REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SOUN.OQ - Q4 2023 SoundHound AI Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 29, 2024 / 10:00PM GMT

CORPORATE PARTICIPANTS

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

Keyvan Mohajer *SoundHound AI, Inc. - Co-Founder & CEO*

Nitesh Sharan *SoundHound AI, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Daniel Ives *Wedbush - Analyst*

Gil Luria *DA Davidson - Analyst*

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

Glenn Mattson *Ladenburg Thalmann - Analyst*

Mike Latimore *Northland Capital Markets - Analyst*

Brett Knoblauch *Cantor Fitzgerald - Analyst*

PRESENTATION

Operator

Good day, and thank you for standing by, and welcome to the Southdown Q4 2023 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*

Good afternoon, and thank you for joining our fourth quarter and full year 2023 conference call. With me today is our CEO, Keyvan Mohajer, and our CFO, Nitesh Sharan will begin with some short remarks. Before moving to Q&A, we would also like to remind everyone that we will 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 definition 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 the information available to us as of today's date, and we undertake no obligation to update any forward-looking statements except as required by law Finally, this call is being audio webcast in its entirety on our Investor Relations website. An audio replay will be available following today's call.

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

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

Thank you, Scott, and thank you to everyone for joining the call today. Once again, we broke a new quarterly record for revenue this quarter, we surpassed [$18.8 million] and was up 80% year over year. We are winning new customers and expanding with existing ones. We continue to create value for our customers, their customers and their employees while delighting users with our technology. At the same time, we are also driving efficiencies with an 80% year-over-year improvement in adjusted EBITDA.

At some home, you've made two important positions for the future payoff. First is that AI customer service will be necessary for every business of WiFi and electricity. Second is that issue will become the primary way we interact with the devices around gaps. We believe voice and conversation is the most natural way to interact with technology. And fortunately for product creators, we can bring that product to life by simply adding a tiny, inexpensive microphone. These predictions are the foundation of our three pillar business strategy. Let me start with our first pillar, probably power products such as car. You need an IoT device.

We have a much shorter history. Pillar one, we went from 0 to over 20, our promoted brands in just a few years. These brands represent over 25% of the automotive industry. And we've added several brands just in the last few months with our TV from legacy giant such as Visio two exciting new innovator such as tele, we are in millions of devices and profit, billions of queries from Part DD. and other forms of IC devices.

Our customers choose us because they believe our technology is the best and we help them protect the brand users' data. And because we partner with them to differentiate and innovate, then something incredible happens, the introduction of large language model and generated Aon created a positive disruption in our view. While the big tech companies Merck is oriented and have been scrambling to make their own models, which could take years, we were able to swiftly integrate marketers generally by a model. Within a matter of weeks, our integration was clever due to our years of experience and technology foundation and that introduced a townhome chat AI product generated our contract, a I can't integrate real-time domain and go back and forth between multiple model, literally in a senior conversations patients and is able to utilize even multiple models for if you look where, for example, they drive off the car and all can ask for reopening whether request sites, new recommendations are naturally weather condition.

A follow-up question then request to start navigation. One of the recommended vaccinations by simply referring to it, I've sat and you navigate to the second option you recommend Taiwan, Shopee. I have a rep rapid adoption launched in early 2023. You are one of the first companies to show how good of a I could be integrated into a voice assistant. While others are still only making broad claims to generate headlines, we've been building application oriented, thanks to our proprietary technology, which helps mitigate hallucinations and other issues that are inherent with our 100 series of AI models. Our applications are already live in production and in the hands of consumers across the world.

Let me highlight a few examples of our momentum and progress with our CapEx. Immediately after it became generally available. Also, brand saw the potential to increase the harvest ARU fish and improve the usage user experience using our product. That's because this is not just a simple AI integration, but it's in the back and forth between large language model, content domain, and the onboards features of the car washes and allegations. Throughout last year, we piloted our technology across a range of high profile OEM brands. We found that by adding density beyond capabilities to individual voice assistant the frequency with these drivers and passengers engaged with the increased multiples and the user satisfaction increased significant. The enhanced performance of financial aid for automotive has created numerous opportunities, and we are proud to announce that it has become the experts in carbon assistant, which added a capability in the world to go live in the week of Jan. just experimental pilots.

Last year, the number started the pilot with Yes, automobiles. And due to the incredible result, they are now going live in production in 18 countries. We sell many more brands such as casual, Opel and Vauxhall have announced their plans to utilize 900 a year given our strong partnership with dialog that we expect many more brands to go live into production. This year panels have AI is increasing the product quality and user delight, but we also expect it to lead to an increase in revenue with a higher royalty rate for customers that choose to adopt and of that AR enabling automakers to add value to those drivers, experiences with new functionality. We believe we are at the very beginning of a refresh that will bring exciting new opportunities for car manufacturers, drivers and Com Hem as the upsell these new features, in addition to sometimes have a on, we also launched a new incredible product called Amazon vehicle intelligence in the fourth quarter. Drawing on our hand, both AR, it allows automakers to simply and easily voice-enabled the Carm-Ann. It means that drivers can use voice and conversation to ask about fitting special features, troubleshoot and more without having to spend time and effort these into a cumbersome printer dock.

