Fu Sheng: Thanks, Helen. Hello, everyone. Thank you for joining us today.

As we said on our Q1 earnings call, we had implemented some initiatives regarding our existing businesses, including mobile utility products and mobile game business. I am delighted that these efforts are starting to bear fruit.

In Q2, total revenues were RMB1.1 billion, beating our high-end revenue guidance by 2%.

Non-GAAP operating profits grew by 58% year-over-year to RMB143 million.
We now expect our total revenues in Q3 to be in the range of RMB1.29 billion to RMB1.35 billion, representing a 10% to 15% year-over-year growth. This growth will be driven by our utility products and related services business and our mobile game operation.

Now, I will highlight some of our initiatives around our utility products business and our mobile game operation.

First, we have been paying more attention to our domestic market. Our mobile utility products in China and overseas markets used to be operated by separate teams. We have now combined the teams and applied many approaches that have been proven effective in the overseas markets to our home market. As a result, the DAU of Clean Master exceeded the 30 million mark in June in our domestic market.

Revenues from mobile utility products in the domestic market grew substantially in the quarter. This growth was achieved even in an unfavorable market environment where some Chinese advisors in the news, live streaming and short-video sectors scaled back their online promotional activities due to tightened regulation regarding online content.

In the overseas market, we have tried out several initiatives to monetize Cheetah Keyboard and have seen some encouraging initial results. Cheetah Keyboard has accumulated more than 10 million DAU, mainly through organic growth.

In Q2, utility products and related services business generated RMB756 million in revenue and RMB282 million in non-GAAP operating profit. It remained the most important source of cash for us.

Second, our portfolio of mature games has continued to achieve strong performance. We have introduced popular third-party contents into our games to encourage in-game purchase. For example, in the quarter, we added a new level to Dancing Line, Piano Tiles 2 and Rolling Sky based on a popular song, which attracted a lot of active players, and allowed us to convert many of them into paying users. Furthermore, the profitability of our mature games continues to increase, thanks to our operating leverage.

We had a temporary delay in launching some new mobile games in Q2, which resulted in a decline in revenues in Q2. But we have seen some of our new game titles started to ramp up quickly in early July. Going forward, we expect to continue to launch new games in an accelerated pace.

Next, I would like to talk about our progress in our AI-powered hardware business. As stated in the past, our AI-powered smart devices business has been jointly developed by Beijing OrionStar. Cheetah Mobile has about a 34% equity interest in Beijing OrionStar and has a 2-year warrant to gain more equity interest to achieve a controlling position. We hope to leverage Cheetah Mobile’s expertise in customer-driven products and the AI capabilities of Beijing OrionStar to create more and more smart devices.

For example, we have released a voice-interactive AI speaker called Cheetah Voicepod in March. In July, we released an AI interpretation device called Cheetah Translator at an affordable price of about US$40. Assisting our users to communicate with foreign language
speakers, the Cheetah Translator has a super user-friendly, one-button design that can automatically identify language being spoken and translate it into the target language.

Currently, the Cheetah Translator supports four languages: English, Chinese, Japanese, and Korean. Customers can buy Cheetah Translators on multiple e-commerce platforms such as JD.com and Tmall.com. Cheetah Translator has been very well-received by the market, making it the best-seller among its peer products.

Although the sales from Cheetah Voicepod and Cheetah Translator today are still insignificant compared to the overall revenues of Cheetah Mobile, we believe these are important steps for us to develop and enhance our AI-powered smart device business.

With that, I will now turn the call to our CFO, Vincent Jiang, for Q2 business and financial updates.

Vincent Jiang: Thank you, Sheng. Hello, everyone. Now, let me walk you through the details of our second quarter performance. All financial numbers are in RMB unless otherwise noted.

We achieved better-than-expected financial performances during the second quarter, as we are executing our strategy of rejuvenating our revenue growth and expanding our profitability for the remainder of 2018.

Total revenues for the second quarter of 2018 were RMB1.10 billion, exceeding our previous guidance range of RMB1.02 billion to RMB1.08 billion.

Gross profit increased by 2% to RMB752 million in the second quarter of 2018.

Gross margin expanded to 68% from 63% in the same period last year.

Operating profit increased to RMB128 million from RMB66 million in the same period last year.

Operating margin expanded to 12% from 6% in the same period last year.

In Q2, we reported a diluted income per ADS of US$1.29, up from US$0.47 in the same period last year.

