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PRESENTATION

Operator

Good day and thank you for standing by, and welcome to the SoundHound first-quarter 2025 earnings conference call. (Operator Instructions) Please be advised that today's conference is being record.

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

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

Good afternoon, and thank you for joining our first-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 - Chief Executive Officer, Director*

Thank you, Scott, and thank you to everyone for joining the call today. SoundHound has another strong quarter in Q1 with over $29 million in revenue, representing an increase of over 151% year over year. Our bold moves with product investments and growth initiatives in 2024 are paying dividends.

We've been investing in Polaris, our multi-modal, multi-lingual foundation model, and it has proven to be a real differentiator against our closest peers. We are seeing that our average latency per query is as much as 4 times better.

In noisy environments, we excel and are consistently finding that our sentence accuracy is around twice as good in those environments. Our word error rate is up to 35 % better, and we have almost 30 languages in a mature state, which is not only ahead of others but significantly decreases any barriers to expand internationally, in particular with our customer service solutions.

Our growth initiatives in 2024 are taking shape. We acquired Synq3 with the objective of introducing innovative and advanced technology to the restaurant partners and customers and driving business expansion beyond that.

With Amelia, we similarly saw lots of synergies and huge opportunity. And within less than three quarters, we are seeing outside growth across a portfolio that has now integrated with SoundHound voice AI technology, generating excitement from our enterprise customers and delivering on the promise of the upsell and cross-sell opportunities we identified as part of the acquisition. And then look at Allset, where the team has been tasked with bringing AI voice commerce to the market, and they're already making great strides in building technology that is attracting interest from huge global brands.

To give more precise examples of our success harvesting the synergies we achieved, our first acquisition in 2024, Synq3, has already upgraded the majority of its locations to our Polaris model. We have been able to grow their locations by over 30% and upsell SoundHound products to their growing customer base.

Our second acquisition, Allset, is bringing the growing merchant locations and brands to the automotive customers that we have accumulated over the past decade to create the largest voice commerce ecosystem of its kind, allowing drivers to transact and order food while driving. And our latest Amelia acquisition is upgrading to Polaris, just launched a new agent AI platform, is entering new industries, and is already upselling its solutions to our merchant customers.

We cannot be more thrilled. Our strategy is working. Many environmental factors and developments in the technology landscape are also playing to our favor right now. A recent report from Stanford University highlighted a number of these trends.

AI performance continues to improve exponentially, creating opportunities for solution builders like us. Systems are also becoming more affordable and accessible, whether that's hardware costs or improvements in energy efficiency. The cost of adoption is being driven further down. At the same time, enterprise investment is rapidly on the rise, with no business wishing to be left behind the pace of change. And to meet this enthusiasm, we are seeing more use cases move from the lab to real life right across industries.

Closer to home, we've also made a number of observations from our own specific standpoint. Selective buyers and users are driving disruptive trends, many of which are creating more strong tailwinds for SoundHound. I would like to touch on four of these key trends.

First, in automotive, we are seeing a notable shift away from OEMs partnering with big tech platforms for their in-vehicle voice offerings. Over recent months, we've been in discussions with a number of automators who have proactively approached us looking for a partner like SoundHound to help them differentiate and innovate and replace their big tech solutions.

Second, in restaurants and hospitality, we are seeing a similar kind of movement. Operators are looking to migrate from cumbersome legacy answering systems to AI ordering solutions in order to future proof their businesses.

Third, clearer momentum is growing around the idea of voice commerce. Notably, consumers are showing a strong appetite for this new convenient modality and the technology is ready to deliver. A new ecosystem of technology providers is rising to meet that demand, and of course, SoundHound is already out in front with our groundbreaking voice commerce ecosystem.

And lastly, the quality of voice AI technology is a true differentiator for customer service AI agents. While the hype around Agentic AI persists, marrying sophisticated AI agents with next-generation voice technology is having the net effect of upending the traditional IVR space. Now customers can speak and actually be heard.

We consider ourselves the best positioned vendor to benefit from these trends. And given this context, it's unsurprising that our pipeline is the largest it's ever been and our TAM continues to expand, giving us confidence that we have a massive opportunity to significantly grow our business for years to come.

