

LIZHI INC. Second Quarter 2021 Conference Call SCRIPT

Operator:

Hello ladies and gentlemen. Thank you for standing by for LIZHI INC.'s second quarter 2021 earnings conference call. At this time, all participants are in listen-only mode. After management's remarks, there will be a question-and-answer session. Today's conference call is being recorded. I will now turn the call over to your host, Effy Kang, Head of Capital Markets for the Company. Please go ahead.

Effy Kang:

Thank you very much. Hello everyone and welcome to LIZHI INC.'s second quarter 2021 earnings conference call. We released our financial and operating results via newswire services earlier today and they are available online. Participants on today's call will include our Founder and CEO, Mr. Marco Lai, our COO, Mr. Zelong Li, and our Acting CFO, Ms. Chengfang Lu.

Management will begin with prepared remarks and the call will conclude with a Q&A session. As a reminder, this conference is being recorded. In addition, an Earnings Highlights presentation and a webcast replay of this conference call will be available on the IR section of our website at ir.lizhi.fm.

Before we continue, please note that today's discussions will contain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements typically contain words such as "may," "will," "expect," "target," "estimate," "intend," "believe," "potential," "continue," or other similar expressions. Forward-looking statements involve inherent risks and uncertainties. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, many of which factors are beyond our control. The Company, its affiliates, advisors, representatives, and underwriters do not undertake any obligation to update this forward-looking information, except as required under the applicable law.

Please note that LIZHI's earnings press release and this conference call include discussions of unaudited GAAP financial measures as well as unaudited non-GAAP financial measures. LIZHI's press release contains a reconciliation of unaudited non-GAAP measures to unaudited GAAP measures.

Marco Lai

Hello everyone. Thank you for joining us today.

We are very pleased that all aspects of our business maintained robust growth in the second quarter of 2021. We are dedicated to the audio-centric globalization strategy and to bringing diversified audio products to a broader user base. Our continuous efforts to advance in-house technology development, optimize product features and improve user experiences resulted in a steady growth of our user base in the second quarter with total average mobile MAUs reached 60.9 million and average monthly paying users rose to 494 thousand. Driven by ongoing enhancements in our commercialization capability, our revenue in the second quarter has reached another record high of RMB559 million, up 59% year-over-year.

Our solid performance of core metrics during the quarter reaffirmed effectiveness of our strategy and the increasing efficiency in our execution, underscoring our competitiveness in the online audio market. In the second quarter, our audio-centric UGC community built on the LIZHI App to appeal to younger generations continued to demonstrate high levels of user engagement and interaction.

In addition, we have further improved integration of our pre-recorded content division and audio entertainment division, and effectively increased user penetration rate of audio entertainment to 14.6% in the second quarter of 2021 from 13.2% in the same quarter last year. This achievement also brings more space to improve paying user conversion, further strengthening our commercialization capabilities in audio entertainment and driving the strong growth in revenue.

On the other hand, we have successfully expanded user base to younger and middle-aged cohorts in higher tier cities, supported by effective operations on our vertical podcast platform LIZHI Podcast. Through innovations on podcast features and development on multi-devices accessibility, we expect to further increase the influence of podcasting and diversify our audio ecosystem. In the second quarter, we continued to leverage our livestream podcast feature to generate diverse content creation opportunities for original podcasters. We have also partnered with several brands and companies to devise exceptional livestream podcast programs, delivering unique listening experiences to audiences. Furthermore, we are working to strengthen our foothold in the in-car audio market and expedite the implementation of our in-car audio products. These efforts include expanding collaborations with a wide range of leading companies and technology platforms and optimizing mobile applications catering to in-car usage scenarios, which greatly improved listening experiences across multiple terminals. We are seeing that users' listening time on LIZHI Podcast has increased substantially in the second quarter.

Turning to our globalization progress, our TIYA App, an audio-based social networking app targeting overseas markets, continued to grow rapidly, highlighted by growing user base with MAUs in June rising to more than 3.5 million, representing a 92% increase over average MAUs in the first quarter of 2021. In terms of our operational strategy for TIYA, we are committed to improving user engagement and user activeness through continuous optimization and iteration of product, as well as enrichment of interactive features. In this June, the number of active groups on TIYA increased by more than 360% from this March, and the number of active chat rooms increased by more than 180% from this March. We are also seeing that the amount and diversity of social networking topics and interest groups on the platform are increasingly expanding, bringing more new users to join the platform and effectively enhancing TIYA's network effect.

