

## LIZHI INC. Third Quarter 2020 Conference Call SCRIPT

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### **Operator:**

Hello ladies and gentlemen. Thank you for standing by for LIZHI INC.'s third quarter 2020 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 third quarter 2020 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 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](http://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**

Hello everyone. Thank you for joining us today.

Our healthy third quarter results amid COVID-19 normalization in China reflected our leading national position in the online audio sector. For the first time since going public, we achieved non-GAAP quarterly profit, which is also a

testament to the scalability and robustness of our business model.

Our dedication to keep enriching and optimizing our content offerings, as well as leveraging high-quality user-generated content, continues to drive user traction and engagement. We also introduced many more innovative features to further improve user experiences. In the third quarter, our monthly average user base grew by 21% year-over-year, reaching 56.2 million, and our monthly average paying user base increased by 17% year-over-year. Additionally, we saw a rebound in average user spending, signifying the increasing value of our distinctive content ecosystem. The number of average monthly active content creators reached 6.15 million during the quarter. And thanks to our efforts on driving interactions and engagement between content creators and users through audio entertainment features, the quarterly audio entertainment user penetration rate increased to 13.5% from 12.8% a year ago.

Despite unprecedented challenges in the macro-environment this year, our growth momentum reaffirms our ability to capture rising demand for high-quality digital audio experiences and audio interactions.

Lizhi is at the forefront of the rapidly developing audio entertainment market. By providing users with captivating listening experiences, driving creation of premium content, and expanding user engagement opportunities, we are committed to unlocking the great potential of the online audio market to achieve our well-defined vision for the future. I'll now discuss the key areas of focus during the third quarter:

Firstly, we continuously expanding and optimizing our extensive and diverse user-generated content portfolios to be well-positioned for sustainable growth. As we have a strong emphasis on content creation and continue to execute initiatives of our content strategy, the number of podcasts uploaded to our platform continues to grow rapidly. In the third quarter, with 19 million new podcasts uploaded to our platform, our cumulative number of podcasts reached 234 million as of September 30, 2020, representing a significant 46% increase over the previous year.

In the quarter, we further enhanced content creation and optimized content genres through a number of initiatives. We further improved audio creation tools to support content creation. In addition to audio effects and beautification functions based on our audio-centric technology, now we provide more audio content templates on the platform, including audio recordings of celebrities and original user-generated materials. We refreshed our LIZHI APP homepage and further organized and launched representative genres. With redesigned interface and navigation functions in a cleaner, more simplified features, we improved user exploration and listening experiences among wider platform offerings. We are pleased to note that a few of the new content genres, such as Entertainment & Celebrity and Lizhi Premium, which presents exclusive collections of high-quality podcasts, have gained especially strong traction with existing and target users.

In the quarter, we also diversified our content genres to bring in more content aligned with hot and trendy topics. We are leveraging an array of creative operational campaigns and promotional activities to generate fresh and distinctive contents from creators and to enhance the platform's appeal to users. For example, we launched live audio

shows and produced podcasts in collaboration with a number of popular TV series and variety shows, such as “Nothing but Thirty” and “The Coming One: Super Band”, which created huge fan buzz and user interest. Each episode was played more than 200 thousand times on average and reached more than 1.3 million times exposure. We also launched a campaign called “Idol Show Today”, in which we invited some of the most popular idols to share their stories and feelings on competitions, and to interact with their fans through voice. In our “Going to Front Page” campaign, we invited content creators to produce high-quality podcasts based on different themes. This encouraged mid- to long-tail content creators to be more engaged in and active on the platform and we rewarded the best of them with increased user traffic and higher levels of exposure. Moreover, we launched a pilot playlist subscription program to leverage the growing premium audio content on our platform and further enhance our monetization capabilities.

In the meantime, we are actively working on expanding our podcast business and strive to build the leading position of Lizhi in the Chinese podcast industry. In late September, we launched “Echo Plan” version 2.0, integrating online and offline resources to support content creators in various aspects of operations, including upgraded commercialization service systems, industry podcast salons, traffic support plans and brand-new data analytic capabilities. We aimed to attract more new creators and improve content offerings in both quality and quantity. More than 50,000 podcast hosts participated in the first 30 days of this program. Recently, we hosted our first offline podcast salon in Beijing and invited popular content creators in podcast sector to share their creation experiences with podcast. We plan to host more podcast salons and podcast related events every month to establish effective channels of communication and build relationships with existing and future content creators. We believe these initiatives will help us captivate and nurture more talented creators to enrich our content offerings.

