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PRESENTATION

Rene Du - *Ecarx Holdings Inc. - IR*

Good morning, and welcome to Ecarx' second quarter 2024 earnings conference call. With me today from Ecarx are Chairman and Chief Executive Officer, Ziyu Shen; Chief Operating Officer, Peter Cirino; and Chief Financial Officer, Phil Zhou. Following the 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 second quarter earnings call today. We maintained robust growth momentum during the second quarter, building upon the strong performance we had at the start of the year. The automotive industry continues its rapid evolution towards software-defined vehicles, which Ecarx remains at the forefront of.

Let me start with a brief market update here. While the sector faces some global headwinds, the overall trajectory remains positive, particularly for electrical vehicles and intelligent-car technologies. Global car sales were mixed but remain on track, on which around 88 million vehicles in 2024, an increase of almost 2% to 3% year-over-year.

China's automotive sector was similar with mixed sales during the first half of the year but resilient exports. China vehicle sales were 12 million during the first half of the year with exports reaching 2.8 million, up 6% and over 30% year-over-year, respectively. Chinese electrical vehicle sales, in particular, were robust, hitting 4.9 million during the same period, a 32% year-over-year increase.

The market continues to yield significant opportunities for us. Our evolving product portfolio, diverse customer base, and the strategic global partnerships and operations uniquely position us to capitalize on the enormous opportunities in this space. The scale of our business is key to building a sustainable path to profitability, and I'm pleased to report that we made substantial progress in this regard.

By the end of the quarter, there were over 6.9 million vehicles on the road incorporating Ecarx technology, with 472,000 vehicles added in this quarter alone. This translates into an increase of almost 32% year-over-year or 7% sequentially. We now serve 17 automotive OEMs across 26 brands, maintaining our reach from first quarter and deepening relationships with existing customers. This can also be seen in our financials with revenue increasing 31% year-over-year to RMB1.3 billion.

We continue to expand our customer base and broaden our project pipeline with five new design wins during this quarter, primarily for overseas projects. These wins demonstrate the appeal of our unified computing platforms, both overseas and in China. Our relationships are deepening across the board, with a new design win from a well-known European automaker that builds upon our existing mass production projects from last quarter and four additional projects from Geely ecosystem for vehicle targeting overseas markets.

Discussions are also underway with FAW Group for additional projects beyond two currently in development. We are also currently working on five global RFQs beyond the Geely ecosystem. Our diverse ecosystem of partnerships is fueling our project pipeline with cutting-edge innovation that sets new industry benchmarks and keeps automakers at a forefront of technology change.

Building upon our initial collaboration in 2019, we strengthened our partnership with Tencent Smart Transportation in June. This partnership is intended to jointly different intelligent driving and cockpit solutions, which seamlessly integrate their robust suite of technologies and service for domestic China market.

For overseas markets, we began working with DXC Luxoft to accelerate the development of in-vehicle capabilities with our focus enhancing the user experience of our full-stack of infotainment, digital cockpit, and advanced driver assistance, hardware and software.

Continued technical innovation is critical for showcasing our strengths and maintaining a distinctive edge in the market. As our customer base grows, we are creating opportunities to replicate and scale our existing solutions for different vehicle models in the markets. I'll let Peter go into specifics in more details, but I want to highlight that our technology, versatility, and adaptability makes it the ideal solution for global automakers looking to offer the best user-experience and keep bill of materials cost low.

I'm highly confident in our ability to drive significant growth going forward. Our technology is mature and ready to be deployed more widely as our relationships with auto manufacturers deepens. Our comprehensive product portfolio and the ability to innovate and scale solutions across multiple brands and markets underscores our competitive edge and is accelerating our global expansion.

With our profile growing globally, we are well positioned to generate sustainable growth and create long-term value for our shareholders, and I look forward to building on this momentum in the second half of the year and beyond.

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, Ziyu and good day, everyone. Our customer base continues to diversify and grow as our business scales and gain momentum. We secured five new design wins during the quarter, primarily for overseas projects. These wins directly reflect the unique value proposition we offer automakers with our unified computing platforms for markets in China and across the world.

A number of these wins were generated from deepening relationships with existing customers, which are opening the door to additional opportunities. As Ziyu said, one of those five design wins was from a well-known European automaker that builds upon our existing mass production project from last quarter. The remaining four projects are for various brands in the Geely ecosystem targeting overseas markets.

Beyond the Geely ecosystem, discussions are also underway with FAW Group for additional projects in China beyond the two previously announced projects, which are still progressing smoothly through the development process and remain on track to begin to start our production later this year.

