

## uCloudlink Group Inc. – Expanding Product Lines into Broader Consumer Markets Highlights Long-Term Growth Potential

uCloudlink Group Inc. (NASDAQ:UCL)

Share Price: \$1.74

Current Valuation: \$10.00



### Key Statistics

52 Week Range	\$1.17-\$4.78
Avg. Volume (3 months)	14,320
Shares Outstanding	36.98M
Market Capitalization	\$64.34M
EV/Revenue	0.5x
Cash Balance*	\$23.37M
Analyst Coverage	2

\*Cash balance as of Q4 2023

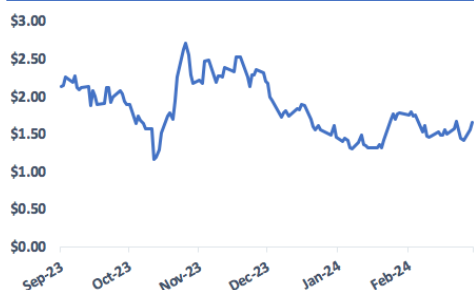
### Revenue (in \$mm)

Dec - FY	2022A	2023A	2024E
1Q	15.6	18.0	17.8
2Q	18.0	22.0	24.1
3Q	18.2	23.9	27.1
4Q	19.6	21.7	28.9
FY	71.5	85.6	98.0

### Earnings Per ADS (in \$)

Dec - FY	2022A	2023A	2024E
1Q	(0.27)	0.06	0.00
2Q	(0.22)	(0.02)	0.04
3Q	(0.15)	0.09	0.07
4Q	(0.03)	(0.05)	0.03
FY	(0.64)	0.08	0.14

### Stock Price Chart



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### Investment Highlights

- UCL Fourth Quarter and Fiscal Year 2023 Financial Results** - uCloudlink reported its financial results for Q4 2023, with total revenues of \$21.7 million, up 10.8% year over year, compared to \$19.6 million in the same period of 2022. The increase was primarily due to a 19.1% YoY increase in services revenues driven by the accelerated recovery of international travel and surging demand for data connectivity services. Overall gross margin was 52.0%, compared to 51.3% in Q4 2022. Total operating expenses increased from \$11.2 million to \$12.1 million as the company strengthened the sales force to promote its newly launched products. UCL's net loss for Q4 2023 was \$1.8 million, or \$0.05 per basic and diluted ADS, compared to a net loss of \$1.1 million, or \$0.03 per basic and diluted ADS a year ago. For the fiscal year 2023, UCL continued its growth momentum with total revenues reaching \$85.6 million, up 19.8% from \$71.5 million in 2022, highlighting the renewed growth of its international data connectivity business as markets rebounded. Overall gross margin for 2023 increased to 49.0% from 45.5% over the year, while total operating expenses were \$37.9 million, compared to \$37.4 million in 2022, net income was \$2.8 million, or \$0.08 per basic and diluted ADS. *UCL's return to profitability for the fiscal year 2023 is in line with our expectation. We see the company has the potential to continue this growth momentum with further potential improved profitability in 2024, as it targets increased revenues from resuming its international data connectivity business, while launching more products to expand its product mix.*
- Expanded Products Lines Accelerate Long-Term Growth Potential** – In addition to growth, we believe another highlight for the company in 2024 is its business restructuring. Beyond traditional UCL 1.0 and 2.0 data connectivity businesses, the company expects to expand into broader consumer markets by introducing four product lines, which include Mobile Broadband Solution, All SIM Solution, GlocalMe Life, and IoT Solution to a global audience, with each line having a set of products. The company's newly announced GlocalMe Life aims to integrate technology with daily life through higher-quality connections, enabling UCL to extend its business into more frequent life scenarios besides travel, such as item tracking, pet management, and emergency communication. *We believe UCL appears well-positioned to deliver potential long-term sustainable growth with an expanded market presence, as its reorganized product lines backed by proprietary cloud SIM technology target a broader consumer base with more diversified products to be launched starting Q2 2024, targeting large market opportunities.*
- Valuation Update** - Our valuation for UCL remains \$10.00, combining discounted cash flow and comparable company analysis, which is contingent on the company maintaining its successful execution.

