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## PRESENTATION

**Rene Du** - *ECARX Holdings Inc. - Investor Relations*

Good morning and welcome to ECARX fourth quarter and full-year 2023 earnings conference call. With me today for ECARX are Chairman and 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. Please note today's call is being recorded.

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 measure to GAAP measure 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.

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**Ziyu Shen** - *ECARX Holdings Inc. - Chief Executive Officer and Chairman*

Thank you, Rene. Hello, everyone and thank you for participating in our fourth quarter and full-year 2023 earnings call. 2023 was a pivotal year for China's automotive industry. China exported 4.9 million vehicles in 2023, surpassing Japan to become the world's top auto exporter. Global auto sales topped at 74 million as EVs continue to gain significant market share with their global penetration hitting another record high of 23% in December. With demand for EVs expanding globally, the software that defines them and the enriched in car experiences they offer will grow in tandem.

According to BCG, software platforms for vehicles are forecast to grow at a 12% CAGR by 2030 with a market value of \$13 billion, creating enormous market opportunity that we are uniquely positioned to benefit from with our innovative product portfolio. There are now over 6 million vehicles on the road that incorporate our technology across 25 brands offered by our 16 automotive OEM customers.

ECARX-equipped vehicles on the road increased 8% from last quarter and 30% from the same period last year. We are starting out the year strongly with a solid pipeline that includes the expected launch of 49 vehicle models over the next 18 months, which we expect to translate into an additional

1 million vehicles on the road that incorporate our technology. This growth is reflected in our financial results where our revenue during the fourth quarter hit a record high of RMB1.87 billion, up 22% year over year, while for year 2023, revenue hit RMB4.67 billion, up 31% year over year.

The sector continues to present enormous opportunities for growth despite increasing price pressure and competition intensifies. While we continue to invest in our future long-term growth, we are simultaneously working to improve operating efficiency across our supply chain to build a sustainable path towards profitability as our business grows to scale. Our net loss for the year narrowed significantly to RMB1 billion compared to RMB1.6 billion in 2022.

Our customer base continues to grow as automotive OEMs increasingly recognize the significant value proposition that our solution offer them. We added one new mass-market Japanese brand in December, and multiple EV project wins through our strategic collaboration with one of China's top automotive OEM groups. This is all in addition to winning three new projects within the Geely Ecosystems during the quarter. Our international portfolio and brand awareness continues to strengthen alongside our expanding customer base. Last month, we showcased our full product line and met with a number of well-known global automotive OEMs at CES in Las Vegas.

Quarter four also saw the launch of the Polestar 4 and Volvo Car EX30 which showcase the Polestar OS, the customized OS based on Flyme Auto and ECARX Cloudpeak software stack. Both vehicles are equipped with Google Automotive Service, which highlights our ability to deploy these services at scale and support both Chinese and global automotive OEMs with the launch of their vehicles internationally.

Our unique partnership ecosystem continues to be a key driver of our success. During quarter four, we embarked on our new joint venture with smart to collaborate on intelligent automotive products and the strength to our existing partnership with Black Sesame to further develop our intelligent driving ecosystem. This is in addition to our partnership with Mobileye which was on full display with the launch of the Polestar 4.

I am extremely pleased with the progress we have made throughout the year. With our profile growing internationally, strong partnerships, and cutting-edge solution, we couldn't be in a better position to benefit from the enormous growth opportunities ahead.

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

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

Thank you, Ziyu, and good day, everyone. We gained significant momentum in diversifying our business and partners during the quarter. As Ziyu mentioned, we added a mass-market Japanese brand to our customer base and recently picked up multiple project wins for EV models throughout our collaboration with one of China's top automotive OEM groups, with the start of production expected by the end of 2024 or early 2025.

To sustain this momentum and boost the visibility of our solutions, we held eight tech shows across five cities in China in Q4, which generated significant engagement with over 2,000 attendees. We also won three new projects from existing customers within the Geely Group and Ecosystem brands during Q4. Our recent progress underscores the significant market opportunity for our innovative product portfolio and the strength of our technology.

