

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

ECX.OQ - Q3 2024 ECARX Holdings Inc. Earnings Call

EVENT DATE/TIME: NOVEMBER 07, 2024 / 1:00PM GMT

## CORPORATE PARTICIPANTS

**Rene Du** *ECARX Holdings Inc. - Head, IR*

**Shen Ziyu** *ECARX Holdings Inc. - Chairman of the Board, Chief Executive Officer*

**Peter Cirino** *ECARX Holdings Inc. - Chief Operating Officer*

**Zhou Phil** *ECARX Holdings Inc. - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Wei Huang** *Deutsche Bank - Analyst*

**Tony Shen** *SPDI - Analyst*

**Jiaqi Zhang** *CICC - Analyst*

**Derek Soderberg** *Canter Fitzgerald & Co. - Analyst*

## PRESENTATION

### Operator

Good day and thank you for joining us. Welcome to ECARX third quarter 2024 earnings conference call at this time. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to hand the conference over to your host, Rene Du, Head of Investor Relations at ECARX. Please proceed.

---

### Rene Du - *ECARX Holdings Inc. - Head, IR*

Thank you operator. Good morning and welcome to ECARX third quarter, 2024 earnings conference call. With me today from ECARX are Chairman and the Chief Executive Officer Ziyu Shen; Chief Operating Officer, Peter Cirino; and Chief Financial Officer, Phil Zhou. Following their prepared remarks, they will all be available to answer your questions during the Q&A session that follows.

Before we start, I would like to refer you to our forward-looking statements at the bottom of our earnings press release, which also applies to this call. Further information on specific risk factors that could cause actual results to differ materially can be found in our filings with the SEC.

In addition, this call will include discussions of certain non-GAAP financial measures. A reconciliation of the non-GAAP financial measures to GAAP financial measures can be also found at the bottom of our earnings release.

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

---

### Shen Ziyu - *ECARX Holdings Inc. - Chairman of the Board, Chief Executive Officer*

Thank you, Rene. Hello everyone and thank you for joining our third quarter earnings call today. The solid growth momentum we picked up in the first half of the year continued into the third quarter. The global automotive industry is rapidly evolving towards software-defined vehicles which we are uniquely positioned to benefit from. And I think our results this quarter reflect that.

Let me start with a brief market update. Looking at the broader automotive landscape internationally, the sector continues to face a challenging environment globally. Despite the headwinds, the overall trajectory remains positive particularly for electrical vehicles and intelligent car technologies. With the automotive industry still projected to reach approximately 88 million vehicle sales in 2024.

In contrast, Chinese automotive market has been gradually picking up. Total sales from January to September increased 2.4% from the same period last year. Among which China's export data should have much more positive outlook with overall export volume rising every month this year.

China exported 4.3 million vehicles from January through September, an impressive increase of 27% year over year. Electrical vehicle sales in China during the same period increased 33% year over year, accounting for [39%] of total new car sales. The market continues to yield significant opportunities for us despite headwinds. These underscores our unique positioning to drive growth in China and overseas regardless of market cycle. Our evolving part of our portfolio, diverse customer base, and strategic global partnerships and operations are key factors that enable us to capitalize on these opportunities.

By the end of quarter, there are over 7.3 million vehicles on the road, equipping ECARX Technology with 442,000 vehicles added this quarter alone. This translates into an increase of approximately 31% year over year or 6% sequentially.

All global reach across the sector remained stable from last quarter with 17 OEMs across 26 brands. Notably though, the number of project wins from existing customer increased substantially as we deepen our relationship and build up the success of existing mass production projects. Revenue during the quarter increased by 31% year over year to RMB1.4 billion on the back of recent vehicle launch such as Geely Galaxy E5.