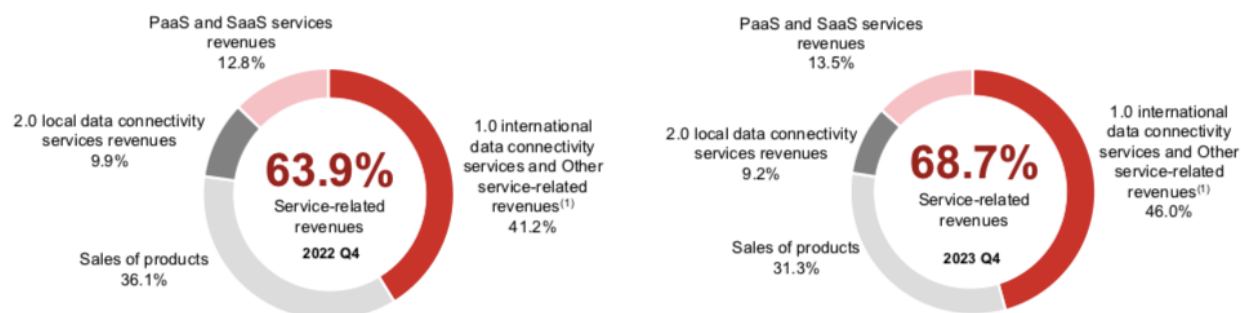
### Company Description

uCloudlink operates as an innovative mobile technology company that offers the world's first and leading mobile data traffic sharing marketplace to users globally. Leveraging its integral cloud SIM technology, it allows users to enjoy a smooth mobile connectivity experience without limitation to one MNO. uCloudlink was incorporated in 2014 and is headquartered in Kowloon, Hong Kong.

## Fourth Quarter and Fiscal Year 2023 Results

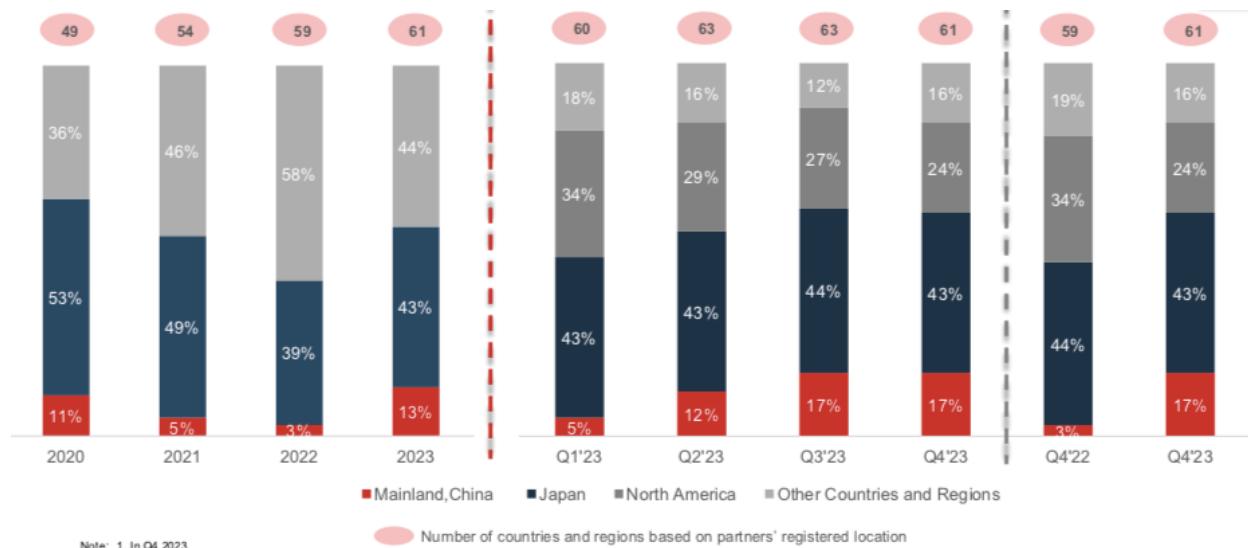
For the three months ending December 31, 2023, uCloudlink reported total revenues of \$21.7 million, up 10.8% from \$19.6 million in Q4 2022. Revenues from data connectivity services were \$11.8 million, an increase of 22.1% compared with \$9.6 million in the year-ago period, primarily due to higher revenues from international and local data connectivity services, which grew 27.3% YoY to \$9.8 million and 5.3% YoY to \$2.0 million, respectively, aided by the accelerated recovery of international travel and UCL’s continuous investment in its local data connectivity business. Revenues from PaaS and SaaS services were \$2.9 million, up 17.0% from \$2.5 million in the same period of 2022. Revenues from sales of products decreased from \$7.1 million to \$6.8 million due to the decrease in demand for data-related products. In terms of geographic distribution, Japan as UCL’s largest market contributed 43.1% of total revenues, North America contributed 24.3%, while mainland China and other countries contributed 16.5% and the remaining 16.1%, respectively, compared to 43.7%, 33.9%, 3.0%, and 19.4%, respectively, in Q4 2022. Overall gross profit was \$11.3 million, or 52.0% in gross margin, compared to \$10.1 million, or 51.3% in gross margin in the same period of 2022, with improved gross margins on services. Total operating expenses were \$12.1 million, compared to \$11.2 million in Q4 2022: R&D expenses increased by 7.9% YoY to \$2.0 million, primarily due to the increase in staff costs; S&M expenses increased to \$4.1 million, up 41.7% over the year, due to the increase in promotional fees and staff costs; and G&A expenses declined by 7.0% to \$6.0 million, primarily attributable to the decrease in bad debt provision and share-based compensation expenses. uCloudlink’s net loss for Q4 2023 was \$1.8 million, or \$0.05 per basic and diluted ADS, compared to a net loss of \$1.1 million, or \$0.03 per basic and diluted ADS in the year-ago period.

