

Sogou Announces First Quarter 2020 Results

BEIJING, China, May 18, 2020 – 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, 2020.

First Quarter 2020 Highlights

- Total revenues¹ were \$257.3 million, a 2% increase year-over-year, or a 5% increase in RMB terms.
- Net loss attributable to Sogou Inc. was \$31.6 million. Non-GAAP² net loss attributable to Sogou Inc. was \$31.1 million.
- Sogou Mobile Keyboard had 482 million DAUs (daily average users), up 9% year-over-year. As China's largest voice recognition app, it processed up to 1.4 billion daily voice requests.

"We started 2020 with smooth operations across our core businesses despite the challenging environment during COVID-19," said Xiaochuan Wang, CEO of Sogou. "In particular, our core Search business continued to outperform the industry in the first quarter. Thanks to the surge of user demand for reliable information and high efficiency during the pandemic, our Search and Mobile Keyboard recorded new highs in terms of traffic and user base, respectively."

Mr. Wang added, "On top of that, we carried out a comprehensive AI-driven upgrade across our core businesses to capture the opportunities that emerged during COVID-19. In particular, our voice AI has equipped Mobile Keyboard with industry-leading voice recognition functions and further evolves it into an AI communication assistant, while also facilitated sales growth of our AI recorders despite the dampening market. With steady implementation of our strategy, we believe we will effectively navigate through the pandemic, and our long-term growth prospects remain intact."

Joe Zhou, CFO of Sogou, said, "In the first quarter of 2020, we continued to deliver steady top-line growth despite challenges during the pandemic, while our profitability was impacted by the situation as a result of increased traffic acquisition cost. Going forward, we foresee ongoing pressure on our overall results in the second quarter as the impact of the pandemic lingers. We expect our business to resume healthy growth when the external environment normalizes post the pandemic."

First Quarter 2020 Financial Results

Total revenues were \$257.3 million, a 2% increase year-over-year.

- **Search and search-related revenues** were \$237.6 million, a 1% increase year-over-year. Auction-based pay-for-click services continued to increase year-over-year, accounting for 91.0% of search and search-related revenues, compared to 87.2% in the corresponding period in 2019.
- **Other revenues** were \$19.7 million, a 6% increase year-over-year. The increase was primarily due to increased revenues from sales of smart hardware products.

Cost of revenues was \$217.0 million, an 18% increase year-over-year. **Traffic acquisition cost**, a primary driver of cost of revenues, was \$181.3 million, a 27% increase year-over-year, representing 70.5% of total revenues, compared to 56.6% in the corresponding period in 2019. The increase was driven by increased traffic acquisition from third parties as users confined to their homes spent more time online during the COVID-19 outbreak.

Gross profit and non-GAAP gross profit were both \$40.3 million, both a 41% decrease year-over-year.

Total operating expenses were \$82.6 million, a 3% increase year-over-year.

- **Research and development expenses** were \$47.0 million, a 15% increase year-over-year, representing 18.3% of total revenues, compared to 16.2% in the

corresponding period in 2019. The increase was primarily attributable to an increase in personnel-related expenses.

- **Sales and marketing expenses** were \$28.6 million, a 2% decrease year-over-year, representing 11.1% of total revenues, largely flat with the corresponding period in 2019.
- **General and administrative expenses** were \$7.0 million, a 29% decrease year-over-year, representing 2.7% of total revenues, compared to 3.9% in the corresponding period in 2019. The decrease was primarily due to a decrease in expenses related to the Company's non-core businesses.

Operating loss was \$42.4 million, a 254% increase year-over-year, compared to a loss of \$12.0 million in the corresponding period in 2019. **Non-GAAP operating loss** was \$41.9 million, a 288% increase year-over-year, compared to a loss of \$10.8 million in the corresponding period in 2019.

Other income, net was \$7.2 million, compared to \$8.7 million in the corresponding period in 2019. The decrease was primarily due to charitable donations of \$1.9 million associated with the COVID-19 outbreak.

Income tax benefit was \$1.0 million, compared to an income tax benefit of \$0.2 million in the corresponding period of 2019.

Net loss attributable to Sogou Inc. was \$31.6 million, compared to a net loss of \$3.9 million in the corresponding period in 2019. **Non-GAAP net loss attributable to Sogou Inc.** was \$31.1 million, compared to a net loss of \$2.7 million in the corresponding period in 2019.

Both GAAP and non-GAAP basic and diluted loss per ADS was \$0.08.

As of March 31, 2020, the Company had **cash and cash equivalents and short-term investments** of \$1.2 billion, compared to \$1.1 billion as of December 31, 2019. **Net operating cash inflow** for the first quarter of 2020 was \$26.0 million. **Capital expenditures** for the first quarter of 2020 were \$3.8 million.