And our Medical Intelligence is another innovation that we expect will improve product quality and increased already. We are working closely with well-known EV brands and have been gaining strong traction with luxury brands as well. For example, we won the business for a prominent US-based ET major to both enable the full slate of mid market needing data. In addition, we significantly extended and increased the volume of our existing committed contract with a large auto OEM until 2030. Creating value in our Pillar one category is not just limited to automotive. We also license our technology to smart TVs and many IoT devices for example, we integrated on a I would say that is having a new disruptive smart TV provider, another customer video, an integrated platform for cutting edge.

Smart TV is a strong opportunity with our monetization models using voice, commerce, process ordering, food, groceries and supplies. On the TV, you create the largest screen in the most social spending of every one. Our IoT devices. The use cases are endless, and we are working with more companies every day to expand or go into production in multiple areas such as with large appliance manufacturers, telcos, airplanes providing printers, wearables, coffee machine and PR among many. We are also thrilled that in Q4 we had a notable revenue contribution from a preeminent AR chip. Although this company has been a close partner for up for a number of years. This was the first time we generated licensing revenue from the partnership, and we expect more value will be realized from these partnership.

That's good. Moving on to Pillar two, where we offer a customer services or businesses such as restaurants, home services, personal care and professional service. As we predicted a year ago, our customer service is now outperforming. New user adoption is on the rise, and consumers are increasingly choosing to interact with cognition, conversational AI due to its reliability and extended to it we believe disruption in the customer service industry will be one of the first major commercial applications for Jenoptik, AI and large language models. It is also becoming affordable and accessible dimensions of our pipe businesses are beginning to see a I think just like my high and electric. We now have a proven scale in Pillar two as well.

Today, our technology is live in about 10,000 merchant locations. We are fully engaged with over 100,000 locations in our pipeline, and we have over 30 million businesses in our near-term addressable market you're at the very beginning of what a will bring to the world. And we are emerging as a market leader by offering application in real world. There are two very clear reasons, we believe we are leading first, our PIC, our solutions are built on proprietary technology and we alone on the entire technology stack. Second, our solutions are fully automated and therefore, easily scalable and capable of serving brands of all sizes and the largest brand in the world, your local favorites shop on the quarter, we are offering easy to use, easy to find a solution that make a real and immediate. I'll share some examples across our various offerings. Our has smart ordering product using voice A9 to support businesses by answering all inbound phone calls, taking customers whose orders and answered numerous questions along restaurants to free up their staff to focus on making food and engaging the customer in the store.

You might have changed over 2,000 locations went live in Q4 with smart ordering and it's rolling out at a rapid pace are getting for an initial 50 locations. We've already reached that goal today, and we expect them to expanded partnership based on them positive data today, while our first drive-thru offering continues to ramp up production, we are on pace to reach our goal of 100 lanes by the end of 2024. So far, we are also seeing our order processing of under 60 seconds, which is significantly faster, particularly in Q4, more large restaurant chain chose to integrate our book a ordering solution to help automate in-store operation, including Church's Chicken and a large hamburger chain located in the South, which have approximately 2,500 locations we can integrate our solutions with these larger deals are what their solution. We are also seeing a number of customers look to bundle these solutions with our other offerings, for example, can you deploy our new townhome product called employee asset as restaurants live for multiple offerings to gain efficiencies in ordering?

I'm good actually. And clearly it is a game changer for businesses to do this conversation of what Aon to support restaurant employees, but the copilot across a variety of at the other end, for example, to provide ingredients and other information to customers. We can also train employees with step-by-step instruction to ensure the product is prepared correctly without them ever having to remove the club consultant annual or distract and other staff members significantly reducing the stress on the on the work.

Another incredible kind of product dynamic interaction is our multimodal full duplex voice and text based or kiosk drive-throughs or anything like that. We are working with a number of partners and customers and our pipeline keeps growing. For example, Krispy Kreme has selected dynamic. As you can see, our portfolio of restaurant solutions is taking shape and major brands from convenience stores to multinational restaurant chains are taking off. They come to us to improve their order process experience and accuracy of the order, while at the same time improving their bottom line. Today, we have restaurant solutions live in all 50 U.S. states, and now we are expanding internationally with 25 languages in our arsenal. We believe we have a massive opportunity to go beyond these in-country. Net smart answering is our fault answering solution that goes beyond restaurants and can be used by any company and any index this product, you're empowering businesses of all types and how they respond to customers on the phone, alignment to capture every business opportunities while also mitigating a smart entering and handle multiple calls at one 24 seven conveniently filters outbound call saving hours of wasted time for anybody. It also provides a metric positive captures the intelligent messaging app.

Important follow-up question. In addition to bearable answers around policy, our product services, pricing and more, they're already live with customers with smart answering. And the feedback is 11, given the smart answering experiences fully automated. You can easily offer these products to smaller businesses that in the past wouldn't have had and to massively increase our ability to scale and offer this solution with no touch onboarding for any business. We've been piloting a self-service e-commerce approach in Q1 and the early adopters.