Competition remains fierce with ongoing pricing pressures causing gross margins to decline to approximately 17% during the quarter. Despite the challenging competition and the impact on margin, we remain firmly on track with our top line continuing to outperform the broad market as we scale and build a path towards profitability. We have a very strong track record of our growing our top line with new vehicle launches and have a robust and healthy pipeline with over 40 vehicle models currently in development.

To offset the impact of pricing pressure on our margins, we are working aggressively to optimize our cost structure by taking greater vertical control of our manufacturing and supply chain, optimizing our product portfolio, improving engineering, and operational efficiency.

At the same time, we are expanding our global footprint to provide us with the flexibility to mitigate geopolitical risks. I'm highly confident in our ability to drive significant growth throughout the year and beyond, our strategy has not changed and we remain on course for success as we focus on sustaining revenue growth momentum, capturing sales volumes, and improving margins.

Our flexibility to adapt to a changing market environment ensures that we can seize new opportunities as they arise leaving us very optimistic about the future.

I will now pass the call over to Peter who will go through the operating results of the quarter in more detail.

---

**Peter Cirino** - ECARX Holdings Inc. - Chief Operating Officer

Thank you to Ziyu and good day everyone. Our customer base remained diverse and stable during the quarter as our business continues to scale and gain momentum. We secured two new design wins from existing customers during the quarter, further deepening our relationships with them. Both vehicles are for the China market and we'll deploy a version of our Antora series computing platform and some integrated with Flyme Auto OS. These wins showcase our ability to deliver customized cutting edge technology solutions and reflects the growing value proposition we offer automakers with our unified computing platforms for China and overseas.

Our global ecosystem of strategic partnership forms the backbone of our strategy to reshape the global automotive technology value chain. We entered into a formal partnership with MulticoreWare at the end of August. Having initially worked together to optimize our intelligent driving software algorithms used in the Lynk & Co 08 earlier this year, we are strengthening our partnership and expanding the scope of our collaboration to cover all projects to reduce the time to market for mass production of Skyland Pro and provide global OEMs with unique vehicle experiences.

In addition to leveraging our global ecosystem of partnerships to improve our performance of our leading hardware and software stack, we continue to strategically invest in R&D while at the same time, improve R&D efficiency. We are investing in our lower cost R&D centers. We are engaging AI

tools to improve efficiency and quality, onboarding new partners with innovative and cutting edge support models, and completing a deep dive of our entire cost structure.

Our ADCU solutions now feature real world rendering capabilities compatible with mainstream 3D engines such as Unreal and Unity and are expected to be integrated into [Hongqi] and smart models currently in development. We deployed ECARX AutoGPT by adopting Microsoft's Smart Occupancy Monitoring System to track and monitor in vehicle behavior of children to ensure safety. While we continue to work closely with ecosystem partners to explore more in vehicle scenarios under ECARX AutoGPT.

We also developed an automotive hypervisor that allows multiple vehicle systems to run on the Makalu platform using AMD chips. Our technology leadership continues to strengthen as a result with our robust intellectual property portfolio now expanding to include 613 registered patents and 656 pending patent applications globally as of September 30.

On the product side, we had several new exciting vehicles launched this quarter that showcased our technological strengths and demonstrate our remarkable versatility to replicate and scale our solutions across various brands and models. Demand for the Geely Galaxy E5 since its launch in August has been particularly strong with over 12,000 vehicles sold in that month alone.

Notably, the Galaxy E5 is the first vehicle to integrate digital cockpit and parking capabilities into a single board using the Antora 1000 computing platform under Geely's new EE architecture which serves as the foundation for their next generation vehicles.

On top of that, the Antora 1000 SPB which integrates digital cockpit, parking, and driving capabilities on the Antora 1000 platform has also been launched and can be replicated and scaled with any AI chip providing a highly cost effective and streamlined solution that aligns seamlessly with evolving EE architectures. This broadens the Antora 1000's appeal as the central computing platform of choice for automakers globally.