Technological empowerment is a crucial driver for our vigorous business development. In the second quarter, we remained focused on advancing our core technology capabilities. For example, we are striving to make DOREME, our in-house developed audio technology solution, compatible with more in-car operating systems and Internet of Vehicles platforms. Our goal is to ensure superior audio quality across different in-car systems and satisfy user demand for real-time audio interaction. Our AI technology is also driving our overall business development, including enabling a better recommendation mechanism and delivering a personalized audio experience across multiple devices. In the future, we will further refine our core technologies to support and empower our robust business growth.

Alongside driving the effective growth and strategic execution of various businesses, we also actively undertake corporate social responsibility as a content community platform. For example, on the National Disability Day, we released a short documentary film to highlight the stories of audio content creators with physical disabilities, who have showcased their vocal talents through creating audio programs titled "see the world through ears" on LIZHI App. We are also hoping to help young people with physical disabilities to create more value via voices through the influence of our platform. In addition, during the Henan floods last month, leveraging the advantages of our voice platform, we launched various audio contents of "Supporting Henan" through all channels, rallied the power of voices to encourage content creators to publish the emergency rescue measures, and promoted psychological counselling contents and relevant science educational podcasts. We also showed our support and respect for rescue staff through various content features, delivering the heartwarming initiatives to a wider range of audiences through voice.

In summary, we are pleased to see that LIZHI's global business continued to experience strong growth in the second quarter of this year, laying a solid foundation for our long-term growth. Going forward, we will remain steadfast in our commitment to globalization strategy, further promoting the development of our domestic business and unleashing the commercialization potential through effective operating strategies. We will further advance our podcast business development and explore diverse audio-applicable usage

scenarios, bringing innovative podcast experiences to a broader user base. In overseas market, we will continue optimizing our audio social products, providing an even better social networking experience to our users. Meanwhile, we will progressively explore various overseas markets and create more possibilities for the long-term development of our global business. Furthermore, we are committed to building a more competitive audio ecosystem to achieve sustainable long-term growth as we continue to advance our in-house core technology capabilities.

Zelong Li

Hello everyone and thank you for joining us today. As Marco discussed, in the second quarter, we maintained strong growth momentum with a solid set of financial and operating results. I am happy to share with you a bit more on our operating achievements.

First, in terms of our audio community on LIZHI App, our persistent efforts in optimizing audio entertainment products and audio creation tools improved overall user experiences, increased user activeness and stimulated user engagement in audio content creation. During the second quarter, users' monthly average total interactions on the platform reached 3.4 billion. As of June 30, cumulative pieces of audio content uploaded to our platform reached 293 million. In the audio entertainment division, we conducted various operational campaigns to encourage content creators to participate in audio entertainment creation, which in turn attracted more users to join real-time audio interactions. This has further unleashed our audio entertainment business's commercialization potential, reflected by our growing audio entertainment user penetration rate which drives the paying user conversion. On the other hand, based on our effective user positioning, we continued to develop market-leading content categories catering to the younger generation.

Through strengthened content ecosystem and content operation strategy toward higher commercialization potential, such as ACG-centric interplay sessions and emotion accompanying programs, we have effectively increased user willingness to pay and further enhanced our commercialization capability in audio entertainment division.

In terms of our global business, as an audio social platform targeting younger generation, TIYA keeps focused on optimizing product features to meet various social needs of users based on younger generation's interests and hobbies. In March 2021, we launched TIYA's Group function, which helps users with common interests be connected, enjoy real-time audio interactions, and become friends on our platform. The number of active groups on the platform has significantly increased. In addition, we introduced mini-games such as Ludo and Sweet Crush into live chat rooms and launched a game-sharing function in conjunction with the theme of gaming, aimed at promoting effective communication and interaction among users and meet more user

demands. Our continuous efforts in product optimization effectively improved user experience and user engagement, and we are gaining a growing number of new users from spontaneous invitations from friends on TIYA. As of June 30, the number of TIYA-based user friendship connections increased by 120% from this March. Looking ahead, we will remain committed to executing our globalization strategy as we believe that the development of audio-based social networking business is able to bring more growth potential for the overall business.

In terms of the development of our podcast business, we are committed to differentiating our competitive advantages through innovation of features and podcast content, including a series of livestream podcast programs to increase user activeness and interaction. For example, in June, in collaboration with the Aranya Theater Festival, we launched the "Migratory Birds Live Radio" project, which featured a 300-hour non-stop audio live streaming for the first time in China's online audio industry. Built on a mix of live stream dialogues, voice recordings, and outbound dialing interactions, this pioneering livestream session comprehensively showcased the communication and theater creation activities of 300 theater lovers and practitioners. This event spotlights our horizon-broadening approach to merge livestream feature into podcast. Additionally, we leveraged this prestigious session to create highlight edition and exclusive podcast sessions available on our platform. During the second quarter, we also hosted the "Voices of Technology and Science Week" online forum, China's first livestream podcast forum themed on science and technology. This event featured a number of renowned speakers discussing a variety of trending topics through livestream podcasts, greatly stimulating interactions among podcast listeners.