Let me talk about the three following up on the announcement of our acquisition of the three, we've begun the integration of the exceptional team. We found out think three brings more than 20 national and multinational chain spanning drive-through, fast casual and casual dining segments as well as convenience stores, townhouse and growing customer pay. Examples include triple-play, KC, Appleby and Xpress, Papa John and I because our voice AI is fully autonomous and does not use humans in the loop to perform. You're also able to rapidly scale our deployment without any degradation in quant. For instance, we've seen three recently completed the rollout of what they are ordering to 2,400 Casey's General Stores, which also is one of the largest pizza chains in the US. Joining me are combining nearly two decades of spam and AI innovation. With decades of seeing three industry expertise and established relationships together, we will accelerate the deployment of leading edge as a suitability to the industry while ensuring that our technology always was to preserve the best interest of our customer, their customers' IT.

More broadly combination that can harm the preeminent global provider of voice for restaurant, significantly extending our markets although we only closed the transaction in Q1 of this year, we are already seeing tremendous momentum with the customers and the ability to offer them additional solution such as dynamic interaction smart answering and employee asset synergies are already taking hold and we are moving at a rapid pace. As I mentioned earlier, we have three pillars royalty from voice-enabled product subscriptions from booking to book services. And the third pillar is monetization from connecting those services to those products. For example, drivers of us now have a new book car will be able to use their voice to order food by just talking to that car and can do so before arriving at the restaurant or the timing appointments to get a haircut applied over from other types of transactions.

We believe this will create the future of the voice commerce ecosystem and town is in a unique position to realize its vision and our strong footprint, both devices. And then with our expanded national risk, non-res, you see an acceleration of our legacy monetization strategy of transactions in new the car, even an IoT device. We believe this is a powerful business model, which could add significant value to all participants, we would collect a fee for generating new leads for merchants and calculating transaction in-store products and benefits from a new customers, the channels and the direction and the automakers and the device makers take a share of the economics.

Most importantly, the end user will have the convenience of using their voice to get things done, we are excited to see our portfolio of customer using voice-enabled services continue to grow, allow us to begin to pilot this new commercial vehicle in closing our revenue has grown on an average of over 50% over the last four years.

This incredible growth during challenging times and against global market headwinds as a testament to our strong foundation demand for our technology and great partnership we built with some of the most well-known brands in the world. Going forward, we expect to maintain the strong growth and see massive opportunities to accelerate even further beyond this year, it's hardly a our evolution is creating a tailwind in our favor. We believe that San Juan has a unique advantage with its own IP to decades of experience building trust with global customers, a trove of data and a track record of innovation move fast and invent our way forward. We remain at the forefront of conversational AI.

And that's why we have been working on Polaris, our multimodal multilingual journey with a conversion model, which could be another important tool for us as we position ourself at one of the leading and major forces in this new era of data.

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

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

Thank you, Keyvan and good afternoon, everyone. Q4 revenue increased by 80% year over year. We finished 2023 with accelerating momentum. And we are seeing exceptionally strong interest from enterprise businesses, most notably within the restaurant and auto sectors. In fact, demand for Sound Health Solutions is so high that we now have a healthy waitlist of restaurant merchants, and we're calibrating our resources to ensure we deliver for the customers.

While we continue to be mindful of our pathway to profitability, delivering against this demand is paramount. Exceptional growth we realized with coupled with cost containment, we focused on cost discipline this past year and will continue to do so for the year. Adjusted EBITDA improved by over 50%. And in Q4, our results were even better with 80% improvement.

Excluding certain costs that were necessary to fuel our growth and transformation brings with close to the positive Q4 adjusted EBITDA target we laid out last quarter. For example, the near-term impact of switching to Big four audit firm, PwC midyear, while becoming a large accelerated filer and upgrading some of our internal tools contributed to the majority of these costs. We expect these expense pressures to lessen as we go forward.

The underlying drivers behind the remainder of the expenses are positive indicators of our future. First, we saw some tremendous growth opportunities in the second half of the year that we chose to invest in. We saw significant demand from enterprise restaurants in particular.

Second, we saw a great opportunity to inorganically, accelerate our go-to-market motion and capture a sizable and meaningful restaurant customer portfolio. The acquisition of SYNC three clearly positions us as the leader in the restaurant AI space.

Lastly, we accelerated investments in our administrative functions, notably around internal processes and controls to ensure we have an even stronger foundation for sustained long-term growth we expect to deliver. We fundamentally re-architected this company in 2023. We are more efficient, more focused, even more nimble and aggressively driving disruption and growth across voice enabled products and services. Accordingly, we are updating a metric we have previously shared in what we call cumulative subscription and bookings backlog, which includes our previously reported cumulative bookings backlog to also now include new subscription revenue streams that we are focused on.

