

Sogou Announces First Quarter 2021 Results

BEIJING, May 14, 2021 /PRNewswire/ -- Sogou Inc. (NYSE: SOGO) ("Sogou" or the "Company"), an innovator in search and a leader in China's internet industry, today announced its unaudited financial results for the first quarter, ended March 31, 2021.

First Quarter 2021 Financial Results

Total revenues^[1] were \$137.2 million, a 47% decrease year-over-year. The decrease was primarily driven by uncertainties with respect to Sogou's business policies among certain advertisers as a result of the previously-announced proposal by Tencent Holdings Limited ("Tencent") to take Sogou private, as well as reduced traffic acquisition activity.

- **Search and search-related revenues** were \$127.8 million, a 46% decrease year-over-year. Auction-based pay-for-click services decreased year-over-year, accounting for 83.8% of search and search-related revenues, compared to 91.0% in the corresponding period in 2020.
- **Other revenues** were \$9.5 million, a 52% decrease year-over-year, as the Company scaled back non-core businesses.

Cost of revenues was \$107.9 million, a 50% decrease year-over-year. **Traffic acquisition cost**, a primary driver of cost of revenues, was \$75.4 million, a 58% decrease year-over-year, representing 54.9% of total revenues, compared to 70.5% in the corresponding period in 2020. The decrease in traffic acquisition costs was driven by decreased traffic acquisition from third parties.

Gross profit and non-GAAP^[2] gross profit were both \$29.4 million, a 27% decrease year-over-year for both.

Total operating expenses were \$78.3 million, a 5% decrease year-over-year.

- **Research and development expenses** were \$51.8 million, a 10% increase year-over-year, representing 37.8% of total revenues, compared to 18.3% in the corresponding period in 2020. The increase was primarily attributable to an increase in personnel-related expenses.
- **Sales and marketing expenses** were \$20.8 million, a 27% decrease year-over-year, representing 15.2% of total revenues, compared to 11.1% in the corresponding period in 2020. The decrease was primarily due to a decrease in advertising and promotion expenses.
- **General and administrative expenses** were \$5.7 million, a 19% decrease year-over-year, representing 4.1% of total revenues, compared to 2.7% in the corresponding period in 2020. The decrease was primarily due to a reversal of an allowance for credit losses in relation to non-core businesses.

Operating loss was \$48.9 million, compared to a loss of \$42.4 million in the corresponding period in 2020. **Non-GAAP operating loss** was \$47.7 million, compared to a loss of \$41.9 million in the corresponding period in 2020.

Other income, net was \$83.4 million, compared to \$7.2 million in the corresponding period in 2020. The increase was primarily due to a \$76.7 million unrealized gain from a change in the fair value of the Company's equity investment in Zhihu Inc. (NYSE: ZH), which completed an IPO in March 2021.

Income tax expense was \$0.6 million, compared to an income tax benefit of \$1.0 million in the corresponding period in 2020.

Net income attributable to Sogou Inc. was \$35.3 million, compared to a net loss of \$31.6 million in the corresponding period in 2020. **Non-GAAP net income attributable to Sogou Inc.** was \$36.5 million, compared to a net loss of \$31.1 million in the corresponding period in 2020.

GAAP and Non-GAAP basic and diluted income per ADS were both \$0.09.

As of March 31, 2021, the Company had **cash and cash equivalents and short-term investments** of \$1.0 billion, compared to \$1.1 billion as of December 31, 2020.

Net operating cash outflow for the first quarter of 2021 was \$56.6 million. **Capital expenditures** for the first quarter of 2021 were \$4.9 million.

^[1] On a constant currency (non-GAAP) basis, if the exchange rate in the first quarter of 2021 had been the same as it was in the first quarter of 2020, or RMB 6.98=\$1.00, total revenues in the first quarter of 2021 would have been \$127.5 million, or \$9.7 million less than GAAP total revenues, and down 50% year-over-year.

^[2] Non-GAAP results exclude share-based compensation expense. Explanation of the Company's non-GAAP financial measures and related reconciliations to GAAP financial measures are included in the accompanying "Non-GAAP Disclosure" and "Reconciliations of Non-GAAP Results of Operation Measures to the Nearest Comparable GAAP Measures."

