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SOUN.OQ - Q2 2024 SoundHound AI Inc Earnings Call

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## PRESENTATION

### Operator

Hello, and thank you for standing by this. I would like to welcome you to the SoundHound Q2 2024 earnings conference call.

(Operator Instructions) I would now like to turn the conference over to Scott Smith, Head of Investor Relations. Please go ahead.

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### Scott Smith - *SoundHound AI Inc - Head, Investor Relations*

Good afternoon, and thank you for joining our second quarter 2024 conference call. With me today is our CEO, Keyvan Mohajer; and our CFO Mitesh Sharan.

We will begin with some short remarks. Before moving to Q&A, we would also like to remind everyone that we'll be making forward-looking statements on this call and 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 for discussion statements 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, and 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 following today's call.

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

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### Keyvan Mohajer - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Thank you, Scott, and thank you to everyone for joining the call today.

Before getting into the quarter, I wanted to talk about the announcement we made this morning to acquire a conversational AI leader, Amelia. This transaction is a natural extension of our strategy, and we saw a great opportunity to partner with a company that we believe will accelerate our mission of voice-enabling the world with conversational intelligence. Our vision has always been to create a conversational AI platform that exceeds human capabilities, delivers value and delights end users, creates an ecosystem with billions of products, and enables innovation and monetization opportunities for product creators. Today's announcement is a continuation of that path and now is the time for such a bold move.

SoundHound is a leader in voice AI and we have built a platform that we can perfectly leverage to expand into new markets. Coming together with Amelia is an important step along the way in this journey, and we are excited for a number of reasons. Most importantly, this significantly expands our penetration in conversational AI across new verticals and deep into hundreds of enterprise brands. We are doing this in end markets that are expected to grow massively over the coming years, with enterprise spending on generative AI projected to grow 15-fold over the next three years to nearly \$250 billion.

Together, we combine decades of experience in conversational AI. We have a highly complementary suite of products and we believe we can offer best-in-class, scalable customer service support to a vast spectrum of businesses. The announcement today marks a significant and strategic expansion of SoundHound's existing customer service pillar. We are adding even more breadth and depth to this offering that has already seen substantial growth amid the accelerated adoption of voice and conversational generative AI solutions. Nitesh will provide some more insight into this deal and our overall M&A philosophy later on.

Now, on to the quarter. Once again, we are reporting strong growth. Second quarter revenue was up 54% and cumulative subscriptions and bookings backlog roughly doubled year over year to \$723 million. We also saw a steep increase in engagement with our technology. Our annual run rate of queries is now over 5 billion. We continue to see strong demand for our products, including SoundHound Chat AI in pillar one and our AI Customer Service solutions in pillar two.

Our value propositions are resonating with the industry. Customers choose us because they believe our innovation cycles are at a high level and results in powerful AI technology. They also know that we help them protect their brand, users and data. We have accumulated 20 years of intellectual property and technical innovation remains in our core DNA.

Last year, we announced Polaris, our multimodal, multilingual foundation model. Polaris now beats numerous benchmarks against state-of-the-art models in the industry. A growing number of our customers are switching to Polaris. The result is higher accuracy, better user experience, lower internal cost and faster response times. We can also deliver tuning and customizations much faster. These customizations have historically required long and expensive machine-learning training cycles. With Polaris, we can achieve them with just simple configuration changes.

Now, let me discuss some business updates in the second quarter. In pillar one, we now have cars in production in almost 20 markets and support dozens of languages. SoundHound Chat AI, our voice assistant with generative AI, is driving this high demand. DS Automobiles became the first brand to quickly turn a trial run to live production.

This was the first in-vehicle assistant with generative AI capabilities to go into production anywhere in the world, and the results have been so well received that Stellantis has continued to integrate SoundHound technology into a large number of models across multiple brands. In total, we are now live on the road with six Stellantis brands: Peugeot, Vauxhall, Opel, Citron and Alfa Romeo, and of course, DS Automobiles.

SoundHound Chat AI combines the power of large language models with our AI-assistant, making it more capable and powerful. This is an upsell feature that will increase royalties from existing customers, and our booking this quarter increased as a result. This is important to emphasize. While historically there have been constant pressure from auto OEMs to lower their costs, for the first time, we are seeing their appetite to pay more. They want to upgrade to SoundHound Chat AI to deliver a much better user experience to their customers, and they're willing to pay the additional royalties to do so. Therefore, we expect our revenue per unit in pillar one will increase over time as more customers adopt the generative AI innovation in SoundHound Chat AI.

Last quarter, we talked about [being] (ph) the first company to roll out this technology integrated in vehicles in Japan. And now, this quarter, we are also pleased to have signed a new contract to be the first company to roll out ChatGPT-style capabilities to in-vehicle voice assistants in Latin America. Initially, this will be with three brands and go into production in Brazil, Argentina and Chile.

We also continue to gain interest and make progress with EV manufacturers. Earlier this year, we won a deal with a prominent US-based EV maker, which will go live imminently. SoundHound Chat AI will be integrated across its full fleet of market-leading vehicles. This will mark the first US-based OEM to integrate an assistant with generative AI capabilities. Additionally, we have expanded with an existing customer, a fast-growing EV manufacturer in Europe, to add SoundHound Chat AI to their digital assistant.

Last quarter, we also announced a partnership with Perplexity to bring cutting-edge online LLMs to SoundHound Chat AI. This has allowed us to offer a truly multifaceted, next-generation voice assistant to phones, cars and IoT devices. Perplexity helps SoundHound Chat AI provide accurate, up-to-date responses to web-based queries that static offline LLMs cannot currently fulfill, expanding the type and complexity of the questions the assistant is able to answer. The move made SoundHound Chat AI the most advanced voice assistant available on the market today, and we are currently in progress conversations with OEMs about having this capability go live.

