

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

ECX.OQ - Q2 2023 Ecarx Holdings Inc. Earnings Call

EVENT DATE/TIME: AUGUST 09, 2023 / 12:00PM GMT

## CORPORATE PARTICIPANTS

**Adam Kay** *ECARX Holdings Inc. - Head of Investor Relations*

**Ziyu Shen** *ECARX Holdings Inc. - CEO & Chairman*

**Peter W. Cirino** *ECARX Holdings Inc. - COO*

**Phil Jing Zhou** *ECARX Holdings Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Jiaqi Zhang** *CICC - Analyst*

**Derek John Soderberg** *Cantor Fitzgerald & Co., Research Division - Research Analyst*

**Shelley Wang** *Morgan Stanley, Research Division - Research Associate*

**Xiaoyi Lei** *Jefferies LLC, Research Division - Equity Analyst*

**Poe Fratt** *Alliance Global Partners - Research Analyst*

**Yuqian Ding** *HSBC - Analyst*

## PRESENTATION

### Operator

Good day, and thank you for standing by. And welcome to ECARX Q2 2023 Earnings Conference Call. (Operator Instructions)

I would now like to hand the conference over to Adam Kay, Investor Relations, ECARX. Please go ahead.

---

### Adam Kay - ECARX Holdings Inc. - Head of Investor Relations

Thank you, operator. Good morning, and welcome to our second quarter 2023 earnings conference call. With me today are ECARX Chairman, Chief Executive Officer and Co-Founder, Ziyu Shen, Chief Operating Officer, Peter Cirino, and our recently appointed Chief Financial Officer, Phil Zhou. This call is being recorded.

Before we begin the prepared remarks, which will be followed by Q&A, today's presentation will refer to both GAAP and non-GAAP measures and also contains forward-looking statements which are based on the environment as we currently see it, and as such, include risks and uncertainties. Please refer to our filings with the SEC for more information on the specific risk factors that could cause actual results to differ materially.

With that, I'd like to hand the call over to Ziyu.

---

### Ziyu Shen - ECARX Holdings Inc. - CEO & Chairman

Thank you, Adam. Hello, everyone, and welcome. Thank you for joining our second quarter earnings call. Our momentum built in the second quarter with strong revenue and quarter-on-quarter gross margin growth, demonstrating the growing interest in our products as the demand from consumers for safe and more enjoyable in-car experience. There are now 5.2 million vehicles on the road that incorporate our technology across 21 brands offered by our clients, automotive OEM customers.

Vehicles on the road equipped with our products increased 6% from last quarter and 30% from the same period last year. Our dedicated team of around 2,000 people, including over 1,500 engineers has firmly established ECARX as the leading tech provider in China, and we are gaining

increasing attention from important automotive OEMs outside of China as well. We operate in a rapidly growing and evolving marketplace. The rollout of digital cockpit also increased our content per vehicle and ASP.

The appeal of a company like ECARX is that we are working in the sweet spot of automotive technology. Our marketplace is currently being reinvented and where the experience and the know-how of the Chinese market, with some of the most demanding customers in the world play a vital role. With more than 30 vehicles in our launch pipeline over the next 18 months, we expect those cars combined to run into an additional million vehicles on the road with ECARX technology.

In quarter 3 alone, we expect to see production of a new Geely model using the Antora 1000 system-on-chip as well as the Lynk & Co 08, which showcases our full platform with the Antora 1000 Pro cockpit Flyme Auto operating system and our automated driving control units, ADCU, with L2+ADAS from JICA.

Peter Cirino, our COO, will now discuss these important milestones and some of our operating accomplishments in quarter 2. Peter?

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

Thank you, Ziyu, and good day, everyone. Ziyu detailed our strategy and customer successes. So I'll cover what we did operationally in Q2. Our focus is twofold: investing into R&D, which translates into better, more innovative products; and expanding our network of partners. Our company now operates in 14 locations across 3 continents with recent facilities opened in the U.S. and Germany. The consolidation of JICA brought a further 300 engineers into our company based mainly in Suzhou and Hangzhou, China.