### Revenues Segmentation



Source: UCL Investor Presentation March 2024

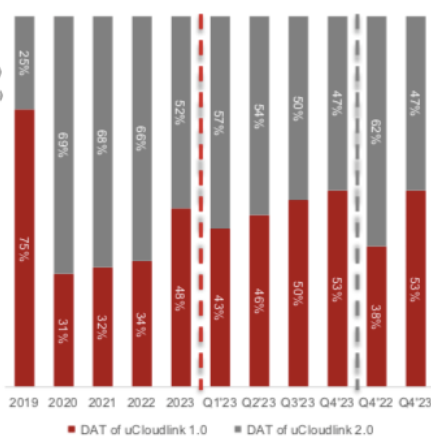
For the fiscal year 2023, the company had total revenues of \$85.6 million, up 19.8% from \$71.5 million in 2022, primarily due to the increase in revenues from data connectivity services, especially revenues from international data connectivity services which reached \$37.9 million from \$28.1 million over the year as the recovery of international travel accelerated with a demand surge. Overall gross profit was \$42.0 million, or 49.0% in gross margin, compared to \$32.5 million, or 45.5% in gross margin in 2022, with improved gross margins on both services and sales of products. Total operating expenses were \$37.9 million, compared to \$37.4 million in 2022, resulting in a net income of \$2.8 million, or \$0.08 per basic and diluted ADS, compared to a net loss of \$19.9 million, or \$0.64 per basic and diluted ADS in 2022.



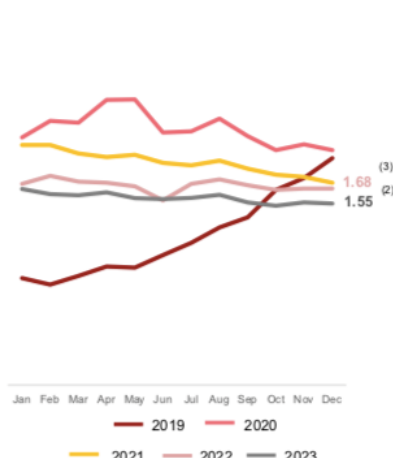
Daily Active Terminals (DAT) <sup>(1)</sup>  
# Terminals



DAT Breakdown: uCloudlink 1.0 vs. 2.0 <sup>(1)</sup>



Daily Data Usage per Terminal <sup>(1)</sup>  
GB



Source: UCL Investor Presentation March 2024

## Liquidity and Balance Sheet

As of December 31, 2023, uCloudlink's cash and cash equivalents totaled \$23.4 million, compared to \$20.3 million as of September 30, 2023, primarily due to the net inflow of \$1.3 million from investment redemption and proceeds of \$3.9 million from bank borrowings, partially offset by net outflow of \$1.3 million for operations and repayments of \$1.0 million in bank borrowings.