Cumulative bookings backlog takes into account the prior quarter-end balance plus new bookings in the current quarter minus associated revenue recognized. Cumulative booking backlog is still derived from committed customer contracts, and this definition remains the same as the previous one subscription backlog takes into account customers where we are the leading or exclusive provider and assumes a four year ramp to fully scale with a total five year duration. We have incorporated reasonable assumptions about adoption percentages with lower percentages applying to pilot and proof of concept customers.

We believe we can outperform these assumptions given the faster rollouts we are currently experiencing and expectation to work with these partners for much longer. Similar to the previous definition, we do not include expected auto renewals for our Pillar one customers. This allows us to combine our Pillar one and Pillar two businesses into a single unifying metric. As we have communicated before, our cumulative bookings backlog mainly represented our Pillar one businesses and Pillar two. We have previously noted that ARR standardized the annual subscription like potential of these contracts while also indicating the better stability and predictability building in our financial model. That said, two different metrics on two different timescales doesn't synthesize our full potential and an easy to understand manner. So we believe this updated figure is more representative of our medium term revenue potential.

Ultimately, we are addressing a greater than $100 billion rapidly growing market. So this new metric gives you a view of the tangible customer activity we have won within that larger opportunity set.

In Q3, I mentioned our cumulative bookings backlog was $341 million with automotive being the largest constituent. I also mentioned that separately in the restaurant vertical and at full scale out, we would have 4,500 locations signed up and roughly $25 million in ARR. When we look at the combined potential of our signed-up customers at the end of 2023 across both pillars one and two, our cumulative subscriptions and bookings backlog was $661 million, up nearly 100% year over year on an apples to apples basis, thanks to growth in Pillar one and the incredible list of customers we have added in Pillar two.

Let me now get specific on our financial results for the fourth quarter and full year. In Q4, revenue was $17.1 million, up 80%, and within our guidance for the quarter. Full year revenue of $45.9 million was also within the outlook set at the beginning of the year. Revenue growth in Q4 was predominantly driven by automotive royalties with strong increase in units offset by slight decreases in average selling prices due to a higher volume of edge licenses that generally have a lower royalty than our cloud licenses.

Note that particularly with some of our new generative AI solutions and ultimately with monetization we think there are meaningful opportunities for unit price expansion. We also benefited in the quarter by a strong multi-year commitment of minimum guarantee volumes of our edge solution with an automotive partner and a new IP licensing opportunity with one of the preeminent AI chip makers that cave on referenced earlier.

Over the full year 2023, we increased auto units by 68% and active cloud users by 55% versus the prior year. And over the last four years, we have delivered an overall compounded annual growth rate of greater than 50%. In Q4, our gross margins were 77.2%, up over 600 basis points year over year, largely resulting from the greater scale in our business. This helped drive gross margins above 75% for the full year, also up over 600 basis points year over year as we increased our revenue sequentially every quarter and at the same time, improved our cloud and data center efficiency throughout the year.

R&D expenses were $12.7 million in Q4, a decrease of 41% year over year, resulting largely from our corporate restructuring actions earlier in the year. Despite the expense reduction, we continue to invest in disruptive innovation and expand our existing suite of products with solutions like dynamic interaction, smart answering, employee assist ,vehicle intelligence and sound chat AI.

Sales and marketing expenses were $4.5 million in Q4, a decrease of 34% year over year also due to the aforementioned restructuring. We continue to invest in go-to-market and customer engagement. As mentioned earlier, we are seeing tremendous momentum and heightened customer demand largely resulting from the investments we have been making in sales and marketing. We will continue to invest in high ROI demand generation and brand awareness to ensure we further build upon the current traction.

G&A expenses were $7.6 million in Q4, an increase of 3% year over year. The increase in G&A reflects two elements, some of which was not contemplated when we guided last quarter. First, part of our spending was related to diligence, negotiation, and closing of the acquisition of thing three.

Second, we accelerated investment in financial and nonfinancial processes and internal controls to support requirements under stock for oh four b, as we became a large accelerated filer in total. These additional expenses as compared to prior Q4 amounted to over $3 million with the primary factors not fully encompassed in our previously provided adjusted EBITDA outlook.

Across all operating expenses, non-cash employee stock compensation was $6.5 million in Q4. As a result, our operating loss for Q4 was $12.4 million, which reflects an improvement of 57% year over year. Likewise, for the full year, we saw improvements in our operating loss of 35% and as we successfully grew the business while maintaining cost discipline.

Oi&e was $4 million of net expense for the quarter, and net loss of $18 million in Q4, an improvement of 42% year over year. This led to a net loss per share in Q4 of $0.07 compared to $0.15 in the previous year, an improvement of 53%. Adjusted EBITDA, which excludes non-cash charges of stock compensation, acquisition costs, restructuring and depreciation and amortization was a loss of $3.7 million in Q4 2023, which was an 80% year over year improvement and a sizable dollar reduction down from an $18.8 million loss in Q4 2022.

Net cash used in operating activities for the entire year ended 2023 was about $68 million, improving roughly 27% year over year. Our cash position at year end was approximately $109 million, of which $95 million was in cash and equivalents. Given additional actions we have taken in early 2024, our current total cash balances in excess of $200 million. Our capital position is unequivocally a source of strength and gives us the security and optionality we need to drive the business forward.

