

**Cheetah Mobile Inc.**  
**Q3 2021 Earnings Conference Call**  
**November 24, 2021 at 7:00 AM Eastern Time**

**Officers and Speakers**

Sheryl Zhang, Director, Investor Relations  
Fu Sheng, Chairman and Chief Executive Officer  
Thomas Ren, Chief Financial Officer

**Analysts**

Melody Chan, Jefferies

**Presentation**

**Operator**

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Good day and welcome to the Cheetah Mobile Third Quarter 2021 Conference Call. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions.

Please note, this event is being recorded. I would now like to turn the conference over to Sheryl Zhang, Investor Relations Director of Cheetah Mobile. Please go ahead, ma'am.

**Sheryl Zhang**

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Thank you, operator. Welcome to Cheetah Mobile's Third Quarter 2021 earnings conference call. With us today are Mr. Sheng Fu, Chairman and CEO, and Mr. Thomas Ren, CFO. Following management's prepared remarks, we will conduct the 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. Sheng Fu.

Please go ahead Fu Zong.

**CEO – Sheng Fu**

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Thank you, Sheryl. Hello, everyone.

In the third quarter of 2021, consistent with our previous guidance, Cheetah Mobile's revenue was RMB196 million. For our internet business, we continue to transform our business from single advertising model to a diversified model of advertising plus subscription. The number of members kept a double-digit growth, and revenues from our membership business have increased for more than 5 quarters consecutively. On PC platform, we further enhanced our services and membership privileges. The overall member satisfaction score stays at a high level.

On mobile platform, we improved users' experience through product optimization and more value-added services. The percentage of paying users as well as the renewal rate both increased. In general, after the huge external challenges, our internet business has been back to the right track as we planned.

However, now globally, advertising is facing some uncertainty. In China, sectors such as education, real estate, travel have slowed down due to Covid 19, government supervision and regulation and some other reasons. The impact has been passed on to advertising business. Companies, including Baidu and Tencent, are not very optimistic about advertising in coming quarters. Our outlook for the fourth quarter also reflects these negative factors.

Overseas, advertising business of big companies such as Facebook also face headwinds from the change of ios 14, macroeconomic and Covid related factors. Our overseas advertising agency business is inevitably adversely affected. And this might be a multi-quarter impact. This also has been factored in our fourth quarter guidance.

Good news is revenues from our global cloud services have been growing very well due to expanding service categories and clients base in this quarter. Enterprises which try to explore overseas market have real demand for these services. We are very optimistic about its future growth.

For our AI business, GMV and revenues from shopping-mall coupon-selling robots have been up for several months in a row. We applied both offline and online marketing strategies to expand the business. Offline, we have deployed more than 10000 robots in more than 40 cities. Online, we use our own Wechat mini program – Quanduoduo, some other local network communities as well as some mainstream third-party platforms. Customers can register in Quanduoduo through our shopping-mall robots and choose their favorite coupons from a list of options we display in this mini program. Merchants can also use Quanduoduo's professional platform to review the data of their coupon sales and do analysis. Currently, our robots sell more than 5000 kinds of coupons for more than 1000 merchants in more than 700 shopping malls all over the country. By the end of October, GMV per day at the weekend had achieved another milestone. For this business, we have gradually created competition barriers. It has been widely welcomed by more and more merchants and customers.

Generally speaking, revenues from our new businesses, such as membership business, the global cloud service business and shopping-mall coupon-selling robots business, will keep growing. While revenues from advertising related business will face some challenges in coming quarters. For costs and expenses, our operational efficiency has been greatly improved in past quarters. Upon this, we will continue the strict control over costs and expenses to maximize operational efficiency and the interests of our shareholders. Additionally, as of September 30<sup>th</sup>, 2021, our cash position was around USD288 million, and long-term equity investments was about USD376 million. The abundant capital reserves ensure us to focus on our strategies and grow steadily.

With that, I will now turn the call to our CFO, Thomas Ren, to go through the details of our third quarter financial results.

## **CFO Thomas Ren**

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Thank you, Sheng, and hello everyone. Thank you all for joining us today.

Now, I will walk you through our key financial highlights. Please note that unless stated otherwise all money amounts are in RMB terms.

