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SOUN.OQ - Q3 2022 SoundHound AI Inc Earnings Call

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CORPORATE PARTICIPANTS

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

Nitesh Sharan *SoundHound AI, Inc. - CFO*

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

CONFERENCE CALL PARTICIPANTS

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

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

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the SoundHound AI third quarter earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Scott Smith, Head of Investor Relations. Please go ahead.

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

Great. Thank you, Gigi. Hi, everyone. Good afternoon, and thank you for joining our third quarter 2022 conference call. With me today is our CEO, Keyvan Mohajer; and our CFO, Nitesh Sharan. We will begin with some short remarks before moving to Q&A.

We'd also like to remind everyone that we'll be making forward-looking statements on this call. Actual results could differ materially from those suggested by our forward-looking statements. Please refer to our filings with the SEC for a detailed discussion of the risks and uncertainties that could affect our business and those that qualify as forward-looking statements.

In addition, we may discuss certain non-GAAP measures. Please refer to today's press release for 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 disclaim any obligation to update any forward-looking statements except as required by law.

Finally, this call is being audio webcast in its entirety on our Investor Relations website. An audio replay will be available shortly following today's call.

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

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

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

We have achieved a lot this year. And today, I'm extremely excited to report a record quarter across all key metrics. The demand we are seeing for our innovative AI-powered products and solutions is strong and is only getting stronger as we execute on more opportunities and with more customers. Even with a softening macroeconomic environment, the demand for AI field solutions continues to grow, and our value proposition clearly resonates with businesses.

Our cumulative bookings backlog surpassed the \$300 million mark, resulting in over \$200 million in the past 12 months alone. This key metric for our business has grown at an accelerated pace. In fact, the 239% year-over-year growth we reported this quarter is the fourth straight quarter of triple-digit growth as we continue to increase market share at our key segments.

In Q3, revenue accelerated by 2.8x year-over-year to \$11.2 million. In fact, for the first 9 months, we have already exceeded our full year revenue in 2021. This momentum demonstrates our strong partnerships and the market share we are taking.

Class queries, a key measure for customer adoption of our conversational AI platform, reached an annual run rate of over \$2 billion or currently about 180 million queries per month. Importantly, this growth is driven by increased usage from existing customers and new devices and users alike, reinforcing that our solutions deliver a very attractive value proposition for our customers. We are clearly on the right path to leveraging the opportunities in front of us.

In addition, we continue to aggressively expand our product suite to enable customers deeper access to our both AI-powered products and solutions. For example, this quarter, we introduced our full suite of Edge and Cloud connectivity solutions along with a new groundbreaking Intelligent Transcription offering. These products extend our market reach, helping a wider array of customers strengthen their brands, derive deeper insights in their own customer conversations and control their most important data sets.

Now let me update you on the product we launched last quarter to show you how rapidly we are innovating our voice AI solutions. SoundHound for Restaurants is experiencing amazing demand, and there's a reason for it. Let me play a short video demo -- short audio demo highlighting some of the unique strengths of this voice AI technology.

(presentation)

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

As you can see, our technology can handle complexity that is unmatched by the incumbent legacy players and the big tech. Our ambition is to make conversational AI even better than humans in natural language understanding and also as human life as possible in the way it responds and interacts.

I am also excited to share with you that on November 17, SoundHound will unveil a breakthrough innovation in artificial intelligence to unlock the next generation of human-computer interaction. We expect this category-level breakthrough will raise the bar for human-computer interaction by not only recognizing and understanding speech but also responding and acting in real time.

We believe just like how Apple's Multi-Touch technology leapfrogged touch interface in 2009, our announcement next week will be a new disruption in human-computer interfaces. With this new technology, we see the potential to unlock many new applications for conversational AI that were previously less compelling. We expect this to increase adoption of our innovative AI-powered products and solutions, resulting in a significant increase to our TAM. We encourage you to look out for our exciting announcement on November 17.

In a world that is swiftly moving towards widespread voice enablement, it is unavoidable that the current status quo and the familiar shortlist of incumbent players needs to be reexamined. For too long, innovation around voice AI has been static. We believe we have taken voice AI technologies to the next level so that users can interact naturally especially when it comes to more complex queries.

Over the past 2 decades, we have seen many technology vendors try to create technologies in voice AI, but often -- more often than not, they have not succeeded. The reason for that is natural language understanding is an especially challenging form of artificial intelligence. It is complex, it takes a long time to perfect and requires a full technology stack to deliver value. This creates a very high barrier to entry, which is why there are so few companies delivering advanced voice AI technologies today.