With that let me discuss our outlook for 2024. We are committed to continuing to fuel strong growth with cost discipline and returns focus. We expect to expand with our existing automotive partners and add Pillar one customers. We expect our Pillar two businesses to grow meaningfully and increase from less than 10% of our total revenue in 2023 to more than 20% in 2024.

We see the overall top line growing to within a range of $63 million to $77 million, with $70 million at the midpoint target. As we look further ahead to 2025, we believe we will cross $100 million in revenue and deliver adjusted EBITDA profitability. Our gross margins have been in the range of 70% to 80%, providing a strong indicator of our software business profile.

Since we just completed the acquisition of SYNC three, while we work on migrating their cloud and AI infrastructure to our own, we expect to have a temporary decrease in gross margins due to some of the duplicative expenses. In addition, while the majority of SYNC three is revenue is AI driven, they also have a legacy call center operation was 13 has been gradually upgrading with AI. We expect to further accelerate this migration, which will ultimately calibrate their gross margins to ours over time.

As a result, we expect the combined company will show a onetime gross margin decrease in the early part of 2024 with steady improvement towards our historical levels as we get to the latter half of 2024 and beyond. Overall though, we see this acquisition as roughly EBITDA neutral over 2024 and accretive beyond.

Lastly, let me comment on expected revenue seasonality for the year. Our mix of business will shift through the year, as I described to a greater mix of Pillar two. But we will start the year more automotive heavy just as we ended 2023. As such, we remain affected by the seasonality in the automotive sector, which tends to be higher in Q4 and lower in Q1. Again, in 2024, we see our quarterly revenue building through the year and back-end weighted. We believe we can grow our business roughly 50% year on year each quarter.

Let me close by re articulating our excitement about what lies ahead. Generative AI and large language models have created a generational technological shift. The old way is out, customers are increasingly realizing they need partners like sound hound to help pave the way forward. We are balancing the massive long-term opportunity with the inherent near term volatility to navigate towards our goals. And we are bringing conversational voice AI to consumers everywhere so they can seamlessly access the information and services they covet through the products and devices they most interact with.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Dan Ives, Wedbush.

Daniel Ives - *Wedbush - Analyst*

Thanks. Good, good quarter. Can you talk about do you expect more strategic partnerships from a distribution perspective to happen over the next six, nine months I guess that is that going to be a big focus for them.

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

We go to market and yes, that's definitely in the second in our Pillar two, we see that as a big contributor. We have partnerships with, for example, although I'm toast and Oracle and Square as channel partners and they help us reach a larger number of merchants. And in Pillar one. We also the customers are generally very large. For example, we just signed an extended deal through 2037, each one of the largest automakers. That's a lot of the commitment for a very long time. So it's with a lot of trust.

Daniel Ives - *Wedbush - Analyst*

Okay. And then can you just talk about how the conversation with customers is changing? I mean, no, it seems like divisions been there for now. You're starting to actually see attraction. How does it feel like it's more strategic in terms of the conversations you're having, whether it's on restaurants autos, maybe you could just compare conversation today, you're even six months there.

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

It's totally different, Dan. Our the demand is going through the roof. And we actually have we are dealing with more demand than ever before. We have, for example, very large customers like multi-national chains with tens of thousands of locations, we actually have to put them on hold to deal with someone who deal with bigger. So it's a temporary problem that we're dealing with, but it can be a really good position to be in. So customers are not coming to us, whereas maybe 12 months ago or even nine months ago, we were actually going after them knocking on their door knocking on our door.

Daniel Ives - *Wedbush - Analyst*

Great. Thanks.

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

Thank you, Dan.

Operator

Gil Luria, DA Davidson.

Gil Luria - *DA Davidson - Analyst*

Good afternoon. I have one product question. One financial question, the product question: chip company, what's the nature of that revenue? Are they incorporating your technology in the chip and then when they sell it into devices, you're getting a license revenue? Or is it a different type of arrangement? And how does that scale once once it's in the once the chip makers incorporated the technology?

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

Yes, it's actually whether it was not a channel partnership with the direct revenues for the Company paid us for our IP, and we've known this company for a number of years, very close and close partner and this was the first time we generated revenue from the relationship. So we are incredibly excited about it and we expect more positive things to come out of it in the future. But that's as much as we can share today.

Gil Luria - *DA Davidson - Analyst*

Got it. So then maybe another product question. You mentioned a larger or a high-profile EV maker in the US. Does that mean that you can now send the technology and over the air updates because part of your gating factor so far has been incorporating into new cars only as they ship, but some particularly EV makers based in the US at least the three that I'm thinking about allow for over the air updates, they already have a microphone built in. So does this type of deal, make it possible for you to deploy your software a little more quickly and too fast to a bigger set of automobiles as opposed to only the ones that get shipped?

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

Yes, after that, the in for essentially for our cloud, we could replace an existing solution or sometimes they don't have a solution. So we could actually go to legacy cars and power them too. And this particular case, it would be for new cars and other cars that have already been sold.