Our new R&D engineering center in San Diego complements our software development center in Sweden and will be led by ECARX CTO, Yongqi Yang. The team there will focus on advanced automotive IP development, and we will plan to scale up the facility over the next 12 to 36 months.

Similarly, our engineering and sales facility in Stuttgart, Germany was announced this quarter. It aims to support European OEMs with a focus on customers in Sweden, Germany, France and the U.K. These teams complement our core China-based engineering R&D team. And all in all, we have more than 1,500 engineers supporting our global R&D efforts. This commitment to R&D enables us to lead the sector in the new product introductions that push the boundaries of the in-car experience.

At our Tech Day on March 24 in Wuhan and at our Investor Day on May 9 in New York, we announced several new products that support our growth now and in the quarters ahead. These new hardware and software solutions include the Antora series, which provides a high-end automotive-grade intelligent cockpit experience with a competitive cost performance. ECARX's well-integrated Antora SoC solution also helps customers reduce their engineering costs and speed up their time to market. Very soon, we will be seeing more and more cars on the road with this technology.

Makalu is one of the most powerful intelligent cockpit products available today and it offers a new in-vehicle experience with amazing 3D graphics, combining both security features as well as entertainment elements powered by an AMD SoC and Unreal Engine graphics solutions. Cloudpeak, recently debuted in the Volvo EX30, serves as a cross-domain infotainment system software. It is also worth noting that we continue to successfully sell our existing products, announcing in May that together with Neusoft Corporation, we will customize the mass production of an intelligent cockpit product for the Changan Mazda CX-50 model.

These are based on our E02 SoC core module, which already has been deployed across almost 1 million vehicles across 26 separate models of a variety of automotive OEMs. This product offers many useful and sophisticated functions for the modern driver.

As you know, ECARX is at the center of a unique differentiated partnership ecosystem designed to create disruptive, innovation and technology for growth for the automotive sector. We were again active in the second quarter in expanding these partnerships, which enable us to more quickly add product features, enter new functional domains and attract new customers.

We have established a close partnership with Xingji Meizu, a leading Chinese smartphone manufacturer. And most recently, we announced Flyme Auto, an exclusive new operating system that seamlessly integrates Meizu's smartphones in the vehicles. During the second quarter, we also signed

an important agreement with Epic Games, a pioneer in 3D immersive tools. We will deploy their 3D graphics capabilities for our Makalu digital cockpit and we'll further collaborate on next-generation digital cockpit and infotainment applications.

Finally, at the end of June, we increased our investment in our long-term partner JICA Intelligent Robotics to 70%, consolidating JICA's results into ECARX. JICA is already focused on autonomous solutions for the Geely Group and will continue to do so, while ECARX will integrate JICA's systems into our products, helping us build an ADAS solution and a customer base outside of the Geely Group, both in China and globally.

JICA further increases the breadth of ECARX's technology stack, bringing ADAS capability into our core product line. This combination increases the future content per vehicle we can provide into tech-minded vehicle OEMs.

I'd like to spend a few minutes discussing the Lynk & Co 08, which will be on the road later this year. This vehicle contains our entire full product stack as we bring the software-defined vehicle to the road. The digital cockpit is powered by the Antora 1000 Pro platform, deeply integrated with Cloudpeak software and with Flyme Auto for connectivity and cloud services.

It is ECARX's first launch with a Level 2+ ADAS solution from JICA, a technology that we've now brought in in-house given our recent investment. The total solution offers the consumer a unique customizable desktop experience with powerful, intuitive easy-to-use functions that seamlessly connect the car to make travel more comfortable, more secure and more supportive. And of course, with full intelligent-based learning and voice control, this is a fantastic vehicle. I would advise a test drive when you can.

Finally, I want to introduce our recently appointed CFO, Phil Zhou, who has been with ECARX since early 2021 and was the CFO of China and Head of our China operations. His predecessor, Ramesh Narasimhan, will now go on to support Ziyu as an adviser on key financial matters.

I'll now turn the presentation over to Phil to review the financial results.

