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SOUN.OQ - Q1 2023 SoundHound AI Inc Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the SoundHound Q1 2023 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker, Scott Smith, Head of Investor Relations. Please go ahead.

Scott Smith - *SoundHound AI, Inc. - Head of IR*

Great. Thank you. Good afternoon, and thank you for joining our first quarter 2023 conference call. With me today is our CEO, Keyvan Mohajer; and our CFO, Nitesh Sharan. We will begin with some short remarks before moving to Q&A. We'd also like to remind everyone that we'll be making forward-looking statements on this call. Actual results could differ materially from those suggested by our forward-looking statements. Please refer to our filings with the SEC for a detailed discussion of the risks and uncertainties that could affect our business and those that qualify as forward-looking statements.

In addition, we may discuss certain non-GAAP measures. Please refer to today's press release for more detailed financial results and further details on the definitions, limitations and uses of those measures and reconciliations from GAAP to non-GAAP. Also note that the forward-looking statements on this call are based on information available to us as of today's date. We undertake no obligation to update any forward-looking statements, except as required by law. Finally, this call is being audio webcast in its entirety on our Investor Relations website. An audio replay will be available shortly following today's call.

With that, I would like to turn the call over to our CEO, Keyvan Mohajer. Please go ahead, Keyvan.

Keyvan Mohajer - *SoundHound AI, Inc. - CEO, President & Director*

Thank you, Scott, and thank you to everyone for joining the call today. The start of 2023 was a pivotal time for SoundHound and our path to sustainable and profitable growth. During the quarter, we raised a significant amount of capital, streamlined our organization, reduced our expenses. And with the launch of SoundHound Chat AI, we unveiled our innovative approach of integrating Generative AI and large language models into our full stack of technology for conversational voice AI. And while the first quarter was a transition quarter for us, we overachieved our targets and grew our revenue by 56% year-over-year.

In our Pillar 1 of revenue, where we power devices such as cars, TVs and IoTs, we have added several new brands, including a transformational Turkish automotive manufacturer of electrical vehicles. We have also expanded our global reach by adding 2 brands associated with the Stellantis Group and now have 10 brands with them in total. Additionally, we signed a new revolutionary television manufacturer, which is expected to launch later this year. We also closed a new deal with the multinational electronics company and one of the world's largest manufacturers of

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printers. In Q1, the number of cars shipping with SoundHound's technology more than doubled year-over-year, and we expect the growth to accelerate as more brands sign up and existing customers' experience.

In our Pillar 2 of revenues, where we power customer service applications, we have signed up hundreds of new brands. It's important to note that our AI customer service solutions are fully autonomous, which is different from the human-assisted AI solution that other vendors are offering in this particular field. This key differentiator, in addition to giving us much better margins also enables us to attract brands of all sizes from a single location to thousands of locations. Our newly launched SoundHound Chat AI platform is already positively packing both Pillar 1 and Pillar 2 revenues.

In Pillar 1, we are seeing demand from existing customers and new brands. We expect faster adoption, better user experience, more frequent usage and ultimately, more revenue per device from our Pillar 1 customers. In Pillar 2, we are expanding our AI customer service solutions from restaurants to other businesses. We have always envisioned that restaurants are to SoundHound what books were to Amazon. They started by selling books, then over time, expanded to other categories, eventually everything from A to Z.

Now thanks to SoundHound Chat AI, we are able to accelerate our vision and expand from restaurants to nearly all business types within this year. We expect this to increase our near-term [auto store] market by more than 10x. We are doing this by expanding our Smart Ordering solution for restaurants with a new service called Smart Answering. While Smart Ordering currently allows a restaurant to automatically upload its menu and enable customers to place orders with a voice assistant over the phone, we have simple integration with one of our POS partners, Smart Answering will allow any business to field nearly any inbound queries or questions for opening hours, parking, location, typical wait times, products and services, appointments and reservations and more using an automated assistant over the phone.

By automatically incorporating data from the business website, we can significantly accelerate the onboarding, allow the customers to test it within minutes and be live on the same day. We are augmenting Smart Answering with Generative AI capabilities so that any voice assistant built on our platform can respond to more open-ended questions with answers that are tailored to a specific business. We address the risk of AI hallucinations using our proprietary SoundHound Chat AI platform.

