned to continue growing our business in the near term.

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 U-CLOUDLINK's investor relations through the contact information provided on our website or contact our Investor Relations firm the Equity Group. We look forward to speaking to you all again on our next quarterly call. Thank you.