Moving on to pillar two. This quarter, we won the business of three sizeable QSRs. This means that in total, we have now won deals with five of the top 15 QSRs based on the number of locations. One of the QSRs we engaged in Q2 was a large, well-known pizza restaurant with thousands of locations throughout the US. This means that SoundHound is now working with two of the biggest pizza chains out there. Each of these QSR brands represents a sizable opportunity to deploy our technology across thousands of locations. It's an exciting time. We are in a very fortunate position, so how we execute the business at this time will be critical to our performance in this space going forward, and we are mindful of this.

Our customer service product portfolio is resonating with businesses of all sizes, so we are winning in large enterprises as well as small chains. It's become clear to us that very few companies can offer businesses of all sizes an affordable, fast and easy-to-implement solution that addresses their growing needs. We own our tech. We have data from real interactions and nearly 20 years of experience. We believe we are winning because of the data science and machine learning behind our proprietary software.

Last year, we introduced a product called Employee Assist, which uses our conversational voice AI technology to support employees like a copilot across a variety of tasks, via their headset or a tablet. We already have several customers benefiting from this new service. Those include some large QSR brands, and I'm proud to announce two prominent coffee chains have also signed up this quarter. We are finding that many customers are choosing to sign up for Employee Assist in combination with our drive-thru solution, Dynamic Interaction. They work together in tandem to handle and improve the customer experience, while supporting their employees.

SoundHound Dynamic Interaction delivers what we believe to be the next generation of all voice AI interfaces. It is full duplex, it's multimodal. It does not require constant use of wake-up words and turn-taking, and can be seamlessly multilingual. We believe its impact on voice AI and conversational interfaces will be as meaningful as multi-touch technology on touch interfaces.

Our AI solutions save costs for our customers, improve the experience of the users and also increase revenue by increasing throughput and proactively offering upsells. Our phone ordering solution are continuing to ramp up with existing customers like Jersey Mike's, and as mentioned earlier, we are penetrating into thousands of pizza chain locations across the US. We announced Beef 'O' Brady's where we are already live in all corporate locations and plan to roll out to 20 states very soon.

Going beyond restaurants, SoundHound Smart Answering is showing rapid growth within pillar two. We already have hundreds of locations live from single location small businesses to brands with multiple locations. Last quarter, we talked about Planet Fitness and we have already gone live and continue to roll out more. We are seeing great traction in franchise retail businesses and across a number of industries. These include personal care, professional services, home and local services, automotive services among others.

We are excited about Smart Answering because the number of industries it caters to opens up a massive market

for us to address with millions of businesses in the United States alone. The seamless implementation capabilities allow us to scale fast and the use cases for companies of all sizes are obvious. Whether it's handling multiple calls at once 24/7, conveniently filtering out spam calls, providing verbal and SMS responses, taking configurable actions, capturing leads with intelligent messaging and answering questions about policies, hours, products, services, pricing and more. We have built a competitive moat with our proprietary technology that is creating massive opportunity in customer service.

On to pillar three where we are making great progress and accelerated that path this quarter with the acquisition of Allset. The ordering platform we acquire through Allset enables us to build a voice commerce ecosystem. The acquisition will ultimately enable consumers to use cutting-edge voice AI to order foods from their vehicles, phones and smart devices. Additionally, the Allset team brings a wealth of marketplace experience and knowledge that will make a voice commerce ecosystem a reality. We are creating a new category and together we plan to provide dynamic and convenient ways for people to order food and complete a range of other transactions just by speaking naturally.

And as we increase the notable names that we sign every quarter in pillar one and two, it also helps us get one step closer to mobilizing this strategy. With this strategic move, we have significantly increased our addressable market while creating new, more convenient and accessible consumer experiences. Our customer engagement with this vision has always been well received, with existing and prospective customers getting even more interested over time as our portfolio of customers using voice-enabled services grows. We always talked about what the flywheel effect with this vision and we are starting to see that take shape.

In closing, we have consistently grown at a rate of 50% or more and continue to fortify our financial position, all while gaining market share, attracting new enterprise customers and creating some of the most innovative voice AI technology in the world. We are proud of the best-in-class experiences we are creating for our customers and their customers, but our ambitions to keep aiming higher and push the boundaries continue to grow. As an example of that ambition, today we acquired Amelia. Amelia is an innovative company that shares our passion for AI-fueled conversations. We are looking forward to leveraging our shared capabilities to offer the best AI customer support solutions available anywhere.

We are also pleased to welcome the team from Amelia to SoundHound and are excited about what we can do together. We believe the disruption in the market for AI we are seeing today is building towards our exact vision when we created SoundHound almost 20 years ago.

A lot of our predictions are now becoming a reality. With another strong quarter, where we beat market expectations for revenue, we couldn't be more pleased with the momentum we are seeing and the demand for our products and solutions. We look forward to continued engagements with our stakeholders as we create value. We are grateful to our amazing team that makes this all possible with their shared vision.

With that, I'll now turn the call over to Nitesh to talk about our financial performance, key growth drivers and outlook for the remainder of the year.

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Thank you, Keyvan, and good afternoon, everyone.

Q2 revenue increased 54% year over year. The results are another positive mile marker on our growth journey where we achieved \$13.5 million in revenue. This marks our fourth consecutive quarter exceeding \$10 million in revenue. We meaningfully improved our balance sheet in the quarter by paying down our debt and completing the conversion of outstanding preferred equity.