We're also actively participating in five global RFQ processes, synergies created through strategic partnerships form a key part of our strategy to reshape the global automotive technology value chain. We're working with partners to develop innovative, intelligent cockpit, and intelligent driving solutions for our broader range of automakers and brands.

In June, we strengthened our partnership with Tencent Smart Transportation, the smart mobility division of Tencent to jointly develop intelligent, driving, and cockpit solutions. This will reinforce our position in the China market by seamlessly integrating our unified computing platforms with Tencent's robust suite of technologies and services and big data, cloud computing, artificial intelligence, mapping services, and infotainment ecosystems.

Together, we will initially focus on integrating Tencent's fully cloud-based lightweight maps products and broader ecosystem of apps and services. Over the longer term, we intend to develop a sophisticated platform to train and operate large language models that can be deployed in intelligent cockpits for our broader range of automakers worldwide.

For international markets, we partnered with DXC Luxoft in June, a trusted global automotive software systems integrator to jointly accelerate the development of in-vehicle capabilities. Ecarx's full stack hardware and software offerings will now support a wider range of services with the addition of DXC's, Luxoft's expertise in software integration and engineer and its ability to develop customized solutions for automakers globally.

Put simply together, we will be able to help automakers integrate our world-leading hardware and software stack according to their individual needs, developing a bespoke user experience. Our technological leadership is further evidenced by our robust intellectual property portfolio with 598 registered patents and 656 pending patent applications globally as of June 30.

On the product side, we had several exciting new vehicles launched this quarter that showcase our technological strengths and demonstrate our remarkable versatility to replicate and scale our solutions across various brands and models.

Following the successful launch of the Lynk & Co 08 last year, we rapidly adapted its solution powered by the Antora Pro computing platform and integrated with Flyme Auto to several other high-profile models, including the Lynk & Co 07 in May and the LEVC L380 in June. The two FAW projects moving through the various stages of development will also use the same solution. The Lynk & Co 07 and 08 in particular, come integrated with our full-stack solution, which includes the Skyland Pro ADAS computing platform.

This shows the popularity of the solution and its ability to meet the needs of multiple automakers and also helps us focus on iterating and improving this platform with feedback from multiple launched vehicles. The integration of our dashboard in in-vehicle systems with the mobility ecosystem such as Flyme Auto is one way that we can work to future-proof the driving experience. We are also driving innovation in other areas to ensure that our offer to automaker and drivers remains at the cutting-edge. As an example, this year, we will see the first vehicles using our pioneering Makalu computing platform entering the market.

Makalu was powered by the AMD Ryzen Embedded V2000 processor and is the first platform to offer automakers the power of this advanced chip. Makalu is not only able to support ambitious applications, including unparalleled 3D graphics, AAA gaming, and other powerful entertainment and security features, but it also provides the processing headroom to allow automakers to continue to upgrade the driver experience with software upgrades well into the future for a deeper relationship with their customers.

The new Lynk & Co flagship BEV, the Z10, will be the first car to bring the advanced features of Makalu to the road with vehicle deliveries expected to begin next month. The Smart #5, which debuted in April at the Beijing Auto Show will also be driven by the power of Makalu. That's just become more powerful and capable, we also have an opportunity to create more efficient and inexpensive systems that meet infotainment, assisted driving, and security requirements in a single unit.

The Geely Galaxy E5, the first vehicle to integrate digital cockpit and parking capabilities into a single board using the Antora 1000 platform under Geely's new E/E architecture will significantly reduce the bill of materials cost for the vehicle and serve as the foundation for their next-generation vehicles. It's clear that our Antora computing platform is increasingly broadening the appeal to the market, and we plan on replicating the solution to other vehicles in the future.

By providing scalable, replicatable, and cost-effective solutions, we are clearly becoming a crucial partner for automakers in their transition towards the software-defined vehicles. Our ability to commercialize and deliver the integrated vehicle solutions at scale, globally maximizing cost efficiency and accelerate speed to market for automakers globally.

We achieved a significant milestone with the start of our production at our Fuyang facility in April. This new manufacturing facility marks a crucial step in our strategy to vertically integrate our manufacturing and supply chain capabilities. The Fuyang factory has already begun contributing to production capacity, enhancing our ability to control product quality, further reduce costs, and streamline operations. This vertical integration allows us to better manage the entire process from research and development to manufacturing and sales, strengthening our competitive edge in the market.

