

## Q2 Presentation Script

**Operator:** Good morning and good evening ladies and gentlemen, thank you for standing by and welcome to uCloudlink Group Inc. second quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After prepared remarks by the management team, there will be a question-and-answer session. Today's conference call is being recorded. I would now like to turn the call over to your host today, Mr. Bob Shen, Senior IR Manager of the company. Please go ahead.

### 01 Opening (Presenter: Bob Shen)

Thanks everyone for joining us on our second quarter 2020 earnings call today. An earnings release is now available on our IR website at [ir.ucloudlink.com](http://ir.ucloudlink.com) as well as via newswire services. Here I give a brief introduction to our uCloudlink team.

- Zhiping Peng, is our co-founder and chairman of board of directors.
- Chaohui Chen is our co-founder, director and chief executive officer.
- Zhigang Du, is our director and chief operating officer.
- Yimeng Shi is our chief financial officer.
- Zhu Tan is our chief strategy officer.

Our CEO will begin with an introduction of our company overview and business highlights, this will cover Section 1 and Section 2 of the earnings presentation posted on our IR website. And then our CFO Yimeng Shi will discuss our financial results in Section 3.

Before we proceed, please note that this call may contain forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and observations that involve known and unknown risks, uncertainties and other factors not under the company's control, which may cause actual results, performance or achievements of the company to be materially different from the results, performance or expectations implied by these forward-looking statements.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements, risk factors and details of the company's filings with the SEC. The company does not assume any obligation to revise or update any forward-looking statements as a result of new information, future events, changes in market conditions or otherwise, except as required by law.

Please also note that uCloudlink's earnings press release and this conference call include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. uCloudlink's press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures.

I will now turn the call over to our co-founder and CEO, Mr. Chaohui Chen. Please go ahead.

## 02 Company Overview (Presenter: Chaohui Chen)

### Page 4 Vision and Mission

Thanks everyone, let us turn to **Page 4** of the earnings presentation which shows our vision and mission.

We are the world's first and leading mobile data traffic sharing marketplace with advanced cloud SIM technology which enables consumers to enjoy mobile connections on any available network at any time. We also enable partners to be an over the top carrier worldwide solving coverage, roaming and utilization problems. Our innovative cloud SIM technology sets the technological foundation of our marketplace. We are the pioneer of introducing the sharing economy business model into the telecommunications industry, creating a marketplace for mobile data traffic.

Leveraging our innovative cloud SIM technology and architecture, we have an innovative solution that is already deployed at scale, enables the marketplace to be established without mobile data bottle necks, and enables dynamic device data traffic navigation across multiple network connections. We redefine the mobile data connectivity experience, allowing users to gain access to mobile data traffic allowance shared by network operators on our marketplace. So far, we have aggregated mobile data traffic allowances from 220 mobile network operators (MNOs) in 144 countries and regions in our cloud SIM architecture.

### Page 5 The World's First and Leading Mobile Data Traffic Sharing Marketplace

**Page 5** gives a high-level view of the data marketplace that we envision and which our technology enables. The left-hand side of the slide shows the source of data from the market. With our Cloud SIM technology, we can simply buy SIM cards from carriers or their partners around the world (we call that "first hand" mobile data). Our system can also utilize the unused data from end users (we call this "second-hand" mobile data). The right-hand side of the slide shows the various users of data in the marketplace. This marketplace is valuable to both users and carriers, which enables an end-user's device to connect to any available network at anytime and anywhere. It also enables the carrier to easily share their network capacity, selling their traffic to worldwide users. They can then act as an over the top carrier worldwide to solve roaming, coverage and utilization problem and achieve better ROI.

We have transformed the traditional telecommunication business model and we can do repackaging, redistributing, and enable dynamic allocation, recycling etc. to enable the end users to choose the optimized coverage, speed and price with flexibility.

### Page 6 uCloudlink enables the First Global 5G Connectivity Platform

Let us move to **Page 6** and talk about 5G opportunities for us. As we know, 5G radio frequency band is higher, needing 4-5 times the number of base stations in order to get similar coverage as

4G. In the early stage, 5G coverage and the infrastructure are not sufficient to support roaming and there are significant incremental capex requirements related to spectrum and network equipment and infrastructure.