AI hallucination is one of the major weaknesses of Generative AI models when these models produce incorrect, misleading and at times harmful responses that are deceptively convincing. On a large benchmark of real usage data, we have reduced the undesired AI hallucinations by over 90% to a negligible amount compared to a prominent off-the-shelf model. Smart Answering help businesses ranging from hair salons to auto shops, manage inbound inquiries in a much more tailored and accurate manner. Onboarding for Smart Answering and Smart Ordering has been streamlined such that we expect adoption to accelerate. We are helping businesses create efficiencies with many -- when many are tackling rising costs, staffing shortages, supply chain issues and other headwinds.

No longer will the customer service professional need to break away from serving their clients to answer the phone, book appointments or address basic questions. SoundHound Smart Answering is designed to help businesses optimize human labor, while leaving employees of the sudden -- of the burden of answering calls so that they can focus on more business-critical tasks. This service also helps businesses cater to the evolving expectation of consumers who increasingly prefer customer service to be automated across channels. We believe SoundHound Smart Answering is the first-of-its-kind in the industry.

Until now, only businesses with large capital resources could afford AI-enabled customer service. And even though the quality of such solutions have been historically worse than humans, they still took large upfront investments and long development cycles. Our SoundHound Smart Answering solution can be live within minutes with high quality and is for any business, large or small, with affordable pricing.

Now on to our strategic partnerships. One of the key to success in winning deals with a large number of businesses is the ability to integrate with a variety of point-of-sale systems that act as the brain center of the businesses. Along with our original point-of-sale integration with Square, this quarter, we went live with our Toast restaurant point-of-sale integration, and we have been working closely with our sales organization on our joint go-to-market. In addition, our voice AI is now available on Oracle MICROS Simphony POS that can seamlessly help any restaurant accept voice orders over the phone via menu kiosks or at the drive-thrus on their platform.

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Oracle has been a great partner, and we sincerely value their collaboration. We are also now live with Olo, a leading open SaaS platform for restaurants and are already working with several well-known brands in their customer base. These strategic channel partnerships expand our reach to hundreds of thousands of new locations. Other strategic partnerships include our collaborations with Qualcomm, HARMAN and LG. On technology innovation, which is the core part of the -- our DNA, we continue to push the boundaries with SoundHound Chat AI and Dynamic Interaction. While SoundHound Chat AI is our innovative integration of Generative AI and large language models with our software engineering modules that solves for AI hallucinations and deliver real-time content from our knowledge domains, Dynamic Interaction is a first-of-its-kind multi-model full duplex interface with real-time, continuous audio, visual and touch feedback loop with no wake words, awkward pauses or turn-taking.

It ignores off-topic speech, makes proactive suggestions to the user and intelligently decides when to use audio or visual output. Dynamic Interaction is a category-defining breakthrough for human-computer interaction and still unmatched by any other technology out there today. We initially launched Dynamic Interaction in a drive-thru ordering experience, then early this year, we combined Dynamic Interaction with our existing Generative AI technology that we've been working on since 2019. And as we did last year with Dynamic Interaction for restaurants, we brought ourselves one step closer to our ultimate vision of making computers better than humans and language understanding and more human in the way they interact and respond.

There is a lot of enthusiasm around AI, and it's important to distinguish the companies that have the technologies to back it up. SoundHound is one of those companies. My Co-Founders and I nearly 2 decades ago at a Stanford University dorm room predicted that within our lifetime, computers would become better than humans in language understanding, and we created SoundHound to pursue that vision and make the world a better place. Over the years of constant innovation, we have seen and benefited from real disruptions such as the mobile ecosystem transformation. We have also been able to avoid distractions from short-lasting hype, such as the messenger box and smart speeches skills that did not result in mass adoption. But now we absolutely believe the impact of Generative AI and large language models is indeed a disruption. We expect this impact to be larger than the mobile ecosystem transformation.