As we continue to ramp up production and optimize operations there, we expect this to increase efficiencies and cost savings, which will ultimately benefit our customers and shareholders and build a sustainable path towards profitability.

To echo what Ziyu said earlier, I am very confident and optimistic that we will continue to see tremendous growth based on the progress we have made so far, especially as we lean into our investments in technological innovation, diversifying our customer base, and expanding our business globally.

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

Phil Zhou - Ecarx Holdings Inc. - Chief Financial Officer

Thank you, Peter and hello, everyone. Our strong start of the year continued into the second quarter as our business continues to grow and our financials improved. Total revenue for the quarter was RMB1.3 billion, an increase of 31% year-over-year. Computing hardware goods revenue was RMB944 million, up 41% year-over-year, driven by growing global demand and shipments, mainly for the Volvo EX30 and Polestar 4, as well as the ramping up of sales volume for the Antora series digital cockpit and autonomous driving control unit. This contributed approximately 14% and 8%, respectively, to total revenue.

Software license revenue came in at RMB57 million, down 50% year-over-year due to a decrease in intellectual property licenses revenue, which was RMB80 million during the same period last year. Service revenue increased 45% year-over-year to RMB257 million. This was primarily due to the launch of the new Antora series vehicle programs and the continued growth of our overseas TSP business, which accounted for approximately 9% of the service revenue.

Gross profit was RMB292 million, a decrease of 3% year-over-year, which translates into a gross margin of 23%, an increase of 1% sequentially. As competition and pricing pressures across the automotive industry deepens, margins on hardware products will remain challenging over the midterm. As discussed on the last earnings call, to address this challenge, we are maintaining our focus on driving growth momentum in our premium products and balancing sales across our portfolio.

We are also reducing costs through supply chain optimization, improving our overall cost structure and manufacturing strategy, and optimizing operating expenses and capital investments. OpEx during the quarter increased 12% year-over-year. This was primarily driven by an increase in share-based compensation. Excluding share-based compensation, OpEx increased 3% year-over-year due to continued R&D investments in core products and future technologies. This was partially offset by decreases in SG&A expenses, which decreased 21% during the quarter as a result of improved operational efficiencies.

Loss per share was RMB0.84, flat sequentially. Adjusted EBITDA loss was RMB210 million, up from a loss of RMB156 million during the same period last year, primarily attributable to equity investment loss. Compared to the prior quarter, adjusted EBITDA improved by RMB14 million or 6%.

Moving on to our balance sheet. As of the end of the second quarter, we had RMB788 million of cash and restricted cash, which gives us the required resources to invest in our future key initiatives, business expansion, and accelerate growth, while we are continuing to improve our working capital and profitability enhancement.

In summary, we continue to drive growth momentum inside and outside the Geely ecosystem, further expand our customer base, and push sales of our premium products in the second half of 2024. We will also continue to optimize our cost structure, operational and fulfillment efficiencies, and operating expense investments.

Our global expansion strategy, including R&D, will provide us with the flexibility to mitigate ongoing and the potentially newly emerging geopolitical challenges. I'm highly confident we are on track to gain profitability and let our businesses in a more sustainable position for the longer term.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jiaqi Zhang, CICC.

Jiaqi Zhang - CICC - Analyst

Thank you, management team. My name is Jiaqi Zhang from CICC. I'm very happy to see there is a sustainable growth in the revenue and profits. So great, congratulations on that. I have two small questions regarding the financial results.

The first one is regarding to the service revenues. We have seen there's a huge increase of service revenue compared to the first quarter. Could you explain what has been contributed to the increase?

And the second question is regarding the gross margin. We have seen there is a decrease in the gross margin of the sales of goods and revenues, around about 3.2 PBCT. So could you explain as well what has actually contributed to the decrease? Yes, that's my first question.

Phil Zhou - Ecarx Holdings Inc. - Chief Financial Officer

Thank you, Jiaqi. This is Phil. Thank you for your question. So let me address your first question regarding our service revenue growth. So in Q2, our service revenue was RMB257 million. That is pretty decent in terms of year-year growth, it's 45%. And from the dollar amount is - RMB amount is RMB80 million. So that is primarily due to the launch of the new Antora series vehicle programs. We introduced last time. We supported Volvo to launch EX30, and we further expand the penetration and the market also expanding into a global scale as well.

And that is related to the NRE revenue growth. So EX30 is about RMB75 million more in the current quarter. We also supported Lynk & Co 07 to launch, and LEVC, there's a new model called L380, all this contributed to our NRE revenue growth.

