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SOUN.OQ - Q2 2025 SoundHound AI Inc Earnings Call

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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the SoundHound second-quarter 2025 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 first speaker today, Scott Smith, Head of Investor Relations.

Scott Smith - SoundHound AI Inc - Head of Investor Relations

Good afternoon and thank you for joining our second-quarter 2025 conference call. With me today is our CEO, Keyvan Mohajer; and our CFO, Nitesh Sharan. We'll 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 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. 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.

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

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

Thank you, Scott, and thank you to everyone for joining the call today. I'm proud to say we had our all-time strongest quarter in Q2 with \$43 million in revenue, representing an increase of 217% year over year. That's up more than 3 times. We saw success across all key businesses. We achieved

significant growth in our automotive business, significant growth in AI customer service for enterprise, and significant growth in AI and automation for restaurants.

In Q2, we surpassed another record processing more than 1 billion queries per month on our platform. Our acquisition strategy and execution is succeeding. Within just 12 to 18 months of each acquisition, we have demonstrated a repeatable turnaround story. Not only have we converted the pre-merger decline to post-merger growth, we have turned them into leaders in their field as fully integrated business units within SoundHound.

Let me tell you why we believe we are succeeding here. First, the companies we acquired had an important trait in common. They are all great businesses, have amazing teams and have incredible solutions. They had already built strong customer relationships and had accumulated years of history and experience. Their business was highly aligned with our highly focused pillars of business, the disrupted category of conversational AI where SoundHound has emerged as a leader.

Then SoundHound gave them what they needed to thrive. SoundHound gave them strong IP, replacing their legacy tech dependencies with SoundHound in-house models that are more accurate, faster and less costly, with 20-years of data and innovation behind them. SoundHound made their customer experiences better while reducing their costs. SoundHound gave them strong financial backing for innovation and expansion. SoundHound gave them proven scale, strong brand and credibility.

Combined together, we have achieved and continue to harvest cost synergies and revenue synergies, with cross-selling and upselling.

To give specific examples, our first and second acquisitions are the key ingredients that enabled us to successfully launch our voice commerce ecosystem. Our innovative third pillar. Another notable example in Q2 we cross sold the solution we brought to SoundHound with our most recent acquisition to a marquee customer of our first acquisition, which also triggered a renewal and expansion of the customer's existing subscription.

Further, we are well underway to eliminate the legacy cloud cost of all past acquisitions by moving their stack into our own cloud, and all of our solutions are migrating to Polaris, SoundHound's own multimodal, multilingual foundation model. We believe Polaris is the best of its kind. Last quarter, I shared that Polaris easily beats its closer peers, including the big tech in accuracy by over 35% and in latency by 4 times while running at a lower cost. We continue to increase our lead through constant innovation.

Polaris has given us significant tailwinds. As customers migrate to Polaris in production, they see the immediate benefits in accuracy and user experience which now consistently leads to renewals, expansions and growth. And when new customers test Polaris against their legacy solutions, they clearly see the benefit and that is increasing our close rate. Polaris is a unique differentiator for SoundHound, trained with 20 years of innovation and massive amounts of data.

And most distinctively, when we migrate from third parties to our own models, we can iterate and drive rapid improvements and massive acceleration in time to value. And we continue to innovate. Most recently, we have added vision AI to our stack, which is engineered to bring real time visual understanding into conversational AI system and marks a transformational shift in how people interact with products and devices.

This intersection between voice AI and vision AI is compounding, exponentially improving the use cases we can address and the ease with which end users experience when engaging with AI solutions. Our recently launched agentic AI platform, Amelia 7 is especially benefiting from Polaris. We were one of the first companies to bring an agentic solution to the market and you're seeing fast results. This is also creating upsell opportunities to convert all enterprise brands to agentic in the near future.

Our restaurant business is scaling rapidly, where every quarter our new activations exceed the previous quarter. This quarter in particular was driven by new wins and activations as well as continued penetration into existing brands.

In automotive, we continue to expand within existing customers and add new ones. For example, we just announced that our Generative AI solution called Chat AI has been rolled out in North America with three more global brands. We've also signed several new deals, including a large one in China representing millions of units powering a prominent auto brand that's winning and expanding globally.

Where the winners are, we plan to be there. With Voice Commerce, our solution to seamlessly bring convenience to drivers like food ordering, parking payment, and reservations, we are seeding a solution in the market that's never been experienced before.

What started out as interest and a buzz from our announcement at CES has now developed to the point of advanced stage pilots and POCs with a number of OEMs. We are also seeing buy-in from well-known merchants and restaurant operators. We believe these first movers will ultimately motivate many other OEMs and restaurants in the near term.

Last year was about investing in great opportunities, and this year is about realizing the benefits of the strategic decisions we've made to further commercialize our AI solutions. The three-pillar strategy we laid out a number of years ago is now rapidly coming together.

