Helen Jing Zhu: Welcome to Cheetah Mobile's third quarter earnings conference call. With us today are Mr. Fu Sheng, CEO, and Mr. Andy Yeung, CFO.

Following management's prepared remarks, we will conduct a Q&A session.

Before we begin, I refer you to the Safe Harbor statements in our earnings release, which also applies to our conference call today, as we will make forward-looking statements.

At this time, I would now like to turn the conference call over to our CEO, Mr. Fu Sheng. Please go ahead, Fu Sheng.

Fu Sheng: Thanks, Helen. Hello, everyone. We are delighted to report solid financial results for the third quarter of 2016. These results were driven by solid performance of our core utility products, which continued to produce steady growth and steady profitability.

More importantly, our content-driven products, namely Live.me and News Republic continue to gain popularity in the third quarter, especially in the U.S. market. Our content strategy is to connect our massive user base, namely over 600 million MAUs with more personalized content.
We are confident that our content strategy was strengthening our user experience, user engagement and provides a new growth engine for Cheetah Mobile.

Firstly, our utility app continued to provide solid revenue growth and steady and growing profitability. According to App Annie, Clean Master has remained number one in the U.S. tool application category.

Our MAUs for core utility apps remains strong in key developer markets, despite our reduced promotional activities for our utility apps. Driven by the solid performance of these utility products, total revenues resumed its sequential growth, in addition to our mobile and overseas revenues hitting all-time record highs in the quarter.

Notably, mobile revenues accounted for 8% total revenues, and overseas revenues accounted for 4% this quarter.

Additionally, we aim to further improve the profitability of our utility products in the coming quarters as the segment continues to mature.

In fact, our overall utility app segment had steady and growing profit margins. Excluding our investment in the content-driven products, non-GAAP operating margin exceeded 20% in the third quarter. This solid performance of our utility products gives us tremendous financial and operational leverage to continue funding our investment in new content-driven products.

Secondly, our content-driven products, Live.me and News Republic, continue to gain popularity, particularly in the U.S. market. Our initial success in content-driven apps is an important step for Cheetah's Mobile content strategy, continue our users with personalized content through our utility apps.

Live.me is a popular live gaming app in the U.S. and has made significant progress since launch in April. According to App Annie's October data, Live.me was the number growth in social apps in the U.S. on Google Play and it was ranked as one of top five social apps in Apple App Store. The apps was rated 4.5 out of 5 of both Google Play and Apple App Store, showing users' strong support and approval for this platform.

Most Live.me users are under 25 years old. They enjoy sharing videos of their activities, lifestyle and general attitude. Therefore, we are working to build Live.me into our social community that enables more users to generate more content across the platform and make new friends with other users with similar interest and habits.

In the meantime, we will continue to experiment with different monetization models, including the ones that are proven, growing to be successful in China.

For News Republic, we recently launched an upgraded version that will deliver new content that are more personalized to its users, and this has further enhanced user
experience, user engagement and the time spent on the app. Similar to Live.me, News Republic continues to deliver robust results in the U.S. According to App Annie, News Republic maintained its top three news app ranking in the U.S. on Google Play in October, with our over 600 million users, and as the big data generates by our massive user base, we were able to deliver more personalized and richer content to all of our users. So we have begun to deliver personalized news content to some of our utility app users as well.

Lastly, although we are encouraged by our initial success in content-driven products, we understand there is still a lot of work ahead of us. We are confident that with focus, determination and our startup spirit, we will be successful with our content strategy as well.

In the third quarter of 2016, we managed to resume sequential revenue growth and a return to profitability, while we also continued to make large investments in the mobile content.

Our company recently reached our 6 years' anniversary. In just 6 years, our total revenues grew over 30 times. Our mobile MAU reached 600 million and we became a pioneer among Chinese internet companies winning in the overseas market. Two years ago, we successfully became a publicly listed company in the U.S.