I mentioned before that our capital position is a source of strength. We want to maintain that strength because it affords us the opportunity to go on the attack when it makes sense for us. We do that through organic investments to fuel disruption, partnerships to help scale aggressively, and acquisitions to accelerate our pace.

One of the measures we use to gauge customer traction is backlog. In Q2, our cumulative subscriptions and bookings backlog roughly doubled year over year to \$723 million, with an average duration of slightly less than seven years. Most of the expansion this quarter was in the restaurant space, although we continue to gain traction with automotive partners. For example, with Stellantis adding five additional brands going into

production with SoundHound Chat AI. Today, we announced and Keyvan noted earlier, our acquisition of conversational AI leader Amelia. Let me spend a minute explaining how we think about M&A.

First, we believe having a programmatic M&A approach can be value-generating. Our acquisition philosophy stems from our overall strategy and vision, which is to voice-enable the world with conversational intelligence and transform the next wave of how humans will interact with technology, increasingly with voice and natural conversations.

We know the requisite underpinning technology to enable this vision is here now. In fact, we've built a lot of it ourselves. And we continue to see the customer demand and adoption for these capabilities growing. When we acquired SYNQ3 earlier this year, it was an accelerant for our restaurant business. Last quarter, when we announced the Allset acquisition, it was to catalyze our monetization pillar to connect voice-enabled services and products seamlessly together. Today's acquisition of Amelia is about accelerating more broadly in pillar two, customer service and significantly expanding our industry reach.

The primary filters we have been using to select appropriate acquisition targets have been, one, does it fit within our long-term strategy? Two, will it amplify or accelerate our pathway to realize that strategy? Three, can we effectively operationalize it and drive meaningful synergies? And four, can we buy it at the right price, appreciating the risks that inherently come from such transactions? Amelia checked those boxes for us. While it would be a meaningful acquisition with a lot of complementarity, we don't take the integration effort lightly and know it will take some time to get it right, but the prize together was too attractive to bypass in our opinion, especially with the enterprise traction and demands we have been seeing in the marketplace. We just announced this today, so it's still quite early and we know there will be questions, so please note that we plan to share more and dive much deeper on the opportunity we see. Stay tuned for more details.

With that, let me now focus on and discuss the second quarter financials in more detail. Q2 revenue was \$13.5 million, up 54% year over year. We continue to see growing automotive unit growth of healthy double digits in addition to unit price expansion, driven by our generative AI solutions and overall product expansion. The quarter benefited from a minimum guarantee edge solution purchased by Stellantis, and also from a year-over-year basis the contribution from SYNQ3. Within restaurants, we continue to scale with customers, sign meaningful new logos and further diversified product offerings. The quarter had nice balance across our pillars, where our restaurant business comprised roughly 25% of revenue.

In Q2, our gross margins were 63%, down year over year, largely resulting from the acquisition, including the mix of lower-margin call center agent business. Adjusting for acquisition impact, notably the non-cash amortization of purchased intangibles, gross margins would have been 67%. While the acquired call center business does weigh on our margins in the near-term, there is value in what this business can do for broader opportunities to come and what the data can bring to our models. That said, our goal over time is to automate and modernize.

R&D expenses were \$15.7 million in Q2, an increase of 34% year over year. We are prioritizing investments in disruptive innovation like our Polaris initiative to expand our suite of products to address a wider array of customer needs, and we continue fine-tuning the way we leverage large language models to provide even more value to customers at less cost. For example, we will continue to be thoughtful and opportunistic about which models we work with versus using our own and always keep the customers' needs at top of mind. In the end, our ability to arbitrate between models is a differentiator that we will continue to expand upon.

Sales and marketing expenses were \$5.7 million in Q2, an increase of 11% year over year. We continue to thoughtfully invest in go-to-market and customer engagement to capture the strong momentum and heightened demand. We are expanding reach through brand and industry marketing, demand generation and high ROI lead gen strategies.

G&A expenses were \$9.5 million in Q2, an increase of 48% year over year. The increase in G&A reflects two main elements that we talked about the past few quarters; our year-over-year comparison continues to be impacted by investments in financial and non-financial processes and internal controls to support requirements under SOX 404(b), as we became a large, accelerated filer last year. Our G&A was also negatively impacted by acquisition-related costs in the quarter.

All operating expense line items were impacted by the SYNQ3 acquisition. Non-cash employee stock compensation was \$7.3 million in Q2. As a result, our operating loss for Q2 was \$22 million. This includes non-cash acquisition impacts related to the fair value accounting that will likely introduce volatility into this line for the foreseeable future.

OI&E was \$14.7 million of net expense for the quarter. Compared to previous quarters, the increase in OI&E was mainly due to the one-time early repayment of our debt and associated extinguishment costs. We announced earlier in the quarter that we were able to repay the existing debt on favorable prepayment terms, allowing us to avoid sizable interest payments over the coming years.

And the net loss was \$37.3 million in the quarter. This led to a GAAP net loss per share in Q2 of \$0.11. Adjusting for non-cash acquisition-related amortization of purchased intangibles, fair value adjustments, M&A transaction costs, stock-based comp and other non-cash items such as the gain on bargain purchase, our non-GAAP EPS loss was \$0.04 in the quarter.

Adjusted EBITDA was the loss of \$13.8 million in Q2, improving sequentially by 10%. The year-over-year increase was driven primarily by acquisition impacts and growth investments we have been making in the business.