---

#### **Phil Jing Zhou - ECARX Holdings Inc. - CFO**

Thank you, Peter, and good morning, everyone. As you all have already seen in morning, ECARX enjoyed a very strong second quarter with revenue of RMB 952 million, up 45% compared to the prior year period, driven by sales of goods revenue at 87% and high-margin software licensing revenue at 212%. Service revenue were up 144% from the first quarter, was down 36% year-on-year, offsetting some of the growth in goods and software. This was mostly as a result of timing differences in nonrecurring engineering revenue, which is expected to be booked in the second half of the year.

Gross margin increased to 31.3% with increases in all major products and solutions. Between Q1 and Q2, the gross margin rate on computing platform products and hardware solutions improved from 20.7% to 21.1%; on software and licenses from 70.5% to 93.8%; and on services from 21.6% to 29.7%. All this was realized through, number one, a dedicated focus on products and solutions portfolio selling; number two, persistent cost optimization; and number three, new product development and launch at higher average selling prices.

We also drove an effective operating expense control with OpEx decreasing by 26% year-on-year. The optimization was primarily driven by, number one, we carved out autonomous driving inception development and the high definition mapping in [2023] (corrected by the company after the call); and optimized our China headcount. Number two, we drove lean operations and OpEx control in 2023. At the same time, we redeployed the savings and invested into global expansion into the U.K., Sweden, the United States and Germany, to make sure that we have a good footprint in international markets to work with top global OEMs.

As Peter already emphasized, we continue to invest in R&D, up 2% quarter-on-quarter, but remaining lower in the same period last year as we lapped the cessation of our ADAS perception software development last year. Following our acquisition of an additional stake in JICA, some of that investment will now come back.

Adjusted EBITDA was negative RMB 158 million, up RMB 30 million from the same period of last year as a result of a significant improvement in net loss due to a much higher level of share-based compensation expense last year.

Turning to the balance sheet. At the end of the second quarter, the cash and cash equivalent balance was RMB 925 million, an improvement of RMB 24 million against the end of 2022, reflecting our good execution on profit improvement and controlling expenses. However, it is a RMB 90 million outflow versus the end of the first quarter. We are growing very rapidly and we'll need capital to drive that growth, while we are on the right path to narrow down our profit loss. Focusing on operational excellence in the supply chain inventory and collection and payment management as well as raising new funds, we aim to further improve the cash status.

I'd like to remind you of the historical seasonality of the business, which mirrors the common pattern in the industry. We would anticipate 2023 keeping a similar pattern through the end of the year given the pipeline of planned launches scheduled for the third and fourth quarter.

With that, I will turn the call back to Ziyu for some concluding remarks. Then we will start the Q&A session. Ziyu?

---

**Ziyu Shen** - ECARX Holdings Inc. - CEO & Chairman

As we grow, it is important to remember why we are here and what is our purpose. The rise of the software-defined vehicle is why Eric Li and I founded ECARX. As vehicles evolve into sophisticated digital devices with greater vehicle autonomy and as drivers expectations of their in-car is starting to increase, the demand for high-powered seamlessly connected automotive focused computer platforms expands significantly.

ECARX is a global mobility tech provider, working with automotive OEMs to create new vehicle platforms from the ground up. We are well positioned to capture share in a large and rapidly evolving market, supported by our differentiated full-stack technology that will simplify and expedite automotive OEM partners' developmental time lines. Our strong results this quarter demonstrates the strength of our competitive position and the attractiveness of the market we are pursuing.

Operator, could we please start the question-and-answer session now? Thank you.

---

## QUESTIONS AND ANSWERS

**Operator**

[Operator Instruction] We are now taking the first question. And the first question is from Jiaqi Zhang from CICC.

---

**Jiaqi Zhang** - CICC - Analyst

Congratulations on the results for second quarter. I have 4 questions for the management team. The first 2 questions is about the certain development strategy. So the first question is regarding the collaboration with SiEngine. So could you provide a brief update regarding how's the collaboration? What is the progression of the development of the next-generation SoC? I will ask questions one by one.

