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Q2 2023 Lizhi Inc Earnings Call

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CORPORATE PARTICIPANTS

Effy Kang LIZHI INC. - *Head of Capital Markets*

Zelong Li LIZHI INC. - *COO*

Chengfang Lu LIZHI INC. - *Acting CFO*

PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for LIZHI INC.'s second quarter 2023 earnings conference call. (Operator Instructions) Today's conference call is being recorded.

I'll now turn the call over to your host, Effy Kang, Head of Capital Markets for the company. Please go ahead.

Effy Kang LIZHI INC. - *Head of Capital Markets*

Thank you very much. Hello everyone, and welcome to the LIZHI INC.'s second quarter 2023 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. Mr. Li and Ms. Lu will begin with prepared remarks. As a reminder, this conference is being recorded. In addition, 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 US 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, advisers, representatives and underwriters do not undertake any obligation to update these forward-looking information except as required under the applicable law.

Please also note that LIZHI's earnings press release and this conference call includes discussions of unaudited GAAP financial measures as well as the unaudited non-GAAP financial measures. Please refer to LIZHI's earnings press release for reconciliation of unaudited non-GAAP measures to unaudited GAAP measures.

I will now turn the call over to our COO, Mr. Zelong Li. Please go ahead.

Zelong Li LIZHI INC. - *COO*

(interpreted) Hello, everyone. Thank you for joining LIZHI Inc.'s second quarter 2023 earnings conference call.

In the second quarter of 2023, we remained committed to executing our online audio-centric globalization strategy. By unceasingly advancing core technologies, optimizing product features and elevating user experience, we are actively fostering a thriving business ecosystem.

Despite macro challenges, in the second quarter, the Company's revenue increased by 15% year-over-year to RMB593 million. Our total average mobile MAUs amounted to 45.6 million. And our average monthly paying users totaled 433.7 thousand. We also achieved net income of RMB11.6 million. Now let me go over our business developments during the second quarter.

With respect to the audio entertainment business, we effectively enlivened the atmosphere across the community by further implementing refined operational management and introducing more diversified themed activities. For example, our LIZHI Mid-Year Voice Gala activities strengthened the connections and interactions between our content creators and the users. We also launched an array of themed activities, such as our Mid-Year Podcast Week featuring a special season with National College Examination, which

encouraged the quality content creators to actively participate in our programs.

Many popular content creators include Beijing Talker, EXIT FM and YEELOK RADIO were featured on our livestreaming sessions, gladly sharing their personal stories and thoughts to inspire young minds. We diversified our content matrix with offerings that better suited young users' diverse tastes and preferences, delighting our users with enriched audio-based interaction experience.

Going forward, we will continue to roll out innovative product functions and additional activity formats to closely connect our content creators and users, fostering more immersive audio entertainment experiences and then promoting a virtuous cycle across our vibrant community and ecosystem. Furthermore, we will continue exploring innovative product features, enriching our product matrix and providing our users with highly differentiated product experiences.

For our content creator ecosystem, we continued to upgrade our creative management systems and supported a wide array of content creators with differentiated, customized development solutions, helping them grow and flourish on our platform. For example, in the second quarter, we focused on our content creators' diverse growth needs with our newly-launched Summer Success Program for streamer development, providing meaningful support to enhance their capabilities and skillsets through our refined operational management system.

We also involved the young generation in content planning. We set up a Rising Star Official Channel in support of our outstanding emerging content creators and worked with them to conceive inspirational ideas for high-quality content creation, helping our rising stars attract more users and grow faster. By improving our creator management system, we hope to continuously attract and cultivate more talented content creators, further enriching the content offerings across our platform.

Regarding our global business, we continued to empower product innovation through core technologies, accelerating the upgrade and iteration of our diversified product functions and further propelling the development of our global business. Last quarter, we launched the chatbot, MY AI FRIEND in TIYA App, our global audio-based social networking product. And since then, we have consistently enriched the user experience with various new product functions.

In May this year, we leveraged our large pool of avatars to launch over 10 virtual AI preset companions, spanning characters such as musician DJ Fresh and game consultant Alex. These new companions cater to TIYA users' diverse needs and interests, enabling a smarter and more engaging virtual online social experience. Users can also create and customize their own exclusive AI friends through pre-sets to enjoy unique virtual online social experiences.