We have proprietary Speech-to-Meaning, Deep Meaning Understanding and Collective AI breakthroughs that we built from the ground up. Our technology bridges 2 major industry gaps: legacy inflexible, expensive competitors whose technology is outdated; and big tech solutions whose voice assistance override the company's most valuable assets, their brand and customer data.

In addition to our disruptive technology, our disruptive business model is also a contribution to why we're winning. We generate revenues from 3 pillars of royalties from voice-enabled products, subscription from voice-enabled services and monetization from bringing those services to products. For example, say a driver opts to use the convenience of in-vehicle SoundHound technology to connect with the SoundHound-enabled restaurants to order pizza for pickup on their way home. When that happens, we would make revenue from the transaction, the pizza restaurant would benefit from a new customer being channeled in their direction, and the automaker also takes a share of that revenue.

While other providers that generate licensing revenue from products are under constant pressure to lower their licensing fees and face the risk of declining revenue, our 3-pillar model increases revenue per user while increasing adoption. This is due to the revenue share aspect of our model, which incentivizes product creators who are able to use our voice technology to create new commerce opportunities and facilitate transactions.

We aim to power billions of devices and services. SoundHound technology is already voice-enabling means of cars, TVs, mobile apps and IoT devices on a global scale, thanks to our expansive self languages and international presence. We have had great success with the types of partners we have announced so far, and we continue to deliver voice AI technology to some of the most well-known brands in the automotive space and grow our relationship with IoT and device manufacturers.

Here are a few highlights. With Hyundai, Kia and Genesis, we saw significant international market expansion of our existing multiyear volume commitment. As a result, we had a strong revenue contribution as we expanded unit delivery in various brands and delivered on agreed milestones.

Building upon our existing 17 automotive brands, we also announced an expanded relationship with Stellantis in Europe. In addition, we announced our first Mandarin solution already in production with Dongfeng Peugeot Citroën Automobiles in China. This indicates a strong relationship in China, which is rare in the technology industry for a non-Chinese company.

And this quarter, we announced integrations with LG and HARMAN as we continue to expand relationships with automotive technology platforms around the world. With Qualcomm, an announcement announced in January this year, we continue our joint efforts with Snapdragon, paving the way with our advanced voice AI technologies for new use cases and innovative experiences. To show our strong relationship, I will be presenting at several keynote sessions at the Qualcomm Snapdragon Summit later this month.

It is also important to note that we are very global with customers shipping in 25 languages and continue to grow internationally at this scale. As an example, in addition to our existing global footprint in automotive, we are working with some major global brands including in the IoT, hospitality and consumer segments, and this continues to grow. It takes years to build the foundation for such strong relationships.

And while we are excited about what we have built and the new opportunities we realized this quarter, it is nice to see that this success is also being recognized by our industry. In Q3, Speech Technology magazine awarded SoundHound the 2022 Speech Industry Award for driving ambitions in speech, recognizing SoundHound as one of the top providers of in-car voice systems. It is an honor to receive such recognition.

Turning to SoundHound for Restaurants, our voice AI assistant that allows restaurants to automate the ordering process at drive-throughs, drive-ins, ordering kiosks and over the phone. This technology helps restaurants automate and innovate their order taking at a time when many are tackling rising food costs, staffing shortages, supply chain issues and other headwinds. SoundHound for Restaurants results in businesses taking more orders and maximizing sales. Because our voice AI technology can help restaurants simultaneously grow sales and save costs, SoundHound for Restaurants has been an instant success.

And because of the extremely fast onboarding, where we see customers live in a matter of days, I'm pleased to report that our technology is being implemented at a rapid rate. Our pipeline is easily in the tens of thousands of restaurants. And it will only grow since there is over 1 million establishments in the United States alone.

In addition to selling directly to restaurants, we are rapidly building out our ecosystem with point-of-sale systems providers. Last quarter, we announced our integration with Square. And since then, we have added integration with Oracle and Toast. These integrations allow SoundHound for Restaurants to seamlessly be integrating restaurants to automate voice AI ordering technology, significantly expanding our reach to millions of restaurants and establishments globally.

We have also been working with Mastercard to jointly develop voice-enabled solutions to deliver low-touch, high-engagement experiences for quick service restaurants. While most other attempted solutions use a hybrid of humans and automation to tackle the complex challenges of food ordering, our fully automated admiss AI technology is on track to surpass a level of ordering success on par with humans. Because of these achievements, we are taking this partnership into a commercially large deployment phase and enabling us to expand in more locations and brands.