As Sheng just mentioned, In the third quarter of 2021, our total revenues were 196 million, representing a year-over-year decrease of 46% and a quarter-over-quarter decrease of 7%. The revenue was within the range of our previous guidance. To explain the reasons behind the changes, now let me break down our revenues into internet, and, AI and others sectors.

As a result of the Company's ongoing business streamlining efforts, we realigned our business segments based on the change of the way that the management assesses the Company's segment performance. The Company's overseas advertising agency services, which assists companies to launch advertisement on overseas advertising platforms, are changed from the Internet business into AI and others due to the synergies created between the Company's advertising agency services and global cloud services. Consequently, the Company has retrospectively revised segment information and related revenue presentation to conform to the change in the Company's segments.

Revenues from the Company's internet business decreased by 51% year over year and 16% quarter over quarter to 161 million in this quarter. The year-over-year decrease was due to the Company's strategic efforts to diminish the game-related business in past quarters. The quarterly decrease was mainly because revenue in the second quarter of 2021 was temporarily increased due to June 18 promotional events and no such promotional event occurred in this quarter.

Revenues from AI and others, as the reclassification of segment, from this quarter, this segment includes our shopping-mall coupon-selling business, overseas advertising agency business, global cloud business and some other business. Revenues from this segment were 36 million in the third quarter of 2021, representing a 9% year-over-year decrease and a 63% quarter-over-quarter increase. The year-over-year decline was primarily attributable to the planned drop in sales of AI-related hardware products. The quarter-over-quarter increase was from our global cloud services as well as shopping-mall coupon-selling robots business.

Turning to costs and expenses. The following discussion of results will be on a Non-GAAP basis, which excludes stock-based compensation expenses. The use of Non-GAAP measures in this context will help us to better present the results of our operating performance without the effect of non-cash items. For financial information presented in accordance with U.S. GAAP, please refer to our earnings release.

Our operating loss was 59 million in the third quarter of 2021, compared with 119 million in the same period of the last year and 56 million in the previous quarter.

Our adjusted EBITDA was negative 38 million in the third quarter of 2021, compared with negative 101.6 million in the same period last year and negative 47.7 million in the previous quarter.

Cost of revenues decreased by 34% year over year and increased 48% quarter over quarter to 74 million in the third quarter of 2021. The year-over-year decrease was primarily due to the decreased revenue. The quarter-over-quarter increase was from increased spending over AI-related business.

Research and development expenses decreased by 54% year over year and increased by 11% quarter over quarter to 52 million in the third quarter of 2021. The decrease was due to the deconsolidation of certain gaming business in past quarters. Our investment in research and development has been keeping flat. The quarter over quarter change was mainly due to less government grants in this quarter.

Selling and marketing expenses decreased by 49% year over year and 30% quarter over quarter to 85 million in the third quarter of 2021. This year-over-year decrease was attributable to the streamlining of our business and the strategic reduction of our costs. While the quarter-over-quarter decrease was mostly because we incurred incremental promotion expenses for the June 18 promotional events in the second quarter.

General and administrative expenses decreased by 46% year over year and by 7% quarter over quarter to 48 million in the third quarter of 2021. The decrease was mainly due to the streamlining of our business and our effective expense control.

Now let me turn to our balance sheet. As of September 30, 2021, we had cash and cash equivalents, restricted cash, and short-term investments of US\$288 million and long-term equity investments of US\$376 million. This strong balance sheet ensures us to follow our long-term development plans and achieve our strategic goals.

And for our fourth quarter revenue guidance: we currently expect total revenues to be between 130 million and 180 million. As Sheng just mentioned, our guidance has reflected the uncertainty we face in the fourth quarter due to the headwinds in global advertising business.

Please note, this forecast reflects our current and preliminary views and is subject to change.

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

### **Operator**

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When asking the question, please state your question in Chinese first, then repeat your question in English for the convenience of everyone in the call.

We will now begin the question-and-answer session. Melody Chan of Jefferies.

**Melody Chan:** (Speaking foreign language). Let me translate my questions. My first question is on the advertising business. So how should we think about the impact of the Covid uncertainty and the macro weakness and also the regulation impact?