And meanwhile, in Q2, we also generate overseas TSP business, and that is also part of our service revenue growth. So in conclusion, we see a very strong service growth driven by our dedicated focus on the NRE generation follows the new vehicle programs launch.

So your second question is about our gross margin performance. So if we look at our gross margin percentage, it's 23%. It's a 1% improvement sequentially versus Q1 reported. And yes, from a year-over-year perspective, it's declining. And we mentioned that is due to the pricing erosion or pricing pressure from the industry.

So starting from second half of last year, the entire industry got a pricing challenge and all the OEM customers, they would like to maximize their shipment and use pricing as a weapon to do a trade-off. So the entire industry got impacted as well, including Ecarx as a Tier 1 player in the industry.

But in order to maintain our gross margin performance at 20%-ish, we actually delivered pretty strong in our supply chain management. We optimized our cost structure. At the same time, we drove IP or software or service business, as I mentioned, all those contributed to our overall gross margin performance improvement. So we are able to stabilize our gross margin performance midterm and the longer term. So I hope we answered your question regarding your profitability.

Jiaqi Zhang - CICC - Analyst

Yeah, that's very clear. Thank you. So my second question is that we have seen there's a very rich variety of vehicles launched with the Geely Group, including in Lynk & Co, Smart, the LEVC, et cetera. So my question is regarding to the strategy of having of competing for the orders from Geely Group. What is the strategy of Ecarx to launch the project with Geely, whether it's for the higher products or for lower priced ones? So what is the strategy for that? How do you choose which project to go with Geely?

Peter Cirino - Ecarx Holdings Inc. - Chief Operating Officer

Hi Jiaqi, this is Peter. I'll grab that question. Thank you very much for joining the call today. You look at Ecarx, obviously, we have a long -- a great history with Geely, and we know the organization very well. Recently, a lot of our launches have been on their global products. So we talk about the Smart launches. There are other products in their portfolio that are launching on a global scale. And we've built out that capability in our organization very successfully.

The Volvo EX30 launch was an important launch for us last year. That vehicle is doing very well, especially in Europe, and it continues to expand globally also with the Polestar brands as well. But we're also well positioned and continue to grow with the brands, the core brands, such as the Geely brand and the Lynk & Co brand. So I think we're continuing to have a fantastic relationship with the Geely Group.

Additionally, the company is very focused on continuing to diversify our customer base. We talked about launches coming later this year with FAW. FAW continue to be a very important customer for us, and those critical vehicles are working well throughout our pipeline, throughout our development process. And I would expect that we will continue to deepen our relationship across the FAW Group as we've done with other customers in our space.

And then I mentioned in my remarks earlier, we have a strong effort to grow the business globally. So we're participating in a significant number of the RFQs globally. We're working closely with a number of different OEMs across Europe to show our capabilities and build out strong technical solutions that are off of our base tech. So we're quite excited about the progress we're making both with the Geely Group, with our broader customer set in the China market as well as continue to expand the company's position and relationships on a global scale as well.

Jiaqi Zhang - CICC - Analyst

Right. Thank you for the answer. So for my last question is regarding the product portfolios. We have seen a very rich product portfolios as I'm going through the slides you provided. So I have counted there are 10 domain controllers, I think, for the cockpit and there are three central computers for the central domain. So my question is, could you give us a guidance regarding to what are the targeting price -- targeting vehicle prices for each of these individual platforms? As I guess, there, some of these platforms are pretty overlapped in their performance, et cetera. So could you give us more guidance on this? Thank you.

Peter Cirino - Ecarx Holdings Inc. - Chief Operating Officer

Yeah, I hope that would hope you look at our product portfolio. I think we're very effective of scaling across the broad set of vehicles that all have different price points in the market. So if you look at the historical products that we've delivered, we've delivered very high end products into vehicles like the Lotus vehicles. That launch that happened in '22 was a very high-end launch with significant capabilities in 3D.

We see a similar price point and performance level in the Makalu product that we're launching, that's based on the AMD technology, and that brings very unique capabilities into the Z10 and the Smart vehicles that we're launching first with that car -- with that platform, but I expect that will -- I know that we'll continue to launch across a broader set of vehicles as well.

And then we're very strong in delivering extremely cost-effective solutions to the market into more higher volume solutions. So we're -- some of our older E02 Venado solutions are very cost-effective as well as our single Antora solutions that we're recently launching. They include a lot of integration of systems inside the vehicle and provide a very cost-effective solution to the OEM. So I think if you look across, especially our digital cockpit solutions are very mature, and I think we serve -- we are effectively able to serve a broad set of solutions from a very, very high-end performance to very cost-effective solutions as well.