¹ On a constant currency (non-GAAP) basis, if the exchange rate in the first quarter of 2020 had been the same as it was in the first quarter of 2019, or RMB 6.74=\$1.00, total revenues in the first quarter of 2020 would have been 266.2 million, or \$9.0 million more than GAAP total revenues, and up 5% 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."

Business Outlook

For the second quarter of 2020, Sogou expects total revenues to be in the range of \$260 million to \$280 million, representing a decrease of 8% to 14% year-over-year, or a decrease of 4% to 11% year-over-year in RMB terms. In developing this guidance, the Company has considered the expected continued impact of the COVID-19 outbreak and resulting contraction of the Chinese economy, as well as other challenges in the macro environment and the online advertising industry. The guidance represents the Company's current and preliminary view, which is subject to substantial uncertainty, particularly as to the status and impact of the COVID-19 pandemic in China and worldwide.

For the second quarter 2020 guidance, the Company has adopted a presumed exchange rate of RMB7.07 = \$1.00, as compared with the actual exchange rate of approximately RMB6.82 = \$1.00 for the second quarter of 2019, and RMB6.98 = \$1.00 for the first quarter of 2020.

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. It is currently expected that the Business Outlook will not be updated until release of Sogou's next quarterly earnings announcement. However, Sogou reserves the right to update its Business Outlook at any time for any reason. Statements that are not historical facts, including statements about Sogou's and Sogou management's beliefs and expectations, are forward-looking statements. These 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; and the effects of the COVID-19 virus on the economy in China generally and on our business in particular. Further information regarding these and other risks is included in Sogou's Annual Report on Form 20-F for the year ended December 31, 2019 filed with the Securities and Exchange Commission on April 21, 2020, and other documents Sogou files with or submits to the Securities and Exchange Commission.

Conference Call and Webcast

Sogou's management team will host a conference call at 6:30 am U.S. Eastern Time, (6:30 pm Beijing/Hong Kong time) on May 18, 2020, following this quarterly results announcement.

The dial-in details for the live conference call are:

| | |
|---------------------------|-----------------|
| U.S. Toll Free: | +1-888-317-6003 |
| Mainland China Toll Free: | 4001-206115 |
| Hong Kong Toll Free: | 800-963976 |
| Hong Kong Local Toll: | +852-580-81995 |
| International: | +1-412-317-6061 |
| Passcode: | 0996007 |

Please dial in 10 minutes before the call is scheduled to begin. When prompted, ask to be connected to the Sogou Inc. call and provide the passcode.

A replay of the conference call may be accessed by phone at the following number until May 25, 2020:

| | |
|----------------|-----------------|
| International: | +1-412-317-0088 |
| Passcode: | 10143626 |

A live webcast and archive of the conference call will be available on the Investor Relations section of Sogou's website at <http://ir.sogou.com>.

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, 2020 | Dec. 31, 2019 | Mar. 31, 2019 |
| Revenues: | | | |
| Search and search-related advertising revenues | \$ 237,610 | \$ 274,610 | \$ 234,177 |
| Other revenues | 19,674 | 26,413 | 18,545 |
| Total revenues | 257,284 | 301,023 | 252,722 |
| Cost of revenues ⁽¹⁾ | 217,024 | 168,657 | 184,654 |
| Gross profit | 40,260 | 132,366 | 68,068 |
| Operating expenses: | | | |
| Research and development ⁽¹⁾ | 47,023 | 48,725 | 41,037 |
| Sales and marketing ⁽¹⁾ | 28,597 | 34,926 | 29,196 |
| General and administrative ⁽¹⁾ | 6,997 | 11,300 | 9,816 |
| Total operating expenses | 82,617 | 94,951 | 80,049 |
| Operating (loss)/income | (42,357) | 37,415 | (11,981) |
| Interest income | 744 | 540 | 1,371 |
| Foreign currency exchange gain/(loss) ⁽²⁾ | 1,730 | (1,540) | (2,196) |
| Other income, net | 7,212 | 527 | 8,735 |
| (loss)/Income before income tax expenses | (32,671) | 36,942 | (4,071) |
| Income tax (benefit)/expenses | (962) | 1,953 | (213) |
| Net (loss)/income | (31,709) | 34,989 | (3,858) |
| Less: Net loss attributable to noncontrolling interest shareholders | (93) | - | - |
| Net (loss)/income attributable to Sogou Inc. | \$ (31,616) | \$ 34,989 | \$ (3,858) |
| Weighted average number of ordinary shares outstanding—basic | 382,141 | 385,586 | 391,379 |
| Weighted average number of ordinary shares outstanding—diluted | 382,141 | 391,356 | 391,379 |
| Net (loss)/income per ordinary share—basic | \$ (0.08) | \$ 0.09 | \$ (0.01) |
| Net (loss)/income per ordinary share—diluted | \$ (0.08) | \$ 0.09 | \$ (0.01) |
| Net (loss)/income per ADS—basic | \$ (0.08) | \$ 0.09 | \$ (0.01) |
| Net (loss)/income per ADS—diluted | \$ (0.08) | \$ 0.09 | \$ (0.01) |