In addition to our innovations in podcast content and product features, we have also formed more strategic collaborations to increase the popularity and availability of podcasts across multiple terminals. Recently, in cooperation with more leading automakers and Internet of Vehicles platforms, including WM Motor, Li Auto, Tencent WeScenario, and PATEO IoV platform, we worked to make LIZHI Podcast accessible in more vehicles, providing a diverse audio experience to a broader user base. At the same time, we continuously optimize our product features to ensure a better in-car listening experience. We introduced car-mode for mobile app, enabling users to enjoy personalized podcast content supported by AI-powered content recommendation and distribution mechanism with only one-click. We believe that our in-car audio solutions and mobile apps can build synergies, encompassing podcast content across multiple devices spanning a variety of usage scenarios to bring podcast offerings to a wider range of users, and further enhance the influence of podcast in the industry.

Going forward, we remain committed to our mission and to driving the development of our worldwide business to build LIZHI into a leading global audio platform through our continuous efforts on audio innovation and technology advancement.

Chengfang Lu

Thank you, Zelong, and hello everyone. I will now provide a brief overview of our financial results for the second quarter of 2021.

As we move forward with our expansion strategy, our operational and financial performance for the second quarter continued to demonstrate our strong growth trajectory and strengthened commercialization capabilities. We're also pleased to see gross margin expansion of 400 basis points year-over-year alongside our strong topline growth during the quarter. Looking ahead, we will remain focused on our globalization strategy and improving our operational and technological capabilities to foster our global audio ecosystem and deliver long-term sustainable growth.

In the second quarter, our **total net revenues** were RMB559.3 million, representing an increase of 59% from RMB350.9 million in the second quarter of 2020, mainly attributable to our growing user base and increase in the average spending of paying users in our audio entertainment products.

Cost of revenues was RMB400.5 million in the second quarter of 2021, representing an increase of 51% from RMB265.2 million in the second quarter of 2020. The year-over-year increase was primarily driven by an increase in revenue sharing fees to our content creators, payment handling costs and bandwidth costs, which were generally in line with our business growth.

Gross profit was RMB158.8 million in the second quarter of 2021, representing an increase of 85% from RMB85.7 million in the second quarter of 2020.

Non-GAAP gross profit was RMB161.9 million in the second quarter of 2021, representing an increase of 79% year-over-year.

Gross margin for the second quarter of 2021 increased to 28% from 24% in the second quarter of 2020. **Non-GAAP gross margin** for the second quarter of 2021 grew to 29% from 26% in the second quarter of 2020.

Operating expenses increased by 72% year-over-year to RMB190.3 million in the second quarter of 2021.

Research and development expenses were RMB60.9 million in the second quarter of 2021, representing a year-over-year increase of 11%, primarily due to the increasing salary and welfare benefits expenses related to an increase in the number of our research and development staff.

Selling and marketing expenses were RMB106.3 million in the second quarter of 2021, representing a year-over-year increase of 241%, primarily due to our increased investment in branding and marketing for our products and brand name.

General and administrative expenses were RMB23.1 million in the second quarter of 2021, representing a year-over-year decrease of 7%. The decrease was mainly due to the decrease in other professional service fee, partially offset by the higher salary and welfare benefits expenses.

Operating loss was RMB31.6 million in the second quarter of 2021, up by 26% from RMB25.0 million in the second quarter of 2020. **Non-GAAP operating loss** was RMB21.7 million in the second quarter of 2021, compared to RMB11.2 million in the second quarter of 2020.

Net loss was RMB29.0 million in the second quarter of 2021, up by 32% from RMB22.0 million in the second quarter of 2020. **Non-GAAP net loss** was RMB19.2 million, compared to RMB8.2 million in the second quarter of 2020.

Basic and diluted net loss per ADS were RMB0.58 in the second quarter of 2021, compared to RMB0.48 in the second quarter of 2020. **Non-GAAP basic and diluted net loss per ADS** were RMB0.38 in the second quarter of 2021, compared to RMB0.18 per ADS in the second quarter of 2020.

As of June 30, 2021, we had cash and cash equivalents, restricted cash, as well as short-term investments of RMB494.7 million.