Jiaqi Zhang - *CICC - Analyst*

Right. thank you for the answer. Yeah. So I will conclude. Thank you.

Operator

Megan Jin, Macquarie.

Megan Jin - *Macquarie Group - Analyst*

Hi. Good morning. Thanks for taking my questions. I have two questions. First, of course, congratulations on a very good Q2 results. The first question is on the hardware part that what do you think that is the driver on this very robust 40% good sales growth? Is it like more from a growth in the per car value or is it more from the volume? And then what is the largest segment under this hardware? I mean, like which product exactly is the most major product in this segment that's driving the sales?

And that also, congratulations on fulfilling the target of adding around 1 million more vehicles that carry our products ahead of schedule. So maybe I was wondering do you have a new target in terms of like the overall number of vehicles that carry our products? And that actually like I'm curious like how should we think about the second half since we already fulfilled the target ahead of schedule? Thanks. That's my first long question. Thanks.

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

Thank you, Megan. This is Phil. Yeah, I'm happy to address your question. And Peter, you also can chime in for additional information, okay? So Megan, actually, we are in very good progress of developing and delivering lots of vehicle programs. And I would say that often are on track. For example, we already made huge success by launching Lynk & Co 08, Volvo EX30, and Polestar 4 since last quarter three.

And when we move into the first half of 2024, we also got Lynk & Co 07, LEVC L380, and the Galaxy E5, right? Galaxy E5 just launched, and we are making good traction as well. There's no delay. And all those programs are widely accepted, appraised by our customers. So as you can see, the Lynk & Co's Z10 with our Makalu solution is also going to launch very soon.

We foresee that new vehicle programs are coming from FAW as well and we expect SOP by the end of the year. So in summary, I think we have a very good start and we will continue to increase our business expansion in those vehicle programs, including non-Geely business.

And in terms of your question regarding the breakdown -- solution breakdown for our computing platform hardware, right? What is the biggest contributor in terms of the computing hardware platform. So Ecarx -- well, we are open system. So we have a Qualcomm solution. We have Antora series solution. We have Makalu solutions as well.

So in Q2, Qualcomm solution still occupies nearly 80% of our company hardware business. Our Antora series, nearly 20%, and Makalu business just got SOP and we foresee that ramp-up will be coming and the rev mix will increase as well.

And regarding the price -- ASP, our quantum of vehicle follows solutions, I would say we keep improving our quantum of vehicles through our diversified solution offering. For example, our Antora series, the module -- the pricing will be ranged from RMB400 to RMB1,200. And for traditional IHU is RMB1,200 to RMB1,800, and for our major product line DHU business, the ASP will be ranged from RMB3,000 to RMB13,500. So it's a lot. So we will keep our focus and the shift to those high price premium product to improve our revenue and profitability.

So I think that concludes my answer to your question. And Peter, if you have any new information, please.

Peter Cirino - Ecarx Holdings Inc. - Chief Operating Officer

Yeah. No, Phil. I think you did a great job uncovering. I would just echo that as we look across our customer segments, we see the vast majority of our customers. We have significant growth with both the Geely brands we mentioned and Geely, and Lynk & Co, but significant growth with our shipments with Volvo and Polestar on a global scale. They show a significant year on year performance in our second quarter results. So I think the global expansion and servicing new customers is making a significant impact on the top line to the company.

Megan Jin - Macquarie Group - Analyst

Thanks so much, Phil. That was very helpful and very clear. Then my second question is on our overseas business. In terms of the expansion, I'm wondering like how to assess the market size as far as to estimate the market size in order to think about like how we repeat the success of our software platform services to Volvo EX30. On other clients, how should we think about like what exactly is the thing that we are doing to them and how competitive it is and how large a market that we look for, and that who are the major competitors?

And very further away, strategic question is actually on the recent news on Biden proposing to ban the autonomous driving software in the US. I know it's like really far away from us as we're doing business in Europe, and that is not really in autonomous space yet. But I'm wondering like when you are starting to ban this Chinese software in the autos out of this reason of like national security, will these allies follow suit and also use the same reason to kind of ban our Chinese auto software? Like how do we address or think about this geopolitical risk potentially in the future? Yes, that's my second long question. Thank you.

Peter Cirino - Ecarx Holdings Inc. - Chief Operating Officer

Okay. Yes, let me take the question just in two parts here. So in terms of international growth and how we assess the market, the Volvo EX30 that we launched towards the end of last year has been a great proof point for us. We built that -- the system in that vehicle by using our global capabilities to service that opportunity.

