

LIZHI INC. Third Quarter 2021 Conference Call SCRIPT

Operator:

Hello ladies and gentlemen. Thank you for standing by for LIZHI INC.'s third 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 third 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 also 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. Please refer to LIZHI's earnings press release for a reconciliation of unaudited non-GAAP measures to unaudited GAAP measures.

Marco (CEO)

Hello everyone. Thank you for joining us today. I will share our third quarter business overview and future development strategy. Then our COO Mr. Zelong Li will provide more details on the operation of each business line.

Overall, LIZHI continued to strive to build a competitive global audio ecosystem in the third quarter of 2021. Total average mobile MAUs reached 58.9 million, and average monthly paying users was 485 thousand in the third quarter. We remain focused on improving user experience and fostering our audio-centric community ecosystem to increase audio entertainment user base, strengthen user connections and stickiness, and support our sustainable growth. We are delighted to see the audio entertainment average mobile MAUs grew by 21% year-over-year to 9.17 million. As we prioritize unlocking commercialization potential presented in audio entertainment business, coupled with the effective execution of our operational strategy, our third quarter revenue grew by 40% year-over-year to RMB505million, pushing our total revenues for the first nine months of 2021 to surpass revenues for the full year of 2020. In addition to revenue growth, we are pleased with the continued expansion of our overall gross margin, which grew to 30%, up 500 basis points year-over-year.

In terms of our strategic priorities in near future. First of all, we'll continue to build a sustainable and high-quality community ecosystem by providing more valuable content and audio-centric interactive scenarios, enhancing our commercialization capability and supporting more content creators to grow and develop in LIZHI's audio community. At the current stage, Our globalization strategy is to optimize products and ramp up localization teams. We strive to meet users' social networking needs in the digital era, capturing more growth opportunities for future prospects.

With respect to our audio roadmap geared for multiple devices, at the current stage, product optimization and technology innovation are our main focuses in this area. At the same time, we are strengthening our underlying architecture. In addition, we continue to establish collaborations with more platforms to expand our reach in the in-car audio market. In addition, we will adhere to the long-term development pathway with technological empowerment and further apply our in-house-developed audio technology solution DOREME to more devices. Beyond that, we are stepping up the development of our in-house instant messaging technology. We are expecting to provide more

tailored technological support to our various products.

In conclusion, we have great confidence in our prospects. We will continue to execute our globalization strategy in the next phase. By maximizing LIZHI's advantages, we are expecting to unlock greater growth potential globally and achieve long-term sustainable development.

Zelong Li (COO)

Hello everyone and thank you for joining us today. Next, I'd like to provide more detailed updates of each business line.

Starting with our audio entertainment business. We aim to foster a sustainable ecosystem across our community by pivoting to optimizing product functions and harnessing several key content categories. To further amplify our commercialization capabilities and efficiency, we are working to refine our product operations, which involves employing more precise user targeting, focusing heavily on content categories with strong commercialization capabilities, optimizing our marketing strategy and harnessing high-performance channels. We believe that taking these important steps now will lay a solid foundation for us to grow our sustainable ecosystem, further improve paying user conversion rate and operational efficiency, and ultimately, enable us to achieve a solid long-term growth.

Moving to our global business, TIYA is positioned as the digital social networking platform for young people. We continue to improve and optimize our products to meet their social needs in diverse scenarios based on their different hobbies, interests and trendy lifestyles. In the third quarter, we concentrated on building a local team for our overseas business development and upgrading product features and functions to position ourselves among a wide variety of user groups. Our emphasis on user experience and user retention, is designed to allow our user base to achieve an organic growth.

As part of our product optimization strategy, we upgraded TIYA App's friend status feature and the discovery channel. We now offer more interactive features to guide users to adopt different tools for their interactions on the platform. In particular, we launched "My Friends" live status feature that allows users to find friends in a similar status or mood, which reinforces friendship bonds on the

platform and ensure a smoother online social experience. We continued to roll out innovative features to TIYA App. Some of these we added recently include newly optimized mini games and screen sharing options, both of which provide more diverse ways for users to interact socially, enhancing user stickiness and engagement. After these product upgrades were launched, we observed a marked increase in the interaction rate of new TIYA users with friends and an uptick in the average time spent per user on TIYA. In September, the daily average number of messages sent per user grew by 57% compared with June, and users' number of friend pairs was 64% higher than that in June. In the near-term, our priority is to continue refining our products to improve these metrics even further. We will be paying close attention to key metrics such as users' activeness and interaction levels, while further cultivating user habits and strengthen user relationships on the platform.