Of course, one of the most significant waves of fresh AI-driven disruption comes from Agentic AI. Just this morning, we sent out a press release with the exciting details of the latest version of our Amelia AI platform, Amelia 7.0. The platform is powered by a proprietary multi-process agentic framework, branded Agentic Plus, which allows businesses to deploy fleets of AI agents capable of understanding, reasoning, and completing actions.

These AI agents can orchestrate amongst each other and perform tasks entirely autonomously without the need for human intervention. As a complete AI agent platform, Amelia gives businesses access to a whole range of agents that can retrieve and provide information, complete tasks and procedures, and allow consumers and external parties to complete commercial transactions with the business.

Our AI agents use a combination of deterministic and large language models, giving the best of both worlds with control and flexibility. The platform also allows for optional human escalation and intervention for peace of mind. It is also fully interoperable with a whole range of available integrations.

Notably, we also believe this is the only agent platform to equip enterprise-ready autonomous agents with world-class voice AI, enabling these smart AI agents to reason and perform complex tasks with human-like interactions thanks to our incredible advanced speech recognition. This means that our AI agents are not only fast, intelligent, and labor-saving; they engage in a way that employees and consumers will actively prefer.

Imagine calling your doctor, reordering your prescription of a hard-to-pronounce medication, paying for a recent visit, and making a new appointment. This is all done beyond agents that effortlessly understand what you're saying, thanks to our advanced voice AI, and orchestrating with a network of further sub-agents to instantly schedule, reorder, and complete a billing transaction.

While others continue to talk about the promise of Agentic AI, we are walking the walk and already delivering it in the real world. This is underscored by the trust our customers put in us and our solutions.

Let me now share some of the great customer wins, renewals, and expansions in Q1. In restaurants, in Q1 we scaled and reached thousands of locations with a large pizza chain that we signed just last year, providing our answering and ordering solutions to ensure no inbound customer calls goes unanswered. Further locations were also added with existing brands, including Habit Burger, Casey's, Bar House Subs, Five Guys, White Castle, and McAllister among others.

We also continue to expand across Burger King UK locations together with Acrelec, a global technology company that is reinventing the customer experience with some of the biggest brands in the world. In automotive, we joined forces with Tencent Intelligent Mobility, part of the cloud and smart industries group at the multinational conglomerate Tencent to bring world-class conversational AI to the intelligent cockpits of global auto brands.

Also, multiple OEMs now are running pilots and POCs with our voice commerce solution. I will talk about this in more detail later on.

In healthcare, three highly regarded companies in the healthcare space chose to renew and expand with us again this quarter. This included a prominent medical billing company, a healthcare provider that brings test results to patients at home, and a healthcare provider in the Midwest that owns and operates a dozen hospitals. These customer validations prove that our technology is adding value to our customers, and it also shows that our business is sustainable and recurring.

Additionally, we are pleased to note that three of the new deals we won in Q4 have already gone live with our solutions. In retail, we signed to launch exciting strategic pilots with multiple top US fitness chains, unlocking potential for over 15,000 locations. We are also hoping to expand market reach through new pilot agreements and ongoing discussions with leading home services franchises, positioning SoundHound's smart answering as a transformative solution for multi-unit operations.

In energy, we have now launched a new AI agent with the large utilities company we signed in Q4 last year, helping them to transform the customer experience. Furthermore, we've been forging new strategic partnerships to expand our reach into this space. Just last week, we announced that we are joining forces with PowerConnect.AI, a purpose-built AI platform for the energy and utility industry to launch a new era of intelligent omni-channel voice experiences designed specifically for this vertical.

In information technology, we renewed with a large multi-national conglomerate based out of Tokyo, offering a number of services in various industries and another large Tokyo-based company that offers IT services, system integration, cloud computing, and information security.

In telecom, we had an exciting renewal this quarter with a large British multi-national telecommunications company helping to power its employee IT support desk with our best-in-class AI agents.

In travel and hospitality, we signed a new deal with a leading resort developer in Latin America, offering concierge for inbound and outreach services, creating repeatable business across some of the largest hotel brands in the world. We also expanded with one of the largest hotel chains in the world, offering full-service hotels and resorts.