Our vision, determination and startup spirit lays a strong foundation for this achievement in the past 6 years and it does not stop here. Recently, we opened our U.S. headquarter and a R&D center in Silicon Valley with about 100 employees working to advance our mobile content strategy.

Despite the challenge ahead of us, we are confident that we have the right team and are on the right track to connect our massive user base with increasingly personalized and richer content.

Looking ahead, we remain focused on the mobile content and its overseas market and believe that these key strategic areas will drive our long-term growth.

With that, I will hand over the call to our CFO, Andy.

Andy Yeung: Thank you, Sheng. Hello, everyone. We delivered solid financial results in the third quarter of 2016.

During the second quarter, we set a clear goal to rejuvenate revenue growth and expand profitability of our utility apps. We have delivered on those promises in the third quarter.

Driven by steady and sustained revenue growth generated by our utility apps, total revenue resumed its sequential growth, and mobile and overseas revenues have hit all-time record highs.
In addition, we further expanded the profitability of our utility apps, which contributed to our financial recovery.

Going forward, we will continue to improve the profitability of our utility apps to fund our investments in new content-driven apps. Our goal is to connect our mobile users with more personalized content through our utility apps and big data analytics.

We believe that consistent, strong operational and financial performance of our utility apps will continue to lay a solid foundation for another round of strong growth in the coming quarters.

Now, let me walk you through the details of our financial performance. All financial numbers are in RMB unless otherwise noted.

In September, the number of mobile MAUs was 612 million, increased by 8% year-over-year and decreased by 2% quarter-over-quarter. The sequential decrease was mainly attributable to the decline in mobile MAUs for Piano Tiles 2, which has entered into the mature stage of its product lifecycle.

In the third quarter, total revenues grew by 10% year-over-year and 8% quarter-over-quarter to RMB1.13 billion, slightly above the midpoint of our guidance range. The growth was primarily driven by the steady and sustained revenue growth from our utility applications and the contribution from our new content-driven applications, namely Live.me and News Republic, which accounted for approximately 4% of our total revenues in the quarter.

By platform, mobile revenues grew by 27% year-over-year and 16% quarter-over-quarter to RMB898 million for the third quarter. Mobile revenues accounted for 80% of our total revenues in the quarter, up from 69% in the prior year period and 74% last quarter.

PC revenues declined by 28% year-over-year and 16% quarter-over-quarter, which was mainly due to the migration of Internet traffic from PC to mobile.

By region, overseas revenues were RMB720 million for the quarter, up 29% year-over-year and 28% quarter-over-quarter. Overseas revenues accounted for 64% of total revenues and 80% of mobile revenues in the quarter.

China revenues declined by 13% year-over-year and 16% quarter-over-quarter, which was mainly due to decline in PC revenues.

By segment, revenues from online marketing services were RMB986 million for the quarter, up 9% year-over-year and 5% quarter-over-quarter, driven by increased demand from mobile advertisers, including direct customers, as well as the monetization of light casual games through in-game advertising.
Revenues from IVAS for the third quarter were approximately RMB111 million, which increased by 11% year-over-year and 39% quarter-over-quarter. The increases were primarily driven by our initial monetization of Live.me in overseas markets. Going forward, we will continue to experiment with different monetization models for Live.me, including the ones that are proven to be successful in China.

Revenues from internet security services and other for the quarter were approximately RMB32 million, which increased by 32% year-over-year and 13% quarter-over-quarter. The increases were primarily driven by higher mobile internet software licensing revenue.

Moving to our costs and expenses:

SBC expenses for the third quarter decreased by 37% year-over-year and 19% quarter-over-quarter to RMB72 million.

To help facilitate the discussion of our Company's operating performance, the following discussion will be on a non-GAAP basis, which excludes stock-based compensation expenses. For financial information presented in accordance with U.S. GAAP, please refer to our press release which is available on our website.