## Management Guidance

uCloudlink has guided for revenues to be between \$17.5 and \$18.5 million for Q1 2024 and \$95.0 and \$112.0 million for 2024, representing a decrease of 2.8% to an increase of 2.8% compared to the same period of 2023 and an increase of 11.0% to 30.8% from that of 2023, respectively.

## Investment Thesis

uCloudlink is targeting the large mobile data connectivity service market driven by the increasing adoption of mobile devices and internet penetration. This includes the local data connectivity market, the international roaming market as well as the global IoT market. In addition, the robust development of the entire IoT industry further drives the demand for the data usage and connectivity services as we approach 5G widespread adoption, where entirely new applications will be possible in various application scenarios such as mobile broadband (MBB) and fixed broadband (FBB), industrial automation, autonomous driving, AR/VR, internet of vehicles, cargo transportation and logistics and cloud computing, which may require new mobile data connectivity solution for users, hardware vendors and carriers with higher speed and more reliable connections. uCloudlink operates as an innovative mobile technology company that offers the world’s first and leading mobile data traffic sharing marketplace to billions of users globally, serving 2,595 business partners in 61 countries and regions, with aggregated mobile data allowances from 382 mobile network operators (MNOs) globally as of December 31, 2023. Leveraging its integral cloud SIM technology and architecture, which allows dynamic selection of network services based on signal coverage and cost, and intelligent distribution of data traffic in the SIM card pool to terminals that may support multiple end devices through its cloud SIM platform, the company provides mobile data connectivity services with reliable connections, high speeds and competitive pricing, allowing users to enjoy a smooth mobile connectivity experience without limitation to one particular MNO. Currently the company operates its business under what they refer to as uCloudlink 1.0 and uCloudlink 2.0 models, and plan to launch uCloudlink 3.0 model in the future. Under the UCL1.0, the company primarily offers pocket WIFI leasing, mobile WIFI retail, GMI mobile phone roaming, and other related services for international travelers that need mobile data connectivity services across different countries, although we note various products also are compatible in local markets. Products of UCL 2.0 stage includes home broadband, GMI mobile phone data service, IoT data service and other related services, and aim to provide mobile data connectivity services to local users across different MNOs in a single country. uCloudlink 3.0 is in trials, which is technologically ready. We note each segment has clear growth roadmaps and are targeting large market opportunities. uCloudlink is well positioned to capture growing mobile data connectivity service market segments by leveraging its sophisticated cloud SIM technology and architecture, distinct mobile data traffic sharing marketplace enabling a smooth mobile connectivity experience, and reasonable management team with years of operational experience in industry. We also note the recently launched HyperConn™-Enabled 5G Mobile WiFi Device, which uses AI to ensure users always have the best WiFi connection, opens new markets such as education, IoT, remote work, and surveillance. HyperConn™ products can also help MNOs develop data connectivity markets globally, including 5G markets. Additionally, HyperConn™ products will allow the company to target IoT opportunities in new industries. In the second half of year 2021, the company released the GlocalMe Numen (first HyperConn 5G mobile Wi-Fi device, MSRP \$599), GlocalMe Genie, a 4G pad device powered by HyperConn™ (unpriced), and Mini Turbo, portable Wi-Fi Hotspot equipped with HyperConn. As of December 31, 2023, UCL had 184 patents with 146 approved and 38 pending approval. The Company expects strong growth momentum to continue over the next couple of years given its aggressive marketing strategy, increasing mobile penetration, and the resumption of international travel. *Given uCloudlink’s growth potential and relatively inexpensive valuation, the company in our view offers investors a unique opportunity to invest in the growing data connectivity industry, as 5G adoption expands, which is likely to benefit from the institutional money flowing into the global mobile data connectivity service industry.*

