

The logo for Riddle Capital Research, featuring the lowercase letters 'rc' in a bold, white, sans-serif font above the word 'research' in a white, lowercase, serif font. The logo is set against a solid green square background.

rc
research

SoundHound AI Analysis

EQUITY RESEARCH 2025 – RIDDLE CAPITAL RESEARCH

Foreword

Extraordinary

At Riddle Capital Research, we are excited to present our first-ever research paper. As seen in this very first publication, we also want to take the opportunity to introduce ourselves. Our team is made up entirely of students, and this paper, along with our future research, serves as a way for us to gain experience on the market, in the market, and of the market. By conducting research while studying, we are not only building our understanding of financial systems but also applying our knowledge in real-world contexts, refining our analytical skills, and challenging conventional perspectives.

This project is more than just an academic exercise; it is the foundation of something greater. While we may be students today, our goal is to develop a professional standard of research. We recognize that the best way to learn is by doing, and we are fully committed to the process of refining our methodology, deepening our market knowledge, and improving with each publication. This first paper marks the starting point of that journey, and we look forward to growing and evolving onward.

At Riddle Capital Research, we believe that true insight comes from curiosity and the willingness to question existing narratives. Our approach is driven by a passion for understanding financial markets from multiple angles, not just as theoretical constructs but as dynamic, ever-changing ecosystems.

One of the key differentiators of our team is that we are not yet bound by conventional industry thinking. Being students gives us the advantage of approaching market analysis with a fresh perspective, unshaped by rigid institutional frameworks or long-established biases. Instead, we analyse trends with an open mind.

Disclaimer

This analysis has been conducted by research analysts at Riddle Capital Research. While we strive for accuracy and objectivity, this report is for informational purposes only and should not be considered financial advice. Investors are encouraged to conduct their own due diligence before making any financial decisions. Riddle Capital Research and its contributors assume no liability for investment choices made based on this report.



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SoundHound Ai: Equity Research

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Company Overview

SoundHound Inc. was founded in 2005 by Keyvan Mohajer, Majid Emami, and Paris Mahdavi, with a vision to revolutionize voice AI and create a world where people interact with technology as naturally as they do with each other. Initially known for its music recognition app, SoundHound evolved into a leader in voice AI and conversational intelligence, positioning itself as a key player in the growing voice-enabled technology space. The company's flagship product, Houndify, is an independent voice AI platform that allows businesses to integrate conversational AI into their products without relying on Big Tech solutions like Amazon Alexa or Google Assistant. SoundHound's technology is widely used across industries, from automotive (integrations with Mercedes-Benz, Hyundai, and Honda) to restaurants (AI-powered drive-thru ordering systems) and customer service solutions.

Financial Performance & Growth

SoundHound AI, Inc. derives its primary revenue from monetization, royalties, and subscriptions, with a significant portion of its income generated through Original Equipment Manufacturer (OEM) partnerships. This reliance on OEMs introduces potential risks, as fluctuations in these relationships can impact financial stability. Since its public listing in 2022, SoundHound has demonstrated a robust geometric average revenue growth of 47.11% over three full fiscal years, excluding the first nine months of 2024. As a technology-driven company, it maintains a cost structure heavily weighted towards fixed expenses, averaging 91.83% fixed costs and 8.17% variable costs in the past three years (see figure 1). Capital expenditures have remained relatively low, averaging \$786,000 over the past three years, reflecting the company's strategic focus on investments in research and development to drive innovation. Notably, SoundHound has achieved an annual reduction in net losses at a rate of 3.69%, indicating progress towards profitability. In 2023, the company announced a restructuring plan aimed at reducing operating costs and improving margins, which included a workforce reduction of approximately 40%.

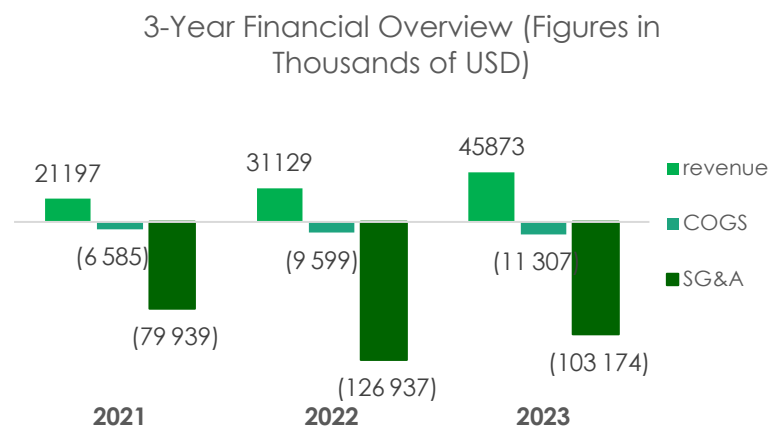


Figure 1

Key Competitors

SoundHound AI competes in the highly competitive voice AI and conversational intelligence market against major players like Amazon Alexa, Google Assistant, Microsoft Azure Speech, Apple Siri, and Cerence Inc. Amazon and Google dominate consumer smart assistants with vast datasets, cloud infrastructure, and ecosystem integration but primarily serve their own platforms, limiting third-party access. Apple's Siri excels in privacy and hardware-software integration but lacks flexibility for external developers. Microsoft Azure Speech is strong in enterprise cloud-based voice AI but has limited consumer adoption. Cerence leads in automotive voice AI but faces competition from SoundHound, whose Houndify platform offers superior conversational AI, third-party adaptability, and independence from Big Tech. However, SoundHound's smaller scale, limited brand recognition, and reliance on OEM partnerships remain challenges against its larger competitors.