With Voice Commerce, going live is imminent. This is driving strong demand in our Pillar 1 for products and Pillar 2 for services, as both existing customers and new additions are anticipating the powerful ecosystem we are creating and are racing to be a part of it. This is expected to drive Future Monetization in Pillar 3.

With that, let me now talk about some specific customer highlights in Q2. In restaurants, we expanded the company's relationship with a household named Fast Casual brand, cross-selling the SoundHound Amelia platform to provide customer service support in addition to food ordering. We also added new wins with IHOP, Red Lobsters, and Peter Piper Pizza and renewed with MOD Pizza.

One of our existing phone ordering customers, Red Robin, added Smart Answering and now has both AI phone solutions for ordering and customer service fully integrated. And we continue to grow with our existing customer base including an expansion with Chipotle and adding more locations to Firehouse Subs, Habit Burger, McAllister's Deli, Beef O'Brady's and Casey's.

In automotive, we won a new customer with a major supplier in China to ship to one of China's top 5 and fastest growing OEMs worldwide. SoundHound Chat AI, our Generative AI solution continues to make it into new brands as well as being added into vehicles by our largest automotive customers, increasing the revenue per vehicle we receive.

In healthcare, we signed with Primary Health Solutions to improve their patient facing solutions, starting with appointment management and progressing into more complex use cases over time. We also deployed our solutions with healthcare system Allina Health to streamline and automate patient access and overall customer experience. In Q2, we were also delighted to sign one of the world's largest healthcare companies.

In retail, we made deals to deploy Smart Answering with two multi-hundred-unit personal care companies and a home services company with over 500 locations. The solution also continues to attract additional fitness chains and expand further into existing brands.

In financial services, we already have 7 of the top 10 global financial institutions as customers and the company either renewed or had upsell deals with 4 of them. This included expanding into new lines of business, penetrating across dozens of business units and doubling automated conversation volume from the previous year.

We are also expanding our presence in the regional bank and credit union market. For example, we recently signed with a leading credit union with operations across multiple states. Together with channel partners, we expanded our relationship with EXL to deliver agentic and voice AI integrations across various industry verticals and use cases.

With Par Technologies, we entered into a partnership to extend SoundHound's reach across Par's extensive portfolio of restaurant chains and their franchisees globally. We launched a strategic partnership with global QSR technology leader Acrelec to accelerate AI adoption in restaurants globally.

To expedite the adoption of SoundHound AI agents across enterprise markets, we went into a sales partnership with technology services distributor AVANT Communications. We also doubled the volume of interactions with a long-standing partner that specializes in customer experience and workforce engagement solutions focused on contact centers. This inflection with channel partners gives us a new catalyst to our accelerating growth story.

One of the biggest opportunities for SoundHound is with our new agentic AI solution launched in May. While there is hype around this category, we've yet again achieved an advantage by moving fast to bring an advanced AI agent platform with true agentic capabilities to market. We are migrating 15 of our large enterprise customers onto the Amelia 7 platform and we are working with them to build real world efficiency creating agent use cases for their customers, employees and patients.

As a reminder, Amelia 7 is powered by a proprietary multiprocess agentic framework branded Agentic plus, which is a blended autonomous architecture that dynamically toggles between fully autonomous workflows and deterministic functions. This enables AI agents to act independently when appropriate, while maintaining guardrails and precision for sensitive, high-impact tasks.

Amelia 7 allows for low-code no-code development, providing flexible options for enterprise teams, including natural language GenAI tools that allow non-technical users to build and refine agents quickly, alongside traditional low-code controls for technical teams.

Importantly, it also integrates SoundHound's world-class proprietary Polaris speech recognition engine, which delivers speed, accuracy, and domain-specific understanding. It is implemented with end-to-end optimizations that also significantly reduce lag between user input and system response, creating a more natural conversational voice experience. We are delighted to be bringing this technically advanced system to market backed by our decades of combined R&D conversational AI, including over 200 patents with a focus on voice capability which is poised to become a dominant user interface.

That brings me on to one of the other SoundHound technologies that is catching real momentum, Voice Commerce. I'm excited to report that our Voice Commerce solution is advancing at a rapid pace. For those who might be new to SoundHound, the Voice Commerce ecosystem was once part of our future vision, but it is now gaining momentum with existing and new customers from different parts of our business.

We anticipated many years ago that consumers would want the convenience of executing transactions on a platform that seamlessly brings the services they enjoy directly to the connected products, and that this would all come together in one environment.

For example, a driver being able to use their natural speech through their in-vehicle voice assistant to place an on-the-go order for coffee or food from their favorite restaurant and have it be available to them upon arrival without having to wait in line. We wanted to make it easy, intuitive, and available via the most natural modality we have available to us, the human voice. For us, that means the users of products powered by our voice assistant are pillar one, can transact with businesses that are powered by our AI customer service offering our pillar 2.