Lynk & Co flagship Z10 began mass production during the quarter following its debut in June. This vehicle showcases the strength of the Makalu computing platform powered by AMD Ryzen V2000 processors and our self-developed hypervisors which I mentioned earlier. Our extensive experience in digital cockpit design combined with AMDs advanced computing capabilities has resulted in a vehicle that sets a new benchmark for in-vehicle technology and user experience.

The smart #5 officially launched on October 27, following its global debut in August also comes integrated with the Makalu computing platform. I'm happy to see our Antora and Makalu series widely adopted across various vehicle models ranging from entry level to premium. This demonstrates our strong competitiveness in the market and ease with which our solutions can be scaled and replicated.

The Lynk & Co 02, know as Z20 in China debuted in Milan on October 11, and has since launched officially in Europe. Integrated with our Galena computing platform, we are committed to support the state-of-the-art model as we explore market opportunities globally for this tailor made solution.

Lastly, our Pikes computing platform officially launched this quarter utilizing Qualcomm Snapdragon 8295 SoC. This solution will first be integrated into a new Geely model plan for the start of production in 2025. We are making solid progress in establishing ourselves as a partner for automakers as they transition to software defined vehicles by delivering solutions that are scalable and cost efficient.

Our expertise in commercializing and deploying these integrated vehicle solutions on a global scale, not only optimizes costs but also speeds up market entry for manufacturers around the world. We attended the third Global Digital Trade Expo in Hangzhou at the end of September where we showcased the Makalu and Antora platforms and signed an agreement to further expand our Fuyong smart facility.

Fuyong represents a critical step in our strategy to integrate manufacturing and supply chain processes. This facility is opening at the highest industry standards, deploying the latest in connectivity, advanced analytics, automation, and advanced manufacturing technology. Production capacity has quickly ramped up since production started in April with about 30,000 Antora 1,000 units produced and shipped for the Galaxy E5 in August and September.

In 2023, we were deeply engaged in the supply chain management but all our end product manufacturing was completed through partners and joint ventures. Now by the end of 2024, we have taken control of our manufacturing and we should end the year with about 15% to 20% under our own control. By the end of 2025 we expect that metric to be over 50% with a long term target in the range of 70% or more.

By improving our control over costs, product quality and operations, we will be able to further enhance our competitive position in the market. I am pleased with the progress we have made and remain highly optimistic that we will continue to see tremendous growth going forward as our investments, technological innovation, diversification of customer base, and global expansion begin to generate significant returns.

I will now turn the call over to Phil who will go through our financial results.

---

**Zhou Phil** - ECARX Holdings Inc. - Chief Financial Officer

Thank you, Peter and hello everyone. Our strong performance in the first half of the year continued into the third quarter as our business continues to grow. Total revenue for the quarter was RMB1.4 billion, an increase of 31% year over year. Revenue from the sales of computing hardware was RMB1.2 billion, up 61% year over year mainly driven by continued global demand for the Volvo EX30 and the Polestar 4 as well as an increase in sales volume for the Antora series and the Makalu platform digital cockpits and autonomous driving controlling unit, which contributed approximately 23% and 11% respectively to total revenue.

Software license revenue came in at RMB84 million, down 39% year over year due to a decrease in the sales of navigation and operating software compared to the previous year. Compared to the last quarter, software license revenue grew by RMB28 million or 49% with the ramping up of Flyme Auto sales volume and the intellectual property revenue growth.

Services revenue decreased 26% year over year to RMB161 million mostly as a result of timing differences in completing nonrecurring engineering revenue contracts. All year-to-date service revenue grew approximately 10% year over year. Gross profit was RMB248 million, a decrease of 25% year-over-year which translates into a gross margin of 17%.

Margins on hardware products continue to be under pressure as we adopt a penetration pricing strategy to drive revenue and volume growth to gain market share and achieve economies of scale and the cost reductions against the backdrop of an industry-wide price war in automotive sector and ongoing transformation of customers EE architecture.