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

SiEngine produced their SoC -- taped out their most recent SoC at the end of last year, and we've been working very closely with them to bring that product to launch in our Antora 1000 and Antora 1000 digital cockpit platforms. So we have both of those platforms launching on vehicles as we go through mid-2023 and in the fourth quarter. So I mentioned in my presentation around Lynk & Co 08. This platform has our Antora 1000 Pro system on it, which includes the SiEngine, SE1000 SoC. And we're quite excited about the digital cockpit that we're able to launch on that vehicle, which has got a full breadth of our technology stack on it, the digital cockpit. We are launching the Flyme Auto link and Flyme Auto software, our Cloudpeak software as well as our autonomous driving systems. So that's a great vehicle that demonstrates the full technology stack of ECARX.

**Jiaqi Zhang** - CICC - Analyst

Right. So for my second question is regarding the intelligent driving. And we have seen from the presentation that ECARX is gaining a control stake in JICA. So could you provide us more insights into how ECARX is going to lay out the road map of the intelligent driving products?

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

Sure. I mean we started -- we invested in JICA some years ago in a close cooperation with Geely to launch the autonomous driving control unit. As mentioned, that will come out on the Lynk & Co 08. We're quite excited about the Level 2 capabilities that, that will bring to the market, including navigation on autopilot solution that will eventually be brought to that vehicle. I would expect that we would be announcing further steps in the future to build out our ADAS solution set. We're continuing to make investments both in the Level 2 system that I mentioned as well as into further advanced technologies in that space.

---

**Jiaqi Zhang** - CICC - Analyst

Right. Just a quick follow-up. So we can see a lot of BEV+ transformer, like the perception technology in the market. So is there any plan for JICA to follow that path, the BEV+ transformer?

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

Yes, there's no question we'll continue to advance our technology in the autonomous space. We're pretty excited about the Level 2 capabilities -- the Level 2+ capabilities that get launched with this vehicle. There are additional vehicles that the system will be launched on. ECARX is also aggressively pursuing additional programs in the market. So I would expect that we'll continue to make announcements in the future. And I also would expect that we'll continue to build out our technology stack in the ADAS space as we go forward.

---

**Jiaqi Zhang** - CICC - Analyst

So for the next 2 questions regarding the performance of ECARX in the second quarter. So we have seen that there's a relatively large increase in the revenue for the second quarter. So could you help us do a more detailed breakdown into what projects in the project level, like what project actually contribute to this increase in revenue?

---

**Phil Jing Zhou** - ECARX Holdings Inc. - CFO

Yes. This is Phil. I'm happy to take your question. So first of all, we achieved the Q2 revenue with strong year-over-year growth, 45%, and achievement by our strong growth in our core computing platform and software products. So regarding the computing platform products and hardware solutions, we achieved a CNY 670 million, 87 percent year-over-year growth.

Majority of that achievement was attributed by further penetration into Geely Auto and the Geely ecosystem brands in the year like smart, Lotus and Zeekr. And we also focused on our product and solution offering in a new EV market segment, and we captured a curve of the market growth. So if you look at the general market growth, in the first half of 2023, the new EV sales in China actually is 44% growth year-over-year.

And in the quarter, we also drove the software and license revenue. We achieved a record high, like CNY 113 million, 212% growth. The growth was primarily driven by the IP license sales. And at the same time, we also drove very effective cost reduction on third-party software sales.

So in short, we optimized the portfolio of the product and the solution sales, increased the ASP or total revenue per unit and the persisted in cost optimization. Like 3 major reasons or engines for profitable growth.

---

**Jiaqi Zhang** - CICC - Analyst

So the last question is regarding the projects. We have just heard that there's going to be 30 models in the next 1.5 years, right, 3-0. Could you help us do a more clarification this?

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

Yes, certainly. I mean, we've got a very robust pipeline inside of our business. So as we mentioned, an engineering team of close to 1,500 engineers that are all working on various set of programs. These products, I think, span numerous OEMs. We mentioned Changan Mazda. We've recently announced FAW as well as -- the Lynk & Co product we mentioned today are all in our pipeline. In addition to that, we've got international launches across brands like Smart, Lotus, Volvo and Polestar. So we're quite excited about the breadth of products that are in our launch pipeline, and continuing to work with additional OEMs beyond that set to broaden the set of customers that we work with.

---

**Operator**

We are now taking the next question. And the next question from Derek Soderberg from Cantor Fitzgerald.