Our cash position at quarter-end was \$201 million and no outstanding debt.

We see a market that is moving fast, and believe having a strong financial profile in times like these is crucial to success. We are in a position of strength and focused on creating long-term sustainable growth and profitability.

With that, let me discuss our outlook for the remainder of 2024 and our prospects for 2025. We have made great progress. The core business is growing, our technology is permeating across and resonating with an increasing roster of amazing customers. We expect the acquisition of Amelia to improve our financial profile. There are top-line synergies and we also expect to be able to extract a lot of value from the combined companies. It's a little early in the process to be too precise, so let me build up how we see the rest of this year and entry into next year.

We are cognizant that a significant acquisition like this will require heavy integration that will take time to fully align across the enterprise. We are baking this into our go-forward assumptions. As we noted in our press release this morning, we expect this acquisition to be accretive to earnings in the second half of 2025, and we now see 2024 revenue to exceed \$80 million and 2025 revenue to exceed \$150 million. There's much more potential here, but at this stage, it's appropriate for us to stay measured and calibrated on setting expectations.

Amelia brings a diverse business with strong recurring revenue and also some other businesses that we are calibrating on to identify how best to fit them into our portfolio. In full transparency, there are lower growth and margin businesses where we want to assess the life cycle value of each contract to determine the best go-forward approach. These decisions may affect the pace of our growth or our trajectory on margins, so we need some time to finalize the plan. Ultimately though, we see a combined growth profile that is even more attractive than we were standalone with greater profitability, and we see tremendous value to share with customers, employees and partners over the coming years.

In conclusion, we are happy with where we are. We are aggressively moving forward. And while we know the path forward won't be linear, we have a clear vision that we are accelerating towards.

Thank you. We will now move to Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Gil Luria, D.A. Davidson

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**Gil Luria** - *D. A. Davidson & Co - Analyst*

Hi, good afternoon. One for Keyvan, one for Nitesh, both on the acquisition. This is a transformative acquisition. So, one, Keyvan up until now, a lot of the strategy has been around autos and restaurants, pillars one, two and three. There's a very good alignment in the strategy between those end markets and that pillar framework. How do you see that changing now that you're bringing -- that you'll bring Amelia into the fold in terms of what verticals you're going to have and what your focus is going to be in terms of pillars?

**Dan Ives** - *Wedbush Securities Inc - Analyst*

Thanks for the question. And transformative is the right word. Thank you for mentioning that. So, the strategy just gets stronger. The Amelia acquisition makes us -- gives us a lot more scale in pillar two. We always knew we were going to expand beyond restaurants. We've said that restaurants to us are like what books were to Amazon. They started with books, now they sell everything. And we've always wanted to expand in AI customer service to other industries.

And when we looked at -- we have an amazing tech that we can deliver to these brands, but it takes time to penetrate the customer base and understand their needs and even integrate with their infrastructure, especially for bigger enterprise customers. And Amelia has accumulated 26 years of customers and integrations. They also have great complementary products and technologies. So, this just accelerates that vision. It gives us a much bigger scale in pillar two. And a lot of their customers also fit into our pillar three. They work with retail, ticket companies, insurance, financial services, retail, hospitality, and a lot of those actually have a very nice fit into the pillar three vision.

**Gil Luria** - *D. A. Davidson & Co - Analyst*

Got it. Thank you. And Nitesh, I know you asked in your prepared remarks for a little more time, but want to talk -- as you talk about managing a company that next year is going to have \$150 million, you're saying that accretive second half 2025, that -- strictly speaking, that just means your earnings would be higher than they would have been otherwise. In terms of the overall margin structure and where that could put you when you're managing a company that big, does it bring closer your breakeven in terms of your ability to generate cash flow, adjusted operating margins, and then even GAAP operating margins, what does it do to the timeline of hitting those milestones?

**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Sure. Thanks, Gil. So, yeah, I'll put the caveat up front. More details are certainly to come. We just announced this today. There will be filings and certainly a lot of details for us to talk through, but let me give you the high-level construct and the way we see this and the way we see us moving forward over certainly the near term, but more importantly, maybe over the medium and long term.

So, what we're really excited about here is Amelia is a software business, has strong customer traction, deep and generally really robust relationships that permeate over time and where you have -- you can expand and add upsell, cross-sell, expand services, products and expand margins. They do have multi-components to their business and we will integrate that with our profile. But I've said before, sort of pre this acquisition, over the long term, we should have strong growth profile, very healthy software margin, 70%-plus gross margins, and at scale, EBIT margins that are 30%-plus. And I don't think that changes at all with the acquisition.

I've said also that you got to think of us in phases. We are migrating to breakeven phase after sort of, call it -- I'll call it, cash utilization phase. And that's the next horizon for us. Going into next year and beyond, I think you should think of us as investing in these tremendous growth opportunities, because we do think of these as generational shifts in how humans interacting with technology, increasingly through natural conversations and increasingly through voice.

And so, we're going to be in sort of, call it, that breakeven zone for a bit. And we'll be funneling incremental dollars into our growth opportunities because there are tremendous growth opportunities. And so, I think from an EBIT margin and even what I mentioned about sort of accretive in the



second half, to your point, that's earnings-related, but even our profile is generally capital-light. And so that translates very seamlessly into cash flow as well.

So, maybe to synthesize all of that is the combination we will have to integrate. There will be synergy opportunities. There are cost opportunities as well, as we look across both firms that we'll be working through. But as you get into next year, certainly, we see earnings accretion, we see cash benefits and cash flow benefits.