In financial services, we have continued to have strong traction with some of the largest financial services companies in the world, including the win with one of the world's largest insurance companies in Europe and significant renewals and expansions for our employee experience solutions across four financial institutions in Q1. As a reminder, we currently work with 7 of the 10 largest global financial institutions.

Together with channel partners, we had wins including with a well-known global agriculture OEM, a global tax preparation company, and a North American travel and hospitality company focused on all-inclusive vacation and resort management. Additionally, we expanded services with a large systems integrator and renewed with a Japan-based multi-national IT and services corporation that resale our solution to their clients and managed services offering.

Now let me update you on our voice commerce solution, which opens up a brand-new commercial channel for consumers and businesses and delivers on the promise of transactional voice AI that has never been executed before.

Our voice commerce initiative is strategically designed to leverage our existing restaurant and merchants together with our OEM networks to unlock new revenue opportunities within our established ecosystem. By enabling seamless voice-powered transactions, like ordering food while driving. We not only enhance the business outcomes for our partners, but also create additional revenue streams for SoundHound while providing additional convenience to the consumer.

Moreover, our unique positioning is enabling us to expand voice commerce to OEMs outside of our existing network and also beyond food ordering to services like table reservations, hotel booking, and prepaid parking. This expansion fuels consumer adoption, which in turn attracts more OEMs and merchants, reinforcing the flywheel effect and driving growth across our royalty and subscription businesses. We unveiled this solution at CES earlier this year and gained massive interest from OEMs and restaurants.

We also continued the momentum at NVIDIA GTC 2025, where we once again showcased the power of voice AI commerce and its transactional capabilities.

Last quarter, we talked about the many interested OEMs pursuing POCs with our voice commerce solution. And I'm happy to report that we are working with the innovation team within some of the largest automakers in the world to bring our vision to life. Indeed, we've never seen OEMs move so fast for a product.

We also already have over 15 large restaurant chains plugged into our network. And aside from the interest from OEMs and restaurants, we also already have partners signed up for reservations and parking services.

Another very promising development that could help us monetize voice commerce in the near term is the interest we are seeing from larger technology platforms that don't want to manage restaurant relationships directly themselves but want our voice solution available to their users as a safe, convenient hands-free option when ordering food from their vehicles or devices.

So as you can see, in just a short period of time, we have seen some very promising opportunities with voice commerce and we're excited to explore more opportunities that this ecosystem is quickly creating.

In closing, it's becoming increasingly clear that the trends we are starting to see play out with Voice AI are creating the right conditions for our business to take advantage and thrive. Whether it's voice-enabled Agentic AI, our new voice commerce solution, or our Polaris multi-lingual foundation model, we are clearly at the forefront of this generational shift in technology.

Existing enterprise brands are renewing with us at a high rate, and OEMs and restaurant brands are approaching us at an equally high pace. Our three-pillar strategy is resonating with all businesses, and we are starting to see the integration of Amelia turn to amazing cross and upsell opportunities.

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. Q1 revenue was $29.1 million, increasing 151% year over year. Each quarter is a passing mile marker, and our pace is increasing at every turn, even when the road may get jagged.

Innovation and disruption in our industry is not showing any signs of slowdown, and at Soundhound, we continue to pioneer new breakthroughs. Inference cost reductions and comprehensive model choice that we orchestrate and arbitrate, enable us to build new Agentic and voice AI solutions using best of breed to deliver better outcomes for our customers. And that builds even more customer interest in what we offer.

Our technological differentiation, breadth of coverage and capabilities, and scalable infrastructure positions us well for continued share capture. Our Q1 was heavy on enterprise momentum across financial services, healthcare, and hospitality.

We also gained substantial velocity within the restaurant business. In fact, this was the first quarter where we activated more than 1,000 new live restaurant locations in a single quarter. That pace is roughly tenfold of what we were seeing slightly more than a year ago. And we are also gaining continued traction with our new generative AI, Agentic, and voice commerce platforms.

Customer traction continues to be demonstrated with our bookings metric growing sequentially and at a high double-digit rate versus prior year. That said, given the quarter-to-quarter volatility, we plan to update this metric only at year end going forward. To give you more flavor of underlying usage momentum of our solutions, let me lay out a few details.