Our 5G-ready cloud SIM platform offers a ready-to-use solution for MNOs and smartphone manufacturers that enables roaming-free inter-carrier 5G network access domestically and internationally. As network operators start to roll-out 5G networks, mobile data traffic sharing between MNOs, via our cloud SIM architecture, can reduce capital spending and roaming agreements negotiation costs, ensuring low network latency for end users and expansive network coverage.

We will continue focusing our R&D investments on services and product development related to 5G as the advent of 5G brings faster data connectivity speeds and more business opportunities. Our series of 5G products such as MiFi, CPE and GMI are expected to launch in the near term. We will continue to keep our leading position and capture 5G business opportunities globally.

## Page 7 The Evolution of Cloud SIM Business Models

**Page 7** shows the evolution of our Cloud SIM business models. At Stage 1, we directly face end-users; it is B2C retail. We have proven the technology and proven the business is successful and profitable. We capture all revenues including those from hardware, service, data traffic and we also bear all costs. It took 2-3 years, but we are now the largest portable Wi-Fi service provider for international roaming for Chinese outbound travelers in 2018, according to Frost & Sullivan.

Stage 2 is B2B2C wholesale, where we can work with partners in different countries to use their brand while copying our business model. It is faster than expanding by ourselves and requires less spending.

For Stage 3, PaaS/SaaS platform, our business partners can rely on our PaaS and SaaS platform for SIM and data traffic management, and focus on sales and marketing. Such specialization enables us and our business partners to operate more efficiently. In addition to 5G, we will continue investing our R&D efforts towards the further development and update of our PaaS/SaaS platform, which not only providing innovative and advanced platform services and functions to our business partners, but also has been effective in servicing and facilitating customer and business partner globally and contributing to our high potential for growth. Our new and advanced PaaS and SaaS platform can optimize the utilization efficiency of SIM card pool and improve the algorithms for better network quality with the improvement for OTT management capabilities.

As we migrate from Stage 1 to Stage 3, we are gradually becoming more platform-centric, allowing us to further expedite our global expansion by forming a global partner ecosystem.

## Page 8 Our Innovative Cloud SIM Technology-Enables Marketplace Access to the Best Connectivity Globally

Let us turn to **Page 8** and take a look at the mechanism Cloud SIM technology. There are four critical advantages of our innovative Cloud SIM technology:

Firstly, with our innovative cloud SIM technology, we can create a full marketplace including first-

hand and second-hand of data traffic with massive user base. Secondly, with Cloud SIM APP, the device or handset can dynamically connect to different networks by changing to a different SIM card in remote sites. Thirdly, it simplifies the relationship with carriers- just buy SIM cards from carriers and their channel, making supplementing easy. Fourthly, the physical SIM card has over 20 years' history and it is secure, reliable, and mature. Acquisition is much easier and there is very low risk and barrier for SIM card supplement.

With these advantages, our Cloud SIM technology facilitates a valuable service to both users and carriers, enabling not just “connected” but “superior connection.” Our Cloud SIM technology enables marketplace access to the superior connectivity globally and also brings us great business opportunities. As of June 30, 2020, we have 54 patents approved and 65 patents pending for approval globally. During the second quarter of 2020, we had 4 new patents approved and 2 new patents now pending approval.

### Page 9 Clear Growth Strategies Across Business Models

**Page 9** shows our three growth strategies. uCloudlink 1.0 (“uCloudlink 1.0 international data connectivity services”) focuses on cross border travelers and is keeping stable growth and high profitability, increasing its penetration and market share by launching more channels, in more countries, more GMI and providing better service quality than other roaming technologies.

uCloudlink 2.0 (“uCloudlink 2.0 local data connectivity services”) focusses on local residents and solves challenges between carriers. It has started gaining fast growth to be a huge volume user number company. We are developing GMI with handset vendors one by one, building local operation successfully with local partners country by country and catching local mobile broadband and IOT GMI opportunities.

uCloudlink 3.0 is a full marketplace of data traffic in trials which is technologically ready.

### Page 10 New Appointment of Co-CSO

**Let us turn to Page 10.** Recently we appointed Mr. Xinquan (Victor) Xu as our Co-Chief Sales Officer. Mr. Xu possesses strong track record in managing the end to end product cycle from development to strategic global marketing of consumer goods such as mobile phone products, in addition to his extensive and deep cross-industry background and experience such as the internet, telecommunications, mobile phone industries. He previously held senior executive roles in various renowned corporations including Huawei Technologies and JD.com, Inc. His appointment strategically elevates our sales, marketing and customer engagement initiatives to better meet the growing demand for our innovative high-tech services and products around the world. Our team became more stronger to capture the large global market opportunity.

