

**Cheetah Mobile Inc.**  
**Q1 2021 Earnings Conference Call**  
**June 11, 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**

Vicky Wei, Citi  
Melody Chen, Jefferies

**Presentation**

**Operator**

Good day and welcome to the Cheetah Mobile First 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**

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

Cheetah Mobile earnings release was distributed earlier and is available on our IR website at [ir.Cheetahmobile.com](http://ir.Cheetahmobile.com). Before we begin, I refer you to the Safe Harbor Statements in our earnings release, which will also apply to this call today as we will make certain forward-looking statements.

Now I would like to turn the conference call over to our Chairman and CEO Mr. Sheng Fu. Please go ahead Fu Zong.

**Fu Sheng**

Thank you, Sheryl. Hello, everyone.

In the first quarter of 2021, within our previous guidance, Cheetah Mobile's revenue was about RMB200 million. The Company has effectively improved operational efficiency. Gross margin

continuously increased to 70.1%. Operating loss narrowed to RMB57 million and net income attributable to our shareholders was RMB76 million. Our cash position has been increasing to about US\$276 million as of March 31, 2021. The abundant cash resources enable us to keep investing in our core businesses to empower the Company's long-term sustainable growth.

**For our internet business, in this quarter, the Company has been focusing on the domestic market and enhancing membership services.** Our business has gradually transformed from a single advertising model to a diversified model of advertising plus subscription. Our products and services all center on how to deliver superior user experience and improve our user satisfaction. As a result, we see a continued increase in revenues from our membership services, in terms of both absolute numbers and a percentage of total internet revenues. Besides, the Company has been consistently developing new utility products on mobile platforms to increase the users' time and attract more high-value young users. Despite the huge challenges from the market, in our efforts to optimize our business model and products, our internet business managed to realize net profits for 5 consecutive quarters.

**For our AI business, we have seen some initial achievements in the business model of shopping-mall robots.** By now, we have more than 12,000 robots in about 1,200 shopping malls in more than 40 cities. Pilots in several shopping malls showed that selling coupons by our robots could effectively attract new customers to merchants. They are very active to participate because it is a win-win situation for both customers and merchants. We have also launched mini apps based on this shopping-mall robots coupon selling model. In May, we started to expand this business and have seen a rapid growth. We believe we have found the key point to monetize this business and expect a boost in the coming quarters.

**Lastly, I would like to emphasize** that in spite of the external headwinds last year, we have consistently realized net profits and increased our cash reserves. This cannot be achieved without our determination and improved operational efficiency. In the coming quarters, we will keep the profitable growth of our domestic internet business. At the same time, our top priority will still be the monetization of our shopping-mall robots business, which will create a new growth engine for the Company.

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

### **Thomas Ren**

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

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

**In the first quarter of 2021, our total revenues** were 198 million, which was within our previous guidance. It represented a year-over-year decrease of 62% and a quarter-over-quarter decrease of 25%. The year-over-year decrease was from the suspension of the Company's collaborations with Google since February 2020 and the Company's strategic retrenchment of

gaming-related business and assets last year. The quarter-over-quarter decrease was mainly due to the normal seasonal change in the first quarter and the decreased revenues from the Company's diminishing mobile gaming business.

Now let me break down our revenues into Internet, and AI and others sectors.

**Revenues from the Company's Internet business** decreased by 62% year over year and 25% quarter-over-quarter to 188 million in the first quarter of 2021. Revenues from our internet products have been account for a vast majority of our total revenues. So the changes were mainly due to the same reasons as stated above.

**Revenues from AI and others** were 11 million in the quarter, representing a year-over-year decrease of 66% and a quarter-over-quarter decrease of 24%. As our AI business is still in a very early stage, short-term volatility is within expectation.

**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.

**In the past several quarters, our ongoing streamlining of business is on the right track. We have successfully improved our operational efficiency and narrowed operating losses.** In the first quarter of 2021, total costs and expenses decreased by 62% year over year and 20% quarter over quarter. As a result, our operating loss was 58 million in the quarter, compared to 141 million in the same period last year and 57 million in the previous quarter.

**Cost of revenues** decreased by 60% year over year and 41% quarter over quarter to 59 million in the first quarter of 2021. The decrease in costs were mainly from disposal of certain overseas utility and gaming-related business and assets, as well as improved operational efficiency.

**Research and development expenses** decreased by 48% year over year and increased by 9% quarter over quarter to 71 million in the first quarter of 2021. Along with our efforts to streamline our business, we have been keeping investing in R&D in our domestic utility and AI business to optimize our products and services.

**Selling and marketing expenses** decreased by 74% year over year and 14% quarter over quarter to 80 million in the first quarter of 2021. This decrease was mainly due to more strategic and disciplined promotional activities.