We believe nearly every business can be transformed, new user experiences will be unveiled rapidly and users are ready and eager to adopt these new experiences. We are clearly at the intersection of demand and technology readiness for conversational AI, and we view the market impact of the resulting momentum in our field to be transformative. The real opportunity is for nimble companies with the right experience and also the tenacity to move fast. It's for companies that have the experience and foundation to understand and utilize the strength of the new AI models while being aware of the weaknesses and solving them using their experience and their own core technologies. SoundHound is one of those companies.

This part of new way of innovation has occurred, and there is a lot more to come. We are enabling more tasks to be automated, whether driving in a car and using a smart device or through customer service. We see AI not just becoming more efficient and more effective than humans, but also more consistent and reliable to the extent that consumers will ultimately prefer to interact with an agent powered by conversational AI when transactions with the business. The predictability of the AI technology can ultimately -- can eliminate many of the variables that leads to an unsatisfactory user and customer experience. We believe our products are creating more opportunities for interaction and consequently, the increased usage translates to more relevancy for product creators and service-oriented businesses looking to drive further adoption for their customers and ultimately more demand for SoundHound's products and services.

SoundHound is in a unique position to take advantage of this rare moment, thanks to our advanced and comprehensive technologies, mature products and existing customer base. In our view, SoundHound's conversational AI -- in our view, conversational AI can't be done as a side project. It can't be achieved by simply integrating a few external APIs. Creating the necessary technologies to win in conversational AI takes time. By owning all the core pieces of the engine that we have built from the ground up over the many years, we have a distinct competitive advantage.

To all the investors and stakeholders that have stood by us from the beginning and the many new ones that continue to show interest in our vision, our technology and what it can do to create tremendous value for businesses and consumers alike, we thank you for your continued support and look forward to further engagement. I also wanted to take the time to acknowledge all our employees. I am proud to collaborate with such an amazing team and wanted to thank them for their tireless efforts to get us to where we are today and paving the path to where we will be tomorrow.

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In closing, we have grown our revenues by over 56%, reduced our expenses by over 40%, significantly improved our balance sheet and are seeing strong demand for our products and solutions. We are innovating faster than ever and are in a position of strength to not only maintain our leadership in core voice-enabled AI technology but further gain traction as enterprises are increasingly realizing that they have a time-sensitive need for SoundHound technology. We are confident we have the right strategy and see that our technology is recognizing every day. We remain agile and focused and are right where we need to be to reach our goals for 2023.

With that, I will now turn the call over to Nitesh to talk about our financial performance for the quarter.

Nitesh Sharan - *SoundHound AI, Inc. - CFO*

Thank you, Keyvan, and good afternoon, everyone. We are pleased to report another strong quarter with 56% year-over-year top line growth while demonstrating steady progress in driving efficiencies and improving cash flow. In the start of the year, we set out to significantly strengthen our liquidity position, and we have now done that. We initially raised enough capital to see us through to profitability, and just last month, we closed our new debt refinancing that will fund us well beyond that.

Despite a choppy funding market, we were able to successfully execute these financings on the foundations of our technology and deep patent portfolio, along with significant customer adoption in attractive end markets. We also stay focused on the business and the opportunity in front of us. Artificial intelligence is rightly getting a lot of attention these days and our opportunity has only expanded. At SoundHound, we make conversations with technology more natural and seamless, and the demand for that has only become stronger.

Large language models, Generative AI and the pervasiveness of chatbots are unearthing entirely new use cases every day. The opportunity set and adoption curves will accelerate rapidly, and we are at the forefront of this next major inflection in technology. We continue to expand our voice-enabled ecosystem and had strong growth, even with Q1 typically our seasonally smallest quarter of the year from a revenue standpoint. This could have only been possible with our strong customer engagement and streamlined execution that we expect will only further improve from here.

Our business model is grounded in the 3 Pillar revenue framework. Pillar 1 represents voice-enabled products where we receive royalties. Pillar 2 represents voice-enabled services, generally under monthly subscription contracts, and then we bring Pillar 1 and 2 together into Pillar 3, monetization, driving meaningful and relevant advertising and transactional interactions. As we have discussed previously, the bulk of our current business and backlog is in Pillar 1. And in Q1, our cumulative bookings backlog was $336 million, up 46% year-over-year.

