In the second quarter of 2019, total revenues exceeded the high end of our guidance, driven by the robust growth of our mobile games and AI-related business. However, we must admit that our utility product business is still facing some challenges due to the misleading statements made by a third party in late November 2018, which led to pauses in some of our collaborations with business partners in overseas markets. While we have continued to talk with them to clear up this confusion, we have not yet been able to resume business relations with some, including Facebook.
In the first half of 2019, revenues from utility product and related services decreased by 39% to RMB921 million. In the second half of 2019, we will continue to face the challenge of growing and sustaining our utility product business revenues on a year-over-year basis. The slowdown of our utility products and related services could lead to a decrease in our total revenues for the full-year of 2019. We will also continue investing in AI, as our AI business is still in its early stages of development. As a result, we could report an operating loss for the full-year of 2019.

Even so, we've taken several steps to restart the growth of our business. Some of these steps have already shown early upbeat results. First, our utility product and related service business continues to make healthy profits and cash flow. In the first half of 2019 this business segment earned RMB244 million in operating profits. About 400 million MAU will continue to serve as a strong source of revenues and rich foundation for developing new products and services.

Second, our mobile games business has continued to grow strongly and has become a growth engine for the company. In the first half of 2019, revenues from our mobile games business grew by 88% year over year to RMB591 million. We continue to see the growing user adoption of our mobile casual games in overseas markets. According to third-party data, the overall mobile casual game market increased by 100% year over year in June 2019, driven by user growth in both developed countries and emerging markets, such as India, Russia and Brazil. This rapid progress was also driven by gamers who had never played mobile games before joining our platform. The growing mobile casual game market has continued to boost growth in our mobile game business.

Cheetah Mobile continues to create hit games. Our games have been downloaded more than 2 billion times in the past years. Since 2019 we have launched seven games. Some of these games remain top casual games in overseas markets and have been featured by either Google Play or Apple’s App Store. For example, in late July we launched Beach Clean. Beach Clean is our light casual game that quickly became a top three app and game on Google Play in the United States and a number of other developed countries. We also continue to explore additional monetization opportunities through our current titles by launching in-game purchase items and in-game rewards. These have helped us to continue growing through our apps.

Importantly, our flagship games, including Piano Tiles 2, Rolling Sky, [Dancing Line,] and Bricks n Balls continue to do quite well and have begun to form a portfolio of well known mobile game IP. In the second quarter of 2019, our flagship-game operating margin expanded to 28% from 23% in the same period last year due to better operating leverage.

Third, despite the early stage of development, we have already launched several popular AI-based products together with Beijing OrionStar. We are also the single largest shareholder of Beijing OrionStar. We believe the development of 5G technology will create opportunities to grow the number of voice and visual interactive products and solutions on the market quickly. Our voice and visual interactive product offerings have been used in many places, such as convenience stores, office buildings, KTVs, shopping malls, hotels, after-school classes and more.
In the first half of 2019, our AI and other revenues increased to RMB80 million from RMB22 million in the same period last year. In the future we will be able to enhance the monetization strength of our AI-related business as user adoption for our service continues to grow. With this in mind, we will continue to invest in and focus on AI to resume our growth.

Lastly, I would like to finish my speech today by announcing that our board has declared a cash dividend in the amount of US$0.50 per ADS which will amount to a total cash payment of about US$72 million. Our special cash dividend payment demonstrates our commitment to delivering shareholder value. While we are facing some difficulties, we are confident in our company's long-term potential. We believe that our legacy mobile internet business, which include our utility product business, mobile game business and LiveMe, will resume to grow in the long run and will remain profitable.

In addition, we are excited about some of the new prospects of building a new growth engine around the AI-to-enterprise services and we are confident in our long-term returns in the AI investments. Despite that our AI business is still in its early stage of development, we have sufficient cash reserve to fund this new business. We have also made some good progress in building sustainable business model for the AI business and we hope to see meaningful return on the investment soon.

With that, we will now turn the call to our CFO, Vincent Jiang, to go through the details of our second-quarter financial results.

Vincent Jiang: Thanks, Sheng, and hello, everyone.

I will walk you through the financial results. All money amounts are in RMB unless stated otherwise.

For the second quarter, total revenues were RMB970 million, decreased by 12% year over year.

Revenues from utility products and related services decreased by 44% year over year to RMB424 million in the second quarter of 2019, primarily due to slow down in our overseas mobile utility business as a result of the negative publicity caused by a news article published in 2018 and this year's softness of the domestic advertising industry.