Merger Agreement with Tencent

As previously announced, on September 29, 2020, the Company announced that it had entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") with THL A21 Limited ("THL"), TitanSupernova Limited ("Parent"), and Tencent Mobility Limited, each of which is a direct or indirect wholly-owned subsidiary of Tencent, which contemplates that Parent will be merged with and into Sogou in an all-cash transaction (the "Merger"), and Sogou will become a wholly-owned indirect subsidiary of Tencent.

Upon the effectiveness of the Merger, if it is completed, outstanding Class A ordinary shares of the Company (each a "Class A Ordinary Share"), including Class A Ordinary Shares represented by American depository shares ("ADSs"), other than Excluded Shares (as defined in the Merger Agreement) and ADSs representing Excluded Shares, will be cancelled in exchange for the right of the holders thereof to receive \$9.00 in cash per share or ADS.

On or about the same time as the Company entered into the Merger Agreement, Sohu.com Limited ("Sohu") (NASDAQ: SOHU), which is currently the Company's indirect controlling shareholder through Sohu's wholly-owned subsidiary Sohu.com (Search) Limited ("Sohu Search"), and Sohu Search entered into a share purchase agreement with Parent, pursuant to which Sohu Search agreed to sell all of the Class A Ordinary Shares and Class B ordinary shares of the Company (each a "Class B Ordinary Share") owned by it to Parent (the "Share Purchase"). Also on or about the same time, THL and Parent entered into a contribution agreement, pursuant to which THL agreed to contribute all of the Class B Ordinary Shares of the Company owned by it to Parent (the "Share Contribution"). Each of the closing of the Share Purchase and the closing of the Share Contribution is expected to take place shortly prior to the completion of the Merger.

Following the completion of the Share Purchase and the Share Contribution, Parent will hold not less than 90% of the voting power represented by all issued and outstanding shares of the Company. Accordingly, it is intended that the Merger will be in the form of a short-form merger of Parent with and into the Company in accordance with section 233(7) of the Companies Act of the Cayman Islands, and shareholder approval of the Merger Agreement and the Merger will not be required.

If completed, the Merger will result in the Company becoming a privately-held indirect wholly-owned subsidiary of Tencent, the Company's ADSs will no longer be listed on the New York Stock Exchange, and the ADS program will be terminated. The parties currently expect the Merger to be completed after the second quarter of 2021, subject to the satisfaction or waiver of all the conditions to the Merger, including the receipt of regulatory approvals such as clearance of anti-trust filings.

The Company does not undertake any obligation to provide any updates with respect to the Merger, the Share Purchase, or any other transaction, except as required under applicable law.

Non-GAAP Disclosure

To supplement the unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), Sogou's management uses non-GAAP measures of gross profit, gross margin, and net income that are adjusted from results based on GAAP to exclude the impact of share-based awards. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results.

Sogou's management believes that excluding share-based compensation expense is useful for management's internal operating purposes and for investors. The amount of share-based compensation expense cannot be anticipated by management, and this is not built into the Company's annual budgets and quarterly forecasts, which generally will be the basis for information Sogou provides to analysts and investors as guidance for future operating performance. As share-based compensation expense does not involve subsequent cash outflow, Sogou does not factor in this expense when evaluating and approving expenditures or when determining the allocation of its resources to its business operations. As a result, in general, the Company's monthly financial results for internal reporting and any performance measures for commissions and bonuses are based on these non-GAAP financial measures that exclude share-based compensation expense.

The non-GAAP financial measures are provided to enhance investors' overall understanding of Sogou's current financial performance and prospects for the future. A limitation of using non-GAAP gross profit, gross margin, and net income measures that exclude share-based compensation expense is that share-based compensation expense has been and is likely to continue to be a significant recurring expense in the Company's business. In order to mitigate these limitations, the Company has

provided specific information regarding the GAAP amounts excluded from each non-GAAP measure. The accompanying tables include details on the reconciliation between GAAP financial measures that are most directly comparable to the non-GAAP financial measures the Company has presented.

