

CMCM 1Q24 Script

CEO Script

Hello everyone,

Thank you for joining us today. This is our first earnings call since November 2021, and we're excited to share our progress as we resume our quarterly updates.

Cheetah Mobile is making changes. **We're moving from focusing on 2C to 2B.** In Q1, our revenue from AI and others, all enterprise-focused, increased by 62% compared to last year and 36% from the previous quarter. Now, these revenues make up 43% of our total revenue. We expect this to grow to about 50% by the end of the year, marking a significant step in our transformation.

Our recent acquisition of Beijing OrionStar, an AI service provider, was an important move. It gave us a **skilled sales team, strong ties with business customers, and end-to-end capabilities for LLMs**, including model training, fine-tuning, developing LLM-based apps, and enhancing service robots, a new touchpoint for interacting with end-users and customers in the AI era.

With OrionStar, we're now focusing on making custom enterprise apps with LLMs and introducing LLM-powered robots for specific business needs. We see two main reasons for this focus:

First, Market Opportunity: Unlike the competitive 2C market, enterprises are increasingly choosing LLM-based apps on private clouds due to data security concerns. However, they face challenges in developing tailored apps, presenting a substantial opportunity in China's enterprise sector.

Second, Synergies: Bringing together Cheetah and OrionStar allows us to combine our app expertise with AI skills, better capturing the market opportunity. By selling robots to businesses, we can even find new ways to use LLMs to improve efficiency.

We are using a product-driven approach to enhance our LLM capabilities. This is why we focused on the 10-B parameter LLM segment and avoided large upfront investments in GPUs. We believe that a trillion-parameter LLM is unnecessary, and enterprises can deploy and use 10B LLMs on private clouds at a lower cost. Over the past few months, we trained a 14B-parameter foundation model from scratch, which has been approved by authorities for a larger-scale rollout and ranks among the top in various lists. Additionally, we have fine-tuned nearly all leading open-source foundation models to offer more options for our customers, all without significantly increasing costs.

Furthermore, we have seen positive developments by integrating LLM-based apps into our service robots. In particular, our delivery robot can now interact better with users, leading to increased demand, especially in Japan and South Korea. Currently, our overseas revenues have surpassed domestic revenues and continue to grow steadily. With LLMs, we believe the features of our service robots will expand even further.

I would also like to highlight how we assist our customers in using LLM-based apps efficiently. For example, we helped Hundun University develop an LLM-based QA feature for its app, improving user experience. We also developed LLM-powered customer service features for another customer's products, including WeChat Mini Programs, apps, and our service robots. This service is now available in Ningxia, helping local residents apply for housing funds. We are also working with enterprises in China's franchising industry to improve management efficiency with LLM-based apps.

In the early stages of LLM-based app development, **we closely work with our customers** to understand their needs, identify areas for improvement with LLMs, find the most appropriate LLM, fine-tune it, and develop custom apps. This process helps us standardize some LLM-based apps and capabilities, particularly in customer service, enterprise management, and training, which we can replicate to more customers. As a result, we are monitoring customer feedback and satisfaction. Additionally, all the applications can be incorporated into our service robots. Our long-term business model in the LLM era will involve selling robots and offering value-added services.

As we focus on building LLM-based apps for enterprises, **we will shift resources from our legacy internet business to the AI business.** This will improve the operating margin of our internet business, which we use as a financial performance metric.

In summary, LLM is a once-in-a-generation opportunity. With OrionStar and our clear strategy, we are confident in our direction. We would like to emphasize that we don't want to set short-term revenue growth targets, but we are aggressively prioritizing customer satisfaction and building lighthouse projects. By doing so, we believe we will establish a new growth engine to drive sustainable long-term growth in both revenue and margins over time. All we need is a bit of patience. We thank our dedicated employees for their hard work in making this happen. Thank you

Thomas?

CFO Script

Thank you, Fu Zong. Hello everyone on the call. Please note that unless stated otherwise, all money amounts are in RMB terms.

Today, I am going to talk about two topics:

- First, our continued investment in large language models, or LLMs, resulting in a widened operating loss for the quarter, while total revenue has resumed its increase.
- Second, our healthy balance sheet.

First, we are investing in LLMs. We aim to help enterprises quickly develop LLM-based new apps. As Fu Zong mentioned in his speech, our acquisition of OrionStar has allowed service robots to become a key revenue contributor to the segment of AI and others. In Q1 of 2024, revenues from AI and others increased by 62% year over year and 36% quarter over quarter to 81 million, accounting for 43% of total revenue in the same period. Driven by contributions from Beijing OrionStar, our total revenue increased by 12% year over year and 14% quarter over quarter to 190 million.

This acquisition also allowed the two teams from Cheetah and OrionStar to work more efficiently together to better capture the opportunity in LLMs. As we help Chinese enterprises develop apps on LLMs to boost productivity, we expect this will lead to a substantial growth in revenue over time. In addition, LLMs are enabling us to improve the product experience provided by our service robots, which are now more capable of answering user's different inquiries. This enhancement has strengthened our competitiveness and should drive the sale of our service robots over time.

In Q1 of 2024, our total non-GAAP cost and expenses increased 21% year over year and 19% quarter over quarter; And non-GAAP operating loss was 66 million in the quarter, up from 42 million in the same period last year and 49 million in the previous quarter. This is primarily due to the investments in LLMs mentioned earlier. Through Beijing OrionStar, we acquired many R&D talents and 2B sales personnel, which are very important for us to capitalize on the opportunity in the sector. As of March 31, 2024, we had about 860 employees, up from about 720 a year ago. We are also renting GPUs for model training and fine-tuning.

Excluding the impact of [the aforementioned investments in LLMs], our cost and expenses as well as our margins remained stable.

For example, excluding SBC, our operating profit for the internet business was 7.9% in the quarter, up from 3.1% in the same quarter last year, as we continued to review our product portfolio and remove products that did not address user pain points. We will continue this approach moving forward.

At the same time, we will continue to invest in talent, both in R&D specialized in LLMs

and 2B sales personnel, to help us seize the LLM opportunity to build a new growth engine for Cheetah. Our investments will be backed by our strong cash reserves. At the same time, we will continue to increase our operating profit for the Internet business.

Secondly, Cheetah Mobile has a healthy balance sheet. As of March 31, 2024, we had cash and cash equivalents and short-term investments of about US\$250 million. In addition, we had about US\$130 million of long-term investments, which include several holdings in well-known entities, such as MetaSo.cn (秘塔 AI 搜索).

Lastly, in line with the practice of comparable China-based companies listed in the US capital market, we have decided not to provide revenue guidance going forward.