As I discussed in the previous earnings call, we expect this pressure on our hardware margins to remain over the medium term. To offset this impact, we will continue to focus on driving sales of our unique product portfolio, deepening cost reductions, and improving operational efficiencies.

OpEx during the quarter decreased 2% year over year. This was primarily driven by improved global operational efficiencies and a lower share based compensation expense during the quarter which were partially offset by continued investment into R&D core product roadmap and the future technologies.

Loss per share was RMB0.97 compared to the previous quarter, RMB0.84. Adjusted EBITA loss was RMB233 million, up from a loss of RMB181 million during the same period last year, primarily attributable to (1) a decrease in gross margin as a trade-off for the growth in motive computing platform business and increase the market share. And (2), lower foreign currency change gain partially offset by lower operating expenses and an increase in fair value of financial assets compared to the previous year.

Moving on to our balance sheet. As of the end of the third quarter, we had RMB688 million of cash and restricted cash, which gives us ample resources to fund our core product roadmap, key initiatives, and the global business expansion, while we continue to improve our working capital and profitability. Overall, we maintain the robust growth despite intense market competition.

We will continue to focus on expanding our customer base, deepening our penetration of both Geely and the non-Geely ecosystem to gain market share, driving economies of scale and the cost optimization. We will also continue to optimize our operating expense and carefully control the new investments to improve our margin performance and the sustainability of our business in the long run.

That concludes our prepared remarks today, I would now like to hand the call back to the operator to begin the Q&A section.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Wei Huang, Deutsche Bank.

---

### Wei Huang - Deutsche Bank - Analyst

Hello? Can you hear me?

---

### Operator

Yes, we can hear you.

---

### Wei Huang - Deutsche Bank - Analyst

Hi, thanks for taking my question. So my first question is regarding the sale of goods margin. We've seen a decline Q-over-Q and year-over-year to around 9% in the third quarter. Can we talk about factors contributing to that? And how should we think about it in the fourth quarter and into next year?

---

### Zhou Phil - ECARX Holdings Inc. - Chief Financial Officer

Okay, sure. This is Phil. I'm happy to address your question regarding the margin performance in the third quarter. Yes, there's a fierce market competition which drove the hardware solution margin deterioration in the quarter which is from last quarter 14% to current quarter, 8.9%. Actually we chose to drive the volume increase and maintain a share of wallet stability in our key accounts, our customer base. And we also want to have an opportunity to further work on the supply chain and the cost optimization. As I mentioned, it's all about the economy of scale.

The other reason is the product mix also impacts the current quarter's margin performance. Normally, 50% of our profit came from services and the software. Their margin performance is pretty stable ranging from 57% to 60%. Due to the software selling ramp ups and the service booking seasonality issue, the mix from services and the software changed from 30% to 17% in this quarter. And all these are the key factors that impact overall margin performance.

However, in moving into Q4, we will see that -- we will rebalance the portfolio of sales on services and software and we will -- we are able to restore our margin performance through that. And meanwhile, we are able to further drive our cost optimization and which can help uplift the hardware margin performance as well. So that is the answer for your question on the margin performance in Q3.

---

### Wei Huang - Deutsche Bank - Analyst

Thank you. That is very clear. And the other question I had was we've seen Geely the Galaxy brand launch two vehicles, the Galaxy E5 and the Star Wish sedans. And we know the company has disclosed that the E5 uses the Antora platform and the Flyme Auto system. Can we talk about the Star Wish sedan, does ECARX also supply the hardware for that model as well?

---

---

**Peter Cirino** - ECARX Holdings Inc. - Chief Operating Officer

Yeah, this is Peter. I'll grab that question. I mean, does the Galaxy E5 use our Antora 1000 platform?

Along with the Flyme Auto software, as you mentioned, and the Star Wish's platform uses our Venado platform. So that's our E02 platform where we have a -- that's a very robust product that we've had in the market. We have more than 1 million units lifetime on that program. So they both use solutions from ECARX.