Our pipeline is expanding both here in the U.S. and internationally. And this is only the beginning. As Mastercard's trusted partner in retail initiatives, we look forward to expanding into other relatively untapped markets to deliver timely innovation for many retail brands around the world.

With SoundHound for Restaurants, we are confident this presents a significant market opportunity that we believe we are perfectly positioned to address. Voice-enabled food ordering is particularly challenging, requiring a specialized speech recognition and complex natural language understanding, which match perfectly with our key differentiators.

Next year, we expect this opportunity to begin to make a meaningful impact on both bookings and revenue as we are already seeing shorter sales cycles and faster deployment rates. And over the long term, the potential impact is significant.

In closing, since launching SoundHound's initial voice AI platform in 2016, we have radically evolved it, globalized it with 25 languages and begun to scale into major enterprises across several industries. Large brands such as Hyundai, Kia, Genesis, Mercedes-Benz, Stellantis, Dodge, Chrysler, VIZIO, Snap and Pandora have helped build our foundation. And while we continue to expand on those foundational relationships, we are making good progress in expanding our addressable market and demonstrated -- as demonstrated with our new SoundHound for Restaurants solution.

Like Amazon starting with books, this is the first of many steps for SoundHound to enter the enormous voice commerce industry. We are confident in our ability to both create and leverage a huge, global addressable market.

Our ability to simultaneously focus and be agile has always been one of our strengths and has enabled us to strategically innovate and bring the right technology to the market at the right time. As we look forward, we will remain agile and focused.

For that reason, yesterday, we announced to our SoundHounders that we are taking actions to streamline our company including an approximate 10% reduction in workforce. We never take these actions lightly, but we know that success comes from leaning into challenges and the ability to navigate and appropriately respond to the environment around us. I genuinely want to thank those departing teammates for all they have done and contributed too for the past quite several years.

We are in a unique position to maintain our leadership in core voice-enabled AI technology with our track record to solve extremely difficult problems with our breakthrough inventions. We are performing right on plan and delivering strong results. And while the macroeconomic conditions have proved challenging, we are pleased to confidently reaffirm our 2022 revenue target once again. Even in tough times, we have not wavered.

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

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

Thank you, Keyvan, and hello, everyone. Q3 was a milestone quarter. We reported record revenue, delivered strong gross margin expansion and saw EPS improvement both year-over-year and sequentially. With Q3's triple-digit bookings growth and strong customer engagement, we are building and executing on the foundation that will fuel our continued expansion.

We closed the quarter with a strong cumulative bookings backlog of \$302 million, representing a year-over-year growth of 239%. The contracts underlying our bookings backlog range from 1 year to more than 7 years with a roughly 5-year weighted average contract length. Our long-term relationships highlight the confidence and commitment our customers have working with us to build the future together. These bookings form a critical foundation for our ongoing top line results.

As a quick reminder, we break out our revenue into 3 distinct pillars. Pillar 1 is where we voice-enabled products like cars, TVs and IoT devices, and we booked product royalty revenue. Pillar 2 is where we voice-enabled services like food ordering, appointments, customer service, and we book recurring subscription revenue. And in Pillar 3, we create monetization revenue when we connect those voice-enabled products in Pillar 1 with the voice-enabled services in Pillar 2, similar to the example Keyvan shared earlier. This natural and seamless bridge between voice-enabled products and services unlocks value for all parties involved, the end user, the restaurant and the product creator, with whom we share part of the transaction. These 3 revenue pillars created positive network platform effect that compounds, expanding our addressable market and increasing customer adoption.

The strategic business model elevates voice AI from a cost component to a new incremental revenue-generating pathway for product creators, which is an extremely attractive proposition to our customers. And accordingly, unit economics become increasingly more attractive as this ecosystem scales and expands, and we are building this ecosystem within a massive addressable market.

In Q3, we generated \$11.2 million in revenue, up 178% year-over-year. Revenues were predominantly driven by product royalties where we continued to scale units and also saw expanding average price per unit. This quarter, our product royalty revenue increased significantly, thanks to overall customer momentum and including a large Edge deal with an automotive partner, whereby we received a multiyear minimum guarantee commitment. This partnership has been steadily expanding, and we continue to displace the incumbent provider. The long-term commitment demonstrates the strong partnerships we are developing and the continued share gains we are experiencing.

We also saw strong growth in Pillar 2, up 83% year-over-year, where we've begun to realize the traction we are seeing with restaurants and voice-enabled food ordering. There is so much potential in the service sector, and we are aggressively pursuing it to meet the strong customer demand and amazing product market fit that Keyvan mentioned earlier.