Safe Harbor Statement

This announcement contains forward-looking statements. Statements that are not historical facts, including statements about Sogou's and Sogou management's beliefs and expectations and statements about the Merger, are forward-looking statements. Any such statements are based on current plans, estimates, and projections, which involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Potential risks and uncertainties include, but are not limited to, intense competition in the market for search and search-related services; our need to continually innovate and adapt in order to grow our business; our reliance on Tencent platforms for a significant portion of our user traffic; uncertainty regarding the extent and reach of PRC governmental regulation of sponsored search; the effects of the worldwide COVID-19 pandemic on the economy in China generally and on our business in particular; other risks discussed in Sogou's Annual Report on Form 20-F for the year ended December 31, 2020 filed with the Securities and Exchange Commission on March 18, 2021, and other documents Sogou files with or submits to the Securities and Exchange Commission; and the possibility that the Merger will not occur as planned if events arise that result in the termination of the Merger Agreement, or if one or more of the various closing conditions to the Merger are not satisfied or waived, and other risks and uncertainties regarding the Merger Agreement and the Merger that are discussed in the transaction statement on Schedule 13E-3 in connection with the Merger filed with the SEC on December 1, 2020.

About Sogou

Sogou Inc. (NYSE: SOGO) is an innovator in search and a leader in China's internet industry. With a mission to make it easy to communicate and get information, Sogou has grown to become the second-largest search engine by mobile queries and the fourth largest internet company by MAU in China. Sogou has a wide range of innovative products and services, including the Sogou Input Method, which is the largest Chinese language input software for both mobile and PC. Sogou is also at the forefront of AI development and has made significant breakthroughs in voice and image technologies, machine translation, and Q&A, which have been successfully integrated into our products and services.

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SOGOU INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		
	Mar. 31, 2021	Dec. 31, 2020	Mar. 31, 2020
Revenues:			
Search and search-related advertising revenues	\$ 127,766	\$ 166,733	\$ 237,610
Other revenues	9,473	22,797	19,674
Total revenues	137,239	189,530	257,284
Cost of revenues ⁽¹⁾	107,869	151,216	217,024
Gross profit	29,370	38,314	40,260
Operating expenses:			
Research and development ⁽¹⁾	51,815	50,991	47,023
Sales and marketing ⁽¹⁾	20,816	14,058	28,597
General and administrative ⁽¹⁾	5,658	(682)	6,997
Total operating expenses	78,289	64,367	82,617
Operating loss	(48,919)	(26,053)	(42,357)
Interest income	511	506	744
Foreign currency exchange gain/(loss) ⁽²⁾	843	(5,021)	1,730
Other income, net	83,405	7,255	7,212
Income/(loss) before income tax expenses	35,840	(23,313)	(32,671)
Income tax expense/(benefit)	590	2,936	(962)
Net income/(loss)	35,250	(26,249)	(31,709)
Less: Net loss attributable to non-controlling interest shareholders	-	(60)	(93)
Net income/(loss) attributable to Sogou Inc.	\$ 35,250	\$ (26,189)	\$ (31,616)
Net income/(loss) per share/ADS			
Basic	\$ 0.09	\$ (0.07)	\$ (0.08)
Diluted	\$ 0.09	\$ (0.07)	\$ (0.08)
Weighted average number of shares/ADSs outstanding			
Basic	387,451	386,687	382,141
Diluted	389,613	386,687	382,141
(1) Share-based compensation expense included in:			
Cost of revenues	\$ 43	\$ 22	\$ 77
Research and development	594	521	613

Sales and marketing	313	452	(379)
General and administrative	255	261	166
	<u>\$ 1,205</u>	<u>\$ 1,256</u>	<u>\$ 477</u>

(2) Foreign currency exchange gain/(loss), mainly arising from our cross-border RMB-denominated intragroup loans, is a result of depreciation or appreciation, respectively, of the RMB.