Net income attributable to Cheetah Mobile’s shareholders for the second quarter of 2018 increased by 180% year-over-year and 181% quarter-over-quarter to RMB197 million.

The increase in our profits were mostly due to three factors: First, the disposal of the loss-making business News Republic in 2017; second, our efforts in optimizing the cost structure of our utility products and related services business; and last, increases in fair value of certain of our long-term investments. One such investment is Coding Cat, (Speaking Foreign Language), which is a Chinese online education platform that teaches children how to code computer programs.
As of June 30, 2018, our cash, cash equivalents, and restricted cash, and short-term investments were RMB3.52 billion. Our strong cash position has allowed us to continue our investments in the AI-powered business which is an integral component of our long-term growth strategy.

Moving on to the details in each of our reporting segments, note that starting on January 1, 2018, Cheetah Mobile adopted ASC 606, the new accounting standard for net value-added tax out of line items of revenues and cost of revenues. To increase comparability with the second quarter 2018 numbers, we have adjusted our 2017 revenue numbers net of VAT.

For our utility product and related services business, revenues decreased by 5% year-over-year to RMB756 million in Q2 of 2018. The year-over-year decrease was due to: First, a decline in PC revenues as a result of the continued migration of internet traffic from PC to mobile; second, a decline in revenues from mobile utility products in the overseas markets. As we stated in the past, Facebook and Google discontinued the placements of ads on mobile phone lock screens since May 2017 and January 2018, respectively, which in turn reduced our ad inventory.

We have made up some of the lost revenues by creating new and innovative monetization approaches within our apps. More importantly, the strong performance of our mobile utility products in China has largely offset the weakness in the overseas market. The strength in the domestic market was mainly due to a year-over-year increase in our ad impressions, driven by the expansion of our user base in China, as well as the elevation of our user engagement levels.

In June, the DAU of Clean Master in China exceeded the 30 million mark for the first time ever. Clean Master remains the top cleaning app in China, according to iResearch.

During the second quarter, we also expanded our advertiser base primarily by working with more mobile advertising platforms, such as Xiaomi and Toutiao. This initiative allowed us to increase our eCPM on a year-over-year basis.

Despite the year-over-year revenue decrease in our utility products and related services business, we continued to grow our profit and expand our margins. Our ongoing efforts in optimizing our cost structures, combined with the revenue increase from our utility products in China, drove our profit margin expansion. In the second quarter of 2018, non-GAAP operating profit for our utility products and related services increased by 33% year-over-year to RMB282 million.

The non-GAAP operating margin for our utility products and related services expanded to 37%, up from 27% in the same period last year.

For our mobile entertainment business, revenues decreased by 10% year-over-year to RMB333 million in the second quarter of 2018, mainly as a result of a 9% reduction in the revenues from our mobile games business. The revenue decline in mobile games was mostly due to a temporary void in the new titles.

However, our existing game portfolio has continued to achieve solid performance, and we expect our mobile games business in the third quarter will resume sequential growth. Summer time is always a high season for our mobile game business, and we have seen a few of our new games are gaining momentum in the third quarter.
Revenues from our content-driven products decreased by 11% year-over-year to RMB194 million in the second quarter of 2018. The decrease was largely due to the disposal of the News Republic application in the fourth quarter of 2017, as well as a slight decline in revenues from Live.Me, which is the result of continued depreciation of the U.S. dollar against RMB in the second quarter of 2018.

Our non-GAAP operating losses for the mobile entertainment business narrowed to RMB99 million in the quarter from RMB122 million in the same period last year. The reduced losses were primarily attributable to the reduced cost and expenses from the News Republic business, as we disposed of News Republic in Q4 2017.

Looking ahead into the third quarter, we currently estimate total revenues for the third quarter to be between RMB1.29 billion to RMB1.35 billion, representing a year-over-year increase of 10% to 15%. We expect our mobile games business and our mobile utility products and related services business in the domestic market to be the main growth drivers.

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

This concludes our prepared remarks. Operator, we are now ready to take questions. Thank you.

Questions & Answers

Operator: Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions). Wendy Huang with Macquarie.

Wendy Huang: First, can you give some color about your Q2 guidance? It suggested very strong assumption on the growth and the driver behind it. And also, secondly, you mentioned about your collaboration with Xiaomi and Toutiao that started in June quarter. Can you give more color about the revenue contribution from this new collaboration? And also how do you expect the [turnout] in the second half?