Revenues from the mobile entertainment business increased by 50% year over year to RMB498 million, driven by a 109% year-over-year growth in the mobile game business and an 8% year-over-year growth in the LiveMe business. The increase in mobile game revenue was mainly driven by the strong performance of Bricks n Balls, which started to ramp up from the middle of July 2018. The increase in LiveMe was primarily driven by higher average revenue per paying user, as LiveMe introduced several new features in the quarter to enhance user interaction, competition and engagement. Please note that the Company will begin to deconsolidate LiveMe's revenue starting the fourth quarter of 2019.

AI and other revenues grew by 236% year over year to RMB49 million, mainly driven by the
sales of the AI-based interpretation device, Cheetah Translator.

Moving to our costs and expenses. To help facilitate the discussion of the Company's operating performance without the effect of noncash share-based compensation expenses, the following discuss 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 the Company's website at www.cmcm.com.

Cost of revenues in Q2 was RMB327 million, a decrease of 7% year over year, mainly due to reduced traffic acquisition costs associated with our third-party advertising platform business, partially offset by increases in content and channel costs related to our mobile game business, as well as costs associated with the AI business. Gross profit for the quarter was RMB643 million and gross margin for the quarter was 66%.

R&D expenses in Q2 were RMB211 million, an increase of 36% over the corresponding period in 2018, primarily due to an increase in the number of R&D personnel of our mobile games and AI-related businesses. Selling and marketing expenses in Q2 were RMB382 million, an increase of 3% year over year, mainly due to increased promotional efforts for our new mobile games. G&A expenses increased by 18% year over year to RMB118 million in the quarter, primarily due to increased professional service fees. Non-GAAP operating loss was RMB22 million compared to RMB143 million in Q2 last year.

Moving to each report segment. Operating profits for utility products and related services was RMB121 million in the quarter, decreased from RMB282 million in Q2 last year, mainly due to the revenue decrease. Operating loss for the mobile entertainment business was RMB68 million in the quarter, reduced from an operating loss of RMB99 million in Q2 last year, mainly attributable to the increasing operational leverage and stricter cost and expense management for LiveMe and the improved operating profits for our flagship games, partially offset by initiatives to launch new titles. Please note that the Company will begin to deconsolidate LiveMe's financials from September 30, 2019.

Operating loss for AI and other business was RMB74 million in the quarter, increased from an operating loss of RMB41 million in Q2 last year, mainly due to our stepped-up investment in AI-related business.

Now let me provide you with our third-quarter revenue guidance. We currently expect total revenues for the third quarter to be between RMB940 million and RMB980 million. Please note that this forecast reflects the Company's current and preliminary view and is subject to change.

Overall we are confident that our business remains healthy. And I also wanted to emphasize that the Company has a very strong balance sheet. As of the second quarter of 2019 we had US$488 million in cash and cash equivalents, restricted cash and short-term investments. We also have US$287 million in long-term investments which contain several well-known projects that received our early round investments.

In the second quarter of 2019 the Company recognized the gains from equity investments of
RMB11 million and other income, net, of RMB34 million, primarily due to increases in fair value of certain long-term investments in this quarter, for example, our investments in Codemao, a Chinese online education platform that teaches programming to children, our investment in SuperAtom, an online finance platform focusing on the Southeastern Asia markets. Our gains from long-term investments helped the Company report a net income of RMB49 million.

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

Questions and Answers:

Operator: We will now begin the question-and-answer session. (Operator Instructions) The first question comes from Hillman Chan of Citigroup.

Hillman Chan: [Speaking in Chinese]

[As translated] Thank you, Management, for taking my question. So my first question is about the third-quarter revenue guidance. Could Management share more color for each of the business segments into third quarter, please?

And my second question would be on the AI and others. Could Management break down the revenue by Cheetah Translator and other AI products and how we should think about in the coming few quarters the strategy on the product launches, as far as the monetization model and, more importantly, the investment, the loss that we are thinking about the AI segment? Thank you very much.

Sheng Fu: [Speaking in Chinese]

[As translated] So in terms of the mobile internet -- that's our legacy business -- we still -- although we have some short-term disruption due to what happened last year, but still we are very confident about its long-term prospects. Just give you an example. We recently launched a mobile game called Beach Clean, which has been ranked top three globally in both App Stores and Google Play, the way we launched this new game is not following our old model. We actually -- we are trying a new approach. And it turned out that the revenue and profitability are still very good. This is why we are confident that even though with all those disruptions in the past we're still confident about our long-term prospects. And the same applies to the utility products as well.