The way this works is through our Pillar 3, which connects both on a single platform to delight the end user. We talked about signing multiple pilots and POCs earlier this year. These engagements are going well and moving fast. We expect this to create the flywheel we had envisioned. We have large automotive brands in Europe and the USA, both existing customers and new car brands with participations from prominent national and global merchants for food ordering, coffee, parking and more.

We're also on track to launch partnerships with platform giants later this year to offer our voice ordering to their many millions of users. This not only emphasizes the power of the technology we have built, but also gives us confidence in the demand for users to have a safe, convenient, hands free option when performing transactions from their vehicles or devices. This speaks to the rapid innovation at SoundHound.

The developments we are making are impressing the larger platforms, in particular the way we can now support a much broader scope of LLM conversations in the context of Voice Commerce. That's bringing their interest as well as large merchants, QSRs and OEMs alike.

In closing, we are pleased to have reported such a strong quarter where all businesses were up. We built a strong pipeline to start the year and that's not only now showing up in our results, but is growing as we create more value for the end user. Our acquisitions are turning into reputable success stories. We are pioneering our platform with agentic AI and thus resonating with customers.

We are also leveraging our advanced technology to bring opportunities to enterprises, automakers and restaurants that they have been waiting for. The Voice Commerce ecosystem we are building is bringing real time AI agents that larger platforms want to partner with and OEMs and

merchants are racing to be a part of. Our three-pillar strategy is no longer three separate offerings, but is forming an ecosystem, creating AI value to businesses and quickly becoming a necessity for them to differentiate themselves and thrive.

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

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

Thank you, Keyvan, and good afternoon, everyone. Q2 is a big quarter for us, with \$42.7 million in revenue up 217% year over year with sustained high demand for our AI solutions, it's becoming more evident each quarter that passes that Voice AI is increasingly sharpening as the spearhead of this gen AI era. We are seeing traction across all industry verticals and in all pillars of our business.

Enterprise AI grew with strong execution and clear focus while restaurants added new logos and scaled existing relationships, and auto saw strong growth with the major new win and continued scaling of our new generative AI offerings. Our solutions are resonating with customers and we keep elevating our technological differentiation against the rest of the marketplace.

One of the driving forces behind the strong execution comes from early successes in the integration of our acquisitions. We have re-catalyzed those businesses. Completely shifting their growth trajectories and driving step function improvements in close and renewal rates. We have integrated technology and product stacks which has led to much faster product cycles and greater time to value for customers.

Let me share some data points that illustrate this. With Synq3 we have fully displaced third party ASR engines across all restaurant customers with Polaris, delivering us millions in cost savings while improving performance for customers and generating faster iteration cycles for developers.

In Amelia, pre-acquisition sales attainment levels of nearly 40% have completely reversed to greater than 100% this quarter, demonstrating the resonance of our combined solutions to customers and validating our investment thesis. Net revenue retention jumped from less than 90% preacquisition to over 120% this quarter, largely due to better product performance and also resulting from our investments in customer success.

Keyvan discussed the exciting major win where we cross sold product solutions into one of the largest and most innovative QSRs. And not to be lost in the shuffle, operationally, we have now fully integrated three disparate ERP systems into one, providing a common platform with better controls, streamlined processes and deeper business insights. We know the tech landscape is shifting rapidly with the Cambrian explosion of new innovation and players emerging every week.

Having solidified our integration muscle, this is one more competitive differentiator in our toolkit that we can leverage as we accelerate forward. The net impact is continued strong momentum underpinning the reported financials. Within our product pillar we continue to see strong 50% plus growth in our active cloud users. The number of active restaurants using our Voice AI ordering solutions now exceeds 14,000 locations, adding an additional 1,000 locations and roughly 1 million new interactions in Q2, further extending our market leadership position.

In the enterprise, Q2 is our highest number of monthly go lives, demonstrating the increased speed of deployment and we saw a massive sequential improvement in total volume, illustrating the value we are delivering for some of the largest and most complex global companies. And queries into our Voice AI engine overall continue to accelerate. We are now getting nearly 3 billion queries a quarter compared to last year at this time, that's more than 100% increase.

With that, let me now discuss the second quarter financials in more detail. Q2 revenue was \$42.7 million, up 217% year over year. This was driven by a strong revenue contribution from Enterprise AI with automotive and restaurants also contributing strong year-over-year growth.

Our Q2 introduction of agentic AI is a tailwind across the business and our channel investments are starting to pay dividends and have made a strong contribution with expanded enterprise channel partnerships and deeper penetration with existing partners. In automotive, we signed a new OEM in China and saw a double-digit increase in ASPs primarily from further expansion of our generative AI solutions.

Within restaurants, we once again accelerated location go-lives quarter over quarter, resulting in a step-up of revenue. We continue to see strong customer diversification, and through the first half, we don't have any customers contributing greater than 10% of our revenue.