Within our product pillar, we continue to see strong 50%-plus growth in our active cloud users. And as a reminder, we also sell Edge and hybrid offerings, so this only partially reflects what we are delivering for customers. The number of active restaurants using our voice AI ordering solutions is nearing 13,000 locations and now handling approximately 10 million interactions a quarter, extending our market leadership position.

Enterprise KPIs showed a substantial boost in Q1. We added tens of millions of interactions on a monthly basis for enterprises. We handled a 5x increase in ticket volume versus the prior quarter and reduced our average resolution time almost 50-fold because our automation rates increased nearly 50%.

Queries into our voice AI engine overall continued to accelerate. We now have over 2 billion queries in less than a quarter. Not much more than two years ago, that was an annual run rate for us. All of this simply demonstrates the continued traction of momentum. And to be clear, we know we are just scratching the surface of the massive opportunity in front of us.

With that, let me now discuss the first-quarter financials in more detail. Q1 revenue was $29.1 million, up 150% year over year. The revenue base continues to meaningfully diversify, with no single customer contributing more than 10% of our revenue in the quarter. This is much improved from historical levels, provides overall risk mitigation, and reflects our expanded serviceable markets.

We are seeing strong year-over-year growth in our customer service offerings, in particular, driven by location expansion in restaurants and scaling across the enterprise business. We continue to see an increase in auto ASPs driven by our generative AI solutions and deeper product penetration. That said, we did see pressure in auto units this quarter as the automotive space navigates complex geopolitical dynamics.

We have a strong pipeline of new OEMs, and they, along with the restaurants, are very excited about our voice commerce solution. It's still early days for this third pillar of our business, but we are optimistic with what we are seeing.

In Q1, our GAAP gross margin was 37%, down year over year, primarily due to the impact of the business and product mix of recent acquisitions. Adjusted for non-cash amortization of purchase intangibles and employee stock compensation, our non-GAAP gross margin was 51%.

We are starting to realize improvements from acquisition synergies and expect much more efficiency capture ahead. And we continue to mine certain low-margin acquired contracts and find ways to either improve them or exit. I expect this will likely be an 18- to 24-month process given the contract length, but we are constantly evaluating ways to accelerate.

R&D expenses were $24.8 million in Q1, reflecting a 66% year-over-year increase, primarily driven by our acquisitions. We increased development spend related to growth innovation and further integrated Polaris into our solution portfolio. Part of that was related to our effectiveness in accessing the underlying GPU infrastructure necessary for us to train and deploy advanced models and systems.

We continue to deploy our state-of-the-art automatic speech recognition engine, driving cost efficiencies and performance benefits for our customers. And as I mentioned earlier, significant reductions in inference costs are allowing us to deploy our AI applications more efficiently, setting the foundation for rapid scale and adoption.

Sales and marketing expenses were $12 million in Q1, reflecting a 117% year-over-year increase, primarily driven by acquisitions. We increased our go-to-market investments, both direct and indirect sales. We also invested in brand marketing and demand and lead generation. We expect the net effect will be meaningful improvements in sales attainment, retention, and overall sales effectiveness over the coming quarters, and our growing pipeline and improving close rates are early indicators of progress.

G&A expenses were $18.4 million in Q1, reflecting a 79% year-over-year increase, primarily driven by our acquisitions. We continue to invest in improving our overall control environment and infrastructure, consolidating ERPs, and enhancing global processes as we scale and integrate our prior-year acquisitions.

We had non-cash employee stock compensation of $17.4 million and non-cash depreciation and amortization, including the amortization of intangibles of $7.8 million in Q1, all of which are included in our GAAP results. As noted last quarter, this step-up in stock-based compensation in Q1 is the result of taking into account the full impact of the acquired employees' equity awards.

Our Q1 financials include a gain related to the change in fair value of contingent liabilities, significantly impacting our GAAP income from operations in Q1 by approximately $176 million. Just a quick reminder, this stems from the acquisitions we have completed and is a non-operating and non-cash expense. As such, this item has been excluded in our non-GAAP results.