While the mix of revenue between royalties and subscriptions will not be linear from quarter-to-quarter, we expect that over time, revenue will become more predictable as we expand more into Pillar 2 subscription and Pillar 3 monetization. We see subscriptions and monetization as more of a recurring revenue stream that will eventually be measured in metrics such as ARR and ARPU.

Our gross margin improved to 77%, up from 59% in the prior year. This was largely driven by the mix of higher-margin Edge solutions and the previously mentioned automotive deal. It is important to note that this dynamic will not always be the case since different quarters may have different product mixes. Nevertheless, we continue to expect full year gross margin to be over 70%, which we believe is strong and appropriate for a thriving and expanding core software business.

Cost of revenue for the quarter was \$2.6 million, up 56% from the prior year. The majority of our cost of revenue is associated with data center costs supporting our customers, which continue to be impacted by a migration across cloud vendors. We continue to expect to complete the migration by the end of this year.

Our operating expenses have historically been heavily weighted towards R&D as we built our voice AI platform and deep portfolio of over 260 patents. We ramped up our sales and marketing investments this year to accelerate growth while solidifying our G&A functions as a newly public company. Across our operating expenses, noncash employee stock compensation was \$9.2 million in Q3, up sequentially and year-over-year due to increased head count and other adjustments associated with becoming a public entity.

In Q3, R&D was \$19.4 million, up 35% year-over-year. We will continue to invest in R&D to ensure we remain at the forefront of innovation in AI and machine learning while also helping to develop and scale new products and services. Some of the key product innovations Keyvan noted earlier were a result of this and prior R&D investments.

Sales and marketing expenses were \$6.7 million, up 468% year-over-year coming off a small base in the prior year period. This has been a focus of investment to fuel lead generation, new customer acquisition, expansions into new verticals and, ultimately, our ability to continue to disrupt and capture market share. The traction we are seeing in Pillar 2 in particular is benefiting from this spend.

General and administrative expenses were \$9.6 million, up 138% year-over-year. This includes head count growth and non-head count spend across our global functions to support the operational activities needed as we scale as a public company. We expect this trend to continue over the next few quarters and then start to become a source of leverage on the P&L. Please note that much of our stock compensation expense also sits in this OpEx line item.

Our operating loss was \$27 million in Q3. And adjusted EBITDA, which excludes the noncash charges of stock compensation and depreciation and amortization and other nonoperating activities, was a loss of \$16 million. Both improved sequentially. Net loss per share in Q3 was \$0.15, an improvement from \$0.35 in the prior year period and versus last quarter. As of September 30, our ending share count was approximately 197 million shares.

Our cash position at quarter end was \$33.4 million. We continue to leverage the proceeds we received from going public in April while continuing to infuse new capital. For example, in Q3, we added a new committed equity line of credit which, once available, we expect will provide ongoing access to incremental capital to help us continue to fuel growth. In addition, we are currently in late-stage discussions to provide additional, more immediate cash to the balance sheet.

Moving on to guidance. We are certainly mindful of the continued challenging market backdrop and are diligently calibrating our cost structure to ensure we don't overextend ourselves in these dynamic times. As such, we have taken actions to reduce our expenses with impacts to both our people and discretionary spend. Those are never easy, but these actions will enable us to accelerate our path to profitability without materially impacting our ability to execute our business plan effectively.

We are not immune to the global macroeconomic pressures, geopolitical dynamics or foreign exchange headwinds. That said, our solutions are in many ways countercyclical because in times of inflationary pressures and labor challenges, automation and AI are even more critical. As such, for the full year 2022, we reconfirmed the midpoint of the revenue outlook we provided previously and are tightening the range to \$28 million to \$32 million. This expectation has not changed since we first communicated, well before the market conditions worsened throughout this year. And we continue to feel confident in this outlook.

With respect to longer-term expectations, we will share more specifics on 2023 at our next earnings call. That said, I wanted to provide some context that will hopefully convey the momentum we are building here.

First, the \$302 million of cumulative bookings backlog that I noted earlier gives us high confidence on revenue that will either automatically roll into the P&L in accordance with software revenue recognition guidance or as a result of expected customer unit volumes upon which we generate royalty revenue streams. As one reference point, the backlog conversion to revenue alone gives us high confidence that without us doing much incremental work, we would still realize sustained year-over-year growth over the next several years.

Of course, that's not enough for us. We are working hard, growing markets, adding customers and expanding with existing customers and have substantial pipeline to show for it. For example, the food phone ordering we have been discussing at length is effectively not even in our bookings yet. So we see a material upside on top of that baseline. And this new vertical has a better financial profile, more predictable revenue streams, better scalability leading to more favorable operating margins and faster cycle from initial customer contact to cash flow. And most importantly, customers are all over it.