So I think we've been clear that we started our international growth as early as late 2000 in setting up our team. So it could be close to four years ago that we started to make those investments. We've built a strong software team in our European location. In addition, have made recent expansions by -- two years ago, opened our international headquarters in London and then opening earlier this year, a site in Germany to continue to cement our position in the global market.

So we're approaching the very large OEM customers here in the European market. We're showing the proof point certainly that we've developed and built our system and software stack from our core technology in China, but we've already shown the capabilities to transition that the global IP and have it as a global offering in the market.

We've seen Ecarx in a very strong position relative to the ownership of the full software stack and the full-stack solutions that we bring to the market. The capability I mentioned earlier to service both the very, very high end with great capabilities, unique features into the digital cockpit space as

well as a very cost-competitive solution. And as we're attacking and having further discussions with customers in the European market, we're talking about both capabilities that we have inside the organization.

So the breadth of vehicles that we have serviced in our core business, I think, is strongly helping our expansion. And I think we'll continue to expand with the major customers throughout the European market. I hope that we can, over the next six months to a year, really start to talk about the successes that we're having in the market here.

And if I transition somewhat to the geopolitical environment, I think, very much building on similar themes. So we've built a great business in China with more than 1,500 employees that have incredible capabilities. And we've already shown the capability to take the core technology and to expand it globally and to serve the global market from that capability as well as with local investment.

And I think you'll continue to see Ecarx doing that in further building our capabilities in the European market and being able to service each customer locally in a very effective way. And that's how we see ourselves continuing to develop. And I think that will start to address the geopolitical concerns of the total market. I think we know that we've got to build local relationships with the various customers in their home countries, and we've done that effectively in Europe already, and we'll continue to grow that capability as we build deeper relationships with the customer set.

So we recognize that there are geopolitical challenges in the world, but I think we've got an effective solution and strategy to address them.

Megan Jin - *Macquarie Group - Analyst*

Sure. Thanks very much, Peter. It's very clear. That's all of my questions. Thanks again, and congratulations.

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

Thank you.

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

Thank you, Megan.

Operator

[Tony Shen, SPDI].

Tony Shen - *SPDI - Analyst*

Yes, thanks, management for taking my questions. This is [Shen Dai Tony] from SPDI. I think I've got two questions here. I think the first question is also going back to the gross margin for the hardware business and also the pricing side. So as we mentioned in the prepared remarks, we still have pricing pressure and pricing erosion from the automakers. And could you -- the management give us some color and outlook into the second half of this year and into the next year, how do we see the price trend and how do we see the gross margin, especially for the hardware segment?

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

Thank you, Tony. This is Phil. Yes, we observed that the pricing competition is widely observed in the industry. As I mentioned, most OEMs leveraging pricing as a tool to maximize their shipment and market share. And that results margin pressure in the overall supply chain, including Ecarx and

many other Tier 1 solution providers. And we foresee that such kind of a trend will continue in the second half of the year. And even when moving to the next year, the challenge in Chinese domestic OEM market will remain unchanged. That is our observation.

But Ecarx as a solution player in the market, we have our strategic plan. First of all, in terms of the operation, we will continue to optimize our cost structure in both hardware and software, and we will further enhance our service performance in our portfolio. Like what I mentioned in quarter two, we have a pretty decent performance from the service revenue. We will continue to do that. As long as we have more, we can generate more demand from the new vehicle customers, the vehicle programs, then we are able to generate or grow our service revenue. So that can help us partially offset the hardware pricing challenge.

And at the same time, Ecarx, we also shift our strategy into our smart manufacturing site, and that purpose is all about how to manage our cost component level, I mean, the cost improvement and at the same time, by how to ensure quality and our delivery capability. And I think through that investment, we should be able to generate more opportunity in terms of hardware cost opportunity.

And we also expand our business into the globe. As Mr. Shen and Peter mentioned, our strategy is to become a global Tier 1 -- technology play one -- Tier 1 in the industry. And that means we need to serve not only in top 10 global OEM customers, even top 5 OEM customers as we are trusted solution provider. And I think that play can significantly shift our focus from China-only to the global business. And that can help us enhance our margin pool through a diversified customer base.

And those multi-different program as well as the shipment, the volume is guaranteed, we should be able to generate economy of scale. And that is our proactive strategy, right, from China and from globalization to mitigate the margin challenge in China market. So the forecast, I think our margin performance momentum will continue. We will keep current 20%-ish gross margin percentage through our proactive actions, as I mentioned. So that momentum will continue, Tony.