I'll start with the ECARX Antora series, which embodies the fundamental requirements needed for a truly intelligent vehicle. The Antora series integrates the world's leading 7-nanometer high-performance automotive grade SoC, SE1000, which features unique hardware architecture including built-in function and information safety islands that don't require virtualization and a high-performance programmable MPU with 8 TOPS AI computing power and multiple acceleration engines.

Building on the Q3 debut of the Lynk&Co 08, the first vehicle to launch with our full stack solution, Q4 saw the mass production of the Antora 1000 computing platform to be integrated into the updated version of the Lynk&Co 06. The Antora series has become a benchmark platform for a number of car models in our pipeline.

The Makalu platform is one of the most powerful intelligent cockpits available on the market with its ultra-high performance digital cockpit computing platform with unparalleled 3D graphics, security, and entertainment features. The Makulu platform is expected to begin production in the first half of this year on two car models, which we are very excited about.

ECARX Skyland Pro, our first-generation autonomous driving control unit with L2 plus capabilities, integrated safe parking and driving solutions, Highway NoA, and remote parking assist was deployed on the Lynk&Co 08 last September. With computing power of 118 TOPS and a high safety MCU, ECARX Skyland Pro is able to support more advanced software such as bird's-eye view and LiDAR perception. Its integrated ADAS solutions combined with our cockpit solutions, strengthen the loyalty of our automotive OEM customers while providing end users a seamless in-car experience.

One of the key growth drivers for ECARX has been our focus on innovation. We continue to invest in research and development to ensure a steady pipeline of cutting-edge technologies and features for our products. This keeps us ahead of the curve.

As of December 31, 2023, we had 563 registered patents and 557 pending patent applications globally. We have a clear product roadmap that spans from entry-level solutions to premium level with plans to integrate next-generation supercomputing platforms starting later this year and into 2025, a key driver for our ambitious market share objectives.

Our profile continues to grow globally as more vehicles with our technology hit the road. The Polestar 4 launch was a significant milestone during this quarter. It is the first model to feature Polestar OS and an operating system based on Flyme Auto, which highlights our ability to build custom operating systems with iconic brand designs for global automakers. Polestar 4 also marked the debut of the integrated driver assist system we developed in partnership with Mobileye. This mass-produced, one-box solution is a strong testament to our ability to put advanced technologies from our partner ecosystem onto the road.

The Volvo EX30 was launched across 33 markets internationally during the quarter and comes equipped with ECARX Cloudpeak cross-domain software stack and Google Automotive Services. ECARX Cloudpeak manages the seamless integration of all the information an EX30 driver's needs, including navigation instructions from Google Maps, hands-free help from the Google Assistant, and apps of Google Play. Of particular note, it also integrates wireless CarPlay for the first time in Volvo in addition to wireless Android Auto. Cloudpeak is also networked into the vehicle's comprehensive suite of ADAS features, including collision avoidance and mitigation, traffic jam assist, lane change assist, park pilot assist, door opening alerts, and 360 camera views. Cloudpeak is a fully flexible modular platform created to provide global automotive OEMs with a customized and intelligent platform for state-of-the-art infotainment and advanced driver assist systems in the market today. This is a key product line for us and leverages our unique ability to develop full SaaS solutions in-house in close collaboration with other suppliers, technology companies, and automotive OEMs. The successful launch of the Volvo EX30 will significantly boost our brand recognition in the industry.

We also had a great presence at this year's CES in Las Vegas where we showcased our latest cutting-edge technology offerings and sought to make new connections with global automotive OEMs. It was a highly productive week as we were able to meet over 50 customers and partners on the sidelines of the events.

Lastly, I'll share a couple of key updates on our partnership ecosystem. In December, we formed a new joint venture with smart to locally develop intelligent experiences within smart vehicles. We previously worked with smart to co-develop a customized smart OS operating system for two of their earlier models and are excited about what we can accomplish as we deepen our collaboration.

We also strengthened our partnership with Black Sesame, which will pave the way for us to bring a powerful new ADAS solution into the market. We have lots of synergies with Black Sesame and are incorporating their cutting-edge intelligent driver technologies into our products, and this will enable us to offer a compelling full stack solution to automotive OEMs.

