

CMCM 2Q24 Earnings Call Script

Sheng FU, CEO:

Hello everyone. Thank you for joining us today.

In Q2, our total revenue accelerated with a year-over-year growth of 12.3%. AI and others accounted for about 40% of our total revenue. This growth was primarily driven by the sales of our [wheeled] service robotics in both domestic and international markets, showing our progress in becoming an enterprise-facing company.

The acquisition of Beijing OrionStar has made service robotics a key pillar for Cheetah Mobile, contributing to solid revenue growth. Our service robots hold a dominant position in voice-based use cases and are widely used in exhibition centers, museums, corporate receptions, and other areas. Moreover, our delivery service robot ranks among the top 3 in restaurants and continues to gain market share from competitors.

Customers choose us because of our best product experience and after-sales services. With strong core AI capabilities, including far-field voice recognition, our robots have benefited from LLM, being able to better understand end customers' inquiries and smartly respond to their requests versus previously. Customers can easily tailor-make apps within our robots thanks to our strong software abilities that support customization. **To further expand the revenue growth of our wheeled service robotics business, we are focusing on two key strategies.**

- **Firstly, we aim to broaden the use cases of our service robots through continuous product innovations, with a focus on our core competencies, including voice interaction capabilities and enabling autonomous deliveries.** For instance:
 - in factories and fulfillment centers, we have recently introduced robots designed for autonomous delivery for relatively low payloads. We offer optimized performance and pricing for our customers in both China and overseas, with a focus on providing the most reliable robots in the market. We've already started shipping robots to South Korea and have received orders from customers in Japan and Southern Europe.
 - In the hotel industry, our service robots are making progress. Hotel is a proven use case for wheeled service robots, where we are gaining market share from existing players. We are also further upgrading our robots for the hotel industry to increase our competitiveness.

- In supermarkets, our service robots have successfully facilitated the sale of low-ticket-price products by identifying potential buyers, proactively approaching them, providing comprehensive product introductions, and clearly responding to consumer inquiries. Following our collaboration with Shuanghui (双汇) to sell cod sausages in supermarkets, we are now expanding into more local stores and supermarkets.
- **Secondly, we are expanding our service robotics business globally, with overseas revenue already surpassing domestic revenue.** Following our success in South Korea and Japan, we are actively building our presence in Southern Europe, Southeast Asia, North America, and Australia, particularly in use cases such as restaurants, factories, and fulfillment centers. Chinese electronic products have demonstrated their ability to compete globally, and with Cheetah Mobile's extensive experience in international operations, we are confident in our potential to succeed in these overseas markets.

We believe that the service robotics industry offers one of the largest market opportunities for AI commercialization. LLMs and generative AI serve as “brains” for robots, enhancing machine intelligence and accelerating their commercial deployment at scale. **However, this industry is still early and will take time to unlock its full potential.**

Cheetah Mobile is working hard to make service robots more affordable for enterprises across a growing number of use cases, enabling them to reduce labor costs through the use of our robots. We focus on wheeled service robots because we believe they offer the best balance between performance and cost at this stage, making them scalable solutions.

As the only robotics company in China to have trained an LLM from scratch and its LLM approved by local authorities for a larger-scale rollout, we've used the LLM to power our robots, focusing on hardware-software synergy. Through serving customers in various use cases, we have notably enhanced our voiced-based capabilities, in particular for reception related use cases. And we will continue to use data generated by our robots to enhance our LLM and product experience, creating a positive feedback loop.

This approach should allow us to deliver the best products for price and performance in the global market. At the same time, we remained committed to product innovation, always striving to balance performance with cost-effectiveness.

During the last earnings call, we discussed how we are helping enterprises build LLM-based applications. Applications are key to making LLMs useful in enterprises. This is because LLMs need industry-specific or company-specific knowledge to avoid errors and effectively address enterprise challenges.

Cheetah Mobile is developing GenAI applications for enterprises. We are encouraging our employees to create GenAI tools or apps to improve work efficiency. At the same time, we are working closely with key accounts, helping them develop GenAI apps to streamline their daily operations. Our goal is to identify cases where GenAI can enhance efficiency, and then standardize tools and features that can be scaled to other companies.

For example, Savings Now, an LLM-based cloud management app, helps enterprises monitor and optimize cloud usage across platforms. After successfully using it at Cheetah to reduce costs, we've begun offering it to enterprise clients. Early customer feedback has been positive. We've also helped a major hotel operator in China develop a GenAI app for employee training programs.

Looking ahead, we will continue working closely with key customers, applying the GenAI products we've developed internally to their business operations. This approach will help us further refine our product experience and gradually build a comprehensive product portfolio.

Before I turn the call over to Thomas for financial highlights, I want to emphasize the following:

- First, our enterprise businesses - service robots and LLM-based apps - each represent a huge market opportunity and are still in the early stages of development.
- Second, Cheetah Mobile, with a team that has extensive experience from the PC and mobile eras, along with strong AI capabilities, is investing in developing the best products to capture these opportunities. We are focused on achieving high-quality, long-term growth rather than pursuing short-term gains.

Thomas REN, CFO:

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

Cheetah Mobile delivered a solid performance this quarter. In Q2, total revenues grew by 12% year-over-year, reaching 187 million. Non-GAAP gross profit increased by 11%, coming in at 122 million. Our non-GAAP gross margin remained stable at 65% compared to the previous year.

Despite our ongoing investments in AI, we successfully reduced our operating losses on a sequential basis. In Q2, our non-GAAP operating loss decreased by about 4 million quarter-over-quarter to 62 million. This improvement reflects our

strategic decision to reallocate resources from our legacy internet business to our AI initiatives.

Looking at our Internet business, excluding share-based compensation expense, the operating margin increased to 12.4%, up from 7.9% in the previous quarter and 5.5% in Q2 of the prior year. Revenues from this segment remained relatively flat year-over-year, with a 4% increase quarter-over-quarter.

As we've indicated before, the year-over-year increase in operating losses was driven by our investments in AI, following our acquisition of a controlling stake in Beijing OrionStar. Specifically, these increased losses are attributable to higher headcount in R&D, sales, and G&A, as well as increased hardware-related costs for our service robots. As of June 30, 2024, we had approximately 870 employees, compared to around 860 in the previous quarter and 730 a year ago.

We're pleased to report that our AI investments are beginning to bear fruit. Our wheeled service robotics business has emerged as a key revenue driver. Additionally, through collaborations with leading companies on their LLM initiatives, we've gained valuable industry insights and are currently testing LLM-based applications for enterprise use.

One of the quarter's standout achievements is our cash generation capability. Despite continuing to incur losses, we generated almost 220 million in cash from operating activities in Q2, highlighting our strong cash management and generation capabilities.

Finally, our balance sheet remains robust. As of June 30, 2024, we held approximately US\$270 million in cash and cash equivalents, along with short-term investments, and about US\$119 million in long-term investments. These include stakes in well-known entities, such as MetaSo.cn (秘塔 AI 搜索).

With that, we'll open the call for questions.