[Speaking in Chinese]

[As translated] So in terms of the AI to enterprise service business, we understand that this is a different from other type of business. It requires a longer-term investment. And also to build the distribution channels also takes time. However, we think that the service robot, for example, the robot that can deliver goods, and we have seen very encouraging results from our clients. They are very eager to try our new products. And in terms of voice-related services or delivery robots,
we think there's a lot of room for growth in the near future.

In addition, because of the labor costs in the developed countries and we think that there's still a lot of opportunities for us to expand our robot business to overseas market, so that it is possible that can reduce the labor costs for the business. So we think that AI2B, we have a lot of opportunities here.

[Speaking in Chinese]

Vincent Jiang: Okay, yes, I'll take the first part of Hillman's questions. In terms of Q3 guidance, in general we can say that the revenue from the utility products will be slightly decreased. But the revenue from the mobile entertainment business will have growth. And the AI and other business segment will also grow as well. In terms of -- normally we don't provide further details in the forecast, so I think that's all we can say at this point of time.

Sheng Fu: [Speaking in Chinese]

[As translated] So because we are trying new business models for both the utility products and games and also for the AI business -- so in terms of the forecast we're relatively conservative.

Sheng Fu, Vincent Jiang: Okay. All right. Thank you. [Speaking in Chinese]

Operator: The next question comes from Thomas Chong of Jefferies.

Thomas Chong: [Speaking in Chinese]

[As translated] Thanks, Management, for taking my questions. I have two questions. My first question is about our revenue growth over the next few years. How should we think about the contribution from the new initiatives, as well as the margin profile? Should we expect the margin profile in the future to be very different from what we see at the moment?

And my second question is about M&A. Given the facts that our new initiatives takes time to take off, should we expect any M&A opportunities that the Company would pursue during the transition of process? Thank you.

Sheng Fu: [Speaking in Chinese]

Vincent Jiang: Okay. Let me try to translate.

Sheng Fu: [As translated] So in terms of AI2B business, we have been exploring different models. For example, we had been using a type of traditional distribution channels and we have third parties to help us to deploy our service robots in situations such as KTVs, hotels, courthouse. And we have been making some quite good progress in these areas.

But we are also exploring new applications for our robots. For example, we have been deploying our robots in places with larger foot traffic, for example, in shopping malls. And we have
deployed hundreds of them in those shopping malls. And the consumers, customers, are very eager to go to these robots to ask questions such as the location of certain restaurants and whether they have some discount information for certain shops. So these are the new applications, similar to moving the offline traffic to online traffic. Actually, this is the opposite of the mobile applications, the so-called [OTO], online to offline, applications.

And in terms of merger and acquisition activities, Cheetah Mobile has established very stable casual games in the utility business and the Company right now has been looking for opportunities to invest in AI-related areas. We have minority positions in those companies and we have some quite successful investment [actually] recently and we have potential synergies between Cheetah Mobile and those invested companies.

In terms of larger merger and acquisition activities, we are open to opportunities. We're not going to acquire large, mature companies because we [might] not be able to consolidate the acquired business well. But we are looking for new opportunities. I'll give you an example. For OrionStar, which right now Cheetah Mobile is the largest shareholder and a business partner, and Cheetah Mobile has the priority, or the preference rights, to acquire the controlling position in the company if at one point the OrionStar is growing relatively well and that fits into the overall strategy of Cheetah Mobile. So that answers the second part, I think, of the questions Thomas has asked.

Thomas Chong: Thank you.

Vincent Jiang: And let me go back to your first part of the questions. In terms of the margins of all those different segments that -- yes, so in terms of the utility products, we expect -- overall right now our revenue is lower than previous years and the operating margin will be lower accordingly. But I think in the longer term, if we are looking past the couple of quarters, we hope that the margin will go back to what we had in previous years.

And in terms of smart hardware, right now it's really hard to say. It depends on the mix of our products. Our AI2C products currently have relatively lower margin because of the competition. But in terms of the AI2B business, which we mentioned for example for the shopping mall applications of our service robots, and also the delivery robots we just mentioned earlier, we see good gross margin over there. Okay.

Thomas Chong: Got it. Thank you.

Operator: (Operator Instructions) This concludes our question-and-answer session. I would like to turn the conference back over to Management for any closing remarks. Please go ahead.

Helen Zhu: Thank you all for joining us today. If you have any further questions please do not hesitate to contact us. Thank you so much. Bye.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.