In conclusion, our growing commercial momentum, leading technology, and rich partner ecosystem ideally positions us to seize the tremendous opportunities created by the growth of the EV and software-defined vehicles in China and globally. While we are pleased with the progress we've made in 2023, we recognize that we are still in the early stages of our journey with a lot of work ahead of us to meet our ambitious market share goals. With confidence at all-time high, we look forward to execute our plan and our vision for the future.

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. We closed out the year with strong momentum as our business continues to grow and our financials improve. Total revenue for the quarter was RMB1.87 billion, a significant increase of 22% year over year. Computing hardware goods revenue was RMB1.31 billion, up 26% year over year driven by volume increases in digital cockpit sales for new vehicle programs. Software license revenue came in at RMB93 million, a decrease of 62% year over year and 32% sequentially, primarily due to the timing of booking intellectual property license revenues and the decrease in volume of software sales. Service revenue maintained a strong growth momentum, surging 95% year over year to RMB463 million. This remarkable increase was primarily due to launch of Volvo EX30 and Polestar 4 during the quarter.

Gross profit was RMB432 million, an increase of 1% year over year, which translates into a gross margin of 23.1%. Total cost of revenue was up 31% year over year, primarily driven by an increase in sales volume of digital cockpits and service revenue.

As discussed on the last earnings call, we expected margin pressure on our hardware products continue over the medium term, driven by enhanced industry-wide pricing competition, customer EE architecture evolution and transition, acquisitions, and strategic progress we have in the pipeline.

Our focus going forward will remain on enhancing the adaptability of our business and improving operating efficiency. We will do this by driving products and solutions revenue growth, strategically cutting costs, and making targeted new investments. This will allow us to strike a balance between topline growth and profitability as well as mitigate any potential impact on our margins.

Operating expense during the quarter increased 28% sequentially and decreased 37% year over year. The sequential increase was primarily due to the impact of seasonality as well as continued investments in our core product roadmap and the international R&D expansion. The year-over-year decrease was mostly due to lower share-based compensation expenses.

Adjusted EBITDA loss was RMB232 million, up from a loss of RMB222 million during the same period last year, primarily attributable to change in fair value of equity investment. Loss per share was minus RMB0.87 compared to minus RMB3.26 due in the same period last year. Having finished the year on a solid footing, 2023 full-year revenue came in at RMB4.67 billion, up 31% year-over-year, with gross profit of RMB1.27 billion, an increase of 28% year-over-year, giving a gross margin of 27.2%.

Throughout the year, we further optimized and improved operating efficiency by prioritizing investments in our global expansion and the technology development. Full-year operating expenses decreased 17% year over year with adjusted EBITDA loss of RMB710 million, an improvement of RMB37 million from last year.

Moving on to our balance sheet. As of December 31, 2023, we had RMB588 million of cash and restricted cash, which gives us sufficient resources to invest in our future and accelerate growth. Going forward, we will further optimize our operating expenses with a particular focus on product, sales, and supply chain and manufacturing strategies. On the product side, we will continue to invest in R&D to drive mid to long-term growth opportunities. On the sales side, we will focus on engaging with new automotive OEM partners, both in China and internationally. And finally, we will further optimize the supply chain management and improve cost structure of products and components. This will also support the strategic transition of our manufacturing strategy from ODM to an OEM model.

To summarizing all of this, a focus on a balanced portfolio and a wider array of higher-margin premium products. Lastly, in order to proactively mitigate the impact of an increasingly challenging geopolitical environment, we are strategically expanding our global presence for both R&D and customer acquisition. We want to build two closed loop systems, one for China and the other for global markets. Each closed loop system will span the entire process from R&D to delivery. To do so, we have had to make acquisitions, strategic investments, and the supply chain upgrades that will take time to mature but are critical to ensuring the sustainability of our business model.

The acquisition of JICA and investments in ADAS over the past few quarters reflect the careful and strategic nature of this approach. We will ensure our business will be in a healthier and more sustainable position over the long-term. In conclusion, we are pleased with the strong finish to 2023 and eagerly look forward to the enormous opportunities ahead of us.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Derek Soderberg, Cantor Fitzgerald.