**General and administrative expenses** decreased by 44% year over year and 14% quarter over quarter to 49 million in the first quarter of 2021. This year-over-year decrease shows well the excellent execution of our cost optimization strategy.

**Now let me turn to our balance sheet, which remains robust.** As of March 31, 2021, we had cash and cash equivalents, restricted cash, and short-term investments of US\$276 million and

long-term equity investments of US\$365 million. Our strong balance sheet enables us to continue to invest according to our strategies to rejuvenate long-term growth for the Company.

**And for our second-quarter revenue guidance:** we currently expect total revenues to be between 175 million and 225 million.

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.

## **Questions and Answers**

### **Operator**

[Operator Instructions] And today's first question comes from Vicky Wei of Citi. Please go ahead.

### **Vicky Wei**

Good evening, management. Thanks for taking my questions. So would management share with us the latest industry trends for the AI business and the company's strategy as we see AI revenue decline due to the decline in sales or consumer facing AI related products? Thank you.

### **Fu Sheng**

Okay. Let me translate the first part. So, to your question regarding the decrease for our AI 2C revenues, I think as we all know, the competition in the Chinese AI hardware industry is very severe, yes facing to customers, so especially in the AI speaker industry. And we think it's difficult to have true or real gross profit or profit. And also for us, our company, we met some challenges in the overseas market, which would increase some of our operating losses. So we do some strategy shifts to cut down these 2C business. But I don't think it will affect our strategy in AI business.

Yes, now our company's strategy in the AI is still focusing on 2B business. And also we are seeing tremendous increase in the market regarding some service robots, especially after the pandemic. For example, because we are in the industry, for example, like delivery service or promotional service for the restaurant as well as the delivery service in hotels, such demand is increasing significantly and also for the whole industry sales volume for such kind of service robots is also increasing very fast.

OrionStar, one of our investees, OrionStar promoted the service robot for restaurants to deliver dishes. And OrionStar started to sell or lease such kind of service robots in this January. And the rental per month is about RMB1000 and we can see tremendous growth for the past 5 months.

Yes, because Cheetah Mobile is the single largest shareholder of OrionStar, so actually through the cooperation with OrionStar and also our investment in this company, it means we can have such kind of cooperation when we launch in such kind of new scenario.

As I mentioned in our prepared remarks, on the pilot for the model for our shopping mall robot, we have some initial achievement. So our pilots in past couple of years told us that for this model, maybe the brand advertising is not the best way. Now we realize that we can sell coupons for the restaurant or the local merchants in the shopping mall through our service robots and also to help merchants to attract new customers and we can see some very good trend in our pilot shopping mall. And also efficiency [ph] of our service robots is we can see the great potential.

The biggest difference between our model and the traditional screens in the shopping mall is that the actual customers can have real interaction with our robots in the shopping malls and the customer may ask is there any other restaurants. Our service robots could search with coupon with very high discount to attract the customers to the restaurant. So both the restaurant or the customers, they're very active for such kind of model and I think -- as I mentioned, it's like a win-win situation.

In conclusion, we believe that it seems like in restaurant or shopping mall, we already see very fast growth potential for service robots, and I think we can launch or copy our initial pilot model to more shopping malls. Yes, hope that answers your question, Vicky.

**Vicky Wei**

Thank you.

**Operator**

[Operator Instructions] Our next question comes from Melody Chen with Jefferies. Please go ahead.

Melody Chen

Hi, management. Thank you for taking my question. I have a question regarding our internet business. Given that we have transferred from the advertising model to membership subscription model, can you share a bit more on our strategy on the subscription business and how should we think about the potential and the growth driver of it?

**Fu Sheng**

Yes, as of today I think for the Chinese internet users, we think it's already a trend that users would like to pay for the software or certain features of the software. Especially for some key features for example like some security functions on the PC, our security protection function, or some functions like office features like PDF conversion or PDF view features we can see the growth on user payment is fast.

As to the future outlook for this industry, we can see now -- nowadays, most software has adopted as a subscription model or membership payment model, and the market size is also growing. And for us, we just converted our previous users on both PC or mobile apps to payment users. And our PC revenue is also growing, contributed by the payment user growth. And for our key products on PC is called Jin San Duba (金山毒霸) which is virus detection software on PC. It's already existed for like, 20 years. And most users, I think they don't like the advertising model. And so we convert the model and also we see great satisfaction by our users to our payment model. Yes, and based on that, we are very confident that -- we are confident that the -- our internet business revenue can resume the growth in the next couple of quarters. Yes, hopefully this answers your question, Melody. Thank you.

**Melody Chan**

Thank you. Thank you for the detailed answer.

**Operator**

And ladies and gentlemen, this concludes today's question-and-answer session. I'd like to turn the conference back over to management for any final remarks.

**Sheryl Zhang**

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

**Operator**

Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.