Non-GAAP cost of revenues for the third quarter were RMB404 million, up 48% year-over-year and 14% quarter-over-quarter. The increases were primarily due to the stepped-up investments in contents for our content-driven apps, and an increase in bandwidth and internet data center costs associated with increased user traffic and data analytics.

Non-GAAP gross profit for the third quarter decreased by 4% year-over-year, but increased by 5% quarter-over-quarter to RMB725 million.

Non-GAAP gross margin was 64.2% in this quarter, compared to 73% in the prior year period and 66.1% last quarter.

Non-GAAP R&D expenses for the third quarter were RMB200 million, up 43% quarter-over-quarter and 12% quarter-over-quarter, which was primarily due to increased headcount associated with our stepped-up investments in big data analytics and new product development. At the end of the quarter, we had approximately 1,800 R&D personnel.

Non-GAAP sales and marketing expenses for the third quarter were RMB385 million, relatively flat year-over-year and down 5% quarter-over-quarter. The sequential decline was mainly due to lower expenses on promotional activities as well as our strategy to implement cost controls for our utility applications, which was only partially offset by increased product promotional activities for our content-driven apps, and to a much less extent, an increase in direct sales personnel.
Now, non-GAAP G&A expenses for the third quarter were RMB112 million, up 25% year-over-year and down 9% quarter-over-quarter. The year-over-year increase was mainly due to increased headcount in G&A function. The quarter-over-quarter decline was mainly due to a decrease in professional services fee.

Non-GAAP operating profit for the third quarter decreased by 77% year-over-year, but increased 49% quarter-over-quarter to RMB38 million.

Non-GAAP operating margin was 3.4% in the quarter, compared to 16% in the prior year period and 2.4% last quarter. The year-over-year decrease was mainly attributable to increased investment in content-driven apps.

In fact, excluding investments in content-driven apps, non-GAAP operating margin would well exceed 20% in the quarter. The quarter-over-quarter improvement was due to higher total revenues and cost control measures around our marketing efforts, which helped in expand the profitability of our utility applications.

Non-GAAP net income for the third quarter was RMB73 million, a decrease of 50% year-over-year, but a significant improvement from a non-GAAP net loss of RMB62 million in the previous quarter.

Non-GAAP diluted net income per ADS for the third quarter was RMB0.51 or $0.08, as compared to RMB1 for the same period last year, and non-GAAP diluted loss per ADS of RMB0.44 in the previous quarter.

Adjusted EBITDA decreased by 61% year-over-year, but increased by 18% quarter-over-quarter to RMB80 million in the third quarter.

Now let me provide you with our fourth quarter revenue guidance. We currently expect and estimate total revenues for the fourth quarter to be between RMB1.200 billion and RMB1.24 billion, representing a 4% to 8% year-over-year increase and 6% to 10% quarter-over-quarter growth.

Please note, this forecast reflects the Company's current and preliminary view and is subject to change.

Lastly, before we start the Q&A session, I would like to remind investors and analysts that in March 16, 2016, the Board of Directors authorized a 1-year share repurchase plan, allowing the Company to buy back up to $100 million in aggregate value of its own ADSs.

As of November 18, 2016, the Company had repurchased a total of 2.54 million ADSs, representing 25.4 million Class A ordinary shares, at an average price of $10.75 per ADS.
The share repurchase program reflects our belief that our shares are presently undervalued and demonstrates our confidence in the long-term outlook for our business.

This concludes our prepared remarks for today. Operator, we are now ready to take questions.

Question-and-Answer Session

Wendy Huang: (Speaking Chinese). So my first question is about your social networking product Live.me. We understand the operating environment in China, so the use and behavior are quite different in China versus the U.S. So can you share us with your view about the Live.me's future business model and monetization plan? And also can you give us update on your sales and marketing budget for Q4 and then next year? Thank you.

Fu Sheng: (Speaking Chinese).

Andy Yeung: Okay. So I will address the -- Fu Sheng is going to address the Live.me question.