---

**Derek John Soderberg** - Cantor Fitzgerald & Co., Research Division - Research Analyst

I wanted to start with gross margin. Gross margins have been on the rise. Curious if you can maintain gross margin sort of above 30% or at these levels? And then, Phil, can you talk about sort of how you're approaching the pricing of the hardware and software? Is there a target gross margin that you're hoping to get? And how should we be modeling gross margin going forward?

---

**Phil Jing Zhou** - ECARX Holdings Inc. - CFO

Yes, of course, I'm happy to take your question. So we delivered -- ECARX delivered a diversified product and a solution offering. And we on purpose shift our focus on high value-added product and solution for our customers. And we are able to integrate the value of the industry chain and offer a benefit to our customers and their partners.

So what happened recently as we focus on transforming our software and the license selling? Basically, we want to transform our business model into a license or royalty by unit business model, which actually can improve our profitability a lot. At the same time, as Peter just mentioned, we are going to launch more than 30 vehicle programs in the market, which means we have enough pipeline in our hands so we are able to continue to drive our service -- R&D service growth in the longer term.

And of course, we focus on our cloud computing product selling. So we launched a new product and we're evolving our product -- hardware solution product, right? So we offer Antora, we offer Makalu, we offered those technologies and keep improving the content per vehicle. So with that, we are able to drive our consistency and pricing as well as profit growth. So these are the company measures that the company is taking.

---

**Derek John Soderberg** - Cantor Fitzgerald & Co., Research Division - Research Analyst

Got it. That's helpful. And I also wanted to ask - just touch on that strong pipeline just as my follow-up question. I'm curious what's sort of the revenue mix between electric vehicles and combustion engine vehicles today? You guys mentioned sort of 30 vehicles or so in the pipeline plan for launch. I'm curious how many of those are for combustion engine vehicles? And if you expect substantial growth in that market as well beyond electric vehicles? Or maybe that's not the focus?

**Peter W. Cirino** - ECARX Holdings Inc. - COO

We certainly have both types of vehicles inside of our portfolio. But the place that I think we're quite excited about the technology and the investments that we're making is in the electrical vehicle space. So I think most of our -- most of the vehicles inside our pipeline are EVs, and I think that's a great opportunity for us to kind of bring this always connected, always on, always updated software-defined vehicle life.

---

**Operator**

We are now taking the next question. And the next question from Shelley Wang from Morgan Stanley.

---

**Shelley Wang** - Morgan Stanley, Research Division - Research Associate

This is Shelley from Morgan Stanley. I have 2 questions here. So first is about the revenue mix. If we look at the current, like the revenue breakdown, like the sales of -- like the digital cockpit still accounts for the majority of our revenue and the profit. So do we have any target or priority on the future revenue mix? Like do we want to do more hardware or software in the future?

---

**Phil Jing Zhou** - ECARX Holdings Inc. - CFO

Thank you, Shelley. This is Phil. This is a very good question. So talking about the product solution around the mix. So in the second quarter, actually, we drove a significant growth in the software and the license portion. At the same time, yes, you're right, the 70% of our revenue still came from the hardware and the cloud computing platform. And we keep optimizing our revenue mix, so we'll have high value-added solution selling to the customers.

So with that, we are able to keep our pricing and our margin stable and even it can improve our profitability step by step. So I would say, going forward, we will keep doing that. And the ideal mix of our business should be at least 60%, 70% still from our cloud computing platform. That is our fundamental solution. At the same time, we will drive software and service business like 30% or 40%.

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

And Shelley, this is Peter. Just to add to that. We mentioned on the latest Lynk & Co 08 that we're also launching an autonomous system. So we have a number of additional launches on that same ADCU system in our pipeline. I think we'll continue to diversify our product set beyond the digital cockpit into more solutions like ADCU that require fantastic software and very solid computing platform. It's great within the core of our business. So we're definitely excited about that launch and its ability to increase our content per vehicle going forward.

---

**Shelley Wang** - Morgan Stanley, Research Division - Research Associate

Got it. My first -- my second question is about the Baidu partnership. So we have recently entered the partnership with Baidu for the large language model. Can management share more color on like how we will collaborate with Baidu? And what are the future revenue opportunities from this partnership?