That level expanded with more than $10 million of new gross bookings in the quarter with deals across auto, devices and other IoT manufacturers. In this pillar, we continue to extend our offering across new units, while adding more features to existing ones to expand revenue per unit. We can scale with existing customers, and we are constantly adding new ones. In automotive, for example, we saw over 2x growth in units and also realized unit price expansion in Q1. And there are some really exciting new brands in our pipeline.

Growing our Pillar 2 voice-enabled services is a key focus area, starting with AI-enabled customer services for restaurants. The demand is real and one advantage here is the pace at which we can scale because of the much shorter sales cycle and activation time line. I mentioned last quarter how our advanced pipeline of stores was well into the thousands, and we continue to expand that meaningfully in Q1. Through the end of last year, our pipeline largely consisted of small chains and regional brands, generally with less than 50 locations per brand.

Since January, we rapidly extended that progress into mid-market and enterprise, who typically have more than 100 locations each. Although these enterprise deals take slightly longer to close, once we onboard one location, it can be nearly immediate for us to scale across the full fleet. And as Keyvan noted, we are also scaling and expanding into more enterprise-focused point-of-sale systems. Already live with Square and Toast, these systems like Olo and Oracle MICROS Simphony extend our offering into hundreds of thousands of new locations.

We mentioned expansion into other areas of customer service with new solutions for Smart Answering and Smart Ordering that are vertical-agnostic and can be deployed by any business that is looking to gain an edge on their competition and significantly improve their customer experience. To quantify that further, we are basically expanding the immediate addressable opportunity from roughly 1 million restaurants to tens of millions

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of customer service opportunities in the U.S. alone. We expect monthly recurring revenue in the several hundred dollars per location, if not more, so you can see how the math can quickly compound and why this is expected to become a very meaningful revenue driver.

Let us now get specific on our -- let me now get specific on our financial results for the first quarter. In Q1, we generated $6.7 million in revenue, up 56% year-over-year, driven by strong growth in our product royalties and strength in automotive. Our product royalty revenue increased primarily due to strong customer momentum and expansion with key global brands. Our long-term commitments demonstrate the continued strong partnerships we've developed and the continued share gains we are experiencing. In Q1, our gross margin improved to 71%, up from 59% in the prior year quarter, which was largely driven by the expanding scale of our business, migration of cloud services and increased data center efficiency.

Cost of revenue for the quarter was $2 million, up 11% from the prior year Q1. The majority of our cost of revenue includes data center costs supporting our customer production environments. We also continue to migrate some on-premise activities to the cloud, helping us drive further gross margin expansion as we scale the business. Operating expenses saw a step function reduction in Q1 compared to the previous quarter as we executed our announced corporate restructuring program. Restructuring expenses in Q1 were $3.6 million. The full benefit of our cost reductions are expected to be realized as we move into Q2 and beyond, while expected restructuring expenses should be minimal in future quarters. R&D expenses were $14.2 million in Q1, a decrease of 15% year-over-year and 34% sequentially, largely due to the restructuring actions.

We delivered this by successfully completing our ambitious language development plans while bringing to market key innovation in both Dynamic Interaction and SoundHound Chat AI in Q1. Notably, our investment in key areas has not slowed as we continue to build out our voice AI platform and leverage our deep patent portfolio. We intend to remain at the forefront of innovation in the rapidly evolving ecosystems of artificial intelligence and machine learning while also helping to develop and scale our cloud offerings and other products and services.

In sales and marketing, we also saw a sequential expense reduction. Although year-over-year, we saw an increase from prior Q1 when we hadn't fully yet begun building out this organization. We continue to streamline our focus on digital marketing, lead generation and customer acquisition, both direct and through channel partners. In Q1, sales and marketing expenses were $4.9 million, up 89% year-over-year and down 28% sequentially. With our organizational shifts in 2023, we expect this expense item to benefit from greater focus. G&A expenses were $7.1 million in Q1, down sequentially, though up 78% year-over-year. In the prior year Q1, we were not yet a public company and this year-over-year increase largely reflects investments across the global support functions of finance, legal, facilities and human resources necessary for a public company.