Another area of focus in Q3 involved enhancing user engagement, increasing the vitality of our user communities, and strengthening the bonds between different users.

In the quarter, we launched a variety of endorsement campaigns through which users can endorse the performances of their favorite content creators and help them grow on the platform. This enables creators to have more exposure and opportunities to interact with more users. We’ve seen that the hosts elected from the endorsement campaigns are more active in content generation and have a better engagement with audiences, which further elevates the virtuous circle within our vibrant community. The campaigns also utilized our advanced AI technology to effectively and efficiently identify high-potential content creators. To build an immersive audio experience in our community and bring users closer together, we’ve created a sub-site of micro-blogs where Lizhi users can post and interact with each other through a variety of social networking functions. Thanks to all these efforts to enhance user engagement and community vitality, the monthly total interactions reached a record high of 3.2 billion times in the third quarter.

In addition, we’ve seen a closer integration of podcast and audio entertainment as users and content creators are increasingly active in both segments. Over 65% of our audio entertainment hosts were converted from podcast content creators, marking a year over year growth of 15%, indicating the higher participation of content creators across different segments of the platform. Moreover, we’ve hosted various campaigns to help podcast creators gain

more attention in different segments. For example, in August we hosted the “Lizhi Film Festival” and invited content creators to produce podcasts and share their stories about films through live streaming talk-show. This kind of events motivated podcast creators who had never tried the audio entertainment section before join live streaming shows and had a truly interactive and immersive audio experience. They not only gained more followers for their podcasts through the event, some of them have even become audio entertainment hosts and interacted with their followers through various audio entertainment features. We believe innovative, interactive features have effectively strengthened the connection between creators and users and enabled podcast creators to attract more audiences.

In addition to maintain business growth through various strategic initiatives, we are also exploring opportunities that will allow us to diversify our business models. Leveraging our massive content base and leading technology capabilities, we are deploying the in-car audio market, and exploring the sizable market with great potential by collaborating with new-energy vehicle producers. We believe this plan is of strategic importance for our further development and expansion in the online audio industry, and will optimize the advantages and values of audio content in diverse use scenarios. We will improve user experiences, reach a broader user base, and increase our user scale through our years of experience and strengths in audio technology and operations. We will cooperate with leading companies in the market, advance our in-car audio strategies, and deliver a superior audio experience for our users.

In terms of audio technology, we are dedicated to advancing the applications of AI technology on our platform. Through big data analytics and machine learning, we continuously inspire and spot talented long-tail creators on our platform. Many newly joined high-potential content creators have gained a large number of followers and more attention in a short time with support of our AI-enabled recommendation system. In the “Echo Plan 2.0”, we will further upgrade the data analytic center to help creators understand their creation ability and fan base from different dimensions. In addition, we established an AI-supported online audio content management mechanism to identify and deal with inappropriate content. This has improved our content control ability and enhanced our operating efficiency besides the quality improvements of contents. In the future, we will continue to develop cutting-edge technologies such as artificial intelligence to empower content creators and business development.

In conclusion, we will continue to making efforts to create value for our users, maintain our leading position in China’s online audio industry, and capture the tremendous growth opportunities of the online audio market.

**Ms. Chengfang Lu**

Thank you, Marco, and hello everyone.

We are pleased that our third quarter financial results were in line with our expectations. Our endeavor to increase operating leverage brought about a set of improvements in profitability during the quarter.

In the third quarter, our total net revenues increased by 10% to RMB361.5 million from the same period of 2019, mainly contributed by the growth in our paying user base. Our average number of monthly paying users increased by 17% year-over-year to 448.3 thousand in the third quarter, driven by our content offering strategy and unremitting efforts in driving user traction and engagement.

Currently, we generate our revenue primarily from our audio entertainment business, which contributed RMB355.8 million to net revenues in the third quarter of 2020, representing year-over-year growth of 9%. The increase was mainly due to our increasingly expanding user base and the increase in the number of paying users for our interactive audio social entertainment products during the period.