In the third quarter, we also continued to expand LIZHI Podcast's footprint in the in-car audio market by broadening and deepening our collaborations with auto companies and the Internet of Vehicles platforms. We have also achieved more official recommendations from auto companies. Currently, our strategic focus revolves around product optimization and technology innovation, including audio application functions for in-car scenarios such as voice-activated control, gesture operation and seamless connectivity.

We are pleased that our strong technological capabilities are boosting LIZHI Podcast's competitive performance in the in-car market. For instance, we have recently been integrated into Huawei's HarmonyOS ecosystem through technological innovation. And as the first platform to launch in-car live-stream podcasts, LIZHI Podcast rolled out "one-click seamless connectivity" feature. It supports cross-screen connection to achieve two-way seamless connectivity between mobile devices and vehicles. Through this technology, we provide uninterrupted live-stream podcast experiences to users, thus becoming the first podcast platform in China that enables two-way seamless connectivity in multiple scenarios. We believe that technological expertise and product innovation are key to securing a competitive edge in the in-car audio market. In the future, we will continue to optimize our in-house audio technology solution. Our goal is to accumulate more technological experiences and improve the core technology for multi-device applications of the podcast platform while satisfying the differentiated demands of various auto companies and IoV platforms.

In summary, achievements and experience we have gained in the third quarter have set the stage for our future development. We are optimistic about future growth opportunities in audio industry. We will continue working for long-term success and building a leading globalized audio platform.

Ms. Chengfang Lu

Thank you, Zelong, and hello everyone.

We're pleased to see another solid year-over-year revenue growth in the third quarter. Driven by our improved operational strategy, our gross margin grew to 30%, up 500 basis points year-over-year. We believe the audio entertainment ecosystem we've built is fundamental to our long-term growth. Looking ahead, we will continue optimizing our audio entertainment business, enhancing commercialization capabilities, and leveraging our technology innovation and expertise, as well as actively exploring the international market, in order to achieve sustainable growth.

Now, I'm providing a brief overview of our financial results for the third quarter of 2021.

In the third quarter, our **total net revenues** were RMB504.8 million, representing an increase of 40% year-over-year, primarily driven by the growth of paying users and enhanced commercialization capabilities of our audio entertainment products.

Cost of revenues was RMB353.6 million in the third quarter of 2021, representing an increase of 31% year-over-year, mainly attributable to an increase in revenue sharing fees to our content creators, salary and welfare benefits expenses and bandwidth costs, which is generally in line with our business growth.

Gross profit was RMB151.3 million in the third quarter of 2021, representing an increase of 67% year-over-year.

Non-GAAP gross profit was RMB154.5 million in the third quarter of 2021, representing an increase of 68% year-over-year.

Gross margin for the third quarter of 2021 increased to 30% from 25% in the third quarter of 2020. **Non-GAAP**

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Operating expenses increased by 91% year-over-year to RMB191.3 million in the third quarter of 2021.

Research and development expenses were RMB73.4 million in the third quarter of 2021, representing a year-over-year increase of 32%. The increase was primarily due to the increased salary and welfare benefits expenses related to an increase in the number of our research and development staff and averaging salary.

Selling and marketing expenses were RMB88.2 million in the third quarter of 2021, compared to RMB27.1 million in the third quarter of 2020. This increase was primarily due to our increased promotion and marketing activities.

General and administrative expenses were RMB29.7 million in the third quarter of 2021, representing a year-over-year increase of 71%. The increase was mainly due to the increase in salary and welfare benefits expenses and other professional service fee.

Operating loss was RMB40.1 million in the third quarter of 2021, compared to RMB9.6 million in the third quarter of 2020. **Non-GAAP operating loss** was RMB30.1 million in the third quarter of 2021, compared to RMB2.9 million in the third quarter of 2020.

Net loss was RMB37.1 million in the third quarter of 2021, compared to RMB6.1 million in the third quarter of 2020. **Non-GAAP net loss** was RMB27.2 million, compared to non-GAAP net income of RMB0.6 million in the third quarter of 2020.

Basic and diluted net loss per ADS were RMB0.73 in the third quarter of 2021, compared to RMB0.13 in the third quarter of 2020. **Non-GAAP basic and diluted net loss per ADS** were RMB0.54 in the third quarter of 2021, compared to non-GAAP basic and diluted net income of RMB0.01 per ADS in the third quarter of 2020.

As of September 30, 2021, we had cash and cash equivalents and restricted cash of RMB515.9million.