And my second question is on the AI business. How should we think about the AI business

outlook in 2022?

**Fu Sheng:** (Speaking foreign language).

**Thomas Ren:** Okay. Thank you, Melody. I will answer your first question, and Mr. Sheng will answer your second question and I will translate for him.

So your question, I think, is regarding the advertising business. And firstly, I would briefly answer the impact of Covid uncertainty and also macro weakness. Yes, we think Covid uncertainty and the macro weakness still affect our business. And we can see now globally, advertising is facing some uncertainty. In China sectors, such as education, real estate, travel, have been slowed down due to Covid-19, and also the government supervision and regulations, and some other reasons.

So the impact has been passed on to advertising business. So some bigger internet platform companies are not very optimistic about advertising in the coming quarters. And also, our outlook for the fourth quarter also reflects these negative factors.

And overseas, on the overseas market advertising business, as we mentioned, for the big platform company like Facebook, they are also facing headwinds from the changes, iOS 14, macroeconomic and Covid-related factors. So our overseas advertising agency business is also adversely affected and this might be impacted by multi-quarters. This also has been factored in our fourth quarter guidance.

And also for our shopping mall coupon-selling robots business, there were also some negative impact on our business in certain cities. Some shops in these cities were closed, or some restaurants stopped. But it is controllable and the impact was only in limited areas. So we didn't see a significant impact on our shopping mall robot business.

And also, I think your question also involves the regulation impact by the Personal Information Protection Law. Yes, we also see the strict government supervision and regulations could also slow down the advertising business. This has already been reflected in some Chinese big internet companies' financial results. And as we mentioned earlier, we also expect some negative impact on our other advertising-related business.

And for us, internally, our related departments have been starting and following the regulations and laws seriously. We also adjusted how we display advertisement on our platforms and how we can collect users' information. We conducted some internal restructure to better comply with the updated government regulations. And also as we mentioned now, we are focusing on new business, such as membership, shopping mall coupon-selling and the global cloud service. We are confident about the growth of this new business.

So generally speaking about the regulation, we will strictly comply. And at the same time, we also have made business strategies to ensure the growth of our overall business. Hope this answers your question.

**Fu Sheng:** (Speaking foreign language).

**Thomas Ren:** Okay. Let me translate this part.

(Translated). So we have deployed over 10,000 service robots in thousands of cities across China. Recently, we realized that the customers, they're already used to talking to robots in the shopping malls, like inquiry, the information of merchants in that shopping mall, or the service provided by those merchants. Because we found the customer already used to communicating with our service robots, we found that when the customers is asking the location or interaction with our services robots, the coupons we recommend for the customers could be acceptable.

And all the merchants in the shopping malls, especially the restaurants, they also need that to deploy some off their coupons in this shopping mall to attract this traffic. When the customer is shopping in the mall, so for most of the times, they didn't have a clear targeted restaurant. So sometimes, it might be -- or they might go into the recommend restaurants because of the coupons we recommend. So combining the 3 parties' demands, we are promoting the mini-program called Quanduoduo.

When the customers interact with our robots, so firstly, they need to register our mini-program to become a member of our mini-program. And then they pay to find coupons through our program, and then they can bring the electronic coupons to the restaurant or to the merchants to enjoy the discounts. So by promoting our service robots around the shopping malls, we can successfully convert the offline traffic into the online traffic or online user base of our mini-program.

So by this business model, we can apply our advantage of the internet traffic business model to combine the offline traffic user base. We have provided over 5,000 coupons in our mini-program. We believe this business model could grow fast because as we just mentioned, it's a combination of 3 parties' demand. This could also convert our traditional internet business from the previous pure advertisement model into the consuming and payment procedures.

We can also earn commissions by selling the coupons. This could be another source of our future commercial income. This is basically our shopping mall service robots business model.

**Melody Chan:** (Speaking foreign language).

**Operator**

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As there are no further questions at this time, I'd like to hand the conference back to our management for closing remarks.

**Sheryl Zhang**

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Thank you all for joining us today. If you have any questions please do not hesitate to contact us. Thank you. Bye.

**Operator**

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