And I think as you start to think through end of 2025 into 2026, you're going to see a much more scaled, still strong growth company, very healthy gross margins, software like and EBIT margins that are not at our full potential because we're going to be investing those incremental dollars in our growth opportunities. But certainly shortly thereafter, I think you could think of us as that 30%-plus EBIT margin type profile business.

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**Gil Luria** - *D. A. Davidson & Co - Analyst*

All right. Thank you.

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Thank you.

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**Operator**

Dan Ives, Wedbush Securities.

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**Dan Ives** - *Wedbush Securities Inc - Analyst*

(technical difficulty) and great quarter. Can you just talk about how conversations with prospective customers have changed, let's say, over the last three, six months compared to even a year ago? Can you just maybe anecdotally talk about that, just given where everything is going from a technology perspective, new verticals? And I think the view of SoundHound, right, is obviously changing dramatically in the market. Thanks.

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**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Yeah. So, in pillar one, where we power like automotive and devices, the big change is that they are willing to pay more for generative AI, whereas we have 20 years of history here, and there's always pressure to -- constant pressure to lower their costs. But we see it -- for the first time, we are seeing that when we say, hey, if you want to upgrade to the SoundHound Chat AI, which brings generative AI, there's additional royalty that you have to pay, and they're willing to pay it. So that's the anecdotal answer to the pillar one question.

In pillar two, the big changes that are for AI customer service, brands are coming to us. We used to go to them, we used to knock on their door, and we used to getting a meeting to pitch our value proposition was a big win, but now we actually have to calibrate how to handle all the incoming, inbound demand. And they all want to move faster. They all want to be first. They want to go from pilot to production. They want to make sure we can scale with them. And that's a much better challenge for us to deal with compared to just getting meetings from them.

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**Gil Luria** - *D. A. Davidson & Co - Analyst*

Okay. And then just like a follow-up, I mean, kind of like Gil asked, but even to take that, does it really feel like just given the momentum you're seeing, now is the time to do a deal like this?

**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Yeah, I'll take that one. Yeah, we think it's a great time to do a deal. I mean, I think, first of all, we're seeing our technology can permeate into different ecosystems. And we built the core proprietary tech over many, many years, and we're seeing it live in action and getting a lot of traction across when we extend it from autos into restaurants. And really now bringing in Amelia into the fold does a few different things, some of which we've highlighted in our press release, but there's really a lot more here. It's a diversification of industry. It's really skills and integration. They have a great ecosystem of channel partners, by the way, which we can leverage across other avenues of our work. And there's a great intersection of product synthesis. So, when you look at other products that we've been deploying around our Smart Answering or Employee Assist, there's a great synergy that we could bring into their ecosystem as well.

So, when we look at things again, I kind of laid out in the prepared remarks, the framework when we think of inorganic versus organic opportunities. When we see the market momentum, ultimately, to your first question, what are customers seeing, they're really thirsting for solutions. It's not just buzz out there. It's like how do you utilize this technology to help their customers and to help them grow. It's not only productivity, it's actually about generating new revenue. We see that with restaurants, for example. It's not only about productivity. Obviously, they have workers in store that are overworked and strained, and freeing up their resources is one thing, but we see consistent improvements in upsell, and automation never shies away from asking for that large drink or that extra French Fries. And those types of things are actually revenue and really meaningful ticket items for a customer.

So, I think we're seeing those demands. We think, yes, totally cognizant of -- as I mentioned in prepared remarks, that anything meaningful, there's integration effort and so forth, but I really -- I think the way we look at it is over the long-term, when we look at the -- sort of the calibration of risks and opportunities, this is a time to be aggressive and this is the time to be thoughtful, but definitely to be in go mode, because we're hearing it directly from the customer. So, I think, the combination with Amelia is something we're very excited about.

**Dan Ives** - *Wedbush Securities Inc - Analyst*

Great. Thanks.

**Operator**

Mike Latimore, Northland Capital Markets.

**Mike Latimore** - *Northland Securities Inc - Analyst*

Great, thanks. Yeah, congrats on all the developments here. Looks great. The query volume growth was 90% and last quarter it was 60% year over year. What caused that acceleration?

**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Yeah, a lot of it is automotive partners that upgraded to SoundHound Chat AI. We did mention that when you upgrade to Chat AI, because of the generative AI feature, the usage went up. So, consumers are actually interacting with the assistant a lot more. In some pilots, it was an order of magnitude. So that's one. And also just scaling in pillar two, having more customer service customers.

**Mike Latimore** - *Northland Securities Inc - Analyst*

Got it. Great. And then, on Amelia, can you talk a little bit about the core technology here? Is it that they have a kind of a platform that can handle orchestration, integration, data security, develop agents on that, and then they can bring in your tech, or maybe just talk a little bit about kind of what the core elements of their platform is?

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**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Yeah. So, they have productized customer service somewhat omnichannel. So, it supports text and voice, phone and chatbots for both user-facing and employee-facing. And there is a lot of synergies on using our tech to power that.

For example, for speech recognition, they're using third-party APIs. We would replace that with ours. There's opportunity for improving accuracy and also cost savings. There was a cloud migration for them to bring their cloud to our cloud, another cost-saving opportunity. And just the way AI works, we think we can improve a lot of the user experiences, but it's not just a complete replacement.

They also have done a lot of innovation over 26 years. So, there's an opportunity to take the best of both. We saw that also with SYNQ3. When we bought them, we thought, let's go and look at the best of both and create something better and we've done exactly that.

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**Mike Latimore** - *Northland Securities Inc - Analyst*

Yeah. Excellent. Great. Best of luck.