Future Prospects

In the first nine months of FY 2024, SoundHound generated \$50.15 million in revenue, leading to an estimated full-year revenue projection of \$66.87 million, representing an annual growth rate of 37.68%. This estimate follows a straightforward approach, where the nine-month revenue is annualized by calculating a monthly average of \$5.57 million and extending it to twelve months. On the bottom line, using the same methodology, we anticipate a quarterly net loss per share of approximately -\$0.112, translating to an annual net loss per share of -0.402 USD, which aligns closely with previous years. These results are in line with broader economic conditions, as 2024 has been marked by macroeconomic uncertainty, including the upcoming U.S. presidential election and geopolitical tensions, such as the Israel-Palestine conflict, both of which have impacted investor sentiment and business expansion across various sectors. Despite short-term financial challenges, SoundHound remains optimistic about the long-term potential of conversational AI, particularly as the industry is projected to reach a market size of \$160 billion by 2026. The company believes that voice AI will transition from a niche innovation to a fundamental necessity for businesses across industries, including automotive, hospitality, customer service, and retail, positioning SoundHound for significant expansion opportunities. However, sustained growth will depend on its ability to broaden its customer base beyond OEMs, improve profitability, and solidify its competitive advantage in an industry increasingly dominated by Big Tech players.

Key Assumptions for the Valuation

The key assumption for the Valuation model revolves around revenue growth, following an objective approach with three distinct scenarios: bear, base, and bull (see figure 2). The starting point is the expected 2024 revenue of approximately 66.87 million, reflecting a growth rate of 37.7%, which serves as the foundation for all three cases. In the bear scenario, revenue growth decreases by 200 basis points each year over the seven-year forecast period, extending through 2030. The base scenario assumes a constant annual growth rate of 37.7%, while the bull scenario projects an increase of 200 basis points per year.

	2024	2025	2026	2027	2028	2029	2030	Average
Bear case (1)	37.68%	35.68%	33.68%	31.68%	29.68%	27.68%	25.68%	31.68%
Base case (2)	37.68%	37.68%	37.68%	37.68%	37.68%	37.68%	37.68%	37.68%
Bull case (3)	37.68%	39.68%	41.68%	43.68%	45.68%	47.68%	49.68%	43.68%
Current Case (4)	34.02%	36.02%	38.02%	40.02%	42.02%	44.02%	46.02%	40.2%

Figure 2

The model incorporates six main financial components: cost of goods sold, selling, general, and administrative expenses plus depreciation and amortization, interest expense, cash flow from operating activities excluding restructuring, capital expenditures, and taxes. For cost of goods sold, we applied the three-year average of 27.8% of revenue, with a projected annual decrease following the historical average reduction of 11.57%, assuming improved efficiency in variable costs. Selling, general, and administrative expenses plus depreciation and amortization were modeled using a simple approach, where revenue growth is divided by five to estimate their increase, reflecting an expectation of rising research and development investments. Interest expense follows an average growth rate of 8.83%. Cash flow from operating activities was estimated at 55.72% of revenue each year, based on historical trends. Given that capital expenditures have remained relatively low, we applied an average annual growth rate of 2.71%, anticipating a continued focus on research and development rather than heavy infrastructure spending. Finally, for taxes, we assumed the standard corporate tax rate of 21%, which will only be applied once the company achieves positive net income.

CAPM and WACC

To determine the weighted average cost of capital, we first calculated the cost of equity using the capital asset pricing model. By analyzing SoundHound's entire historical stock price data since April 2022 (see figure 3), we derived a beta

of 1.8, found from a covariance of 0.02% and a variance of the market of 0.011%. Using a risk-free rate of 4.52% and an estimated annual market return of 8.88% over a 30-year period, the resulting cost of equity was 12.56%. For the cost of debt, we estimated an effective rate of 26.9%, factoring in the company's existing financial structure. As of September 2024, SoundHound reported total interest-bearing liabilities of 39.69 million and a market cap of 3,290.78 million, forming the basis for the capital structure weighting. Applying a corporate tax rate of 21%, we

integrated these inputs into the weighted average cost of capital formula, resulting in a final WACC of 12.67%. This rate serves as the discount factor for the DCF valuation, ensuring that future cash flows are appropriately adjusted for risk and capital costs.

SOUN vs. SPY: Stock Price Trends with a Common Scale



Figure 3

DCF Results

Based on our valuation analysis, we arrived at an estimated equity value per share of 5.39 USD in the bear case, 7.82 USD in the base case, and 10.92 USD in the bull case. These figures were derived using a negative net debt of 95.91 million as of September 2024 and a total share count of 326.17 million outstanding shares. As of February 26, 2025, SoundHound's stock price stands at approximately 8.9 USD, implying that the market is currently pricing in an average revenue growth of 40.2% per year over the next seven years. This suggests that the market is moderately optimistic, but not excessively exuberant, compared to our base average growth assumption of 37.68%. While it is impossible to predict the future with certainty, such a growth assumption is ambitious yet within the realm of possibility, given the rapid expansion of the voice AI industry. However, for investors considering a position in the stock at its current price, achieving a positive return would require an even higher average revenue growth rate than the already demanding 40.2% estimate. From a purely mathematical and objective standpoint, the stock appears fairly valued based on our assumptions. That said, a more subjective perspective leaves room for potential upside, particularly if SoundHound's investment in Amelia proves to be highly profitable in FY 2025, potentially reshaping the company's growth trajectory and justifying a higher valuation in the future.