Across all operating expenses, noncash employee stock compensation was $6 million in Q1, excluding the expenses associated with restructuring. Our operating loss was $25 million, an improvement of approximately $3.7 million from the prior quarter. Net loss was $26.4 million in Q1, an improvement of approximately $4.3 million from the prior quarter. This led to a net loss per share in Q1 of $0.13, an improvement of $0.02 from the prior quarter. Without the onetime impact of restructuring in Q1, all these metrics would have been improved even more.

Adjusted EBITDA, which excludes noncash charges of stock compensation and depreciation and amortization as well as other nonoperating activities, including restructuring, was a loss of $14.8 million, which was 21% better than the loss of $18.6 million last quarter and an improvement of 13% year-over-year. Operating cash flow in Q1 was $14.5 million use of cash, improving roughly 30% sequentially and also improved versus the prior year Q1.

Now on to the capital structure, where we've made great progress in strengthening our balance sheet. Our cash position at quarter end was $46.3 million. In January, we successfully raised $25 million in preferred equity. Our previously announced committed equity line of credit also became effective, giving us additional access to capital upon which we raised approximately $29 million in Q1. In addition, after quarter end, we raised $100 million of debt financing, which we partially use to pay off our existing debt of approximately $30 million and eliminate the associated principal amortization payments.

All in, our balance sheet has strengthened meaningfully, and we have a fully funded business plan to drive growth and differentiation and provide cushion regardless of how the macroeconomic landscape evolves from here. Our capital position is now a source of strength that we will leverage to drive our business aggressively forward while staying streamlined and delivering on our profitability targets.

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With that, I'll move to guidance. This year we took actions to set the stage for sustained long-term profitable growth. We are pleased with the momentum we have seen to start the year and are encouraged with the momentum we continue to see from customers. Accordingly, we reaffirm our 2023 guidance and continue to expect that revenue will be in the range of $43 million to $50 million. As we noted last quarter, we expect this revenue will build through the year due to seasonality of Pillar 1 and the scaling of Pillar 2 with restaurants and customer services more broadly. We also continue to expect to become adjusted EBITDA positive in Q4 of this year.

Before moving to Q&A, I would also like to comment on expectations for other income and expenses in Q2 and impacts from the recent debt refinancing. Given the various transaction-related fees and other charges, we expect roughly $6 million to $6.5 million of expense in the quarter associated with onetime transaction fees, expected ongoing amortization impacts and quarterly interest costs. This is different from the historical level, so I wanted to highlight this expectation.

To summarize, we have taken the important steps to set us up for long-term success. We are driving significant market differentiation, delivering on customer demand and catalyzing disruptive innovation with a high velocity. Each quarter on our journey brings its own unique dynamics, yet we are steadily stitching together the foundations for sustainable long-term growth and profitability.

Thank you. And we will now move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Mike Latimore with Northland Capital Markets.

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Great. Congrats on all the progress this quarter. I guess just 2 basic technology questions. Can you elaborate a little bit more on why SoundHound can prevent these Generative AI hallucinations, just a little bit more detail on why you're differentiated in that regard?

Keyvan Mohajer - *SoundHound AI, Inc. - CEO, President & Director*

Yes. So we -- there are actually multiple problems that we are able to fix with our Chat AI platform. One is hallucination, where Generative AI language models produce incorrect results, but they sound amazing. So it's very -- makes them more dangerous. The other problem they have is [their scale]. They don't have access to real-time information and some of the answer that provides used to be correct, but are no longer correct.

And the way we saw this is we have -- we even have this Yin-Yang diagram that -- we have 2 models, one is called CaiLAN, one is called CaiNET. CaiLAN is conversational AI language, CaiNET is conversational [AI] network. The first one is the software engineering approach. The second one is machine learning approach. And the way we combine them, we are able to get the best of both. We get the strength of machine learning models that can scale really well. We also get the benefit of software engineering approach that doesn't suffer from these unpredictable and undesired consequences.