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Thanks, Mike.

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**Operator**

Scott Buck, H.C. Wainwright.

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**Scott Buck** - *H.C. Wainwright & Co - Analyst*

Hi. Good afternoon, guys. Thanks for taking my questions. First, I'm just curious, with the closing of Amelia, do you now have all the tools in the toolbox necessary to complete the three-pillar strategy and do it successfully?

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**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Well, we've had the tools, we just needed the scale and we reached a point where we thought we had that scale earlier this year. We are now in millions of cars and double-digit thousand locations in pillar two. So just connecting them together seemed like at the right time. We also have national coverage of certain brands, like Chipotle, for example, and the acquisition of Allset earlier is going to accelerate the integration.

Now we just need to do the integration of bringing those pillar two customers into pillar one products. And with Amelia, we just massively increased our scale in pillar two. So, going from double-digit thousand locations, mostly in restaurants, now we are in almost 200 large enterprise brands in new verticals for us. So, we are in retail now, we are in hospitality, we are in financial services, insurance and healthcare.

**Scott Buck** - *H.C. Wainwright & Co - Analyst*

Okay. So, there are no holes in tech that you still need to fill, it's now just about accelerating the scaling?

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**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Absolutely.

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**Scott Buck** - *H.C. Wainwright & Co - Analyst*

Yeah. Okay, perfect. That's helpful. And then, you've had some nice wins and then obviously some big opportunities out in front of you. I'm curious, from an implementation capacity standpoint, whether or not you need to go through a process of significant hiring or between your own team and the team you're bringing on through Amelia, you have the -- I guess, the hands on deck to meet that demand.

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**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Go ahead.

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Yeah, I'll jump in. I think we're in a good spot. We have been steadily hiring in pockets where we've needed it to accelerate. I think overall we've been in a good spot where attrition has been low and we have -- our talent who's really passionate about what they're driving, and sometimes they do need additional resources or scaling with customers. So, there has been measured hiring, and we -- I think we know in pockets where if we see an opportunity to go faster, we don't -- I think we talked about this maybe a quarter or two ago, like, we don't want a customer waiting for six months, so we really want to get the resources to be able to start to activate.

But I'd say generally no major holes. But because there's growth, there's going to be some hiring to support that. And then, I'll also add that, again, across the company, there's synergy opportunities both on revenue upsell and cross-sell, and leveraging that omnichannel opportunity where they bring to the table to amplify our voice capabilities. And I think there's just some overhead things that naturally there's going to be cost synergies. So that's the work that we're kicking off, really earnestly. But to your point on -- or maybe the prior -- like from a tech stack, no major holes. From a product capabilities, no major holes. From a resourcing, no major holes. But when you're growing, you're constantly expanding and you're kind of adding too as you go, and that's kind of what we're always mindful of to make sure that we have what we need to grow.

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**Scott Buck** - *H.C. Wainwright & Co - Analyst*

Yeah, that's helpful, guys. I appreciate the added color. That's it for me.

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**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Thank you.

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Great, thank you.

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**Operator**

Brett Knoblauch, Cantor Fitzgerald.

**Brett Knoblauch** - *Cantor Fitzgerald LP - Analyst*

Hey, guys. Thanks for taking my question. Congrats on the acquisition. I guess just kind of digging a bit deeper there. I think in your prepared remarks, you guys talked about there being some slower-growth, lower-margin businesses, and probably in the flip side, some higher-growth, higher-margin businesses.

Could you just maybe provide a framework for what that business is growing at? And additionally, walk us through why they sold for, call it, \$80 million with expectations to do \$45 million in revenue? It seems like a phenomenal purchase price for you guys, but I guess, why the sellers agreed to that? I guess they just not have in them anymore? I guess, you just talk about how that process happen as well?

**Scott Smith** - *SoundHound AI Inc - Head, Investor Relations*

Well, yes.

**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Yeah. Thanks, Brett. I'll say a couple of things. First, again, more details to come. We'll see a lot more around the breakout and the details of the financial profile. The 8-K that we filed this morning on the transaction, actually walk through the deal economics. So, maybe I'll just start there.

So, there actually were multiple components. So, there was sort of an upfront piece, some cash, some stock. There was also a part of assumption of debt, and we paid back part of that debt that was announced concurrently. And then, like we've done in prior acquisitions, we like to share in the economics over time with delivery against the milestones and expectations that we're setting in concurrence with the target. And so, all those parts are there. I think \$80 million is probably just a partial view, just to be clear. So, there is, again, some debt components and other things and some earnouts.

But we do -- I think maybe the essence of what your question is, is value. And certainly, both parties need to say there's alignment of value for any deal to make sense. And we've been going through that with them. And part of it is when you do stock transactions, there needs to be an attribution to future value of that stock. And there's a real belief both sides of what we can become and what we're starting to become. So, I think, when you unpack all that from deal economics, that's why this transaction was successful, why we got it to this place.

Then the other question was sort of an unpacking of the various pieces of the business. So, we did articulate in the press release about the \$45 million of ARR. They do have a strong recurring business that has been, over time, shifting from a licensing model. And so, that transition has happened. And so, that's a really -- that's what we valued really. It was a growing ARR business across those industries we talked about earlier, really rich set of customers, too-big-to-fail banks and those types. So, people that -- it would take us a long time to really develop a system to support. And so, we're very, very excited about that.