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

And then maybe one thing to add, Gail, I think you know, part of your question is about like pace of scale. The other thing we're super excited about, as Keith mentioned, the prepared remarks around generative AI opportunities that we're already adding with existing customers. So it's sort of a build on top and it really unlock so many different use cases for us, and there's tremendous demand. So I think the opportunity of scaling faster and doing more per unit revenue per unit is big opportunity for us.

Gil Luria - *DA Davidson - Analyst*

Got it. So then on on the new match on the new backlog metric, I want to make sure I understand the duration. So it sounds like on the subscription side, you defined the duration of the five year duration. What's the duration on the booking side on the other side that on Pillar one that used to be, I believe, six years. Is it still the six years or are you now harmonizing it is also a five year duration?

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

Now great question. The current line is basically because they're committed contracts over the duration. So it's not like we're harmonizing. We're actually based on whatever is in a contract. So in Q4, we actually had some deals that extended it. So I'd say the average of that, I think when you take the weighted average of the full portfolio, it's still about that 6.5. But the actual device side, the product side did extend because we got some deals that extended the duration of the device or the bill one product. So the way -- the like you said, we've on the subscription side, made it five to standardize, but on the just like we used to do with cumulative bookings backlog we just tied to whatever the contract length is up. Hope that makes sense.

Gil Luria - *DA Davidson - Analyst*

It does. Thank you.

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

Thank you.

Operator

Scott Buck, H.C. Wainwright & Co.

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

Good afternoon, guys. Thanks for taking my questions. First, I was hoping I could get a little more color on your visibility into '25 and maybe why you're comfortable putting out a target today?

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

Yes, I think it's a couple of different things. One is we're building and we're making choices to sort of build a multiyear roadmap and that we're not playing short term quarter to quarter or even two quarters. So so I think we the pipeline we're building with the customers. We're working with the investment we're making to drive to scale. We're getting increasing confidence beyond just this year, and we thought it made sense. Frankly, we through last year into this year, we're sort of giving mile markers only up to the one year mark.

And so I think it would be the the bookings backlog type metric that we were talking about. There's a lot of good visibility. And frankly, it's sort of like where we're sitting today in February from early in the year. And we know there's just a lot more pipeline and traction that we're gaining. So we felt confident enough to sort of give an early read of 2025, which will obviously calibrate as we go forward. But Tom, I think it's really as a sentiment of confidence and commitment we're seeing from our customers.

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

That's helpful. Now, does that include any additional M&A or any potential deal you would do in the future would be on top of those figures?

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

It doesn't require a I mean we yes, we're I would say we're super excited about the same three acquisition and what it can bring. So from that vantage point, it is the one plus one equals a lot more than two opportunity we have with them. And then in terms of future opportunities, we'll continue to look. We we think it's a very dynamic market with a lot of potential opportunity organically and then even possibly inorganically. So we certainly have nothing on the horizon to talk about there, but at the numbers we laid out do not require it if something structurally changed there. And also, obviously, as you know, very well depends on the flavor and the size and the type of M&A that possibly could be others of something we do changes that architecture that ramp. We'll let you know.

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

Great. And then on SYNC three, I'm curious if you could give us. And so in terms of dollar terms, maybe what the upselling cross-selling revenue synergy opportunity is there or even as you know, maybe a percentage of their legacy revenue?

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

Yes, I think I'm trying to think of the best way to unpack it. I mean, we first of all, they bring this great portfolio of customers. We articulated, you know, for the likes of Japan outlay, Papa John's Applebee's, Firehouse Subs. Fiber is just this. The who just is amazing are some customers that were early days of having some of those conversations. We certainly had a thesis when we when we acquired them as to what the possibilities could be. And I'll just tell you early days are even more exciting of what we can do together to your point, cross-selling our solutions, bringing together different voice solutions, upselling some of the employee assist capability, smart answering there's so many conversations going on. And so I am going to leave it to later to give you better tangible visibility.

But the roadmap we've laid out, we believe three will be a big contributor and that had an impact I mentioned margins and particularly as they've been evolving the sort of call center business, a I that is an evolution will work to together there is definitely, as you know, anytime when the two companies come together, there's a lot of work to integrate and we're in the middle of that. But long term I mean, we're I just want to clarify again, we're talking in the restaurant space that for us is billions and billions of dollars of annual revenue opportunity. And we're just scratching the surface of it. And together, I think we can go faster and capturing a greater and greater share.

We also think when we look out at the competitive landscape, it's mostly greenfield. We don't think people out there have comparable tax, not and certainly what we're seeing in terms of fully automated solutions. And most importantly, the restaurant demand is just -- it's exactly what they need.

They have labor shortage, they have cost pressures and they need consistency of service. And this is a solution that fits very well. So in terms of the organic opportunity is tremendous with three. We're very excited about the synergies and the upside.

And then on the revenue outlook and even maybe to your first question as coming together gives us confidence to give you a call and have put a flag in the ground on what we think early signs that 2025 are. But I will just tell you, we wouldn't put that out there if we didn't think we could. We could do that and even more.