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### Derek Soderberg - Cantor Fitzgerald & Co. - Analyst

Yes. Good evening, everyone. Congrats on reaching the 6 million vehicle mark. So you talked a bit about operational efficiencies. How will that impact gross margins for 2024? Can you talk about your expectations on how gross margins will trend throughout the year? And when do you guys think you'll hit EBITDA profitability?

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

This is Phil. I'm happy to address your questions. So we had communicated earlier that we foresee pricing competition in the entire industry, right? And we were so glad that many Tier-1 players are having profit decrease due to the faster pricing erosion, while the cost optimization is behind the pricing erosion. So we also foresee that the hardware product profitability will face headwinds in the upcoming quarters as we see a continued high competition of pricing pressure through our customers. And we also want to do new business acquisitions and the strategic program developments in the pipeline.

So in order to mitigate the headwind impact, so we will continue to provide our diversified and full stack solutions. And we will also implement our proactive pricing and improve our cost structure through our proactive cost down activities. And at the same time, our consistent strategy is to embrace the software-defined EV evolution in a big way, okay? And as a result, the share of wallet in the BOM structure keeps increasing and the content of vehicle keeps improving as well.

And we also expand our coverage to serve OEM brands with footprint both in China and overseas markets. Lots of customer names like in the smart, Lotus, Volvo, and Polestar. And the Volvo EX30 is a typical example. We supported Volvo to launch their flagship vehicle in 33 global markets with our unique Cloudpeak cross-domain software which is highly integrated into the advanced ADAS features. And we are very few players in the market in the industry with the ability to deploy Google Automotive Services globally.

So most dedicated focuses enable us to diversify our business portfolios, and we are able to drive sustainable profit growth. So in a word, Derek, we will maintain our focus on the product software service portfolio selling and drive ECARX series products and solutions from growth, cost reduction, supply chain and fulfillment efficiencies while staying very disciplined on new investments and balance between topline growth and profitability in order to mitigate margin impact.

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### Derek Soderberg - Cantor Fitzgerald & Co. - Analyst

Got it. That's helpful. And just on a little bit of the pricing pressure, what's your average content per vehicle today? And how do you see that trending through 2024 as you guys continue to innovate, add new feature sets? You guys continually sign new partnerships. And it seems like from an R&D standpoint, you continue to add more features. Can you just talk about how you expect that to trend?

And additionally, can you talk a bit about the software element within the content per vehicle, and how we should think about how you're allocating the content on the software side per vehicle? What's the revenue per vehicle on the software side? Or maybe talk about some of the attach rates on software? Anything there would be helpful. Thanks.

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

Yeah, sure, Derek. So I will talk about content per vehicle numbers, and Peter, maybe you can address the question regarding how to allocate the software, how to increase our profitability through the content per vehicle improvement. So Derek, we have a wide portfolio of our product solutions and the content per vehicle range from RMB1,000 to RMB15,000 per car.

We have solutions covering low end to high end and just want to meet the different customer demands on their vehicle programs. And take Lynk&Co 08 for example. Last time, we discussed it's almost our full-stack solution. You saw that on Lynk&Co 08. We provide Antora 1000 Pro computing platform. We provide the Flyme Auto Solution, the operating system and on top of that, we also provide our Skyland Pro, the ADCU, the autonomous driving solutions. And then that helped us increase our content per vehicle to RMB10,000 -- RMB9,000 to RMB10,000 around.

And take the Volvo EX30, for example, we also provide our unique cross-domain Cloudpeak solution. And that is also our newly developed functionality, and it's the first launch in the market, and that means the software will improve our profitability as well. So these are the numbers I can share with you. And Peter, maybe you can add on more information.

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

Yeah, sure. So just a few comments on the product portfolio and the impact of software. This tends to be a very OEM-specific topic. With some OEMs, we're providing a base platform with base-level capabilities and then working with that OEM to build the software stack on top of it. Others -- Phil mentioned a few examples, Lynk&Co and Volvo, we're doing the complete software stack. So I think it's very dependent on the OEM strategy and how we engage with them.