SOGOU INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED, IN THOUSANDS)

	<u>As of Mar. 31, 2021</u>	<u>As of Dec. 31, 2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 444,635	\$ 287,185
Short-term investments	584,561	774,618
Restricted cash	3,454	23,018
Account and financing receivables, net	30,583	71,186
Prepaid and other current assets	29,262	28,947
Due from related parties	979	2,471
Total current assets	<u>1,093,474</u>	<u>1,187,425</u>
Long-term investments, net	150,459	74,004
Fixed assets, net	69,241	76,851
Goodwill	6,481	6,527
Intangible assets, net	1,008	1,226
Deferred tax assets, net	13,155	13,249
Other assets	32,120	35,850
Total assets	\$ 1,365,938	\$ 1,395,132
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 64,030	\$ 106,889
Accrued and other short-term liabilities	102,410	118,442
Receipts in advance	75,259	64,414
Accrued salary and benefits	15,819	25,350
Taxes payable	62,691	64,082
Due to related parties	25,019	27,102
Total current liabilities	<u>345,228</u>	<u>406,279</u>
Long-term liabilities	7,955	10,721
Total liabilities	\$ 353,183	\$ 417,000
SHAREHOLDERS' EQUITY		
Sogou Inc. shareholders' equity	<u>1,012,755</u>	<u>978,132</u>
Total shareholders' equity	1,012,755	978,132
Total liabilities and shareholders' equity	\$ 1,365,938	\$ 1,395,132

SOGOU INC.
RECONCILIATIONS OF NON-GAAP RESULTS OF OPERATION MEASURES TO THE NEAREST COMPARABLE GAAP MEASURES
(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	<u>Three Months Ended Mar. 31, 2021</u>			<u>Three Months Ended Dec. 31, 2020</u>			<u>Three Months Ended Mar. 31, 2020</u>		
	<u>GAAP</u>	<u>Non-GAAP</u>		<u>GAAP</u>	<u>Non-GAAP</u>		<u>GAAP</u>	<u>Non-GAAP</u>	
		<u>Adjustments⁽¹⁾</u>	<u>Non-GAAP</u>		<u>Adjustments⁽¹⁾</u>	<u>Non-GAAP</u>		<u>Adjustments⁽¹⁾</u>	<u>Non-GAAP</u>
Gross profit	\$ 29,370	\$ 43	\$ 29,413	\$ 38,314	\$ 22	\$ 38,336	\$ 40,260	\$ 77	\$ 40,337
Gross margin	<u>21%</u>		<u>21%</u>	<u>20%</u>		<u>20%</u>	<u>16%</u>		<u>16%</u>
Operating expenses	\$ 78,289	\$ (1,162)	\$ 77,127	\$ 64,367	\$ (1,234)	\$ 63,133	\$ 82,617	\$ (400)	\$ 82,217
Operating loss	\$ (48,919)	\$ 1,205	\$ (47,714)	\$ (26,053)	\$ 1,256	\$ (24,797)	\$ (42,357)	\$ 477	\$ (41,880)

Operating margin	<u>-36%</u>		<u>-35%</u>	<u>-14%</u>		<u>-13%</u>	<u>-16%</u>		<u>-16%</u>
Income tax expense/(benefit)	\$ 590	\$ -	\$ 590	\$ 2,936	\$ -	\$ 2,936	\$ (962)	\$ -	\$ (962)
Net income/(loss) before non-controlling interest	\$ 35,250	\$ 1,205	\$ 36,455	\$ (26,249)	\$ 1,256	\$ (24,993)	\$ (31,709)	\$ 477	\$ (31,232)
Net income/(loss) attributable to Sogou Inc.	\$ 35,250	\$ 1,205	\$ 36,455	\$ (26,189)	\$ 1,256	\$ (24,933)	\$ (31,616)	\$ 477	\$ (31,139)
Net margin attributable to Sogou Inc.	<u>26%</u>		<u>27%</u>	<u>-14%</u>		<u>-13%</u>	<u>-12%</u>		<u>-12%</u>

⁽¹⁾ To exclude share-based compensation expense. This non-GAAP adjustment does not have an impact on income tax expense.

SOURCE Sogou Inc.