*uCloudlink is targeting the enormous mobile data connectivity service market driven by the increasing adoption of mobile devices and internet penetration, and the surging demand for optimal mobile data traffic solutions with high speed and reliable connections, as 5G adoption grows*

*We view uCloudlink as well positioned to capture market segments with its sophisticated cloud SIM technology and architecture, distinct mobile data traffic sharing marketplace enabling a smooth mobile connectivity experience, and seasoned management team with years of operational experience in the industry*

## Risk Factors

- uCloudlink's business has been and is likely to continue to be materially adversely affected by the outbreak of COVID-19. uCloudlink depends on network operators for their wireless networks, infrastructure, and data traffic. Any disruptions of or limitations on the company's use of such networks, infrastructure and data traffic may adversely affect its business and financial results
- The company's ability to grow its business and user base for its service may be limited unless it can continue to obtain data traffic at favorable rates
- Litigation at uCloudlink is still ongoing. The company is, and may in the future be, subject to intellectual property claims, which are costly to defend, could result in significant damage awards, disrupt its business operation, and could limit its ability to use certain technologies in the future
- Since the governments in countries and regions such as China and Japan have or will strengthen the enforcement of regulation over use of M2M cards and real-name registration for SIM card users, the development of its 2.0 business may be slowed down
- The company is highly regulated in all its areas of operations and could be impacted by regulatory changes
- If expansions into new businesses do not achieve the expected results, the company's future operations and growth prospects may be materially and adversely affected
- Trading range of ADSs are highly volatile, which could result in large losses for investors. The company's ADSs may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect auditors who are in China
- Founders hold substantial ownership of company; two founders own roughly 50% of outstanding shares and 92% of the aggregate voting power and their interests may not always be aligned with independent shareholders
- uCloudlink has limited liquidity and overall awareness, limiting its ability to obtain fair valuation
- uCloudlink is a small capitalization business and as such may struggle to attract sufficient sell-side coverage and exposure and will face specific executional risk factors because of its smaller size relative to large capitalization equities

***These Risk Factors Are Not Comprehensive. For Full List of Risk Factors Please Read uCloudlink Group Inc.'s Latest Prospectus and/or 20F Filing Risk Factors***