Given these new product offerings, deep pipeline and expansion we continue to expect, we are building the foundation for sustained strong growth over the next few years. Again, more to come as we enter 2023, but we felt it was important to share our confidence and conviction in what we are building here.

We are delivering our near-term commitments while focusing on the long-term potential in front of us. I said this last quarter as well, our progress will not always be linear, but our current momentum is unquestionable. We are pleased with the progress to date and extremely excited about our path forward.

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

QUESTIONS AND ANSWERS

Operator

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

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

Great results there, and looking forward to November 17 announcement.

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

Mike, thanks.

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

So maybe could you -- so you've had really strong bookings, really strong results. At the same time, you sort of -- you mentioned the macro backdrop. I guess, to the extent there is some macro effect here, how does that affect kind of what you're seeing as -- seems like you're seeing really good bookings, really strong growth. So are some customers just being a little slower? Or like what's the potential effect here, if it all?

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

Sure. I can start here, Mike, and then I'll -- Keyvan can certainly add. Maybe I'll make some general comments and then try to double-click in a couple of areas. So first, I mentioned in the prepared remarks that in a lot of ways, what we're finding is that our solution, despite sort of the macroeconomic dynamics are very well situated. And if you take, again, the food ordering example that we talk about that we're seeing a lot of scalability, one of the major dynamics is labor shortages, the inflationary pressures on commodity cost to restaurants, just overall cost of labor dynamics. And so when we go around and we try to give a demo, a little example of what the technology can do and as our sales team goes around and talks to restaurants, they're seeing so much demand for this that we have just, I guess, another way of saying backlog but a big pipeline of folks who are trying to get on board.

And so we know that our solutions are very well suited. Automation and AI is very well suited for this market backdrop. And frankly, we believe even despite the market turns here, we still think there's going to be sustained demand there. So in that sense, it's actually -- there are some elements of it that are, like I said, countercyclical or tailwinds to the demand for our solutions. I would say more broadly, I'd say macroeconomically, the strengthening of the dollar, given our international exposure, certainly is a pressure point. So in another way, I feel confident we've been able to reconfirm, reaffirm the revenue outlook, so despite throughout the year we've had actual pressure on the top line that we've had to overcompensate, which is underlying core business growth.

And then maybe the last point I'll just cite, I think that if I kind of look at where we're going as a business and the scale that our bookings backlog represent, the reason we kind of draw focus to that is we're disrupting. We're changing the market. We're changing our humans interact with technology, and we feel great about the progress we're making. The customers and the enterprises we're working with have sort of substantial

footprint. And while they may sort of recalibrate to address the market, so auto may maybe -- previously was -- supply chain pressures that maybe sort of recalibrating around high interest rate cost -- interest rates and impact on cost, we're penetrating and disrupting. So we can still realize more of those bookings into revenue. We can still penetrate more of the market. And it's growth for us even if that macro 80 million global light vehicles produced per year kind of don't grow as fast or, again, the restaurant business has some chips from drive-throughs to sit down, to phone ordering, like our solutions can span a lot of those spaces.

So I don't want to drive by and say like everything's hunky-dory. We're definitely mindful. And that's why we took cost actions that are very difficult. And we'll continue to calibrate and just make sure that we're thoughtful about where we're going. But I'd say again we're feeling generally pretty good.

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

Yes. I would confirm that the Pillar 2 business, actually, the demand goes up when the economy becomes more challenging. So we actually are experiencing that, which is very encouraging for us. And even in Pillar 1, if you look at some of the announcements that some of our customers have made, they are claiming that in the next 10 years or so, long term, they want to generate revenue from their cars and devices that they are shipping. But with our solutions, they can actually accelerate that because of the 3-pillar model where we bring the services that's voice-enabled to the product that's voice-enabled and create this monetization ecosystem while they're delivering value to the end user. So we see increased demand across all of our customers.

But in an environment where every company is taking a reduction in cost and being more mindful because of this uncertainty of the future, it would be unwise for us not to take that action. And we did have a -- in terms of number, it was relatively small, but we had a reduction in force yesterday. That was difficult for us to do. But we were doing too many things because we just -- we are very innovative. We have lots of technologies that can apply to so many things. But we have to be a little bit more disciplined, and we took action.

And I always think, as a leader, company comes first, team second, myself last. And it's very easy for me to put myself last frequently, but deciding between company and team, those moments are rare. But that was the moment that we have to decide and say goodbye to some of our friends, basically.