⁽¹⁾ **Share-based compensation expense included in:**

| | | | |
|----------------------------|---------------|-----------------|-----------------|
| Cost of revenues | \$ 77 | \$ 255 | \$ 27 |
| Research and development | 613 | 2,602 | 858 |
| Sales and marketing | (379) | 797 | 168 |
| General and administrative | 166 | 383 | 141 |
| | \$ 477 | \$ 4,037 | \$ 1,194 |

⁽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)

| | As of Mar. 31, 2020 | As of Dec. 31, 2019 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 263,500 | \$ 142,464 |
| Short-term investments | 886,865 | 995,350 |
| Restricted cash | 5,705 | 5,370 |
| Account and financing receivables, net | 119,035 | 131,813 |
| Prepaid and other current assets | 32,405 | 26,888 |
| Due from related parties | 2,132 | \$ 2,837 |
| Total current assets | 1,309,642 | 1,304,722 |
| Long-term investments, net | 72,117 | \$ 63,345 |
| Fixed assets, net | 100,016 | 110,006 |
| Goodwill | 6,011 | 5,534 |
| Intangible assets, net | 1,337 | 1,514 |
| Deferred tax assets, net | 16,055 | 16,306 |
| Other assets | 44,110 | \$ 20,975 |
| Total assets | \$ 1,549,288 | \$ 1,522,402 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 176,629 | \$ 111,587 |
| Accrued and other short-term liabilities | 152,690 | 150,275 |
| Receipts in advance | 64,439 | 67,902 |
| Accrued salary and benefits | 13,493 | 24,167 |
| Taxes payable | 69,995 | 76,688 |
| Due to related parties | 37,567 | 22,594 |
| Total current liabilities | 514,813 | 453,213 |
| Long-term liabilities | 19,161 | 5,686 |
| Total liabilities | \$ 533,974 | \$ 458,899 |
| SHAREHOLDERS' EQUITY | | |
| Sogou Inc. shareholders' equity | 1,014,857 | 1,063,503 |
| Non-controlling interest | 457 | - |
| Total shareholders' equity | 1,015,314 | 1,063,503 |
| Total liabilities and shareholders' equity | \$ 1,549,288 | \$ 1,522,402 |

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

| | Three Months Ended Mar. 31, 2020 | | | Three Months Ended Dec 31, 2019 | | | Three Months Ended Mar 31, 2019 | | |
|---|----------------------------------|--|-------------|---------------------------------|--|------------|---------------------------------|--|-------------|
| | GAAP | Non-GAAP Adjustments ⁽¹⁾ | Non-GAAP | GAAP | Non-GAAP Adjustments ⁽¹⁾ | Non-GAAP | GAAP | Non-GAAP Adjustments ⁽¹⁾ | Non-GAAP |
| Gross profit | \$ 40,260 | \$ 77 | \$ 40,337 | \$ 132,366 | \$ 255 | \$ 132,621 | \$ 68,068 | \$ 27 | \$ 68,095 |
| Gross margin | 16% | | 16% | 44% | | 44% | 27% | | 27% |
| Operating expenses | \$ 82,617 | \$ (400) | \$ 82,217 | \$ 94,951 | \$ (3,782) | \$ 91,169 | \$ 80,049 | \$ (1,167) | \$ 78,882 |
| Operating (loss)/income | \$ (42,357) | \$ 477 | \$ (41,880) | \$ 37,415 | \$ 4,037 | \$ 41,452 | \$ (11,981) | \$ 1,194 | \$ (10,787) |
| Operating margin | -16% | | -16% | 12% | | 14% | -5% | | -4% |
| Income tax (benefit)/expenses | \$ (962) | \$ - | \$ (962) | \$ 1,953 | \$ - | \$ 1,953 | \$ (213) | \$ - | \$ (213) |
| Net (loss)/income before non-controlling interest | \$ (31,709) | \$ 477 | \$ (31,232) | \$ 34,989 | \$ 4,037 | \$ 39,026 | \$ (3,858) | \$ 1,194 | \$ (2,664) |
| Net (loss)/income attributable to Sogou Inc. | \$ (31,616) | \$ 477 | \$ (31,139) | \$ 34,989 | \$ 4,037 | \$ 39,026 | \$ (3,858) | \$ 1,194 | \$ (2,664) |
| Net margin attributable to Sogou Inc. | -12% | | -12% | 12% | | 13% | -2% | | -1% |

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