Tony Shen - SPDI - Analyst

Okay. Perfect. That's very clear. And my second question was about our in-house chipset like Antora and Makalu. How these projects will be expanded into the overseas customers? And we also mentioned that we have five new design wins in the quarter. How much of them are from our own designed solutions, including Antora and Makalu? How should we look at into the year of 2025?

Peter Cirino - Ecarx Holdings Inc. - Chief Operating Officer

Yes. I'll grab that question. So certainly, our Antora and Makalu solutions and specifically Antora, if we start there, Antora was launched in '23 with the first major vehicle being Lynk & Co 08. And we're continuing to grow that product set and building out our capabilities on that product line across additional OEMs. We have design wins today in our core market in China that will be launched both across the various brands that we serve that are both brands that serve China as well as -- the Chinese market as well as brands that serve the global market. So I think we're really happy about the progress we're making with that product line.

Additionally, we believe that product line has a potential to work beyond our core market and to service some of the global opportunities. And we are -- I mentioned some of the global RFQs that we are pursuing, and we're using that -- the platform that we've built with a broader software stack to service some of those potential opportunities. So I think that product line, we will, in the long-term, see both design wins in our core market as well as throughout our global expansion activities that we're quite excited about it.

The Makalu product is a very unique offering with a tremendous capability and compute platform. It performs at a different price point, where OEMs -- those customers want to be able to invest in the capabilities there. So I think we'll see less volume on that product line, but it does give us a tremendous opportunity, and it builds out our software stack and enables us to even transition to the future extremely high-performance products that we see coming in all of our markets across the global landscape.

So that product line will continue to service very well and we're also able to effectively platform our software capabilities that we will see elements of our software stack used on the Makalu product that will be used far into the future in even more advanced applications that we see coming in the pipeline.

Tony Shen - SPDI - Analyst

Okay. Great. Thanks for the color.

Operator

Xiaoyi Lei, Jefferies.

Xiaoyi Lei - Jefferies - Analyst

Yes, thanks for taking my question and congratulations on getting the overseas order. So my first question, maybe just a follow-up question on the progress of overseas expansion. So do we have any expectations for the proportion of overseas revenue in the next two to three years?

I think a management already touched up a bit on how to deal with the possible risks of -- how to deal with geopolitical risks. So I'm just wondering, do we have any plan to add more like local capacities in US and Southeast Asia? Yeah.

Peter Cirino - Ecarx Holdings Inc. - Chief Operating Officer

Yeah. Maybe I'll take that question to start with and talk a little bit about our strategy. And Phil can certainly follow up with some of the metrics and detailed financial numbers if needed. So Ecarx, as I mentioned, we started our global journey as long as four years ago and continue to expand our capabilities globally.

We're certainly in a lot of discussions about how we -- strategies that we use to continue to grow our engineering capability to service the European market as well as maybe a little longer term, but also to expand our supply chain capabilities, so that we have effective manufacturing to support our growth on a global scale. So we definitely have all those activities in our pipeline and are continuing to work through those strategies to support the growth activities.

When you look at the vehicle development cycles, they often can be between two and four years. So as we win programs, move through our development activities and start to launch those, you'll start to see significant revenues along that time horizon, and that's somewhat just the industry cycles. They're certainly getting faster.

One of our capabilities as a business is to be able to use our technology stack, our platforming capabilities to be very effective in short horizon programs. Our China market business is extremely dynamic with very aggressive timelines, and we're able to operate with great quality and great technology in that horizon, and we're bringing that capability to the global market.

But there is somewhat of a different operating model between many of the customers that we serve in the China market and customers that we're having deep partnership discussions with at a global level.

So I think that it will take some time for the revenues to begin showing up in our performance as our China business continues to grow. But we already have vehicles that are launched globally that will continue to grow. And we're working very closely with a number of partners and customers in Europe to continue to expand our business there. So it will definitely yield great progress for us in the future.

Xiaoyi Lei - Jefferies - Analyst

Thank you. Do we have any guidance or expectations for the proportion of overseas sales based on order backlog?

Phil Zhou - Ecarx Holdings Inc. - Chief Financial Officer

Xiaoyi, this is Phil. So as Peter mentioned, we make good traction in global vehicle programs and the revenue is coming. And overall, by end of 2024, we might not see too much, but the momentum is there, and we have full confidence to grow the business aggressively in the next couple of years.