But certainly, I think we're very confident from ECARX perspective that with our capabilities, really from silicon to cloud, we bring a unique value proposition that we can work very closely with the OEMs and mine up to their model and make sure we can drive value to those customers in all markets.

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

Appreciate the detail.

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**Operator**

Xiaoyi Lei, Jefferies.

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**Xiaoyi Lei** - Jefferies - Analyst

My first question is regarding ECARX cooperation with Mobileye. It was mentioned that we will have a collaboration with Mobileye on IQ 6 platform. And I'm just curious if there are more details to be provided for the IQ 6 project at the moment?

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

This is Peter. I'll address that question. I think we announced we were collaborating with Mobileye on a number of different platforms. The first one will come out with Polestar in 2024, and then the one you mentioned, the more advanced chauffeur system, we would expect to be a few years later to launch. So we're very excited with the collaboration with Mobileye. They've got a great system.

And we've partnered with them in a unique way where we can bring our specific value propositions to the table as we integrate the systems into the vehicles. So I think as we are able to help customize and adapt those solutions into the OEMs' needs and requirements. We're pretty excited about what we can see on a go-forward basis from Mobileye across a number of different brands.

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**Xiaoyi Lei** - Jefferies - Analyst

That's very helpful. And my second question is regarding the progress of overseas expansion. So what proportion of overseas revenue do we expect longer-term? And do we have any breakdown by each market?

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

Yeah, sure. I mean, as you know, we started our international expansion a few years ago. I think this year marks a very significant event that we're able to launch the Volvo EX30 with the Google Automotive Services on top and bring that across north of 30 different markets throughout the world. So it's a big -- a very significant milestone for ECARX to be able to demonstrate that capability. As we continue to move forward, we're having a number of great engagements with a few European OEMs. And I think hopefully, we'll be able to make further announcements as we go throughout the year.

Design cycles in this industry can be a number of years. So as those programs continue to develop and launch and ramp up in terms of volume, it could be this period of time before we start to see meaningful movement on the financial numbers. But I think the traction we're seeing is, we're approaching a number of different large customers now that we demonstrated clear capability. We're quite excited about the potential there.

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**Xiaoyi Lei** - Jefferies - Analyst

Okay, understood. I have no more questions.

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**Operator**

(Operator Instructions) Ivan Zhang Soochow Securities Financial Holdings Limited.

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**Ivan Zhang** - Soochow Securities Financial Holdings Limited - Analyst

Congratulations on the performance. My first question is, Intel has already applied AI PC to the call. Therefore, I would like to know if there is any impact on our company? Is it a challenge or an opportunity?

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

If we look at the AI impact, I think we'll see a broad set of changes throughout the entire environment. You look at the application, the vehicle, speech can be enhanced, the capabilities of the vehicle to provide a better user experience can show significant details. We've got a number of projects inside our pipeline that we anticipate providing more detail on, especially as we have some events as we go through this quarter. But we've got a large number of programs and projects deploying AI into our systems throughout our -- both what the user will experience plus the back-end capability to drive efficiency and effectiveness inside the software.



I think we also see very significant opportunities internally to improve our capability to deliver great software in the vehicle by using AI in our internal development processes and even rapidly accelerate our capabilities to deliver solutions very quickly in the automotive market, and we see that as a strong capability of the company, our ability to operate very effectively in tight development timelines, and I think the use of AI can even enhance that capability as well.

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**Ivan Zhang** - *Soochow Securities Financial Holdings Limited - Analyst*

And the next question is, I would like to know how we view the impact of exchange rate collections on our company?

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

Okay, thank you for the question. So we are monitoring the Chinese yuan, the RMB trend carefully, but decide not to do any hedge, considering the cost of hedging could be higher than the benefit. And we also observed that many multinational companies are also not -- chose not to hedge RMB for their business operations in China because of the same reason. And our revenue and the operating expense is mainly in RMB, while 70% of our costs are in foreign currency. So in order to mitigate the risks we have the foreign exchange rate cost, cost is in the procurement and sales contract to mitigate the potential ForEx fluctuations.