(Translated): So I think at this point, at least we have proven that live streaming is viable, not only in the Chinese market, but also in a market like the U.S. and other markets. Not only that, I think if you look at a lot of users' data, you find that Live.me is actually more social and viable now in the U.S. market, particularly in terms of the number of live streaming broadcasts by our users.

Fu Sheng: (Speaking Chinese).

(Translated): So if you look at in the U.S. market for example, the users' willingness to actually pay is actually better than what we have expected. So I think at least that demonstrates that the pay model actually is quite viable for live streaming.

And in terms of our forward-looking strategy, we would like to build Live.me into not only for live streaming on video app, but more into a social community. I think that's still a lot of work ahead of us, but we're hoping that we will be successful in that endeavor as well.

Fu Sheng: (Speaking Chinese).

(Translated): So regarding the marketing budget or cost control initiative for the Company, I think our efforts recently have demonstrated that it's performed quite well with our new cost control. Next year, we don't expect a [radical] marketing strategy. Our objective is to really dip into our current content strategy, really make that into a successful content platform.
Andy Yeung: So regarding more specific about marketing budget, I think we have taken pretty strong actions since the second quarter and third quarter, especially for utility applications. So I think our going-forward strategy really is to maintain stuff like this kind of minimum marketing expenditure for the two applications.

And that should help us to continue to drive incremental profitability improvement, but probably not to the extent that we have seen in the second and third quarter because we will continue to invest in our content strategy. But overall, I think next year, these two applications itself at least should be maintaining at or about the current level in their profitability.

For content strategy I think you already see some monetization over there. So if we're successful in amassing a large user base, successful in our content strategy build at Live.me and in the community, household community, I think we should see those two applications reach a critical user base sometime next year. And as we ramp up monetization, that should help the overall margin improvement.

So I think next year, the margin improvement is mostly coming from steady revenue growth and operating leverage, not as much as more dramatic cost cuts. So hopefully that answers your question, Wendy.

Okay. Next question then?


Eric Wen: (Speaking Chinese). So first of all, could management share with us their DAU, MAU and average time user spend of News Republic or the trends in the past 3 months?

Second question, what is management's view on the rising competition in the news industry overseas? Do you have any concerns regarding [Total's] aggressive investment in the U.S. market? In other words, how News Republic will remain its competitive advantages in the market?

Fu Sheng: (Speaking Chinese).

(Translated): Okay. Thank you for the question. So regarding News Republic operational data MAU, DAU, (inaudible) spend (inaudible) cash, etc., I think at this time, we will not disclose it for commercial reasons.

But as we mentioned in our previous prepared remarks, News Republic has made very good progress. If you look at App Store ranking, it's one of the top news apps in the overseas market, especially the U.S. market. So I think we'll continue to see that progress as we have rolled out our upgraded version of News Republic.
In terms of competitive landscape, I think I would just mention one area. When we acquired News Republic, one of the main reasons that we made the acquisition was due to its license content. We have more than 1,000, close to 2,000, live licensed content from news organization. I think that alone is significantly ahead of their competitor. It is one of the top three in the overseas market, so I think that's one of the very strong competitive advantages for us.

Fu Sheng: (Speaking Chinese)

(Translated): And the second point is that, we as a company, have more than 600 million mobile MAUs globally, 80% of that in the overseas market. And so one of the key things about personalized content delivery is that you have to generate enough personal data to provide personalized services. So of course, from a content perspective, the reading habits, the search habits could provide that information.

But with our 600 million MAUs, we can generate a lot of information on how -- on our users and also provide very personalized services for this user. And all 600 million of our users can potentially become our content user as well. So I think that's another very strong competitive advantage for us in the content and especially the news application side.

Fu Sheng: (Speaking Chinese)

(Translated): So I think in short, we have the opportunity to really provide very personalized content to our application users from the very beginning, because while our other competitors, they would not be able to provide that kind of personalized content before the user generates the reading habits. So I think that's a very good competitive advantage for us as well.