In Q2, our GAAP gross margin was 39% down year over year, primarily due to the impact of the business and product mix of recent acquisitions. Adjusted for non-cash amortization of purchased intangibles and employee stock compensation, our non-GAAP gross margin was 58%. However, both metrics were up sequentially as we continue to realize improvements from acquisition synergies and drive a better product mix.

We expect more cost synergies in areas such as cloud spend to take shape in the coming quarters as well. Inference costs on like-for-like models are rapidly declining, although that is offset by the rapid adoption of new models that continue to deliver seemingly new, amazing breakthroughs each and every quarter. And we are still evaluating low margin contracts as they come up for renewal and identify other areas to improve efficiency.

R&D expenses were \$25.8 million in Q2, reflecting a 64% year-over-year increase, primarily driven by our acquisitions and in particular, headcount and headcount-related costs. We also continue to invest in the ongoing enhancements of our speech foundation model, Polaris, which is delivering meaningful benefits to customers.

As Keyvan highlighted, Polaris brings step change improvements in performance, enabling us to rapidly incorporate cutting edge research into our product offerings in cycles that were simply not possible in the pre-LLM era. This accelerated innovation loop reinforces our confidence in delivering long-term value to our customers. And our research and innovation agenda has much broader reach as we expand multimodal omnichannel solutions that accelerate us into the next era of human computer interfaces.

Sales and marketing expenses were \$15.8 million in Q2, reflecting a 180% year-over-year increase primarily driven by acquisitions. We continue to invest aggressively in capturing growth opportunities through direct sales, customer support, channel expansion, and a range of digital and physical demand generation initiatives. These efforts are fueling a robust and expanding pipeline of opportunities.

G&A expenses were \$18.2 million in Q2, reflecting a 91% year-over-year increase primarily driven by our acquisitions. Sequentially, G&A costs remained stable, reflecting disciplined efforts to strengthen our control environment and streamline post-acquisition integration.

We continue to drive efficiencies in our infrastructure spend while creating capacity to invest in modernization. We had non-cash employee stock compensation of \$23.8 million and depreciation and amortization, including the amortization of intangibles of \$7.8 million in Q2, all of which are included in our GAAP results.

The step-up in stock based compensation in Q2 was partly the result of a small workforce reduction program as a result of our acquisition integrations, with modest impact from the inclusion of one-time separation packages that we don't expect to repeat going forward. Our Q2 financials include a loss related to the change in fair value of contingent liabilities, significantly impacting our GAAP income from operations in Q2 by approximately \$31 million.

Just a quick reminder, this stems from the acquisitions we have completed and is a non-operating and non-cash expense, and primarily reflects the quarter-on-quarter increase in our stock price. As such, this item has been excluded in our non-GAAP results.

Adjusted EBITDA was a loss of \$14.3 million. OI&E was \$4.6 million income for the quarter. GAAP net loss of \$74.7 million, and GAAP net loss per share of \$0.19 were negatively impacted by the change in fair value of contingent liabilities mentioned before. Non-GAAP net loss was \$11.9 million, and non-GAAP net loss per share was \$0.03 in the quarter. This adjusts for non-cash depreciation and amortization, M&A transaction costs, stock-based comp and other non-cash items.

Our balance sheet remains strong with cash and equivalents at quarter end of \$230 million and no debt. With that, let me discuss our financial outlook. Q2 was clearly a strong quarter for us, as the demand for our solutions is accelerating. We have said before that our momentum won't be linear, and we are moving fast to capture the underlying market shifts, which are clearly in our favor.

That said, while we are staying ambitious, we want to create the appropriate space to make the right long-term choices for our business. All that said, we are increasing our outlook for 2025 revenue to \$160 million to \$178 million. We still expect to ramp as we exit the year. Q2 was stronger than our initial expectation because of strong close rates on major deals.

While we hope to repeat that each and every quarter, sometimes the lumpy nature of these deals can cause quarter-to-quarter volatility. The investments we are making are already showing high returns. We want to stay appropriately measured and aggressive. We are moving towards profitability and we see that in the near-term horizon.

We are being prudent on costs and see meaningful opportunity in cloud integrations and continued workforce optimization, particularly because of the opportunities Generative AI is providing us operationally. All that said, we believe we can achieve adjusted EBITDA profitability as we exit 2025.

In closing, it's clear that our momentum is real. We know we have a lot of opportunity in front of us and we are operating with an urgency that reflects our optimism. The path forward may not always be linear, but our approach will remain tenacious.

With that, we will now move to Q&A.

QUESTIONS AND ANSWERS

Operator

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

Gil Luria - D.A. Davidson & Co - Managing Director

In the prepared remarks, you went through a series of verticals and a lot of progress on all those fronts, but the sequential growth you had was probably the highest you've had in several years. It was all organic. How would you rank the contribution of the different verticals in terms of the contribution to the sequential growth?