Adjusted EBITDA was a loss of $22.2 million in Q1. OI&E was $2.7 million income for the quarter. GAAP net income of $130 million and GAAP diluted EPS of $0.31 were favorably impacted by the change in fair value of contingent liabilities mentioned before. Non-GAAP net loss was $22.3 million, and non-GAAP net loss per share was $0.06 in the quarter. This adjusts for non-cash depreciation and amortization, M&A transaction costs, stock-based comp, and other non-cash items.

Our cash and equivalents at year end was $246 million with no debt. Our net cash used in operations in Q1 improved year over year by 13% to $19 million.

With that, let me discuss our financial outlook. We are reaffirming our prior 2025 revenue guidance of $157 to $177 million. In Q1, one of our customers went through a change of control that adversely impacted our quarterly revenue by nearly $2 million versus our expectations entering the quarter. And we now see that revenue shifting to later in 2025.

Aside from that unique situation, the year, with some puts and takes, has started largely as expected despite overarching macrovolatility. That demonstrates the resilience of the AI momentum and our business traction.

Last quarter, I mentioned that we expect first-half 2025 revenue to be greater than the historical first-half mix of roughly 30% that we have realized the last few years. In fact, we suggested it would be closer to 40%. We still believe that.

With the expected ramp in revenue, we also expect to reflect sequential improvement in adjusted EBITDA as we continue to move through the year. We remain committed to our path to profitability and have activated several cost actions to ensure we remain disciplined. Accordingly, we continue to expect to achieve adjusted EBITDA profitability by the end of 2025.

Thank you, and now we will move to Q&A.

QUESTIONS AND ANSWERS

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

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

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

Very much appreciate that the business is now across several verticals, not just auto and restaurants. But as you look where we are now and into the rest of the year, how should we think about the levels that the first verticals are at? So how much of the business these days is coming from the restaurant vertical, from the automotive vertical versus the rest of the business?

And how do you expect the growth to build into the rest of the year? Because if you just -- if you do 40% in the first half of the year, that means you're exiting the year probably closer to $50 million run rate. What are the vertical that are driving us from where we are today to that exit run rate?

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

Thanks for the question, Gil. So I'll start by saying, what we saw this quarter, what we've been seeing trending for the last couple of quarters is well-balanced contribution across industries, as you noted. So we are really well split between the contribution that is from automotive, that is from restaurants, that is from financial services, that is from healthcare, that is from insurance, hospitality. So we're getting contributions across a number of verticals, all with their own unique sort of dynamics and growth opportunities.

So I'll unpack the two you highlighted, but I'll also hit on enterprise if that's okay. So first within auto, and I noted some of this in the prepared remarks, auto industry is going through a lot of stuff with the global supply chain dynamics. We continue to steal share, and gain and grow. And our royalty business is one that we're very optimistic about because we're very underpenetrated versus the brands that we work with.

We've historically talked about 20 brands that we work with that globally comprise 20% roughly of the market share of global-like vehicle production annually, as an example. And we are, in terms of unit realization, just a small part of that 20%.

We expect to continue to grow, and we're continuously adding new and new brands to the portfolio. In fact, last year, we talked a lot about how we're seeing outpaced gains with the EV providers and they tend to sort of operate at the speed that we're used to. Now we're getting a lot more traction also with the ICE guys.

So really, we're bullish. And I would say that especially with our voice commerce that we announced earlier this year, there's so much conversation going on because we're providing a new pathway for revenue generation. So in moving away from us just being a subcomponent of their cost structure, the bill of materials, we're actually providing revenue opportunities.

So while we did see, I'll call it relative softness, in the auto space this quarter, just given the macro uncertainty, we still are very optimistic about the pathway and a contribution that the auto business will be. What we do feel good is maybe two years ago, what was 80% of our business mix is now one of several businesses that have low double-digit kind of percentage of mix. So I think that's a real positive on the auto side.

Restaurant, I mean, we've been really bullish about it. There's nothing changing. In fact, if anything, I think the opportunity of building AI integrated into the restaurant operations, particularly around ordering, but even furthermore into employee productivity and other use cases, we're seeing more and more of those journeys. In fact, we're in the midst of some of the cross-sell opportunity across the enterprise solutions that we could bring into restaurants so we can go deeper into employee productivity and solutions for IT stack management, et cetera.