And lastly, on the margin trend, so this quarter, the gross margin came in much better than expected. What's the reason behind it and how should we expect the margin for the second half as well? Thank you.

Helen Zhu: Okay. Wendy, just hold on a second.

Wendy Huang: Sure.

Vincent Jiang: Wendy, let me take the first question about the assumption behind the growth drivers. Actually there are two -- there would be two main growth drivers for the Company in the second half. First one is the mobile utility products within domestic markets. Since starting Q3
last year, we have seen significant growth in the domestic markets for the utility products because of two reasons.

First reason is that the user engagement level has been increasing because we have made quite a significant improvement in the products itself. And we also see our users growing, because of that effect, also because of we are doing more marketing within China because we are paying more attention to the domestic market now.

And also the reason for the growth in the domestic market is we are adding new advertisers. Basically, we are diversifying our advertiser base including the relatively new companies, such as internet companies like the short-video producers, the news portals, for example. And so that is first driver.

And the second driver is the mobile game business. Although we had decline revenues from our mobile games in the second quarter, we are making a significant increase in terms of the number of games we are able to launch in the third quarter. We actually -- initially, we expected that we will have more games in the second quarter to be launched; but because of some delays, we were not able to do that in the second quarter. But those games had been launched in Q2, the end of the Q2.

So right now it's third quarter now, and we have seen some encouraging news in the third quarter, especially in September -- excuse me -- in July and August because the summertime is a high season for us for the games. So that answers the first part.

Fu Sheng: (Speaking Foreign Language).

(Translated). Okay. The second part --

Fu Sheng: (Speaking Foreign Language).

(Translated). Well, the cooperation with Xiaomi and Toutiao, I think there's two parts. First of all, we are expanding our user acquisition channels, and Toutiao and Xiaomi are two very effective channels for us to acquire new users. And secondly, we are adding SDKs and receiving advertise placements from these two platforms, which in a way that increased our ad supplies.

Wendy Huang: Can you give some color regarding the revenue related to Xiaomi and Toutiao?

Vincent Jiang: Well, in terms of the revenue contribution from Xiaomi and Toutiao, it's relatively small actually. So the contribution, it's two ways. First of all, we were able to work with them to acquire more users. Actually, this is a more significant part in terms of revenue contribution.

Wendy Huang: Sure. So how about the margin trend?

Vincent Jiang: We expect our margin actually will continue to improve. There are a couple reasons. First, (inaudible), please. Okay. I'll continue.

Wendy Huang: Yes, sure. Can you give some --
Vincent Jiang: I'm sorry. Go ahead, please.

Wendy Huang: Yes, sure. Can you give some color on your better-than-expected margin in June quarter; and also the reason behind the further margin improvement in the second half contribution? Thank you.

Vincent Jiang: Well, in terms of the margin expansion, first of all, we have the -- when you look at the cost of the revenues, we have -- okay. For the cost of revenues, we have discontinued certain old products, for example, one of these [online call]. But there's some product which doesn't have good margins, we discontinued this product. And also for the IDC and CDM products, because of the decrease in terms of the inventory, ad inventory, so that one comes naturally for the reduction of costs associated with the decrease in the ad inventory.

And also for the sales and marketing, we are adjusting our sales and marketing expenses. For example, we are decreasing the sales and marketing expenses in developing countries, which helps reduce the -- well, because of the revenue contribution from those markets are relatively less, relatively small. So reduction in those markets actually helps to contribute to our margin improvement.

Also another reason is actually because of the R&D expenses, which is much smaller than previous years. One reason for the reduced R&D expenses was that first of all, we granted more options in certain equity awards in early years than in 2018. And secondly, because of we're using an accelerated method to account the expenses, share-based compensation expenses for those awards. And naturally, there will be more share-based compensation expenses in early years than the ones we incurred this year. So those are the main reasons.

Wendy Huang: Thank you.

Operator: (Operator Instructions). Thomas Chong with Credit Suisse.

Thomas Chong: I have two questions. The first question is about the mobile game market outlook in China, given there are different regulatory concerns. And how we ensure our mobile games can have strong growth in the second half? And my second question is about the competition of Clean Master in China. Who are our competitors on utility products? (Speaking Foreign Language).

Fu Sheng: (Speaking Foreign Language).

(Translated). So the casual games business for us in China actually is going pretty good. For example, Piano Tiles 2 and Dancing Line, which are two of our mature casual games, which were in the overseas market, but now, they are developing in China in a pretty good way. Actually, a lot of users are using it. But of course, because of the recent regulations, because new games cannot get a copyright, they cannot be officially released, which will impact the launch of new games in China.