Additionally, *Podcast, advertising and other revenues* grew by 61% year-over-year to RMB5.7 million in the third quarter of 2020. The increase was primarily attributable to the increase in the number of paying users in our podcast services and advertisers.

Cost of revenues increased by 2% both year-over-year and quarter-over-quarter to RMB270.9 million. The year-over-year increase was primarily due to the increase of salary and welfare benefits, payment handling costs and bandwidth costs, which were generally in line with the growth of the Company's business, as well as the recognition of share-based compensation expenses that became effective upon and after the Company's initial public offering ("IPO"), partially offset by a 1% decrease in the revenue sharing fees because the incentive program for content creators we launched in the third quarter of 2019 has been scaled down since February 2020. The quarter-over-quarter increase was mainly due to the increase of revenue sharing fees to our content creators, which was in line with the growth of the revenues, partially offset by the decrease of share-based compensation expenses in this quarter.

**Gross profit** was RMB90.6 million in the third quarter of 2020, representing an increase of 41% year-over-year and an increase of 6% quarter-over-quarter.

**Non-GAAP gross profit** was RMB91.9 million in the third quarter of 2020, representing an increase of 43% year-over-year and an increase of 1% quarter-over-quarter.

**Gross margin** increased by 100 bps (basis points) from the second quarter of 2020, reaching 25% in the third quarter.

**Non-GAAP gross margin** was 25% in the third quarter of 2020, compared to 26% in the second quarter of 2020.

**Operating expenses** decreased by 13% year-over-year and 10% quarter-over-quarter to RMB100.2 million in the third quarter of 2020.

*Research and development expenses, a key component of operating expenses, was* RMB55.6 million in the third quarter of 2020, representing a year-over-year increase of 28%. The increase was mainly due to our increasing number of research

and development employees, as well as the share-based compensation expenses recognized upon and after our IPO in January 2020.

*Selling and marketing expenses* were RMB27.1 million in the third quarter of 2020, decreased by 53% from RMB58.3 million in the third quarter of 2019. The decrease was primarily attributable to reduced expenses related to branding and promotional activities in the third quarter of 2020.

*General and administrative expenses* were RMB17.4 million in the third quarter of 2020, compared to RMB13.8 million in the third quarter of 2019. The increase was primarily due to the increasing expenses in salary and welfare benefits, professional services and recognition of share-based compensation expenses upon and after our IPO.

**Operating loss** was RMB9.6 million in the third quarter of 2020, narrowed down by 82% year-over-year and 62% quarter-over-quarter. **Non-GAAP operating loss** was RMB2.9 million in the third quarter of 2020, narrowed down by 94% year-over-year and 74% quarter-over-quarter.

**Net loss** was RMB6.1 million in the third quarter of 2020, narrowed down by 87% year-over-year and 72% quarter-over-quarter. **Non-GAAP net income** was RMB0.6 million, compared to non-GAAP net loss of RMB48.5 million in the third quarter of 2019 and non-GAAP net loss of RMB8.2 million in the second quarter of 2020, respectively.

**Basic and diluted net loss per ADS** were RMB0.13 in the third quarter of 2020, compared to RMB39.20 in the third quarter of 2019 and RMB0.48 in the second quarter of 2020, respectively. **Non-GAAP basic and diluted net income per ADS** were RMB0.01, compared to non-GAAP basic and diluted net loss per ADS of RMB3.73 and RMB0.18 in the third quarter of 2019 and second quarter of 2020, respectively. The difference between GAAP and non-GAAP EPS is mainly due to adjustments to the accretion of preferred share redemption values and share-based compensation.

As of September 30, 2020, we had cash and cash equivalents, restricted cash, as well as short-term investments of RMB350.6 million (US\$51.6 million).

Overall, we achieved meaningful progress in the third quarter of 2020. We continue to be optimistic about the future of the online audio industry in China and across the globe. In the near future, we will continue to carry out our user growth strategy and remain dedicated to enhancing our content ecosystem, strengthening brand awareness, expanding technology capabilities and advancing our strategic initiatives to build out our platform for sustainable growth.

With that in mind, for the fourth quarter of 2020, we currently expect total net revenues to be in the range of RMB370 million to RMB400 million. This forecast reflects our current market conditions, including those related to the COVID-19 pandemic, and reflects the Company's preliminary estimates of market and operating conditions, and customer demand, which are all subject to changes.