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

I can start on that. Well, I think we were seeing, as we noted, momentum across the board, so it's hard to rank. I could do it numerically, but I think maybe I'll step back and just do it more from an underpinning market momentum. So I do think we're continuing to see great progress on the enterprise side. We're just a few quarters post bringing the Amelia acquisition in-house, and we're making a lot of strides. I noted some of that in the prepared remarks, but it really, I guess, from a category kind of covers financial services, healthcare, insurance, energy, et cetera.

And we've seen great progress. The thing that we noted, hopefully you caught, was it's not only one particular vertical, it's the cross section that we're now able to bring our products across multiples of them. So, for example, we're bringing the enterprise product suite into our restaurant customers. We're being able to kind of bring the best of our platform technology and speech recognition more pervasively across all customers.

So we are seeing a lot of traction across the board, but enterprise certainly is doing a great job. Restaurants, we continue to scale. I noted the location growth that we continue to see. This is one where we said it in prior quarters, restaurants know they need to automate. We see different restaurants focus on different things from whether it be cost efficiency to revenue and upsell to speed of service.

All those factors matter. And we're also seeing it not just with customer facing opportunities, but also for operational efficiency and back of house type of opportunities. And then our auto side, we noted that a big deal, a big win with a major OEM in China and that just continues to demonstrate like this is a global opportunity.

We're leading, our footprint is deepening and when we bring all those together with what we highlighted with Voice Commerce, I mean that's really the flywheel that's going to compound on top of one another, where you naturally interacting with your vehicle as you drive to work, or you watching TV on a Friday evening or just on the go, being able to do commerce, reservations, appointments, manage customer support issues, all those things are really building.

So it really is truly across the board with just different degrees of positivity. I think ultimately I'd unpack all that to say that Voice AI and Conversational AI are clearly here and we're just getting started.

Gil Luria - *D.A. Davidson & Co - Managing Director*

I want to pick up on that particular announcement about the Chinese OEM. Usually when we talk about who you're displacing, you're displacing some, some legacy providers in auto and restaurants and to some extent competing with the large -- with the big techs and the American big techs and their voice technology. But this is a little different.

Who are you competing with to get that business and how are you able to differentiate, I'm guessing against native Chinese AI companies?

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

Yes, actually we do compete against similar names in China also. Maybe there are a couple of them that don't play there, but there are others that do. And in many cases we go head-to-head with the legacy providers or the big tech providers and we win usually on the quality of the technology when they evaluate accuracy and comprehensiveness of all the features that we can provide.

We also have the language coverage that some of the local providers may not necessarily have. And when an automotive OEM in China starts to ship outside of China, then our solution becomes a lot more attractive. But in this particular case, we are also providing the Chinese version of our engines.

Operator

Scott Buck, H.C. Wainwright and Company.

Scott Buck - *H C Wainwright & Co LLC (Pre-Merger) - Analyst*

I'm curious, as demand for AI automation appears to be accelerating, are you seeing any opportunities to improve your selling process or maybe optimize pricing?

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

That's a great question. Well, we are selling AI to other companies, but we're also using AI internally to improve our processes. For example, compared to two, three years ago, there were things that would take several engineers several months to do. Now we can do them with one person in a matter of days. So the improvement is, you're talking about orders of magnitude. But our opportunities have also increased and surpassed that's why our headcount has gone up and we have more engineers working on more things.

So definitely it's impacting our development. And we were early to adopt AI in-house. There were some big tech companies, for example, that prohibited their employees to use AI for a while. And we actually were the opposite, we said use AI as much as possible. In terms of outbound bound sales and marketing, there is some of that exploration happening, but there are regulations also that you need to understand. So we'll have more to say about that in the future.

Scott Buck - *H C Wainwright & Co LLC (Pre-Merger) - Analyst*

And then second, I'm curious, of your existing customer base, how much of the potential wallet share do you think you have? I mean, is there 50% left in the current customers or more than that of potential future earnings?

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

We think, Scott, I mean there's a lot more than what you highlighted. We think we're just early penetration again of a new era of how companies will interact with their customers. We think Voice AI is a penetration of overall sort of engagement is still pretty low. And so we see a ton of runway there. I think you've seen, I'm sure just in general, IT budget allocation of total OpEx of many customers across verticals has been growing for a long time.

And now within that the AI allocation of spend has been growing significantly and outpacing where there's trade-offs in other parts of the business line to offset and make sure there's room for AI growth. And then within the AI growth, certainly agentic in particular is just, screaming out of the gate. So we think we're really low in penetration. And then the answers kind of get nuances depending on which particular business we talk about.

But if I take auto, for example, it's not only just in terms of like OpEx budget profile or something, but as we grow and scale with our customers and there's more units out in market for us, that's increased revenue because there's more royalties to get. As we bring new revenue streams, whether that's through restaurant activation of ordering and drive upsell or whether that's through voice commerce, that's actually expanding from IT budgets to marketing budgets and so forth. So, I mean, really, it's a very small penetration and we think there's a lot more runway.