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

Well, I appreciate the added color, guys. Congrats again on the quarter.

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

Thank you.

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

Thank you.

Operator

Glenn Mattson, Ladenburg Thalmann.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Guys. Thanks for taking the question. So I just wanted to talk a little more about the comment that was made that perhaps some customers on the restaurant side have been put on hold for a little bit in terms of because demand is kind of just overflowing your ability to kind of fill it right now. So I'm curious if that means that there's going to be more hiring involved or maybe it's just more of a learning process as you've kind of scaled up for more smaller mom-and-pops to national chains and whatnot. And perhaps there's a learning curve for both sides of the equation whereby and the process of implementing the software will get faster over time or that kind of thing. Maybe you could just give some color on? Are your thoughts there?

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

I'll start sorry that he's Q and get out. And that first of all, say, yes, we're constantly learning. This is a new market. We're disrupting we're growing. We're improving every day. I think we're learning a lot, frankly, also with the acquisition. One of the things I think there has been really good at is scaling very quickly. And I think we can come together and drive improvement, coupled with sort of building the one of the beauties of our solutions in software, it can really scale very quickly once you kind of get the integration with point of sale system to get menu ingestion, some of those things done, right. And the quicker, you know, every time we add a new customer, it really expands the market of other customers. We can go to that we could really rapidly accelerate. So there's a lot of positive sort of build effect here that we can build and that we can continue forward with on the investment side? Yes.

I mean, we're we definitely want to go after the growth when the demand is there. We don't want to say no to any customer. We want to be thoughtful of the roadmap. So we will absolutely look at our hiring and make sure that it's that we're calibrating it. And I'll I wanted to jump in before came on just to put my point of view, like it's always going to be a cost, disciplined, focused and so forth. And we'll be very judicious. But I think that we know the opportunity there. We're not going to we're not going to come should change it by any stretch of the imagination So we're certainly going to invest to make sure we're capitalizing on the demand.

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

Yes, I've got that. Now all that. And I would just add that the whole dimension you're talking about days and weeks, not not really months or anything beyond that.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Great. Thanks for that color. And then last for me, just on the model side, I think in the past you said that you'd historically been 70%, 80% gross margin. And I guess theoretically, if you get to that kind of north of $100 million, 2025 revenue target that you put out today and a lot of the growth will be on the on the restaurant side and the SaaS side, which theoretically would be, I think, higher margin than the auto. So and would you have it model towards the higher end of that range for 2025?

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

I won't guide gross margin for 2025. I leave the guidance as I laid it out, but I will give you some color commentary to dimensionalize it. So absolutely long term, we are a software business. And so the margin profile should certainly be well north of 70%. And I think the EBIT margin should be 30% plus, and that's at scale fully penetrated, I'd say multiple years down the road we want to make sure we're investing in the near term.

And then I would also say from you to your specific question on gross margin, it I don't think it's as clean as your Pillar two versus oh one because it kind of depends even within Pillar one, some of our edge solutions are very high margins. So so it kind of depends on the mix across both. But I do think that we'll be marching path back to that 70% range.

And then part of it will also be this is going to be new or we bring on the call center business, which we'll continue to. I think we look at Pillar two in the restaurants is sort of the first gate on major disruption across customer service. I think as we said in the prepared remarks, generative AI, in particular, one of the major disruptive areas is customer service with very natural conversations to enable consumers to just seamlessly access information and services that they want.

So with that, and the reason I mentioned that is we we believe that we can scale that really quickly and we can leverage the call center capability to get the data and the on the actual production live customer interactions that will help improve our model. So there's going to be a bit of a journey to extend beyond restaurants into different verticals and finding that right mix between maybe there is an advantage because the customer really demands a little call center support as you know, if you go from like we can do the base 80% of the answering and maybe some part is and those are things as we grow into Pillar two will calibrate on. So that's why I can't give you a precise answer right now. I will tell you, though, yes, long term, we absolutely should be growing back in the 70% range, but we need to keep going through the work and kind of get closer to that finish line to give you an exact on what 2025 will be right.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Thanks a lot of moving parts. I understand. Thanks and congrats on the color I gave to.

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

Thank you.

Operator

(Operator Instructions) Mike Latimore, Northland Capital Markets.

Mike Latimore - *Northland Capital Markets - Analyst*

Great. Yes, thanks. Congrats on a excellent year here.

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

Hey, Mike, Thanks.

Mike Latimore - *Northland Capital Markets - Analyst*

Yes, hello. Just the last quarter you highlighted a lot of interest around wins like White, Castle Jersey, Mike's Krispy Kreme. What percentage of those opportunities do you think you might get deployed by year end and sort of what are the keys to getting there, whether it's internal internal work or leveraging third-parties?

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

The other end depends on the customer. So drive-through is a little different than phone ordering app. We've publicly last year made a joint announcement with the white Castle about our opportunity to scale into 100 locations this year, and we're on the pace. And that has some requirements of the drive-thru setup on the hardware side. And and so that's a bit of the gating pacing. They're a company that has full corporate ownership. So that's a little bit easier to fully deploy, get into another type of customer that has franchisees again, that one of the gating points, Jersey misses an opportunity zone ordering. They are they have, I think, over 2000 locations at scale and kind of went out of the gate with 50 locations that were we're pushing through. And so this can move really rapidly.