But they do have other pieces. They have professional services. A lot of the deals they've had are complicated. There's implementation, customization services, and those can be very valuable. They tend to be a little lower margin. And so, that's a little bit of what we were alluding to. And then, they also have this piece of the business that's more call center-like. Think of it maybe in -- I forget what's that -- escalation support type capabilities and those are partners that we work with and revenue that they generate that is lower-margin business. And we do openly need to dive in and understand contract-by-contract, what makes sense?

In Gil's question earlier I talked about what sort of profile business we're building. We're really happy as a AI-centric, next-generation technology software provider that, from my seat goes like, hey, 70%-plus gross margin, 30% EBIT margins at scale, bits and bytes that can transition and scale

very quickly. But when we need to provide services to support integration environments, we'll provide that. When there are, like we had with SYNQ3, some call center capabilities that are additive, and by the way, appropriately measured with the customer where there's data that we can utilize to enhance the models and enhance the technology, we'll leverage that.

So, yeah, there are different pieces of business, different growth rates, and we're going to calibrate and we're just getting going. So, again, more details to come. So, stay tuned.

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**Brett Knoblauch** - *Cantor Fitzgerald LP - Analyst*

Perfect. Thank you. That was very helpful. I think you guys also talked about how you like having the optionality to kind of go back and forth between different models that you're integrated with, whether it be Perplexity or ChatGPT. I just want to know from the cost side on, from your point of view, I guess, how are they billing you? Is that a usage model? Is it a one-time setup fee? I guess, how should we think about that dynamic?

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**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Yeah. So, something we predicted before there were even multiple models was that -- and this is more than a year ago, but that there will be multiple models. They will be good at different things and some will be cheaper, some will be more expensive, and some will be owned and made by us, some will be open source. So, we built an infrastructure to be able to tap into different models, arbitrate, choose the right one, and even for a single interaction, sometimes we go to multiple models at the same time. And that is working. It's seamless. The user experience is amazing. They don't need to worry about where it's coming from. They just get the right answer. And then, it follows them as they ask different questions and so on.

Now, in terms of billing it's -- again, some of these are models that we host, so the cost is mainly hosting. And for the APIs like OpenAI and others, you can sign up for enterprise accounts to bring the cost down and get more scale with them. That's something that we are doing. And then, there are companies like Perplexity that have list prices, and then we have an arrangement with them that we can go to them when it scales to, for example, rev share arrangements or lower prices at scale. So, we future-proof that for that, but it's too early to go into specifics of it.

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**Brett Knoblauch** - *Cantor Fitzgerald LP - Analyst*

Perfect. Thank you. Really appreciate it. Congrats on transactions again, guys.

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**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Thank you.

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Thanks, Brett.

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**Operator**

Glenn Mattson, Ladenburg Thalmann.

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**Glenn Mattson** - *Ladenburg Thalmann & Co Inc - Analyst*

Hi. Thanks for taking the question. Building on that last question a little bit with expected new release of ChatGPT, maybe can you just talk about how you plan ahead for something like that? And maybe there's obviously opportunities, but perhaps is there any risks associated with maybe they could come out with some functionality that could potentially be competitive on the very low end or something like that?

So anyway, just generally speaking, managing the evolution of this process, as well as maybe you can hit on other factors of the competitive landscape when you talk about this, just in general, whether it be pillar one or pillar two?

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**Keyvan Mohajer** - *SoundHound AI Inc - President, Chief Executive Officer, Director*

Yeah. So, in terms of advancements by OpenAI and other similar companies, we position ourselves so that as they do better, it benefits us as opposed to it harming us. So, we are able to use whatever they put out that is good. And if some of those overlap with something that we already have, we don't hesitate to integrate it because our goal is to deliver really, really good user experiences.

And that was one of the advantages of SoundHound when the big tech players were kind of disoriented for more than a year, oh, let's go build our own. We're never going to use OpenAI APIs. We did it in two days and that really benefited us. We were the first to go live with our customers and we were the first AI assistant that integrated generative AI and so on. So, we love it when they come up with something that is good because say, hey, we can make our products better.

I don't think they are going after our customers, because it takes a lot of integration, a lot of handholding and a lot of support to -- it's not just a model. We have to integrate. For example, in restaurants, we have to integrate with POS systems and we have to integrate their menu. We have to understand their needs. In automotive, it's integrated with the head units and the navigation software in the car, the car control features. And that's -- those integrations even OpenAI probably so they are not going to go after those. They're becoming a platform to enable companies like ours. And the advantage for us is that we have a lot of core technologies to augment what they have to really enable things that other companies are waiting for something to become available, we already have that, so we can go faster.

I think I answered your question, but --

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**Glenn Mattson** - *Ladenburg Thalmann & Co Inc - Analyst*

Yeah. No, it was. Just beyond that, possibly the competitive landscape, if there's been any changes, possibly even down to pillar one or just across the board in terms of the traditional competitors? Thanks.

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Yeah, I'll jump in a bit. So, I think -- so pillar one, it was really kind of the same group, and we've been gaining traction, we've been gaining brands, and we feel great. That's a primary comment around automotive. Broader than automotive and the other devices that we operate in, we've had a great position and we continue to gain traction there.

Within pillar two, it's a hot area. There are people coming and I would say people who are -- who don't have the technology to compete, who are struggling. And we really have felt this way. We've seen it. I think what we're seeing from customer traction is that we are still -- and we say this very humbly because things change in a heartbeat in tech land, we are step-function above others in terms of technology, capability and the solutions that we have. And frankly, the package of solutions that we have from drive-thru, phone ordering, Employee Assist solution and beyond.