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

Yes. Yes. Got it. On the voice ordering restaurant category, you guys definitely are a lot more sort of excited about this opportunity, I'd say, than at the start of the year. Can you elaborate a little bit more on it? Are the end users sort of local restaurants? Are there some big chains rolling this out? And then it kind of sounds like you're getting a fair amount of subscription already, but maybe I misread that. Maybe it's more coming next year. So just a little bit more detail on that would be great.

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

Yes. So the -- what's amazing about what we built is that it can go live instantly especially with the very good point-of-sale systems because restaurants already have their menu in the point-of-sale system. And they also manage the orders in the point-of-sale system. So when we integrate our solution with that, when this restaurant wants to go live, it could be instant. Like they could press the button eventually and go live. And obviously, we are being more mindful at how we roll it out. We have a huge pipeline of restaurants that want to go live, and we're kind of doing it gradually just to be mindful about the quality and so on.

But we can go after enterprise, franchises, like one brand that might have thousands of locations. We can also go after the mom-and-pop small businesses with one location as long as they're using one of those POS systems. So we are actually going after smaller locations with -- through the POS channel, and then we are also -- have a huge pipeline of enterprise application with lots of locations. And that's for the phone ordering.

With drive-throughs and kiosks, we have announced our partnership with Mastercard and some of the brands. And there is a lot more of that coming. So it's kind of one solution that can apply to so many variations of implementation.

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

And Mike, maybe I could add just a couple of things. Because you alluded to the fact that maybe we are talking to it a little bit more than earlier in the year, and I think that's fair. I think as we've gone through the year and we've gone out, improved the solution, got feet on the street talking to both the platforms that Keyvan alluded to and the restaurants, there's so much demand, and there's such a perfect market -- product market fit and particularly in this time.

And honestly, that side is part of the focus that came on to the end of the last answer. We know there's a ton of traction here, and we see this ramping substantially. And if you think of sort of just the economics part of this, there's over 1 million food establishments in the U.S. alone, and you think of the recurring type of pricing on this, this is a well north of per-year billions-of-dollars opportunity. So as we penetrate just small market shares, this is meaningful to the revenue opportunity. And at our scale, that means substantive growth.

So yes, we're focused on it. We see it also from a business model perspective very attractive because, as you know, in the sort of Pillar 1, particularly in the auto space, where those can be multiyear sort of cycles from first contact to cash flow, and that has accelerated, by the way. I give a lot of -- a lot of the autos are realizing that software is very important. The cockpit is very strategic. And so they are accelerating that pace to 18 months, even a year in many cases.

This Pillar 2 is actually almost instantaneous in some ways. It goes from like first conversation to a matter of weeks where we've onboarded, ingested the menu and where we can be live, and that's accelerating to days. And frankly, as you scale from one cuisine to the next store, if it's a franchise that has the exact same menu, again, that can be instantaneous.

I'll also make one other sort of side note that -- of what we're talking about here because when you look at the Pillar 1 and you sort of say who are the players in auto, Cerence clearly is an incumbent. The big techs are sort of trying to play in that space. There really isn't many players in the Pillar 2, particularly food ordering, who have the capabilities in the aperture to go at it. There are some other players, but they don't actually have the full core engine, the technology to serve this. And so therefore, we have massive advantages.

You'll hear some others who put benchmarks. And one metric that people watch is order completion rates. So somebody goes and actually starts talking to the AI, like the example we gave, that they actually get what they want and consummate a transaction. And we see benchmarks that are in the 20%, 30% range out there, and our solutions are targeting 70-plus percent, even higher. And just to put a reference point, humans themselves are not 100%. I don't know your experience with food ordering, but sometimes with the friction in the background, we have data points that say humans themselves are 85%, 90%.

So we're just really trying to find alternatives. And ultimately, it's in service to the customers to try to get what they want when they want it in a sort of enjoyable manner, and we're so excited about this opportunity.

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

Yes. I'm often missing a french fry or a chicken sandwich in a bag when I order. So...

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

Yes.

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

Very last one. Average length of backlog, you said it was 5 years. Can you give a little more detail, like what percent of that is in, say, the front end or back end of that?

Nitesh Sharan - SoundHound AI, Inc. - CFO

What percentage of that is in the front end or back end? So -- okay. Yes, so got it. Yes, average length is about 5 years. There is a bit of a back-end skew to it. Like we internally will view the metric, probably won't typically try to give it like a duration metric, which kind of does a weighting of it. And so it does skew towards the back end of it, north of 3 years. And so it's not ratable. So if you take \$30 million divided by 5 and said \$60 million, it has a bit of a back-end skew to it. I'll pause there if that's kind of -- does that work sufficiently, Mike?