So I guess to answer your question too much, but it kind of depends on the shape and flavor of the customer and we are getting faster every week that goes by we're learning and we're pacing it faster and faster. So we're hopeful that and this is kind of why maybe one dimensionality of the answer would be the assumptions we use in the subscriptions estimate that we gave sort of five year, which we believe it conservatively will ramp and over four years and we use a five-year duration itself. I mean, if you want to use the four year that I conveyed is the measure.

I think that's conservative. Again, we're going faster than that, but that's maybe not to that too high expectations too early. That's probably a fair place to think.

Mike Latimore - *Northland Capital Markets - Analyst*

Yes. And on Exxon and on SYNC three, I think you had something like 10,000 locations, I believe. Did you feel like you could apply your tech to all those locations? Or is there a percent that 30 is kind of happy with what they have with it?

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

Yes. I mean, the solution is already Great. And but there is a they can there's an upgrade opportunity by combining what they have with what we have. And then there are often opportunities by offering things like smart, answering an employee access to existing customers. And we are pursuing both of those.

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

And I think I said it might. There's also an efficiency opportunity for us as we sort of migrate their back-end systems, the cloud systems migrate to our technology. So it's also sort of back and not only just our front end. And that's a that's a cost opportunity for us.

Mike Latimore - *Northland Capital Markets - Analyst*

And then I guess just the basic financial question, what do you think SYNC three contributed in '24 and done and what does current share.

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

And so in 24, we are it kind of depends on the synergies and so forth, but they have a good book of business that we're growing. The reason we're hedging, but is some of it is the AI. and call center that we're going to migrate the call center to AI. We're going to upgrade. So there's a few choices through the integration. Again, we're still pretty early in the integration process, but we're excited about the fleet partners that they have and really mostly about the synergies that we think we can build. But it's all contemplated in our guidance. And we think together we can accelerate even faster and we could have alone Tom share count I think we probably think to 70-ish. I don't have the number right in front of me on on the Class A. side is probably where we are. We have some I think I mentioned in the prepared remarks, some capital raising that we've done this year to get the balance sheet over $200 million of cash so on so that is about where we are that.

Mike Latimore - *Northland Capital Markets - Analyst*

Great. Thanks a lot.

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

Thanks, Mike.

Operator

Brett Knoblauch, Cantor Fitzgerald.

Brett Knoblauch - *Cantor Fitzgerald - Analyst*

Thanks for taking my question. It was nice that you kind of gave us some info on the year-over-year growth in auto units. I was wondering if you could maybe give us some type of indication for how many units or devices or technology from your technology is currently embedded in and if that's something you could foresee given us on a more frequent basis going forward?

Keyvan Mohajer - *SoundHound AI, Inc. - Co-Founder & CEO*

Yes, we are we are in the millions on a feat when you consider disclosing the exact number one challenges that some of our customers don't give us unique device IDs so that it makes it more difficult to accurately measure. So that might look like one device, but it might be a million devices there are ways to calculate that. But definitely we are in the millions of cars and TVs and IoT devices.

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

The other measure we did is we put in the press release but the queries, which is another in a sort of an indicator indicator of usage and activity, and that has been growing. It's been growing.

We've been giving that number for a couple of years now. And crossing $3.5 billion sort of run rate is a indication of the breadth and also just the usage curve increases that we're excited about.

Brett Knoblauch - *Cantor Fitzgerald - Analyst*

Got it. And then on maybe the restaurant business, I guess, any update to how many units you guys are currently deployed in and what you're targeting for it for end of this year. And I think South or white Castle, you're expecting to be in over 100 by the end of the year. But maybe more broadly speaking, I'm giving you kind of expect PILLAR two to be north of yes, 20% of the business this year?

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

Yes, I'll break apart. We are we do with SYNC three now have, but thousands and thousands right. They brought a big arsenal of restaurants of the likes of customer names I gave a little earlier, and then we're always growing and have these massive deals that are currently working on that. It's tens of thousands of potential opportunities. So I think the best way, and I will say that pricing can range, you know, if you're kind of in the phone ordering could be in the $100 per location if you're in drive-thru, remarkably north of $1,000. So kind of really in our more advanced state could be beyond that so tech. So Tom units and location are going to kind of be driven by the integration pace. We believe we are unpacking and addressing a market that has hundreds of thousands of locations. So what we have today is a small fraction. And I'd say in the U.S. alone, it's a million food establishments. So And globally, multiples of that. So we are going to grow from the 10,000 range add by the end of the year, quite meaningfully and then hopefully will be soon talking about hundreds of thousands that we're in and the revenue numbers will follow.

Brett Knoblauch - *Cantor Fitzgerald - Analyst*

Thanks, appreciate it.

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

Thanks, Brad.

Operator

Thank you. Showing no further questions at this time. This concludes today's conference call. Thank you for participating. You may now disconnect.