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

Yes, certainly. I'll take that. I mean the AI applications in the digital cockpit and across the number of different vehicle applications are quite exciting for ECARX. So this is an opportunity. We've been collaborating with Baidu for some time and really excited to announce it. The customization and capabilities that we think it can bring to the user experience inside the car are quite extensive. Certainly, there's very clear applications like improved voice control inside the car. And I think we'll continue to evaluate and expand how we can help customize the digital cockpit with these types of AI applications within them.



---

**Operator**

We are now taking the next question. And the next question is from all Xiaoyi Lei from Jefferies.

---

**Xiaoyi Lei** - *Jefferies LLC, Research Division - Equity Analyst*

I have 2 questions as well. The first one is with increasing application of large language model to the vehicle end. We're seeing there are like higher requirements on the computing power of SoCs. I'm wondering how we cope with this new trend on our next-generation products on this front.

---

**Peter W. Cirino** - *ECARX Holdings Inc. - COO*

Yes, certainly, I mean, that's a trend that I think ECARX has been participating in for some time is -- if you look across our SoC road map on a regular cadence, we continue to launch more capable computing solutions into the vehicle. And I think this will definitely continue. The Antora series that we launched recently here come -- we're able to bring that to the vehicle, both in Antora 1000 solutions and Antara 1000 Pro, which includes 2 SoCs. So it's a scalable solution that also is cost-effective for the OEM to implement.

So both of those systems will be in vehicles as we go through this year. And then in early '24, we've already announced the launch of our Makalu system, both in some events as well as the Smart brand, and that's a very powerful computing power system. So I think those capabilities, we're excited what they bring to the car, and they certainly will include a number of AI applications within those -- in those solutions.

---

**Xiaoyi Lei** - *Jefferies LLC, Research Division - Equity Analyst*

And my next question is about the service revenue. So we are seeing that the service revenue was down 36% year-over-year. So any guidance for the second half?

---

**Phil Jing Zhou** - *ECARX Holdings Inc. - CFO*

Yes. So the service revenue in the second quarter showed net 36% year-over-year, but we also grew by a launch of 45% quarter-to-quarter. The service revenue, the decline is primarily due to the timing difference. So in the second half of the year, we are able to book those nonrecurring engineering or R&D service deal. So we are with that, we are able to restore our service revenue growth at a number level.

---

**Operator**

We are now taking the next question. And the next question from Poe Fratt from Alliance Global Partners.

---

**Poe Fratt** - *Alliance Global Partners - Research Analyst*

I had to -- I apologize if it's redundant, but I had to log in and out of the call. So can you just talk about gross margins? Gross margin percent was just a little bit over 31%. What's the outlook for the second half of the year and then looking into 2024 from that standpoint? And has your pathway to positive adjusted EBITDA changed at all and you're looking for positive EBITDA in 2024. And do you think you can achieve positive EBITDA for the entire year or will the -- will it be a first half negative margin, EBITDA margins in the second half positive. Can you just give us a sort of an idea on that?

**Phil Jing Zhou** - ECARX Holdings Inc. - CFO

This is a good question. So for the margin performance, actually, the team is fully committed to drive the profitable growth. As I mentioned earlier, we have diversified product and solution offering in the market. At the same time, we keep evolving our offerings. We integrate industrial value for our customers. So that's why we drove really good momentum on profitable growth in Q1 and Q2. And we believe that this momentum will continue. And for the full year, we have confidence to deliver our profit growth as we mentioned earlier.

Yes, at the same time, regarding the EBITDA outlook, yes, the team is working pretty diligent in our lean operation. So we drove a very effective operating expense control year-over-year. As you can see, that is minus 26% optimization year-over-year. And at the same time, that leaves our loan to employ our savings to our strategic area like over expansion and advanced technology development. So we will keep doing that. And our profitability target will be matched for sure.

---

**Poe Fratt** - Alliance Global Partners - Research Analyst

Great. And then if you could talk about the next generation. You talked about Makalu, sorry. Will -- do you expect to have pricing leverage on that next-generation product? Or do you think that the competitive landscape will -- how will the competitive landscape impact your ability to generate some pricing leverage on your next-generation products?