---

**Wei Huang** - Deutsche Bank - Analyst

Thank you. That is very clear. And maybe a last one for me after the Lynk & Co. Z10 and the smart #5, can you maybe give us some outlook on what other vehicle models for the Makalu platform be used on?

---

**Peter Cirino** - ECARX Holdings Inc. - Chief Operating Officer

Yeah, I'll grab that one as well. I mean, the Makalu platform is really a benchmark, lighthouse project for us. It's deep strategic cooperation with AMD. We're the first automaker to adopt the V2000 platform, which is AMD's newest automotive platform. And we've built up -- even as we discussed in our prepared remarks, a unique hypervisor that extends our software capabilities and really drives a very tight software hardware linkage to have fantastic performance.

We've got great user feedback from the vehicles. The Z10 has been in production smart is in a ramp up phase right now. And we will continue to promote that to both the future vehicles for smart for Lynk & Co. as well as others in the market.

---

**Wei Huang** - Deutsche Bank - Analyst

Understood. Thank you very much. That's all for me.

---

**Operator**

Dai Shen, SPDI.

---

**Tony Shen** - SPDI - Analyst

(Spoken in foreign language) This is Tony from SPD International. I've got two questions here. The first question is also going back to the gross margin. Do we have an outlook for the gross margin for next year? For 2025, do we have a direction here? Do we expect the gross margin to improve from the gross margin from third quarter, especially for the hardware products?

And for the gross margin specifically, I've seen that our inhouse manufacturing is improving especially for 2025. Is this a plus for the gross margin for next year? This is my first question.

---

**Zhou Phil** - ECARX Holdings Inc. - Chief Financial Officer

Hey, thank you. Thank you, Shen Dai. This is a very good question and I'm happy to address this one. We observed that the market competition starting from September 2023 and we keep seeing aggressive pricing pressure from our customers. But again, as I just mentioned, we also would like to drive the volume uplift and maintain our install base in our customers. This is very critical because we want to drive the economy of scale. And only with that, we are able to further negotiate the cost optimization from a supply chain perspective.

And yes, you mentioned that, for sure, we will try our best to keep our overall gross margin performance over 20%-ish. That is our goal as well because half of our profitability came from the services and the software and the layer margin performance is pretty stable. And as long as we can keep the reasonable sales mix from the two products, then we should be able to keep the overall margin performance at a reasonable level.

However, I agree with you that the pricing pressure especially on the hardware solution is right now a challenge, but we do have our plan to recover that first. We will keep innovating. We keep investing our R&D and we will keep innovating and we always can bring our best of great solutions for our customers. And within the time window, we are able to charge a price premium as well. So we are pioneering in this hardware solution in the market sector.

And we will also drive the [lean] operation as well. In terms of the loss of operation, the total profitability with our focus on SG&A optimization and which is also a highlight in the quarter like SG&A, OpEx actually declined 19% a year, a-year over-year. And this also reflects our ability to control the expense as well. So in general, I would comment that we will try our best to keep our, our gross margin performance above 20%-ish. But that depends on our execution on services and software sales, at the same time, how to bring the higher margin hardware solution to the market to delight our customers, and meanwhile control our operating expense tightly. And with the scale of our business, we are able to achieve the breakeven very soon. So that is our -- that concludes my answer to your margin questions.

---

**Tony Shen** - SPDI - Analyst

That's very clear. A quick follow up on the inhouse manufacturing and is it positive to gross margin?

---

**Zhou Phil** - ECARX Holdings Inc. - Chief Financial Officer

Yes, for sure. So, right now we adopt OEM manufacturing model and the good thing is that we keep receiving orders from our customers and for sure. Well, we would like to achieve the scale as well. So as long as we keep optimizing the CapEx investment, the expense happening in a supply chain sides and manufacturing sides, we should be able to control our manufacturing cost within a reasonable level, which is also very competitive in the market. So I can tell you that, that is also on our radar.