Operator

Leo Carpio, Joseph Gunnar.

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

I got a couple of quick questions. First, regarding the guidance you gave for 2025, the revised one. Two parts. First, I saw that we had a Q2 beat, yet the guidance doesn't reflect that completely. Is that part of the seasonality you talked about, or is it just an element of conservatism? And then secondly, is there acquisitions incorporated in this guidance or is it just strictly organic?

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

Yes, on the first part of that question, yes, I highlighted in the closing of my prepared remarks that I think there is a bit of lumpiness. And when we're dealing with major deals, with major enterprises that are multiples the size of us, they can be big lumpy deals. And we saw some in our favor this time, but we don't -- while we go and chase it every quarter, sometimes you get them, sometimes you don't. So there could be some natural seasonality there.

And I think it's fair to say we want to be prudent planners and set expectations and beat expectations, and that's the model we're trying to build for the long, long-term. So that's probably baked into it as well. So all of that together, though, I don't want to back-off the point that we're seeing tremendous momentum and we want to really -- the numbers we're talking about this year will pale in comparison to the numbers we'll talk about for next year and the year after that.

And we're certainly on that pathway. And I think historically, our growth organically of 50% plus, and now with other acquisitions going even double of that like that -- that's a pace that we anticipate for the foreseeable future. And we think, by the way, that's naturally attuned to how disruptive markets grow almost every cycle.

You see, in tech land, that's sort of how things play out. So to your second question, then, the guidance as we give them this time and how we've given them previously, they don't contemplate additional acquisitions that we may look at or may add. We'll update you if those do come to bear, but they don't require it. They're not baked into our assumption set. We only kind of base it off of what's in house currently.

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

Quick question. Also on the Red Lobster account link, could you give us some background in terms of how did that contract came about? I think given that the company was in bankruptcy, how it came out? Just interested to know the details.

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

Yes, I could just say, we've actually had them as a partner for a little while and yes, they went through their own journey. I could say personally, in our family, we're big fans, but they've kind of maintained and they're kind of back now. And so we definitely had our own journey working with them through their bankruptcy dynamics and now sort of renewed energy in that partnership and we're scaling.

And so, yes, I mean, like a lot of our -- I wouldn't just say it's specific to that one, but I would say in the restaurants. But even beyond restaurants, there's definitely a lot of companies that have been going through massive disruption and we try to stay with them throughout whatever part of the journey they need. It does highlight. It's not exactly your question, but I'll extend your question to this general point, which we've said before, around AI and automation.

Depending on which direction you're going, AI and automation is really important. If you are a business that's challenged because of foot traffic declines or whatnot, you need automation for cost containment and cost reductions. If you're one that's seeing massive demand, you need automation to help you with throughput and speed of service and all those things.

And again, those are the toggles that we provide across the board. And I think Red Lobster is no different than some of the other customers we've highlighted and that we work with.

Operator

Mike Latimore, Northland Capital Markets.

Vijay Devar - *Northland Capital Markets - Analyst*

This is Vijay Devar for Michael Latimore. Can you provide any color on how to model 3Q versus 4Q revenue?

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

Sure. So, we expect it'll ramp into the second half. I mean, we don't give too much in specifics, but I would expect that we're going to continue to gain momentum and Q4, there's a number of deals that we have in motion. With Q3, you always have some time, especially because our penetration in Europe, you got summer months that you work through and, August shutdowns in certain cases, particularly with some of the industries we're working with, that generally you come out of the gate into the fall and you get a lot more momentum and get close into the year-end where a lot of companies have budgets, they try to deploy it year-end.

So there's a lot of dynamics that are really just typical. If you look at our historical seasonality, you'll see some of that too. So I think you'll see Q4 will be bigger than Q3 is probably the sharpest I can get for you. And then we'll keep trying to penetrate as fast as we can, if we can pull stuff forward then great. Ultimately, it's really just building out these relationships.

And the other thing is, in a lot of our existing contracts, we're seeing growth and scale. So some of the business do have just natural seasonality that plays out that I've talked about in prior calls, but that's probably how it got you.

Vijay Devar - Northland Capital Markets - Analyst

Got it. And if you could kind of highlight key drivers of growth in the second half. Is it Amelia software sales or phone ordering or professional services? What would it be? Or the combination of all three?

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

Yes, all of the above. I think like we saw in Q2, it was growth across the board, across our pillars. We saw all of our pillars growing double-digits. So we want to extend that and continue to drive that at very healthy clips. And some might be growing much faster and some might take a journey. But I think that net of it, like, I think it was the first question in terms of how would I rank which vertical performed at what level? Like, we're seeing it really across the board, enterprise leading the charge.