And meanwhile, we are reinventing ECARX outside of China, as I called in my script. We will form closed loop systems in overseas market from R&D, production to customer delivery. And with the overseas revenue mix increasing, we will launch proactive treasury tactics, including currency hedging to stabilize the ForEx impact.

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**Ivan Zhang** - *Soochow Securities Financial Holdings Limited - Analyst*

Okay. I have no more questions.

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**Operator**

(Operator Instructions) Jiaqi Zhang, CICC.

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**Jiaqi Zhang** - *CICC - Analyst*

Thank you for taking my questions. Big congratulations for the team for having a very strong revenue for the year 2023. So I have three questions. The first one is regarding the gross margin. The gross margin for the 2023 we have seen there's a trend of erosion. And we are also experiencing that there's fierce competition going on in China, and the trend is definitely going to be more fierce for the year 2024. So my question is, could the team give us a forecast on the quarterly gross margin in 2024? And what are the actions you guys will take to improve the profit margin, for example, to have more software content? So that's my first question, please.

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

Since the second half of 2023, we observed the fierce pricing competition throughout the entire industry, and the value chain profits are compressed. Well, our goal is still to maintain a 20%-ish gross margin through our product, service, software, portfolio selling, as well as the premium product launching, while managing a good balance between our revenue growth and profitability achievements. And as I mentioned earlier, ECARX has very unique solutions.

And we also launched a proactive pricing protection plan, and we aggressively drove cost down, cost reduction initiatives in 2023, and we are going to do that in '24 as well. We will continue to increase the average selling price of content per vehicle, the example like Lynk&Co 08 and Volvo EX30. The successful launch demonstrates what our ecosystem can deliver and support our path to profitable growth.

Again, we will mitigate the impact of this pricing competition or margin erosion with our diversified and full-stack solutions, proactive pricing activities, and cost structure improvement. That is basically our approach to drive the mitigation of margin erosion, and we will continue to fight for the margin improvement or margin stabilization in 2024.

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**Jiaqi Zhang** - CICC - Analyst

So my second question is regarding the project design win with the Japanese company. So congratulations on the design win. Could you provide us more insights into how did you manage to secure this design win with this Japanese OEM? And is this project to be a global project or it's going to phase into the Chinese market?

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

Yes, sure. We have put a lot of energy inside the organization towards customer diversification. I would say it's certainly one of our top priorities to continue to broaden our customer base, onboard new clients, and then execute with excellence as we work very closely with them. So I think we have made some significant progress as we have gone through the quarter. As we got through the end of last year, today, we talked about onboarding of two new customers. These will initially start with the market here in China, and I think we have an opportunity to continue to work more closely with those customers to broaden that partnership and grow beyond -- grow outside of China as well.

So we are continuing to put tremendous amount of focus inside the organization. And I think we will see continued advancements as we go through 2024 of similar announcements where we can engage quite deeply with new customers, both in our markets in China as well as in markets in the rest of the world.

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**Jiaqi Zhang** - CICC - Analyst

Right. The engagement is definitely very important. So my third question is regarding actually segmentation from the previous Mobileye questions. So could you give us a more clear indication of the boundary of collaborations? Are we going to develop the Mobileye's domain controller or Mobileye are going to develop on the -- maybe JICA's domain controller, et cetera?

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

Yeah, sure. I mean, our engagement with Mobileye is really quite a tight collaboration of ECARX capabilities as well as Mobileye capabilities as we implement those systems. So I think we are bringing the best of both organizations together. Mobileye certainly brings some fantastic technology in their SoCs, in their perception software stack, in their sensor set for the vehicles. ECARX brings an overall system integration capability to that partnership, supply chain capabilities as well.

And we also help inject key software that's inside our portfolio in terms of spaces like driving decision software in the vehicle as well as some parking and other functions that we bring to that overall systems solution to the automakers. So we had a great discussion with the Mobileye team in CES, and I think we will continue to work on opportunities to collaborate quite closely with them and bring great systems into the vehicle.

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**Jiaqi Zhang** - CICC - Analyst

Right. That's very clear.

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**Operator**

Megan Jin, Macquarie.