---

**Tony Shen** - SPDI - Analyst

Okay. It's very clear. And my second question is about the overseas business. Can we have an update on our overseas expansion and also on the overseas customers? Do we expect any revenue or profit from overseas customers for 2025?

---

**Peter Cirino** - ECARX Holdings Inc. - Chief Operating Officer

Yeah, I'll grab that. This is Peter. So I mean, the company has been driving down this global expansion road for a number of years now, I mean, as you remember in early this year, we established our office in Stuttgart to help expand our customer intimacy with the German OEMs. And presently, we're engaged in a number of RFQ processes with new customers there. So we're quite excited about the progress. The European OEM business, I would say moves on a very rigorous structured timeline.

So we might see some NRE service revenue towards the end of '25, likely in '26. And the SoPs we're looking at are probably in the '27 horizon. And that's just let's call it a standard development cycle that the European OEMs follow, but we definitely see a lot of strong customer intimacy, customer engagement, and as I said, a number of very tangible programs that we're working through the RFQ processes with. So we're very excited about the progress we're making there.

---

**Tony Shen** - SPDI - Analyst

Okay. Thank you very much. Thank you, Peter. It's clear. That's all my question.



---

**Operator**

Jiaqi Zhang, CICC.

---

**Jiaqi Zhang - CICC - Analyst**

Hi. My name is Jiaqi Zhang from CICC Auto. So I have three questions for this quarter. The first one is regarding to the Geely group. We have seen Geely group has performed a very strong quarter and also for the October, Geely has delivered the single most number of deliveries in a single quarter. And my question is regarding what is the percentage of revenue actually currently contributed by Geely? And what is the ECARX expectation for the percentage of revenue contributed by Geely in the year 2025 and maybe the years coming?

---

**Zhou Phil - ECARX Holdings Inc. - Chief Financial Officer**

Sure, thank you, Jiaqi. This is Phil. So, regarding the business mix from Geely and Geely ecosystem and non Geely business. So in 2024, the expectation is still [90%] of our business still came from Geely and Geely ecosystem including Geely affiliation as like Volvo, Polestar, smart and Lotus. And yes, we still have lots of opportunities to further improve our non-Geely business mix. And in 2025, we foresee that the mix will keep improving including new business from FAW and we also foresee more business from our international OEMs as well, which is also a highlight of our non-Geely business expansion, especially from a global OEM perspective.

And when moving into '25 and '26, our goal will not change. We will keep focusing on our non-Geely business expansion. So our goal is like by end of 2026 and 2027, nearly 40% of our business will be from non-Geely.

---

**Jiaqi Zhang - CICC - Analyst**

Well, thank you so much. Just one quick follow up. So could you give us a more color on the projects doing with FAW? Because previously, you mentioned that we are going to expand into a wider spectrum of models. So how is the progress on this? Thank you.

---

**Zhou Phil - ECARX Holdings Inc. - Chief Financial Officer**

Yeah, sure. I can address the question and maybe Peter can chime in additional information. So everything is on track, Jiaqi. We are delivering two flagship vehicle programs from FAW Hongqi vehicle project and the contract has been signed, had been signed and the team is working diligently to make a traction and then we are on track to deliver our program and the SoP expected by end of the quarter, early Q1 of next year.

And yes, we foresee more FAW Hongqi vehicle programs coming in and which also can significantly contribute to your non-Geely business to our portfolio.

---

**Shen Ziyu - ECARX Holdings Inc. - Chairman of the Board, Chief Executive Officer**

Oh, well, so this is Ziyu speaking. So I would like to add more information here about Hongqi FAW program. So right now we have two models under development right now and we will make them SoP the end of this year and beginning of next year. So, and actually not only the full vehicle model that will be the platform because that will be very similar, what we are deploying in Geely already that Antora plus Flyme Auto platform. So that will be very unique competition platform for all FAW Hongqi future vehicle models. Yeah, so that's the -- I would like to add here.