## 03 Business Highlights (Presenter: Chaohui Chen)

### Page 12 Our Business Performance and Operating Highlights

Let us turn to Page 12 for our business highlights. The left-hand side of the slide shows Daily Active Terminals (DAT) as of June 30 2020. A certain portion of DAT and Data Usage Per Terminal are derived from our business partners. You can see from the middle of the slide showing DAT breakdown by uCloudlink 1.0 and 2.0 data connectivity services. The decrease of total DAT

during the second quarter 2020 is mainly attributable to the decrease of our uCloudlink 1.0 services due to COVID-19. We believe our uCloudlink 1.0 business will steadily recover and eventually exceed the performance before COVID-19 after international travel resumes. In addition, we believe the coming 5G and IOT are both a driver for uCloudlink 1.0 as well.

On the other hand, our uCloudlink 2.0 Local Mobile data traffic is showing high demand, fast growth, and has been less impacted by macroeconomics factors such as COVID-19. Our uCloudlink 2.0 service continued to increase during second quarter 2020 and accounted for around 74% of total DAT. Average daily data usage per terminal was 2.16 GB in June 2020.

### Page 13 Our Business and Revenue are increasingly Diversified Globally

From **Page 13** we can see that we continued to diversify our business globally. Mainland China's revenue as a percentage of total revenue continues to decrease as we diversify our global business. We continue to build our ecosystem with our business partners in various countries and regions. As of second quarter 2020, we have 92% of total revenue coming outside mainland China. During the second quarter 2020, Japan contributed to 56% of total revenue. We formed an alliance with one of the largest MNOs in Japan and will continue to expand our business and alliances with our partners globally. We continue to invest in R&D to keep our leading position and core competitiveness.

Looking ahead, we will dedicate to investing in R&D to keep our leading position and core competitiveness in the global connectivity service market and to enable the First Global 5G Connectivity Platform. Additionally, we will continue to build our Cloud SIM technology ecosystem with our business partners in various countries and regions such as Japan, South East Asia, US, Europe, etc., aiming to further develop the world's first and leading mobile data traffic sharing marketplace.

With that, I will now turn it over to our CFO Yimeng Shi who will go through the financial highlights' section.

### 04 Financial Highlights (Presenter: Yimeng Shi)

#### Page 15 Percentage of Our Service-Related Revenues and COVID-19 Impact

Thank you, Mr. Chen. Hello everyone, let us turn to **Page 15**.

The impact of the COVID-19 pandemic continued to rapidly evolve worldwide in the second quarter of 2020. Our total revenue decreased by 41.5% from US\$35.9 million in the three months ended June 30 2019 to US\$21.0 million in the three months ended June 30 2020. Revenue from services were US\$9.9 million, representing a decrease of 53.5% from US\$21.3 million for the same period of 2019. The decrease was mainly attributable to the decrease of our 1.0 international data connectivity services revenue which was impacted by prolonged international travel restrictions due to COVID-19. Service-related revenue as a percentage of total revenue also decreased to 47% during the second quarter of 2020.

On the other hand, our 2.0 local data connectivity services was not impacted by COVID-19 and its revenue increased by approximately 14 times from US\$0.2 million in the second quarter of 2019 to US\$3.1 million in the second quarter of 2020 which partially offset the impact on our 1.0 international data connectivity services. So far, we have started our 2.0 local data connectivity services such as in China, Japan with a faster growth rate in Japanese market and we will continue to expand to more countries and regions such as Asia, the United States, Europe, etc. which have high growth potential.

Revenues from PaaS and SaaS services were US\$0.5 million, representing a decrease of 72.2% from US\$1.8 million in the same period last year. This decrease was primarily due to international travel ban due to COVID-19, but our 2.0 local data connectivity services demand was strong and not affected.

Revenue from sales of products were US\$11.1 million, decreasing of 24.0% from US\$14.6 million in the same period last year, which was primarily due to the decrease of our 1.0 international data connectivity services due to COVID-19, but the performance and demand of our 2.0 local data connectivity services was strong and was not affected by COVID-19.

Our total revenue decreased by 10.1% from US\$60.6 million in the six months ended June 30 2019 to US\$54.5 million in the six months ended June 30 2020. Revenue from services decreased by 34.2% from US\$41.5 million in the six months ended June 30 2019 to US\$27.3 million in the six months ended June 30 2020. Revenue from sales of products increased by 42.4% from US\$19.1 million in the six months ended June 30 2019 to US\$27.2 million in the six months ended June 30 2020.