Our goal doesn't change. That is by 2026 to 2027 time frame, the business from the international or the global OEM customers will be 40% at least, that is our goal. And we are ready. And we are ready to invest into global R&D, global Smart manufacturing, global delivery aggressively in the next one or two years. And that can build our momentum and build on the foundation to generate growth in the future.

Xiaoyi Lei - Jefferies - Analyst

Understood, very clear.

My next question is regarding the chip procurement strategy. So we noticed that the government sort of encourages the domestic OEM to increase the procurement ratio from local chip suppliers. I'm just wondering if we will adjust our product line -- adjust our strategy in terms of the chip sourcing strategy in response to this policy?

Peter Cirino - Ecarx Holdings Inc. - Chief Operating Officer

Yes, sure. I'll grab that question. Great question. I think if you look at our strategy, we have a great -- we have a fantastic solution to that need in the market. We have had a deep relationship with the global technology suppliers. We were very early to develop platforms of the Qualcomm technology. We have been talking -- we have been developing this Makalu platform of the AMD technology for approximate -- for more than two years now. And we've certainly been discussing that partnership, and we're now starting to see products from that partnership come to the market and be launched inside the vehicles.

Also, Ecarx as a business established the joint venture, SiEngine with AMD in 2018. And that -- the product -- the first product from that joint venture is the base of the Antora platform. And that product was developed in China, 7 nanometer solution, and is a fantastic product set that we're continuing to grow, both in a very platform solution in the Antora 1000 and the Antora 1000 Pro be able to serve a number of different price points in the market.

And we see great progress on that platform as we have multiple OEM projects in our pipeline that are built off of that platform. And as I mentioned earlier, I think we will see that both serve markets very effectively, serve markets inside of China and satisfy that need for local SoC performance, but also we see potential for that product set on a global scale as well. So I think we're extremely well positioned to manage some of those challenges that we see in the market with very effective solutions that we have inside of our product portfolio already.

Xiaoyi Lei - Jefferies - Analyst

Understood. Thank you. And my last question is regarding the -- our cooperation with FAW. Could you please shed more light on progress?

Phil Zhou - Ecarx Holdings Inc. - Chief Financial Officer

So yeah. So given the NDA with the customer, we might not be able to disclose too much of the details. But Xiaoyi. I think the program is proceeding very smoothly as planned. And I can share some information with you regarding the FAW cooperation. So let's recap the strategic imperative of the cooperation between Ecarx and FAW. FAW basically, they want to build the advanced digital cockpit capability, especially the software operating system, so as to improve the competitiveness and the in-car user experience.

And from the other angle, FAW really want to improve the adoption rate of Chinese domestic key components so as to guarantee a controllable supply chain. And Ecarx, we would like to diversify our customer base. We want to increase our revenue and profit return from new customers. At the same time, we want to scale out our common and standard business and solution platform.

So -- and through the engagement, I would say, Ecarx will have huge opportunity to serve multi -- nearly more than 10 vehicle programs, car models in the next two years in FAW Group. And we also target the penetration rates in Hongqi Brand like beyond 50% by 2028 and '29 time frame. And then we open up the opportunity for other brands under FAW, for example, like Bestune and maybe the JV between FAW and the international OEM brands.

So there are two programs right now under our development, and we are going to launch the vehicle programs by the end of the year. That is our plan. So that is the engagement model. And yeah, so as long as the progress could be announced, then we could announce to the market regarding the cooperation and the results.

And Peter, do you have any more to add?

Peter Cirino - Ecarx Holdings Inc. - Chief Operating Officer

No, I think you did a great job covering it. And we have a number of vehicles in our pipeline and I think we'll continue to make announcements in the future about how we're deepening the relationship across a broader set of their brands.

Xiaoyi Lei - Jefferies - Analyst

Okay.

Operator

That concludes our Q&A session. I will now turn the conference back over to Peter, for the closing remarks.

Peter Cirino - Ecarx Holdings Inc. - Chief Operating Officer

Okay. Well, thank you, everyone. Thank you for the time today and joining our call. We're, as we mentioned a number of times during the discussion today, quite excited about the results, 31% year-on-year revenue growth and expanding our total product and vehicles to almost 7 million to 6.9 million vehicles as of the end of June.

So I think we've made great progress as a company, both in the metrics as well as deepening our strategic relationship strategy partners and growing our capabilities with new product set, as well as the discussion around the launch of our manufacturers, our newest manufacturing sites in Fuyang. So we're very pleased with the progress of the organization and anticipate we'll continue to have a very solid year as we go forward through the balance of 2024. To thank you again for your time today.

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