So the bigger point here is that the restaurants, we're already been really bullish in the penetration. I talked about in the prepared remarks that we're now crossing 13,000 locations. We're spanning all sorts of cuisine types, but getting really great penetration with pizza and then in drive-thrus, obviously, making a lot of traction.

So this is very, very early days, not even first out in the top of the first inning kind of early days of the transformation that's going to happen in restaurants. And we believe we have a really strong competitive position, differentiation, moat, and running start. So we still think that's probably one of our greater outpaced shares of growth, certainly over the medium and long term. But we also expect that to continue in the near term.

And then -- so I think that hits your question, Gil. But if I can add on the enterprise part, especially today, this morning, we announced our new Agentic solution 7.0. I mean, that really -- first of all, it solves many important things for many of our enterprise customers across those verticals, like financial services, healthcare, hospitality, insurance, retail.

And one of the things we're most excited about is that it is very much accelerating time to value for those customers. So the speed of us, what maybe used to take us six weeks, three months to deploy a capability to increase the use cases. That's happening in weeks, days, and in some cases, hours we're finding. So our new solutions are allowing us to create more value for the customers.

And we know that's going to not only expand the interaction base, expand the use cases, it's going to make the containment and success measures much better. And ultimately, for the customer that's value, and for us it's more revenue. So we really see opportunity across the breadth of industry, and I think that from our perspective is great because maybe a couple years ago we were sort of dependent on one deal to get across the line for a quarter. We're definitely not in that circumstance anymore.

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

Got it. That's very helpful. Thank you. Second one is for Keyvan. On Agentic technology, it's a source of much controversy these days in terms of where we are in the maturity of that technology. A lot of technologies you're deploying for your customers are ones that you've been working on for 20 years and you refined over time.

Agentic AI, as far as I know, is something that we really only started doing a year ago. Are the solutions that we're talking about solutions that are we're still experimenting with customers? Are they part of a broader solution? How mature are these solutions given the technology is so new?

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

Great question. So if you look at our 2015 demos, we've been thinking this way for 10 years. We had demonstrations that you can look on YouTube that actually were live products that showed that Agentic behavior when you have these complex compound questions and tasks and magically performed those tasks and it was really fast and accurate.

And the world is just catching up to the adoption of that vision, but we've been at it for more than 10 years because we unveiled it about 10 years ago. So the things that make us more mature in that is that we've been doing it, we pioneered a lot of it. We have a lot of those experiences live in production. And we have a ton of data, and we have -- SoundHound is one of the few companies that has devoted technical founders that Stanford dorm room are still working on things like this and that's -- our heart beats faster every time we innovate and leapfrog others.

So I agree that it's a new concept that people are talking about, but it's not new for us and that's why we think we have an advantage in terms of accuracy. It's an issue for a lot of people. Speed is another issue for a lot of people, having control over the behavior of these systems is very important because you can -- this is not about having a demo that impresses people.

This is about really being the AI of a business. So you can't be 70% right. If you're building a demo, you can be 70% right and then people forgive the rest. But if your audience is not forgiving, so we have to be closer to 100% and that's what we're really good at.

Operator

Leo Carpio, Joseph Gunnar.

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

Hi, good afternoon, gentlemen. I actually have two questions. The first question is regarding the restaurant side of business. As we're going into the year, there's uncertainty about recessions and possibly speculation situation in the economy. Could that possibly impact your restaurant business? Or is it more a case that potential recession is driving more customer interest in your technology at this point for efficiency gains?

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

Yeah, actually, it's a great question. We get support from both sides of it. So when the economy is good, people invest in innovation that brings them to us. When it's challenging, they want to invest in automation and cost saving that bring them to us. Initially, a big part of our pitch for restaurants was cost saving and quality, quality of the customer experience.

But now we are actually able to show that the ticket size we generate with AI is bigger than the ticket size that non-AI order takers generate. So we can also include in our value proposition increased revenue. And that's really important for restaurants. They want to increase their revenue, they also want to reduce costs.

And so we think the value proposition is great, regardless of the macroenvironment. And sometimes one force is bigger than the other.

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

And then the second question is regarding the competitive environment. Have you seen any changes in the competitive landscape? Any pricing pressures? Any [competitor] has actually become more aggressive?