So it's a lot of magic that goes into how we integrate these, but the result is we can reduce the hallucination. We can detect when machine learning is providing an answer that's not correct. We also can detect when we need to go to external APIs or get real-time information from other sources. And also we have domains that don't do well with Generative AI models, things like navigation to addresses and business search that you need these large data structures. So by combining the 2, we really get the best of both. And that's a huge value that Chat AI has created. And we have an [asset], it's live that people can test. There's a lot more behind that. It's a platform that we are offering to our Pillar 1 customers, the car makers, IoT makers, and we are using the same techniques with our customer service applications.

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Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Got it. Great. That's helpful. With regard to the cost controls, where should we model kind of OpEx [broadening]. Once it's all into the model, like what would be the absolute amount of OpEx you would have in the quarter?

Nitesh Sharan - *SoundHound AI, Inc. - CFO*

Well, I guess I'll go back a little bit to what I said, Mike, last time, I had indicated that on an annualized basis, we expected through the corporate restructuring actions that we would see about a $60 million reduction in OpEx. And so if you take kind of last year, it was -- I think it was close to $136 million and kind of chop off $60 million from that. And then this quarter was a little bit of we were -- we executed the action, so there was a sort of partial quarter impact. So I think in Q2, you'll see largely, there's still some international and some other pieces, but by and large, we're through it.

And so you'll probably see kind of the full extent of it in Q2 and onwards. And then I don't know if part of your question was where will you see like it is really spread across the line item. So we had impacts across R&D, sales and marketing, G&A, and it was relatively balanced across all of them. So, does that answer your question?

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Yes, yes, definitely great. And I guess just last one on the Smart Ordering and Smart Answering. You talked about, obviously, the restaurant vertical. A couple of the incremental verticals you mentioned were kind of more retail like auto shops, I think. Like how broadly is that applicable on customer service? Like I mean can you get into, I don't know, insurance and health care as well, which may be a little bit more complicated or is it more kind of that retail focus?

Keyvan Mohajer - *SoundHound AI, Inc. - CEO, President & Director*

Yes, good question. It's meant to be very broad. The initial rollout will be for targeting smaller businesses. So less on the insurance companies that they -- we can serve those 2, but they will require engagement and collaboration. Smart Answering is meant to be completely self-service. So it could be a 1% business or a business with 75 employees and multiple locations, you can discover the service and sign up on your own and be live on the same day. And we do utilize your website if you have one. If you don't have one that's okay, but if you have a website, you are able to pre-populate a lot of the information from your website. And all you have to do is just examine the information to be extracted and validated. It really could be live -- you could go live on the same day as you discover the feature.

Operator

One moment for our next question. And that will come from the line of Brett Knoblauch with Cantor Fitzgerald.

Brett Anthony Knoblauch - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

I guess the first is on the bookings backlog. It kind of increased by the slowest amount or a much slower pace than it has over the most recent quarters. Is this kind of like what you expected going into the quarter? How should we think about it?

Nitesh Sharan - *SoundHound AI, Inc. - CFO*

Yes, I'll start, Brett. So I think I'll start with, yes, we know that Q1 tends to -- so seasonally, it tends to be a little softer just generally for the business. Part of that is still in the heavy kind of rhythm of the influence of the auto business in our overall business. And so the deals tend to be lumpy, and

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we had some acceleration of stuff prior year. We know things will happen and some things are still in motion that haven't necessarily closed at the end of Q1. So by and large, in the zone of what we expected.

To your highlight, one other thing that we've been highlighting now, I certainly talked about last quarter, as our business shifts and we emphasize the Pillar 2 opportunity, particularly take restaurants as an example, we aren't necessarily reflecting those in bookings. And so we -- as we talked about, as we scale that and we move into Pillar 2, Pillar 3, you'll be hearing more about other type -- recurring type metrics they are and so forth. So there's a little bit of composition of the deals we're focused on. There's a little bit of just normal seasonality and these things can be lumpy.

So quite honestly, there's probably a metric better considered on an annualized basis versus even quarterly check-ins. But obviously want to give a milestone as how things are moving. So I'd say overall, kind of in line, and I'd say this quarter when I look at it, when I look at the top line perspective, when I look at where we are in movement towards profitability goals that we put out there, I generally would characterize this as an in-line quarter across most of the metrics. Obviously, you can't dial it to the T on anything, but that's how I kind of characterize the whole quarter in general.