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**Megan Jin - Macquarie - Analyst**

I have two questions. One is on our overseas business. I noticed that from this year in Europe and the US, the trend of the EV transition seems to start slow, there are plans of delaying the deadline of transitioning? And also like Mercedes Benz has been announcing the delaying plan. I am wondering how this would impact on the growth outlook for this year to our business? And also, on overseas business, what is our competitive advantage versus the more established Tier 1 player like Bosch and the Continental when we try to get orders in this OEM? That's my first question.

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

Yeah. Thank you. I think that's a great question. You look at, first of all, outlook on the market. We continue to see a lot of significant opportunities in the market for our technologies. As we continue to advance in this industry, these spaces in the vehicle are definitely undergoing significant investment. I think they tend to be often focused on EVs, but not exclusively. So the digital experience inside the vehicle, autonomous driving, the software-enabled vehicle, the OEMs have tended to make those investments in the big EV platforms as they launch those new.

But certainly, those same technologies are somewhat drivetrain agnostic because they provide great experience for the vehicle driver. There is a number of opportunities concerning connectivity and electrification that can help these systems work efficiently, but they are not exclusive to the EV industry. So we continue to see, as we scan the market, both ECARX, all of our markets, a very large and growing opportunity in our space. And carmakers are making fairly significant investments in these technologies. And I think we will continue to do as we go through future cycles.

When we look at the ECARX capabilities, the number of unique capabilities that ECARX brings into the market and as we talk with new customers, I think the first one we would highlight very frequently, our full stack solution.

So, as we look across our – us in a very tight partnership ecosystem, whether that's through joint ventures or deep strategic collaborations, we are able to take a very unique self-developed full stack solution from the silicon all the way to the cloud services through the entire full stack of the system capabilities. And that deep understanding helps us bring a very customized, unique solution built on platforms to each customer. And today, we operate with a very broad set of customers, those that are very cost conscious and extremely cost competitive to extremely premium brands throughout the customers that we talk about in these calls and having that capability and that wide breadth and build on platforms, I think is something very unique to ECARX.

The second piece, I think, is speed. I mean we operate at an extremely rapid speed with scale and with high quality. We are able to deliver systems that drive safety, operate at an automotive capability into vehicles at a very rapid pace. We are a company that's been operating only since 2017, and we have already got 6 million vehicles on the road, and that continues to grow quite substantially. Last year, we saw a 30% growth in those number of vehicles. So, to be able to operate at that speed with the number of launches in our pipeline with the strong capability, I think is very impressive. And then you talk about scale. Again, 30% growth on a number of vehicles last year, a wide variety of brands and you see the capabilities we are bringing to the international market. These are big differentiators for ECARX as we are talking to our existing customers as well as new customers.

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**Megan Jin - Macquarie - Analyst**

Thanks and that was very clear. My second question is on the China's market. I also noticed that there was the fast-growing trend to have more and more advanced features installed in the cheaper and cheaper models in China. And I am wondering how do we think about this trend and how that impacts our business? Especially, how do I think about the competition as we move into maybe more lower end of the product in the market?

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

I think we see the China market is a very dynamic market, right. This market evolved very quickly. Customers move very fast and react to the advancing trends in the industry. And ECARX is a company over our 7 years has done a fantastic job executing in that market, and we continue to do that. There are times we conceive – bring new technologies into a vehicle within less than 12 months. And I think this is something very unique that we can demonstrate that capability and do it with a high quality and at a global quality level certification, and this is something very special for ECARX. I think the market in China will continue to be very dynamic and diverse. For sure, there is a lot of pressure on cost. There is a lot of pressure on competition here, but ECARX has been very successful competing in that environment in our 6 years, 7 years of existence, I think we will continue to do very well in that environment.

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**Megan Jin** - Macquarie - Analyst

Got it. Thanks for taking my questions.

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**Operator**

(Operator Instructions) Michel Liu, HSBC.

Thanks management for taking my questions. I have two, following the previous investors' questions. And the first one is regarding the customer. Could you just roughly map out the models equipped with our smart hardware this year in both domestic market and in the global market? And what is the pipeline in the next few years as well?