We're seeing great penetration in restaurants, getting deals with auto, great continued momentum. And the other thing that I'll just highlight you, the question is an opportunity to talk about. And I mentioned this briefly in the prepared remarks, but one of the things we did and put a lot of emphasis as we began this year was around investing in customer success and making sure that our existing book of business, where there maybe previously had been leakage and some churn that we're refining that we're turning that around into -- from reductions into maintenance to actually growth.

And we saw great success in Q2. So we do expect that that will continue. And then using that as an opportunity to expand, we did that. We highlighted one big QSR where we had cross-sell. So there's multiple ways now where we can expand with existing customers. So we do anticipate a lot of that. My point of all that is that not only will come from new logos across the verticals, but I think the expanding within existing partnerships is a great opportunity.

And then lastly, I'll say we put a lot of energy into the indirect channel and a lot of investment there. And we had a great deal of progress we saw in Q2 on the indirect channel side. And that's one that when that engine gets going, it can really accelerate. So we're excited about the possibilities of that in the second half of this year as well.

Operator

Thomas Blakey, Cantor.

Thomas Blakey - Cantor Fitzgerald LP - Analyst

Congratulations on the results. The auto vertical, Pillar 1, I suppose, congratulations on the China win. Can you just maybe talk to maybe the royalty opportunity there? I understand you guys typically have some kind of non-recurring revenue up front when you win a big customer like this, but I know you don't want to give the customer name, but just kind of any indication there in terms of size and opportunity on maybe a SAR basis?

And using that as a segue, I think we need an update on kind of tariffs and units on the auto side. And I have a follow-up if you can, please.

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

Sure, I'll start. And on the first part of your question, actually let me back up and say there's really kind of four things we deliver for automotive companies. And you're right, they do have different revenue characteristics and each deal is different and so forth. But we got our traction with

cloud services. We penetrated further with our edge solutions. We've added on in recent years our generative AI capabilities that expand the solution set for customers and consumers can navigate and have very engaging conversations on a multitude of topics.

And now Voice Commerce is getting us a lot of traction. So if you kind of say that full suite of solutions of which we have mega OEM customers that are participating in all of those areas, we do have new deals where oftentimes you'll kind of start with one thing and grow with others. I mean we've talked about, some of the big OEMs that we work with, where that's been the history that we've seen and sometimes in the past that's taken several quarters, couple years, we are seeing that speed of opportunity a little faster.

So this one, yes, we think this is especially the units of these automakers in China, there's a lot of great opportunity to both grow across all those platforms. Generative AI is bringing completely new ways of engaging and then Voice Commerce is just getting going. So when we can bring Voice Commerce and connect our, for example restaurant ecosystem with OEMs, there's a lot more opportunity.

So that was the first part. I think the second part was tariffs and just impact. Yes, we were not immune. I would say the tariff dynamic that's been playing out all year, we don't have any direct impact on our business from the tariffs, but we do have secondary impact from the tariffs. So when tariffs have certainly affected the auto space generally and that does impact us because our ongoing revenue is royalty based and shipment based and so forth.

And so, if auto shipments kind of change then that that might affect the royalties that we record. But generally we're watching it closely. I think most of the industries that we play in, I will say some are immune, but everybody's watching it closely, despite sort of the dynamic and the uncertainty, I think, as I said to an earlier question, the AI investments are continuing at a really high pace, and so I think that still gives us a seat at the table to have these important strategic conversations of what we can deliver for them.

Thomas Blakey - *Cantor Fitzgerald LP - Analyst*

Great answer. And it's good to have the higher ARPU kind of trending in the right direction with that kind of whole cadre of services. So on the auto side, so maybe my second question would be on the Voice Commerce. I think you've mentioned it a couple different times. It certainly sounds like it's being mixed into from that kind of like platform sale as Kevyan was alluding to.

Maybe just to address like head on because this is obviously a huge optionality for SoundHound, you mentioned all businesses were up double-digits. Could you maybe sharpen the pencil on updates on Voice Commerce? It sounds like it maybe has pulled in. You weren't expecting any revenues until calendar '26, I think was the most recent kind of messaging to the Street. But it sounds like maybe that's changed. I just wanted to get a clarification there.

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

We've had revenue impact from Voice Commerce indirectly because it has a flywheel effect. It improves adoption in our Pillar 1 and Pillar 2 customers. So if you're an automaker and you are comparing SoundHound solution to another one, so first, we claim and prove to our customers that we have a better quality and they test it and they validate for themselves.

But then we also tell them that with Voice Commerce they can provide transactional opportunities to their end users, making it a better experience. But also these transactional opportunities generate revenue and they can get a cost of revenue that gives them something that historically they've never had anything like that before. So I really encourage them to lean in with SoundHound.

We are actually running pilots with new brand OEMs that have not been using our assistant in the past, but now they're running the pilot with our Voice Commerce and we've been winning and securing additional deals because of that. Same in Pillar 2. So when we are talking to, for example, a restaurant brand to power AI and automation, again they compare us to maybe there are others and they realize we have the best solution for them.