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

So definitely more players in the space. I mean, it used to be -- like before GenAI, us and the big tech mostly and maybe some -- a couple of smaller providers. But now we see more new companies enter the market, but they don't have the mature state that SoundHound has, in terms of technology, in terms of data, in terms of know-hows, and in terms of the customer-based integration. You're in a much more mature state.

And a lot of the other players are creating an ecosystem that benefits us. There are some pieces of a user experience that might be necessary to complete something and other companies might provide that. So we are very open to partnering. For example, today we included in our earnings announcement a collaboration with Pindrop for authentication and security, and there are other examples of that.

Operator

(Operator Instructions) Mike Latimore, Northland Capital Markets.

Vijay Devar - *Northland Securities - Analyst*

Hi, this is Vijay Devar for Mike Latimore. So a couple of questions. One, how do we model the gross margin for the second quarter and for the rest of the year? And secondly, how are the retention rates within Amelia?

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

Sure. Thanks for your question. So on the first one, we're not guiding specifically gross margin, but I think I've noted in this call and prior calls that we're still in sort of the digestion of the acquisitions. And we know the business mix and contributions, particularly with relation to the call center business that we acquired and then some of the escalation support business, including also some of the professional service activities are in the near term affecting our gross margin.

And we have been looking through certain acquired contracts to make sure that they have the right profitability composition that we want and we're actively working through. So our expectation certainly over the medium term is to revert back to those sort of pre-acquisition gross margin levels that we're crossing north of 70%. And certainly in the composition of solutions that we're delivering, whether it's Edge software capabilities or cloud services, cross industry verticals, like that's the profile of them.

And a lot of our current contracts that are on the lower margin and we have a journey currently we're activating with automation, so we're realizing those improvements real time. So I think as that business makes shifts, you will see a steady improvement through the year.

I mentioned in the prepared remarks sequential improvement and adjusted EBITDA through the year that we expect. And I would say that's going to happen both through gross margin improvements but also we continue to look at our overall OpEx footprint and make sure we're managing that carefully and thoughtfully.

So that was your first one. Sorry, can you repeat the second question?

Vijay Devar - *Northland Securities - Analyst*

Retention rates are (multiple speakers) Amelia of this, yeah.

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

So retention rates are -- one of the things I'd say we did post the acquisition of Amelia was -- really it was a company that under prior ownership had to do all the right things from a cost structure and really had to take a close look at a number of areas. And after we acquired them, we saw a massive opportunity in front of us.

We have reinvested in a few pockets. In particular, one of those was our customer success capabilities and making sure that we really understood what was working, what wasn't in their customer environments. Very complicated customer environments, millions and millions of interactions and use cases and making sure we were delivering for those customers. So that team really more robustly has been up and running now for just several months. And I think they're doing a great job to kind of continue to improve retention rates.

And I will say that we aren't reporting the exact retention levels, but we see a real pathway to strengthen improvement in the gross retention and net retention. We are seeing a lot of -- especially with new product releases and so forth and expansion of our use cases and now with the Agentic offering.

And I talked about in Gil's question earlier about time to value. We expect great expansion at all of these customers. So we're on a journey. I think we want to get certainly those retention levels to where -- between that and new offerings and expansion, they're going to be contributing at the -- like the rest of the portfolio that's been growing 50% CAGR for several years, and we expect that.

Right now, we bought a company, and this was fully in the valuation that was declining, and we needed to turn that around. And we've started to do that. That's kind of similar to what we did with the Synq3 acquisition and that has turned around and now is growing at a very healthy level. And so we're just mid-journey on that. And retention is an important part of that, but also is our go-to-market motion. We're investing in both direct sales and indirect channel relationships. And all of that is going to help continue to help scale this year, but more importantly next year and the year after.

Operator

Scott Buck, H.C. Wainwright.

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

Thanks for taking my questions and apologies bouncing around on some calls this afternoon. So you may have already answered this. But I guess first, I'm curious, looking at the reaffirmed guide, should we be assuming -- or maybe you can talk just about what the M&A environment looks like.

I mean you guys have done several deals in the past. Are you -- is the environment conducive to doing a deal to get you to the current $157 million and $177 million? Or are you thinking of that more as an organical?

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

Yeah. I'll break that question into two things, Scott. Number one, we don't need M&A to achieve the outlook we provided here. There was no embedded assumption of acquiring anything in that.