Fu Sheng: (Speaking Chinese)

(Translated): Right. So thirdly, if you look at us, I think a lot of people still think about us as a company that produced two applications, but as you probably know, a couple of years ago, we have begun to invest very heavily in big data analytics, and now we have set up a team, R&D team, in Silicon Valley. We have hired Charles Fan, who is a very experienced tech and data analytics [reference] in Silicon Valley. We have a team of more than 100 people now focusing on data analytics.

So we have accumulated a lot of experience and technology in the big data area. That should help us very significantly in delivering personalized content to our users. So I think if you combine those three areas, we clearly have a unique competitive advantage in delivering personalized content and use to our users.

Eric Wen: (Speaking Chinese).
Operator: Robert Cowell of 86 Research.

Robert Cowell: I may just ask in English, if you can help me translate, Andy?

Andy Yeung: No problem, Robert.

Robert Cowell: Thanks. I guess my first question is about the sources of mobile advertising revenue. In the first quarter of this year, there was a bit of an impact from Facebook. Audience Network changed some of their policies, and I'm wondering whether I guess what the trend is in terms of cooperation with Facebook, Google, your other big partners? And maybe also if we could get any details on the Cheetah ad platform?

And then my second question is about the Silicon Valley office. I'm just wondering if the U.S. presidential election or any -- I guess the policy outlook there has had any impact on your thinking about investment in Silicon Valley in the U.S. or the way you're operating that office? Thank you.

Andy Yeung: Okay, Robert. So I will translate those questions and then Fu Sheng will (inaudible) them. Okay. Hold on a second.

(Translated): So Robert, thank you for the questions. So regarding our relationship with Facebook and Google and other third-party platforms, I think we continue to work very well with all our third-party platform providers.

Obviously, some of the platform providers have changed their strategy or the way how they operate the third-party having the platform themselves. But overall, I think we continue to work very well with all of them and we continue to diversify our revenue stream. I think obviously, at the beginning of the year, it seems like we have been impacted by some of the changes at one of our third-party advertising platform partners.

But I think as you can see from our third quarter results, we have delivered strong, solid recovery in the third quarter and we continue to expect the trend in the fourth quarter, despite sometimes there's some rumor in the market that there may be another [radical] change with some of our partners. And the key reason for that is because we continue to strengthen our overall working relationship with different advertising platforms and we continue to have very good relationships with Facebook, Google and all the other platforms.

So I think unless a competitor drastically changed, I think we would be able to maintain a relatively steady trajectory. Obviously, I could remind folks that the first quarter generally is a weak season for the advertising industry. So don't be surprised if we do experience first quarter sequential decline. That's normal, but we'll likely maintain a steady year-over-year improvement.
And then in regard to our (inaudible) platform, I think our direct sales force strategy is part of our effort to continue to diversify our revenue stream and I think that's making very strong progress, and we'd like to see more of that. We have added more personnel in the direct sales force.

In addition, we also see the (inaudible) percentage of revenue coming from our direct sales also increased in the quarter, and we'll likely continue to see that trajectory as well.

In terms of your second question regarding if there is an impact from the presidential election results in U.S. and how would that impact our investment strategy in the U.S., I think we, as a company, we do not pay as much attention or participate in the political environment in another country.

What we want to be focusing on is delivering the best applications for our mobile users and make sure that they continue to enjoy a safe and speedy internet experience, and with our new strategy connecting them with personalized content, make the online experience more personalized, more fun.

So that's our main goal, so I don't think the presidential election really has impacted our investment strategy in Silicon Valley at this point. So we continue to hire more people and looking forward to hire more permanent people in the U.S. to help support our content strategy over there as well. So hopefully that answers your question.

Robert Cowell: Thanks.

Helen Jing Zhu: Thank you all for joining our call today. If you have any questions, please do not hesitate to contact us. Thank you. Bye.