## Page 16 Revenue Breakdown by Our Two Business Segments

**Page 16** shows the revenue breakdown of our two business segments, namely revenue from services and sales of products which have synergies between each other. During the second quarter of 2020, revenue from services and sales of products accounted for 47% and 53% of total revenue, respectively. The reduction of percentage of service-related revenue was mainly because of the decrease of our 1.0 international data connectivity services revenue.

Apart from this, Our PaaS/SaaS service acquired a certain number of business partners and a certain portion of revenue from sales of products was related to our PaaS/SaaS services. We focused on our service-related revenue, which is a key direction of our business development and we believe that our service-related revenue will be the main contributor to our overall revenue with strong growth potential.

## Page 17 Higher Service Gross Margin Over Overall Gross Margin

Let us turn to **Page 17** for gross margin of our business. Our services gross margin and overall gross margin decreased to 35% and 26% during the second quarter of 2020 compared to 51% and 35% during the first quarter of 2020 respectively. It was mainly because the decrease of our 1.0 international data connectivity services revenue impacted our services gross margin and also on overall gross margin due to COVID-19. In addition, revenue from certain customer of our PaaS/SaaS service with a higher gross margin over other segment also decreased to certain extent.

Apart from above, to mitigate the COVID-19 impact, we took a hard look at our costs during the pandemic. Our costs include some fixed costs and variable costs, and we were able to reduce

variable costs to a certain extent. We will continue to work on measures to optimize our cost structure going forward.

We believe that our services gross margin and overall gross margin will be improving as our 1.0 international data connectivity services recovers.

## Page 18 Controlled Operating Expense During Pandemic of COVID-19

**Page 18** shows the breakdown of our operating expense. Total operating expense decreased 33% from US\$15.3 million during the second quarter of 2019 to US\$10.2 million during the second quarter of 2020. We took cost control measures on our operating expense to offset the topline impact from COVID-19. Total operating expense as a percentage of total revenue increased from 43% during the second quarter of 2019 to 49% during the second quarter of 2020. This was mainly due to the decrease of overall revenue.

In the second quarter of 2020, we continued to invest in R&D to keep our core competitiveness in the long run. You can see from the right-hand side of the slides that our R&D expense accounted for 29% of overall operating expense during the second quarter of 2020. G&A expense accounted for 41% of total operating expense with litigation fees included.

## Page 19 Asset Light Business Model with Normal Cash Flow

Let us turn to **Page 19**.

Operating cash flow was negative US\$2.8 million during the second quarter of 2020 compared to positive US\$6.3 million during the second quarter of 2019. Our cash flow was normal with sufficient cash and cash equivalents as at June 30 2020.

Our CAPEX was US\$0.2 million during the second quarter of 2020 compared to US\$0.4 million during the second quarter of 2019. CAPEX as a percentage of total revenue decreased from 1.1% during the second quarter of 2019 to 1.0% during the second quarter of 2020. It was mainly due to the decrease of uCloudlink 1.0 expenditures.

## Page 20 Net Income & Adjusted EBITDA

**Page 20.** Net income during the second quarter of 2020 was negative US\$41.6 million compared to positive US\$0.3 million during the second quarter of 2019. Adjusted EBITDA was negative US\$3.1 million during the second quarter of 2020 compare to positive US\$1.2 million during the second quarter of 2019.

Looking ahead, we will continue to invest in R&D as it pertains to innovative technology and expand our ecosystem with more cooperation with business partners globally. 5G is coming and creates more opportunities for both our local and international business. We will continue to build and expand our Cloud SIM ecosystem and provide high-tech innovative products and Cloud SIM technology services to our customers and business partners. With that Let me conclude today's presentation. Thank you and we start our Q&A session.

## 05 Q&A Session

[Standard Q&A instruction] + For the benefit of all participants on today's call, if you wish to ask your question to management in Chinese, please immediately repeat your question in English.

[After Q&A...]

**Operator:** As there are no further questions, now, I'd like to turn the call back over to management for closing remarks.

**Bob Shen:**

Thank you once again for joining us today. If you have further questions, please feel free to contact uCloudlink's investor relations through the contact information provided on our website or The Piacente Group (TPG) Investor Relations.

**Operator:** This concludes the earnings conference call. You may now disconnect your line. Thank you.