## Income Statement

(\$ in M)	FY19A	FY20A	FY21A	FY22A	FY23A	1Q24E	2Q24E	3Q24E	4Q24E	FY24E	FY25E
<b>REVENUES:</b>											
Revenues from services	91.11	46.15	37.80	46.23	58.57	11.99	15.99	18.65	19.99	66.62	82.34
Sales of products	67.27	43.42	36.03	25.23	27.01	5.81	8.16	8.48	8.95	31.40	37.83
<b>Total net revenues</b>	<b>158.38</b>	<b>89.57</b>	<b>73.83</b>	<b>71.46</b>	<b>85.58</b>	<b>17.80</b>	<b>24.15</b>	<b>27.13</b>	<b>28.93</b>	<b>98.01</b>	<b>120.18</b>
Cost of services	(35.59)	(26.39)	(21.56)	(20.35)	(24.32)	(5.04)	(6.71)	(7.83)	(8.39)	(27.98)	(32.11)
Cost of products sold	(57.87)	(34.87)	(30.43)	(18.58)	(19.29)	(4.18)	(5.88)	(6.10)	(6.44)	(22.61)	(25.73)
<b>Total cost of revenues</b>	<b>(93.46)</b>	<b>(61.26)</b>	<b>(51.99)</b>	<b>(38.93)</b>	<b>(43.61)</b>	<b>(9.22)</b>	<b>(12.59)</b>	<b>(13.94)</b>	<b>(14.84)</b>	<b>(50.59)</b>	<b>(57.84)</b>
<b>Gross (loss) profit</b>	<b>64.92</b>	<b>28.31</b>	<b>21.84</b>	<b>32.53</b>	<b>41.97</b>	<b>8.58</b>	<b>11.56</b>	<b>13.19</b>	<b>14.10</b>	<b>47.43</b>	<b>62.34</b>
<b>OPERATING EXPENSES:</b>											
Sales and marketing expenses	(24.37)	(29.26)	(13.62)	(10.31)	(14.30)	(3.77)	(4.12)	(4.46)	(4.80)	(17.15)	(15.62)
Research and development expenses	(15.11)	(26.36)	(13.70)	(8.43)	(6.46)	(1.18)	(1.41)	(1.47)	(1.82)	(5.88)	(6.01)
General and administrative expenses	(20.22)	(43.22)	(28.55)	(18.73)	(17.12)	(3.33)	(3.67)	(3.83)	(5.83)	(16.66)	(15.62)
Other expense, net	0.29	7.55	(11.88)	(4.27)	(1.50)	(0.18)	(0.25)	(0.25)	(0.30)	(0.98)	(0.60)
<b>Total operating expenses</b>	<b>(59.41)</b>	<b>(91.29)</b>	<b>(67.75)</b>	<b>(51.73)</b>	<b>(39.38)</b>	<b>(8.46)</b>	<b>(9.44)</b>	<b>(10.02)</b>	<b>(12.76)</b>	<b>(40.68)</b>	<b>(37.86)</b>
<b>EBIT</b>	<b>5.51</b>	<b>(62.98)</b>	<b>(45.91)</b>	<b>(19.19)</b>	<b>2.59</b>	<b>0.12</b>	<b>2.12</b>	<b>3.18</b>	<b>1.34</b>	<b>6.75</b>	<b>24.48</b>
Interest income	0.19	0.04	0.01	0.02	0.07	0.00	0.00	0.00	0.00	0.01	0.01
Interest expenses	(0.44)	(0.29)	(0.19)	(0.44)	(0.13)	(0.04)	(0.04)	(0.04)	(0.04)	(0.15)	(0.19)
Amortization of beneficial conversion feature				(0.15)							
<b>Income(loss) before income tax</b>	<b>5.26</b>	<b>(63.23)</b>	<b>(46.08)</b>	<b>(19.76)</b>	<b>2.52</b>	<b>0.09</b>	<b>2.08</b>	<b>3.14</b>	<b>1.30</b>	<b>6.61</b>	<b>24.30</b>
Income tax expenses (benefits)	(0.06)	(0.19)	(0.24)	(0.16)	(0.07)	(0.02)	(0.52)	(0.78)	(0.32)	(1.65)	(6.08)
Share of profit in equity method investment, net of tax			0.29	0.07	0.36	0.07	0.07	0.19	0.06	0.39	0.48
<b>Adj. Net profit/(loss)</b>	<b>5.21</b>	<b>(63.42)</b>	<b>(46.04)</b>	<b>(19.85)</b>	<b>2.81</b>	<b>0.14</b>	<b>1.64</b>	<b>2.54</b>	<b>1.03</b>	<b>5.35</b>	<b>18.71</b>
Accretion of Series A-2 ordinary shares and Series A Preferred Shares	(2.54)	(1.29)									
Allocation to Series A-2 ordinary shares											
Income allocation to participating preferred shareholders	(0.30)										
<b>Net income/(loss) attributable to Company</b>	<b>2.37</b>	<b>(64.71)</b>	<b>(46.04)</b>	<b>(19.85)</b>	<b>2.81</b>	<b>0.14</b>	<b>1.64</b>	<b>2.54</b>	<b>1.03</b>	<b>5.35</b>	<b>18.71</b>
<b>Earnings per share</b>											
Basic	0.01	(0.25)	(0.16)	(0.06)	0.01	0.00	0.00	0.01	0.00	0.01	0.05
Diluted	0.01	(0.25)	(0.16)	(0.06)	0.01	0.00	0.00	0.01	0.00	0.01	0.05
<b>Earnings per ADS (10 Class A equal to 1 ADS)</b>											
Basic	0.10	(2.49)	(1.61)	(0.64)	0.08	0.00	0.04	0.07	0.03	0.14	0.48
Diluted	0.10	(2.49)	(1.61)	(0.64)	0.08	0.00	0.04	0.07	0.03	0.14	0.48
<b>Weighted Average no. of Shares outstanding (in M)</b>											
Basic	232.18	259.85	285.98	312.49	371.73	376.73	378.73	380.73	381.73	379.73	389.73
Diluted	232.18	259.85	285.98	312.49	371.73	376.73	378.73	380.73	381.73	379.73	389.73

Source: Diamond Equity Research

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