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

Yes. Yes, fair enough. Okay. Great.

Nitesh Sharan - SoundHound AI, Inc. - CFO

All right. Thank you, Mike.

Operator

(Operator Instructions) Our next question comes from the line of Brett Knoblauch from Cantor Fitzgerald.

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

A couple of questions on my end. I guess as we look at the bookings backlog, really kind of strong sequential and year-over-year growth now that we have kind of a couple of quarters to compare against. 207% year-over-year growth last year gets us to \$92 million in 2Q of last year. And then the year-over-year growth this year gets us to like \$89 million. So I guess what happened in between -- in the fourth quarter to the first quarter, where you saw bookings increased by, call it, \$140 million over the course of 4 or 5 months? Can you point to anything in specific that kind of drove that?

Nitesh Sharan - SoundHound AI, Inc. - CFO

Yes. Let me try it and then check me here, Brett, if this isn't kind of where you're going. So first, I'd say, to the math you were doing it last year, just as the -- just to maybe put it out there, maybe you already know but just for the broader audience, the way we -- cumulative bookings backlog are sort of represented is these are new gross bookings that we received from customer contracts, less recognized revenue off of those contracts associated with those in a quarter, and then that sort of net becomes the new cumulative bookings backlog.

So to the numbers you were talking about between Q3 and Q4, that could have gone down because we recognize more in a quarter than we realized. So those things can happen from time to time. And then I think you went to sort of like, well, going forward from there, it has sort of \$90 million level, and then we spiked up to \$100 million -- sorry, \$200 million and then up to the \$300 million we are here. I'll make a couple of comments, and again, I'll -- I'm sure Keyvan will add.

So we're seeing -- I'll start with maybe just almost like a fundamental. The customers we're going after are major enterprises, global manufacturers, global businesses that have major reach, and we're providing a software solution that can embed into millions and millions of products. And the way when we sort of sign up a customer, and like if you take the auto example, we'll sign up with a partner, and we'll be their voice provider for

either Cloud voice solutions or Edge solutions. And the arrangement will be a multiyear for basically serving their auto production -- we should take a simple example, 5 years of auto production and these couple of product sets.

And then what we do is -- with those customers, we'll sort of -- in the contracts, there may be minimum guarantees, and we'll basically just take the minimum guarantee. Or there may just be volume estimates, and we'll try to conservatively assume sort of what's baked into there and then bake that in as a booking. Or in some cases, we have partners where we're on a 1-year sort of recurring revenue base, and we'll book that as the booking. But effectively, we're just signing up more and more customers. And that's both across autos. That's across other device manufacturers. That's across the services pillar and Pillar 2.

Again, just a reminder, I think you know this, Brett, but our bookings backlog only represents Pillar 1 and Pillar 2. So we're really talking about the sort of autos, devices, TV manufacturers and services. So I think the growth is just reflective of momentum and great conversation.

One of the things we -- I think we've talked about before, but we've built a lot of the foundation of that bookings up until sort of the latter part of last year really on the back of just a handful of business development resources, Keyvan, including going around the world, talking to these major partners. If you look at our history, actually, a lot of these partners were also investors in some cases. They sort of started working with us, and they chose like I'll work with you as a customer but also wanted to invest. So it talks to the depth of the partnership.

But one of the things we've really done this year is also with bringing on board our new Chief Revenue Officer, Zubin Irani, who himself came formerly as a CEO, decided to come on board with us and has really started scaling. So he's built out, and that's been part of -- in my prepared remarks, I commented about the sales and marketing expenses going up. We have absolutely built out our sales function, and that's what the team is doing. They're going out and building partnerships, building relationships. And I think you're seeing the fruits of that in some of these numbers.

A long way to go, we really believe we're just getting started here. But that's a little bit of context. Hopefully, that kind of covers a little bit of where you're going.

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

Yes. No, no, that's extremely helpful. And I guess speaking to the scalability, right, say McDonald's comes to you tomorrow and wants to deploy your SoundHound for Restaurants in every location in the U.S. How quickly can you guys do that? I guess what is needed on your end from maybe like a head count perspective? Do you need kind of a lot of professional services to go there and do this? Or can this be done fully remote? I guess, just walk us through that.

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

So what do we need -- so just to refresh, the question is for -- if a McDonald's or any restaurant comes on board, what is the step from sort of first conversation for us to get on board with them? Just to summarize, Brett, is that correct?

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

Yes, get on board to get the product deployed.