But then we also give them the vision of Voice Commerce that can bring additional leads to them from the ecosystem of devices that we power. And as far as we know, no one else can make that promise to them. And that also helps them or encourages them to lean in with SoundHound.

So we've had -- we are seeing more wins and bigger pipeline in our Pillar one and Pillar 2. Because of the Voice Commerce vision that now we can demonstrate it. So it had an indirect impact. Now, until we go live at scale, we are not going to report its revenue contribution in a meaningful way, but that is going to happen very soon.

Operator

James Fish, Piper Sandler.

Unidentified Participant

This is [Kane] on for Fish. So I was just kind of wondering what's going on the QSR vertical with some of the larger opportunities not signed yet, such as like McDonalds of the world.

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

I mean, I'd just say that we have continued to grow with more and more of the QSRs. We've noted previously that we're working and operating today with 7 of the top 20 QSRs. And which I guess, basically says there's 13 more to go after and we'll go after in a hurry and -- but even just with the group that we are working with, there is just so much scale opportunity. We really only penetrated a small part.

I mentioned in the prepared remarks that we're in 14,000 locations. Well, that is a small, small fraction of what's available. And again, that's a global opportunity. We're now live across three continents. We're penetrating and we've highlighted in our prepared remarks some of the big brands that we are working with. And I think, most notably, I think in this space we do have major differentiation. We look at the competitive landscape and call it like three different worlds.

There's sort of legacy sort of mostly private companies that -- what we've seen at least we don't believe they have sufficient tech capabilities to really keep pace of where the opportunity is going. We do see in some cases some of the bigger tech players reaching in here with unlimited resources. It's a competitive set we've competed against for quite some time.

And we think our focus, our niche sort of opportunity where we have dedicated teams and we have custom solutions and we build product suite and we can work in service of those customers to deliver value for their end customers. We found that agility and speed and focus that we work with has been a differentiator. So, we think we can go and get more and more and we look forward to sharing more and more big logos as we go forward.

And lastly, I'll just say the Voice Commerce one is something unique. There's really nobody else out there that's kind of talking about bringing new leads where they really want to -- big companies -- like you cited want speed. I mean, they want to be able to capture new leads and they want throughput and they want to get more and more of their great food out there for their end customers.

And our Voice Commerce solution is very unique. And so we're leading with that. We're getting a lot of traction and at the same time, we have omnichannel ways of going about it. We have phone ordering, we have drive through, we do SMS, we can work on many different platforms and that's very unique in the ecosystem.

So we're excited about it. We're just again great momentum but just getting going and excited to share more in future quarters.

Unidentified Participant

Maybe on that drive-thru, what percentage of QSRs have the drive-thru today? And where do you think that could shake out in two to three years from now?

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

I don't know if your question was what percent of QSRs have drive-thru meaning generically in the industry or how many of our business are drive-thru weighted versus phone. I'm assuming it's phone.

Unidentified Participant

How many is your business?

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

So we're -- of the 14,000, the vast majority or the majority is definitely on the phone ordering and a lot of those scale faster. I've talked in earlier calls about once you integrate with the point of sales for example and we talked about how we have channel partnerships with the likes of Square and Toast, Olo, and Oracle MICROS Symphony and you work at the larger ones with custom point of sales solutions and that allows us then once you have updated menu and pricing and so forth, you can really scale across all sorts of restaurants really quickly.

And then sometimes you just have to have the conversation with franchisees if a restaurant operations has franchisees. When it comes to drive-thrus of which we're in hundreds and we're growing fast, there's some other requirements in terms of drive-thru hardware. Do you have the right display board, do you have the right microphone set-up onwards and so we're working with that.

We announced a partnership this time with Par, but there's several others that we work with and Samsung, HME, and others that we're having a lot of great conversations on how do we scale and deploy faster. One of the things that we're really excited about, we're innovating together with some of these major QSRs in terms of, if for example on a drive-thru retrofit there's some permitting and just high cost of capital to get that going and if that might take 6, 12 months, we've ways that we can really scale much faster -- much more rapidly.

And so we work in -- we've innovated on smaller footprint posts that you can have a call it visualize a small tablet and a microphone and so forth and you can activate voice ordering through AI that way and we've deployed those at some of our brands that we've highlighted before and that allows us to rapidly scale on the drive-thru side.

So the drive-thru opportunity, by the way, more and more it's not only going to be drive-thru like you get there and you're used to just pulling up to the post and ordering, whether it's through Voice Commerce or other modalities that we're using, you can actually order ahead now and just pick up on a rapid line. And we have major -- by the way restaurants where we've already through our solutions, kind of seen average order times go from minute plus to sub-minute and ultimately for especially during business times for the QSRs that's a signal of just increased revenue.

So all those things are in motion and a lot of opportunity here, and we're excited about where we're going.

Operator

This concludes the question-and-answer session. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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