And I think our organic opportunity across some of the questions I gave earlier and opportunities across our verticals and product sets is quite tremendous. And the outlook for this year will be much smaller than the outlook we gave for next year. And so we're really bullish on what we're driving ourselves.

That said, I think the the opportunity for continued acquisition is there, like there is a lot of -- and I will say now, after having done a few last year, we get a lot of active inbound inquiries for folks looking for sort of another stage in there journey and thinking about partnerships. So I'll just go back to how we frame and think about it.

I believe I mentioned this in prior calls. As long as an M&A is aligned to the strategic vision of what we're trying to drive and ultimately, this company is about, we're in a new GenAI LLM era. We believe conversational AI and in particular, the new wave of how humans interact with technology is just getting going. We're going to create the next major inflection in the human technology interface and voice AI will be the killer app in that world.

And we have built a proprietary stack with patent portfolio. And we have great engineers that have been working on this for a long time, and we're building amazing products around it. And that's the vision we can build ourselves. But we also know in a couple of cases last year and as we look at the landscape, there might be other partners and acquisition targets that we may find accelerates on that strategic journey.

We're open to those dialogues, and we have a team dedicated to constantly mining and looking at that. So if it's on strategy, something we'll look at. If it's something we can operationalize and integrate, if it's acquisitions we did last year, we got real complementary assets and people and teams that we've now integrated and it's helping us work better and smarter and maybe professionalizing things that could have used maturity for us prior to the acquisition.

So as long as we have it on strategy, we can operationalize it and ultimately and most importantly, is it's at the right price, a lot of the deals we do, we do shared economics. So even for people looking for exits, we kind of go, hey, if you can bring this to bear, if you believe in what your company can do and together what we can build, let's ride the upside together.

And I think that's a unique proposition for companies looking for exits right now where they could kind of say, hey, tired. I'm done with it. Let's move on. Or a lot of times people just -- the circumstance is organizations coming together is a real accelerant. That's kind of the partnership frame that we look at when we think of M &A opportunities.

We're openly looking. Nothing's on the immediate horizon. Nothing's needed for this year's outlook, but I believe over the next five years, we will continue to look and grow. And I think the industry that is quite early stage will naturally, over time, consolidate. And I think that's just natural part of any healthy, burgeoning industry, and we'll be hopefully a major player in that.

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

Great, I appreciate that added color. And second, I'm curious, should investors be thinking about a more challenging macroenvironment as potentially being a revenue catalyst, given the efficiencies that you bring to the customers? Just given the macro seems -- the perception of the macro seems to change every six hours, trying to think about how you guys think about potential slowdown in the economy.

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

Yeah, I mean, could jump. My personal view a little bit is that macro kind of ebbs and flows and goes through cyclical. It goes through the cycles that maybe people measure in months or quarters. I mean, we're really talking about a generational shift in how humans are interacting with technology. We believe the next 15 years are going to massively inflect.

And again, it's going to be conversational AI led with voice capabilities. It's going to be underpinned by generative AI and large language models and the sort of the architectures that we can orchestrate and arbitrate between, and those are the solutions we're bringing.

And so as Keyvan mentioned to an earlier question, we actually think the AI story has resilience on either upside innovation that's required to help companies scale, or on the downside efficient risk protection part. And honestly, the solution with different customers, they have different needs. But I do think what we've seen even during these last quarter or two quarters of volatility, the AI penetration of the wallet or the IT budgets is not slowing down at all. In fact, it's growing.

It's -- again, we don't think that that doesn't show signs of evading. And I think what people are more curious about are, and if I take a three-year view of what's been going on in AI, we were first like, okay, everybody needs to get the hardware pieces and the GPUs and then everybody needs a cloud service provider. We're now clearly in the zone of applications and how do I get outcomes that really help my customers, my end customers. That's the conversations we're having every day with our customers. And I think that has a lot of resilience.

So I don't know relative to where investors' expectations, because certainly there is volatility, but we think we've got a lot of runway ahead. And we're not certainly immune to macro volatility. I don't mean to suggest that, but I think we've still got a ton of opportunity to go after.

Operator

Thank you. And with that, 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. Everyone have a great day.