Brett Anthony Knoblauch - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

Perfect. And I guess just on the full year outlook, right, it implies quite significant acceleration over the last 3 quarters. Can you maybe help us out from a modeling perspective and give us some weights that we should expect in terms of when we should expect revenue to fall throughout the remainder of the year?

Nitesh Sharan - *SoundHound AI, Inc. - CFO*

Yes, I'll go back to something we said last quarter, at least. With revenue, we said similar to 2022 that we expected about 1/3 of the revenue in the first half, 2/3 in the second half. So I'd say we're kind of marching on that path. In terms of the pathway on profitability, similar to what I answered to Mike's question is we were going through the adjustments on our cost structure in Q1, those have largely been completed. So now entering Q2, by and large, we're sort of at the right level from an operating standpoint.

We expect to be able to scale meaningfully with this sort of cost footprint. So as you get into the ramping of revenue, and we also said like we expect revenue to build every quarter, meaning Q2 will be higher than Q3, Q3 will be higher than Q2, Q4 will be higher than Q3. We model that as getting to adjusted EBITDA in Q4 positive.

Brett Anthony Knoblauch - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

Got it. And then maybe just some comments on the competitive landscape, right? I think the news kind of this week was Wendy's is using a Google AI to power their drive-thru ordering system. Obviously, this is a space that you guys have been trying to break into and have been quite positive on over the last several quarters. So I guess how are you competing with Google on this front? Do you -- are you -- do you see them when competing for new deals? Do you expect to see them? Should we view this as a U-verse [SKU roll] type of market? Just any comments there.

Keyvan Mohajer - *SoundHound AI, Inc. - CEO, President & Director*

Yes, mostly it's validation of the space because in the last couple of weeks, we've seen a whole bunch of announcements and our visibility is that these were POCs that the restaurant customers saw a benefit in announcing it to show they are innovating in the space that is very important. So net positive and very much validating, in terms of -- our view is that some of the big tech players, they have cloud deals and they -- to win the cloud deals, they bundle voice AI, and it's not really the core part of their offering, but they do lead to some POCs, in terms of the technology competitiveness, the Dynamic Interaction that we really highlight in our drive-thru is very much unmatched like when we presented to our customers, nothing comes close to it. So it's just a matter of education and presenting it to -- putting in front of the brands.

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And it's rapidly becoming from something that is novel and you have to convince customers that they should pay attention to it to something that they are realizing they needed and is time-sensitive. So it's very much a validation and a positive update in the last few weeks.

Nitesh Sharan - *SoundHound AI, Inc. - CFO*

Maybe I'll just build on that. There's a couple of points. One is, always got to respect competition, then you got to fight aggressively against it. And we think we should highlight more broadly, and we've talked a little bit about this, just to double click on Keyvan's comments in his prepared remarks and even in response to earlier question, like we have been in this for a while. We have the core technology. We have deep patent portfolio. Generative AI brings a lot to the table here, and we can uniquely sort of bring the best of all the world to improve the technology.

And a real key differentiator when you look more broadly at the players that are trying to enter the space in a particularly quick-service restaurant, it's sort of supplemented with humans in the background. So people will claim a order completion rate as a success metric in the high percentages, 85-plus-percent. The reality is when you look underneath it, they have very low gross margins. We can tell you that they have a lot of humans operating in the background, and it's not apples-to-apples versus ours is fully automated, and we can get that level exceeding human performance with some of the restaurants we've been working with for a long time now really fully automated.

And that is good for the restaurant, good for the customer, good for our margin profile. And so there's real differences out there. I think as Keyvan started with, it's very validating of the massive opportunity, the time is now, and we are aggressively going after it. And I will say, just like a lot of things you'll see probably in the broader AI space, there is not a winner-take-all dynamic going on here. There's going to be a lot of players. And if we just took, again, the customer service opportunity, millions of establishments that are going to be looking for these types of services, and we certainly think we've got a great start and are going to aggressively try to keep scaling.

Operator

Thank you. I am showing no further questions in the queue at this time. This concludes today's program. Thank you all for participating. You may now disconnect.

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