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

Yes, for sure. I mean we don't – in the environment we are in, I don't think we always get hyper specific on launches that we see coming. But we have had a great '23, especially kind of capped off with the Volvo EX30 launch. I think we certainly talked about the Polestar launch inside of China. We will launch that vehicle at global scale as we go through 2024. We already talked about that. We will continue to see a broad set of launches. I think we have discussed two new customers.

We will probably see at least one of them launch vehicles towards the end of this year, so we can start to get more specific on those platforms that are coming. I have mentioned earlier, we are having some great dialogue with some customers in Europe that I think could even produce launches as we go into 2025. So, that shortening of the development cycle I will continue to see across the global market. And as I have said earlier, I think ECARX is executed extremely well in that tight launch window environment. So, I think we are excited to see that pressure come to the global markets. And you see that we can add a lot of value in our ability to deliver great solutions at automotive grade quality at a very, very fast and rapid pace.

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**Michel Liu** - HSBC - Analyst

Got it. Thanks. And the second one is regarding the cost. Obviously, we note that the competition environment is very fierce this year, and you touched on this in previous questions. And also, we see customers attaching more importance on the smart functions, including the digital cockpit and autonomous driving functions. But the willingness of the customers to pay for this kind of smart hardware or software is not that strong. So, last year, the OEMs, we mentioned in their earnings call that they are going to cut 50% of their smart hardware of the car. So, how do we project our trajectory of cost reduction as well as the overall smart hardware cost reduction in the coming years? Thanks.

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

Thank you. This is also a very good question. So, for cost, because ECARX provides our full stack solution covering computing platform, software and a lot of advanced features to our customers. So, regarding the hardware solution, for sure, we will drive – and we are driving our cost down activities aggressively. So, there is always no boundary about the cost of optimization. So, we have a large scale. We have a lot of bargaining power and we can work on the effective price negotiation with our suppliers. At the same time, as I mentioned earlier, we also put some protection costs into software products. All those activities can protect us from a faster cost challenge.

With that, we are able to maintain relatively healthier cost structure in our hardware solution. At the same time, right, we are investing heavily into our next-generation computing solutions as well. And with that, actually, we can build up our price premium. And we can launch those solutions firstly in the market. And all those time window can gain us a lot of pricing room for us to play. At the same time, our service revenue mix and the service margin mix also play a significant supply of our total business. So, as long as we can deliver our service to customer, within a faster timeframe and we can satisfy our customer in terms of those features will comment. We still can make lots of profit from service revenue. So, again, with our software service and hardware portfolio today, at the same time, driving effective cost down activity from our hardware, we have full confidence in delivering a balanced profitability in the coming year.

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

Yes. Maybe I would just add to that. I think you also see that in our OpEx results, especially in 2023. We have had this very significant growth in the top line revenue. We continue to invest in technology and produce a lot of launches through our pipeline, and we do that under a very tight cost control from an OpEx perspective in '23. And I think we will get better at that as the business continues to scale at '24. So, I think we see a lot of the activities that Phil mentioned on the gross margin line, but we also see that in the engineering and technology efficiencies and investments that we are making.

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

Yes. We drove lean operations in our business. And for operating expense, as Peter mentioned, it's a very effective control. And from a year-over-year perspective, it's a 17% decrease. And in parallel, we just redeployed our savings from the SG&A to our R&D and the global expansion. So, all those are the right approach to capture our future growth opportunity.

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**Michel Liu** - HSBC - Analyst

Got it. Thanks management. That's very helpful. Thank you.

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**Operator**

Thank you. There are no further questions at this time. And I would now like to hand the conference over to ECARX management team for any closing remarks.

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

All right. Well, first of all, thank you everyone for the time and the questions today. I think ECARX, we have continued to execute quite well in an ever competitive environment, but we have done that for many years and continue to anticipate that we are actually well and have the right focus on the growth mindset, but also making the right investments in the business to drive the right behavior in terms of profitability expansion. So, I think we are looking forward to a very exciting 2024 with a number of new activities as we go forward in terms of new launches, new product they would use as well as new customers. So, thank you again for the time you spent with us today.

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

Thank you.

**Operator**

That does conclude our conference for today. Thank you for participating. You may now all disconnect. Have a nice day.

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