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

Yes. Yes, so we have a standard menu ingestion. That would be streamlined, so that can happen very quickly. So whether -- it's easier for chains because you kind of ingest once, and then it works for, I believe, thousands of locations. But because we were preparing for like 1 million restaurants with different menus, we become very good at that. So the main ingestion and streamline that can be done very quickly.

And then the question is how do you want to deploy it, is it a drive-through, is it a phone ordering, is it all of the above. And we will just work with them to integrate it. If you are using one of the POS systems that we have already integrated with, that's very easy because that's already done. If they have their own customized POS or their own customized hardware, there's a little bit of hardware integration that would happen for customers that are really worth the effort, that you integrate once and you'd go live in, again, over 1,000 locations.

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

One of the things on the drive-through in particular, as we've talked about, I think, Mastercard is a partner we're working with. And it's great because of their scale, first of all, and their integration and partnership. So we work with them, and they help on the sort of implementations. We bring the core voice AI. And it's just as great because of the reach, number one, but also just they have a very deep and strong business across the ecosystem clearly with the drive-through restaurants. And frankly, we see that pathway in partnership with them scaling.

Beyond that, for phone ordering, as an example, we are working with other platform providers like Toast, like Square. We announced last quarter Oracle, Olo. There are others where it gives you access immediately to tens of thousands, hundreds of thousands of restaurants. So that's something that we believe is great on top. And again, once you kind of work with them, you're getting access to it, you do the menu ingestion, we're getting faster and faster with that.

And then the other thing that we are learning in growing fast, every environment is slightly different. The acoustic dynamics at each environment can be slightly different. So we -- the great thing of owning the core tech end-to-end and having sort of our ability to do machine learning at the Edge, to understand the environment, to get data and improve the accuracy just really makes us able to scale and improve quickly. So all those things are sort of part of the process.

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

And I just want to add that it's also future proof. So it's very easy to then bring restaurant integration inside the products that we voice-enable. So you're driving a car or you're using a TV that's voice-enabled, we've announced with VIZIO, lots of cars that are always in market, it would be a click of a button for those product creators to bring food ordering and voice ordering inside their products. So this really -- as you are building this foundation and ecosystem, you are future proofing for those things to just kind of just automatically happen.

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

Understood. No, that makes a lot of sense. Maybe looking at the quarter, really strong quarter. Kind of revenue really exceeded consensus is definitely my estimate. I guess what drove the strong quarter? And then similarly, I guess, why haven't you maybe raised the guidance for the full year given the outperformance in this quarter? Was it a specific like onetime deal? I know you talked about signing a large Edge deal. Was there like a onetime payment that led to a big sequential increase in revs?

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

Yes, maybe I'll take your questions a little bit in reverse order, if that's okay. So I think we continue to reaffirm guidance, but yes, we have strong confidence in that pathway. And we want to establish ourselves as kind of we keep delivering on what we're saying, and we keep raising the bar. And that's certainly how we kind of drive the business internally. So we feel confident about what we see in this year, and we have a high conviction that we'll be able to deliver upon it.

It was driven -- we saw strength in product royalties. As I mentioned in my prepared remarks, we did have a large deal that was a minimum commitment for multi-years, and that was a material benefit to the quarter. Again, we work with these large enterprises, so we expect those will be happening more and more or at least that's what we're shooting for. But also being able to scale from Cloud solutions to Edge solutions and

offer more things to even existing customers, to penetrate into new geographies with existing customers, to get down brand into different brands. There's just a lot of ways we're able to utilize the existing ecosystem and scale further with our customers but also add more customers.

And we saw a bit of that this quarter. It's certainly reflected in the results. But as we go forward, sure, we're going to keep trying to do that. If we can beat -- and we're talking next quarter with you, Brett, about how we beat them, great. But we thought prudent, especially in this backdrop, for us to continue to just kind of hold the line, hopefully, just keep delivering consistently and strongly over time.

Operator

Thank you. I would now like to turn the conference back to Keyvan Mohajer, CEO, for closing remarks.

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

Thank you, Gigi. When we founded SoundHound, we had a vision to see voice AI in our lifetime and make voice AI even better than humans in understanding and also as human and as natural as possible in the way it responds and interacts. We power the only global, independent industry, cross-industry voice AI got platform, and we are focused on rapidly scaling our business. We continue to execute, and this quarter, our exceptional results demonstrated our business momentum.

We had a record quarter across all key metrics. Let me summarize. Bookings grew 3.5x, revenue grew 2.8x, gross profit grew 3.6x, and queries are past 2 billion.

With that, I thank you for joining us today, and I look forward to speaking with you when we report our fourth quarter and full year results next time. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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