**Jiaqi Zhang** - CICC - Analyst

Well, thank you so much. That's very clear. My second question is regarding to the progress in ADAS. So we have seen from the news that the AD1000 chip has taped out, so big congratulations on that. So from the management perspective, how can we evaluate the breakeven point for the chip, like how many deliveries that we can lead to a breakeven? And is there any new contractual design-wins that can be shared or is there any technology breakthrough regarding the chip that can be shared? Thank you.

---

**Shen Ziyu** - ECARX Holdings Inc. - Chairman of the Board, Chief Executive Officer

Okay. Well, so AD1000, that's very successfully, we tape out with the TSMC. And also I would like to share more information to you because right now all performance record already achieved regarding the design point of view. And from investment point of view from ECARX will start a computing system R&D with this SoC. But for SoC investment 100 percentage in SiEngine which is separate company from ECARX. We are shareholder but a separate company. So that ECARX will invest the AD1000 computing platform next two years and three years to accelerate our ADAS portfolio. Yeah, so that's our plan.

And this AD this SoC is very competitive, the 7 nanometer and with a 512 TOPs AI capacity. And also as you know, we already had 7 nanometer experience already shipped SE 1000 over 0.5 million in the market. So that's why we're quite confident AD1000 will be faster and quicker to go to the market in production soon.

---

**Jiaqi Zhang** - CICC - Analyst

Thank you so much. That's very promising. I just one quick follow up. So are we going to develop the algorithm softwares by JICA ourselves or are we going to collaborate with the external partners?

---

**Shen Ziyu** - ECARX Holdings Inc. - Chairman of the Board, Chief Executive Officer

Yeah, to develop AD1000 platform will be the open platform. Of course, we'll finish our platform and integration and engineering. But of course, the open platform can support some customer like OEM inhouse software or also we can support a third party software on top. Very similar position like a NVIDIA platform in the market.

---

**Jiaqi Zhang** - CICC - Analyst

Thank you, Ziyu. That's very clear. And my last question is regarding to the -- so what are the costs and expenses actually associated with developing new platforms? Because we see there are quite a number of new platforms that's currently on the development and the research -- R&D expenses actually going up. So I'm quite curious like what are the costs and expenses associated with developing a new platform? And what's the point of breaking even regarding to each of these platforms? Thank you.

---

**Shen Ziyu** - ECARX Holdings Inc. - Chairman of the Board, Chief Executive Officer

Yeah, I think, you're asking a very good question here. So I think the most important for the company that every year we are having 30% growth of revenue, that's very important. Also, we are keeping more than 20% gross margin for three years.

So that's why we are expanding -- we are expanding R&D investment actually year by year. We can keep the same percentage, but we can get more total amounts because our value growth. So that's the logic.

So that's why we are doing very carefully like 10% R&D investment, maybe future will drop to like 9% or 8% but the total amount will be much bigger because our revenue growing faster. And SG&A we will going to be like 7% or maybe below 7% these kind of things, because we are trying to book it as fast as -- as early as possible. So that's why we want to balancing these kind of percentage for R&D and SG&A.

That makes sense?

---

**Jiaqi Zhang** - CICC - Analyst

All right, thank you. Just one very quick follow up. We currently, we have Qualcomm chip, SiEngine chip and AMD chip. So which one of these actually contributed the most gross margin and probably why? Thank you.

---

**Shen Ziyu** - ECARX Holdings Inc. - Chairman of the Board, Chief Executive Officer

I think from revenue perspective, so because this will -- gross margin perspective that will be very different segment. So SiEngine chip will be entry platform and a very strong cost competitive for China market and for worldwide market as well. I can further information, we have one global OEM opportunity bidding that we are using SiEngine chip right now. That's quite advantage for us because cost competitive comparing the global chipset.