We're moving heavily beyond just at point site, but into in-app into text, et cetera. And there's a ton of engagement that we have the full portfolio of solutions. So, we really think we got a running start on the restaurant side, but yeah, it's a very, very attractive market and it's maybe one of the

most sort of logical use cases of AI. So, I think we're going to continue to see entrants. We look at that as a good thing. It's a sign of a healthy market. But again, we feel like we've got a really strong position and really wouldn't trade our spot with anybody else.

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**Glenn Mattson** - *Ladenburg Thalmann & Co Inc - Analyst*

Great. Thanks for that color, Nitesh and Keyvan. Thanks.

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Great, thank you.

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**Operator**

Leo Carpio, Joseph Gunnar.

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**Leo Carpio** - *Joseph Gunnar & Co LLC - Analyst*

Good afternoon, gentlemen. First, congratulations on the deal and on the quarter. Just want to dive a little bit further into Amelia. In terms of the deal, can you just talk us through in terms of who approached who for this transaction? How did you become aware of Amelia?

And then, looking forward, post Amelia, what other verticals you may be interested in? Thinking here, being that as you explore voice AI and develop the capabilities, you may discover second, third, derivative technologies that may be of interest to you that could bolster your platforming capabilities?

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Sure. Yeah. I mean, I'll start maybe with the framework I laid out in the prepared remarks. Like, first of all, we think that having, or at least being open to the idea of having programmatic M&A and being aware of who the players are, from partnership perspective, to Glenn's question and from a competitive perspective. So, being aware of what's going on in the marketplace is just our -- it's just part of who we are. So, we're always aware. We've known of Amelia. They've been doing some great things for a long time. And you can imagine in the space, particularly in the AI space, over the last, I guess it's 18, 20 months now, a lot of bankers come out with ideas.

And so, we've had interactions and there's dialogue around partnerships and we were heavily kind of going in our verticals. And as Keyvan noted, you got to start with the sort of overarching vision. We believe we are here to voice enable the world with conversational intelligence. We think that there's a migration happening omnichannel, in essence. And it's going to permeate across all industries. So, the end all period at the end of the sentence wasn't always, okay, we're in restaurants, done. We're in autos, done. It was always to sort of, as Keyvan noted, kind of evolve from our origin industries into beyond. So, the question then is like, well, when and how and with whom or doing it organically? And those are iteration comments that were -- or conversations we're constantly working through.

So, in this case, yeah, we connected. We started to explore, we just get to know, and then it sort of moved from there. And every -- I don't want to go into details on their situation and what they were motivated by, but ultimately kind of landed in, hey, is there potential for a combination, and then, you have to explore the complexities of deals, which these things don't happen in short order. They definitely are a long journey of due diligence, and getting to know one another to understand the cultures and could there potentially be a fit. And so, we've been going on that for several months and sort of landed where we were.

And then, I think maybe just to hit the other part in terms of, is this -- I think your question was like, industries, is that the right set? I'll try to address it this way that humans have been interacting through voice and conversation forever, and our technology is kind of chasing that play. And we do



think we're at the precipice of where human interactions and with technology in all manifestations can happen through natural conversations. And there will be great places where the touch, type, swipe is the best medium, but there will be more and more opportunities where conversations and using your voice will be the best medium.

So, I don't think there's a boundary on like this industry, that industry, it's really about journeys and consumer journeys. So, again, makes sense for if you're driving in your car, you want to pick up coffee, great, well, there's a connection. Makes sense when you're just at the drive-thru and you want to order your food. And it makes sense if you're driving, you want to set some appointments or book travel or so forth. Like, there's so many interactions, and so, it's -- we're just getting started here. We think this is the right action for us now. And so, we're excited to embark upon the journey with Amelia and continue on the journey that we've been driving for the past many years.

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**Leo Carpio** - *Joseph Gunnar & Co LLC - Analyst*

Okay. And then, a quick follow-up question on the restaurant side. The tentative conversations, have they switched from one where your marketing team is proactively reaching out to potential customers, or are they now flipping in terms of coming their inbound calls to you?

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Yeah, we commented for the last couple quarters, there really has been a pretty significant shift towards the latter, where originally, call it, 15 months, 20 months ago, we were really on the outreach side. I think your question was predominantly for restaurants, if I'm not mistaken. So that certainly in that industry, it has -- we're working through making sure that there isn't too much of a wait because we're working through integrations with some major QSRs, as Keyvan noted, trying to make sure we're serving all our customers equally with excellence.

And so, we're not working with everybody. So, there's still more conversations to be had. But we're going out to conferences. We're getting leads. We're talking to people. Some of those conversations take place over time. The other thing that these are virtuous cycles. If you can do well, in one instance, the word gets around pretty quickly. And also in a lot of these franchises that we're working with now, it's not just like a brand to a brand, but it's you work with a corporate and then it gets down to the franchise level. And some franchisees have a big number of dozens and dozens of locations, and some of them have hundreds of locations.

So again, it has really moved towards a respond to, but that doesn't mean we're going to slow down on our outreach. And we didn't really, I think, talked a lot about just beyond the restaurants and the Smart Answering capabilities. Last time we talked about in the fitness space with Planet Fitness. There's a lot going on, on that side, too, beyond just restaurants, that we're getting a lot of traction. And so, just excited to keep going forward. And as long as we deliver great products, we think the customers will come.

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**Gil Luria** - *D. A. Davidson & Co - Analyst*

Okay, well, congratulations on the quarter.

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**Nitesh Sharan** - *SoundHound AI Inc - Chief Financial Officer*

Thank you very much.

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**Operator**

There are no further questions at this time. So, this now concludes today's call. Thank you for joining. You may now disconnect.

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