Fu Sheng: (Speaking Foreign Language).
Okay. For the more complex game, the competition landscape -- the competition is extremely competitive right now in China. But for Cheetah Mobile, we are using casual games; we have casual games, which actually give us a lot of advantages, because for many overseas well-known brands, or well-known games, and also from other more globalized IP content, Cheetah Mobile does have its own advantages in China.

Fu Sheng: (Speaking Foreign Language).

Okay. In the past, we had some difficulties to develop in-game features for us, but fortunately, we have made some breakthroughs in the in-game purchase features. So we think that we do have a lot of opportunities in the future.

Fu Sheng: (Speaking Foreign Language).

Okay. In China, many cell phone makers do have their phone management tools. For example, Tencent; Tencent has their own management tools, and those are all Cheetah Mobile's Clean Master's competitor.

Fu Sheng: (Speaking Foreign Language).

Okay. Yes, that is the answer to your questions.

Thomas Chong: Thank you.

Operator: Robert Cowell with 86Research.

Robert Cowell: I actually have two. The first one is about your cash balance. I notice you have quite a bit of cash on the balance sheet. So I'm interested if you have -- strategically, how do you all think about that cash and what do you plan to do with it?

And then, my second question is about your AI initiatives and maybe two aspects. One is on the AI voice operating system, I noticed you have quite a high market share in the Chinese market. I'm wondering if there is any plan or avenue to monetize that market share?

And then second is on the warrant. How do you all think about converting those warrants, and when can we expect that business to start hitting the P&L? I'll try and translate into Chinese.

(Speaking Foreign Language).

Fu Sheng: (Speaking Foreign Language).

Vincent Jiang: Robert, let me take the first question. For the cash on our balance sheet, we are continuing to look for strategic opportunities. We have done a few acquisitions in the past, and we will continue to do so. We expect to continue to do so in the future, but we will be very careful, very prudent. We have to make sure that opportunity is there before we make any bigger decisions.

And then secondly, we are making some smaller long-term investments from time to time. As you can see, we have more than RMB1 billion worth of long-term investment on our balance
sheet. And we are -- continue to making small investments for -- especially in these areas that do have potential synergies with Cheetah Mobile's core business, including the online advertising or AI-related products and services.

Fu Sheng: (Speaking Foreign Language).

(Translated). Okay. Yes, indeed the voice-interactive operating system developed by OrionStar has a quite significant market shares. For example, Cheetah Mobile's smart speaker, also other manufacturers of smart speakers such as Midi, Himalaya and Xiaomi all use OrionStar's voice-interactive system. Actually, for Xiaomi, part of those, part of their products, use OrionStar's voice-interactive operating system. For Xiaoya, which is also their smart speaker developed by Xiaomi, the text-to-speech module is developed by OrionStar.

But in terms of the monetization, we think it's still in the relatively early stage for the entire industry to monetize. We are still finding a way to effectively to generate revenue from the operating systems. We think that voice-interactive system or smart speakers, it's a new category, actually, and it can be the entry point for people to access internet. And depending on the time spent with the AI-speaker and the number of users for the AI-speaker, we think there is opportunity.

In terms of now, actually, we don't have a huge amount of monetization have been achieved by anyone in this industry.

Fu Sheng: (Speaking Foreign Language).

(Translated). Okay. The second possibility is (inaudible) which is GreetBot. It's kind of a receptionist, function as a receptionist for business and some commercial settings. We think there's good opportunities to monetize because we do -- have won some awards recently for the GreetBot.

Fu Sheng: (Speaking Foreign Language).

(Translated). For the warrants, to purchase additional equity stake in OrionStar, which is a decision to be made by the board of Cheetah Mobile. So that cannot be answered in this call. Thank you.

Robert Cowell: Could you remind us when is the deadline for exercise of the warrants?

Vincent Jiang: I think we still have a little than 1 year.

Robert Cowell: Okay, a little over a year. Thank you.

Operator: Thank you. And as there are no more questions at the present time, I would like to return the call to management for any closing comments.

Helen Jing Zhu: Thank you all for joining us today. If you have any further questions, please do not hesitate to contact us. Thank you. Bye.
Operator: Thank you. The conference has now concluded. Thank you for attending today’s presentation. You may disconnect your lines.