But for Qualcomm, AMD, NVIDIA for future, that's for global roadmap and for high-end segment. Yeah, probably like gross margin are bigger like NVIDIA and AMD, even Qualcomm, but for gross margin percentage should be similar.

---

**Jiaqi Zhang** - CICC - Analyst

Right. I totally understood. Thank you so much for answering my questions. Thank you. That's the end of my question. Thank you.

---

**Operator**

Derek Soderberg, Cantor Fitzgerald.

---

**Derek Soderberg** - Canter Fitzgerald & Co. - Analyst

Yeah. Hey guys, thanks for taking the questions. So Phil, you guys talked about new wins. I guess on the hardware gross margins, just specifically referring to new wins here. These are with existing customers and I'm curious are hardware gross margins improving with existing customers as you guys are sort of becoming more integrated into their vehicle platforms. Again, specifically asking on the hardware gross margins.

---

**Zhou Phil** - ECARX Holdings Inc. - Chief Financial Officer

Yeah, Derek. Thank you, Derek. Again, yeah, hardware gross margin, we did see the challenges and this is all about the competition because the China market is the competition is fierce. At the same time as I mentioned, we are expanding our footprint into the globe. We want to serve the top customers in global OEMs. So that's why we can balance the margin especially the hardware margin performance from different customer base a different customer segment.

But in China, the competition will be always there. And we also chose to -- again, we will also want to choose the game to play right to win as small as -- the volume as small as possible, which is also a foundation for us on the supply chain management as well. And yes, we also expand offering into OEMs FAW Hongqi and which can also help improve our hardware margin performance.

So it's all about the portfolio play from a different customer base, from a different product, like hardware service, and software.

---

**Derek Soderberg** - *Canter Fitzgerald & Co. - Analyst*

Got it. And then on the software side, a pretty good margin there, you guys have made some good partnerships. What are the biggest growth opportunities looking ahead for that business? Can you talk about ways to maybe expand that over the medium term? Thanks.

---

**Zhou Phil** - *ECARX Holdings Inc. - Chief Financial Officer*

Yeah. So look right now, the core software business in China is all about like operating system Flyme Auto and ECARX inhouse development software product. And we basically, along with the customers demand, we also promote those software product aggressively and for the last generation product they are end of life. And that's why there's a transition. As you can see that from the software revenue year perspective, there's a slight decline over there. But in the longer term, we foresee that our software from Flyme Auto and the Cloudpeak will climb up for sure. And will replace the traditional old generation software and the growth will be there. And as you can see that from a quarter-on-quarter perspective the software revenue from Flyme Auto and Cloudpeak is outstanding, right? So that momentum will continue.

---

**Derek Soderberg** - *Canter Fitzgerald & Co. - Analyst*

Got it. Really appreciate it. Thanks.

---

**Operator**

(Operator Instructions) I'm showing no other question in the queue. I would now like to turn the call back over to Phil for closing remarks.

---

**Zhou Phil** - *ECARX Holdings Inc. - Chief Financial Officer*

Okay. Thank you. Thank you all for attending today's earnings call. So we are on right track to deliver our commitment to the customers, the growth momentum will definitely continue through the solid execution on pipeline conversion and the new business acquisition both from non-Geely and the global expansion perspective.

ECARX always focus -- takes a long term focused strategy. We will keep investing into R&D, keep innovating, and bringing the best solutions to the market and delighting our customers. We will take multi initiatives to optimize the cost structure, drive lean operations, and improve our profitability.

Our global business extension will carry on and we will keep diversifying our customer base. And we are on the right track to deliver our profitability improvement and achieve our breakeven point sooner in a very short term. And this concludes the remarks for today's earning call from the management side.

---

**Operator**

Thank you, ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now 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.

©2024, Refinitiv. All Rights Reserved.