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

Yes. Great question. I mean we certainly operate in a very competitive landscape, and we've done that quite successfully for a number of years. We believe the automotive industry in China and digital cope is certainly quite a competitive space. As we continue to launch new products, whether that's the Antora 1000 Pro that I mentioned earlier, the Makalu that you discussed as well as the ADCU, I think we're quite excited about our ability to increase our content per vehicle across those applications.

So as we look across our pipeline, as these solutions continue to bring additional capabilities into the vehicle, we definitely see some level of upward momentum on our content per car.

---

**Operator**

And we're now ready to take the next question. And the next question from Yuqian Ding from HSBC.

---

**Yuqian Ding** - HSBC - Analyst

This is Yu Ding from HSBC. I got 2. The first question, I think I would briefly discuss a part of it, but it looks like China is heading towards Level 3 commercialization given the favorable policy and also more of the OEM join the club to launch the city autopilot functions and potentially we're going to see that rollout in more larger scale.

So between Level 3 and Level 2, I think you briefly mentioned there is content opportunity, but could you shed a little bit more light in terms of like how our content per vehicle opportunity distinguish between Level 3 and Level 2? And what's the margin profile difference over there if we push through more value addition software functions, how much like if we could quantify that a little bit. That's the first.

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

Yes. Sure. I'll take the first part of that question. I mean, when we look at the landscape in the ADAS space, we fundamentally believe that most of the applications in the short term will be Level 2, Level 2+ getting a vehicle with Navigate on all pilot on the road for us is quite exciting. And I think

we're going to continue to be able to broaden that landscape of capabilities that we have in our Level 2+ system, including parking functions and so on.

So I think in the near term, we believe most of the volume will be in the Level 2 space and Level 2+ space. But certainly, we have our eye on the Level 3 applications and are already working on a number of advanced development programs inside that space as well.

---

**Yuqian Ding** - HSBC - Analyst

Got it. So can we understand that in terms of Level 3 to 2, probably more software opportunity for us to explore?

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

Yes. Certainly, as we get to Level 3, there's more capabilities and more requirements from both the software and a computing horsepower perspective. So I think we will -- as I said earlier, we would expect to, in the future, make additional announcements in our ADAS portfolio and road map and continue to broaden the capabilities of that product line.

---

**Yuqian Ding** - HSBC - Analyst

Got it. This will naturally lead us to the second question. Help me solve a conundrum. We always think the software business would be very scaled. But under the premises that our customer would be used a standardized software. But I guess, you mentioned earlier, we have like over 30 projects in our pipeline. So I guess each OEM probably would also require a little bit ad hoc work into that. So we saw some of the peers, so they've been struggling because each OEM would want them to do different things.

Therefore, you need to support a huge personnel account for taking a different project that makes that a little bit less scalable and a little bit more label heavy. But in order to get some software loaded in more vehicle in the future, you probably also need that kind of reengineering capability. So where are we in terms of these software business conundrums?

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

I mean when we look at our software teams, I think our organization is very focused on platforming. So whether that's across current generation or future generation products, reuse and expanding our feature set is definitely something our engineering team spend a lot of time investigating and ensure that we're kind of maximizing the reuse capabilities so that we can provide a competitive offering to the market. That being said, when we engage with customers on the digital cockpit solutions, there's certainly an element of customization, especially in the UI/UX area, and that's a place that we work very closely with our OEM partners on.

---

**Operator**

(Operator Instructions) There are no further questions at the moment.

---

**Peter W. Cirino** - ECARX Holdings Inc. - COO

Okay. All right. Well, maybe we'll wrap the call up. Just certainly wanted to say thank you for everyone for joining and a great set of questions today. And certainly, if there are any follow-ups, please feel free to reach out to Adam or Rene for any follow-up questions going forward. But thank you for the call today.

**Phil Jing Zhou** - ECARX Holdings Inc. - CFO

Thank you.

---

**Operator**

And that concludes the conference for today. Thank you for participating. You may all disconnect.

---

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.