In July, we launched a new expressive "Animated Avatar" feature for users' customized AI friends, which enables users to add more realistic micro gestures and facial expressions to their AI friends, further enhancing interactions across the platform. Thanks to our consistent innovation in voice AI technologies, all our users can now access our customized AI friends' voice chat function. This feature empowers AI friends to speak and move more naturally to accommodate extensive social networking scenarios, establishing a deeper emotional connection between users and their AI companions. Going forward, we will further advance our global positioning through constant product innovation, and push forward with product localization, strengthening the foundation of our global business expansion and commercialization efforts.

In the meantime, we continued to build our capabilities in core technologies, including AI and audio processing and transmission, empowering business development through technological innovation. On the product front, we further optimized the integrated relevant product functions and launched the more diverse innovative features based on AIGC and voice AI technologies, laying a solid foundation for our products' commercial application.

For operations, we comprehensively applied our self-developed technologies, effectively reducing technical costs and improving operational efficiency. As we move forward, we will continue enhancing research and development in the AI field, exploring applicable AI technology scenarios, and making the most of our advantages in voice-based technologies, ultimately amazing our users with incredible next-generation social networking experiences.

Looking ahead, despite macro challenges, we will go all out to elevate our product competitiveness through innovative products, optimized ecosystem and refined operations. Moreover, we will continue to adopt and more deeply integrate AIGC and voice AI technologies, AI chatbots and AI assistants across our business, continuously empowering business development through technological innovation and further advancing our global expansion.

Thank you all. With that, I will now turn the call over to our Acting CFO, Ms. Chengfang Lu, who will discuss our financial results in more detail.

Chengfang Lu LIZHI INC. - Acting CFO

Thank you, Zelong, and hello, everyone. We maintained year-over-year revenue growth in the second quarter of 2023, while focusing on building a sustainable and innovation-driven ecosystem. Moving forward, we will continue strengthening core technologies to spur ongoing product development and promote global business expansion over the long-term.

Now I'd like to provide a brief overview of our financial results for the second quarter of 2023.

In the second quarter, our total net revenues were RMB592.9 million, representing an increase of 15% year over year as we continued to diversify our audio entertainment product matrix. Cost of revenues was RMB418.4 million in the second quarter of 2023, representing an increase of 23% year-over-year, mainly attributable to increased revenue sharing fees to our content creators, increased salary and welfare benefits expenses related to increased average salary, and increased payment handling costs, partially offset by a decline in other miscellaneous costs.

Gross profit was RMB174.4 million in the second quarter of 2023, compared with RMB175.6 million in the same period of last year. Non-GAAP gross profit was RMB175.6 million in the second quarter of this year, compared with RMB176.8 million in the same period of last year.

Gross margin in the second quarter of 2023 was 29% compared with 34% in the same period of last year. Non-GAAP gross margin in the second quarter of this year was 30% compared with 34% in the same period of last year.

Operating expenses were RMB166.6 million in the second quarter of 2023, compared with RMB161.6 million in the same period of last year. Research and development expenses were RMB75.2 million in the second quarter of this year compared with RMB70.3 million in the same period of last year, primarily due to increased salary and welfare benefits [expenses](added by company after the call) related to the increase in the number of our R&D staff, and increased rental expenses, partially offset by decreased share-based compensation expenses and expenses related to research and development services provided by third parties.

Selling and marketing expenses were RMB67.5 million in the second quarter of 2023, compared with RMB60.8 million in the same period of last year, primarily attributable to increased branding and marketing expenses and increased salary and welfare benefits related to the increase in the number of our sales and marketing staff. We will monitor [discretionary](corrected by company after the call) advertising and promotion expenses and adjust accordingly based on market conditions.

General and administrative expenses was RMB23.9 million in the second quarter of 2023, compared with RMB30.6 million in the same period of last year, mainly driven by a decreased provision for litigation contingencies, professional service fees, share-based compensation expenses, and other miscellaneous expenses, partially offset by increased salary and welfare benefits [expenses](added by company after the call) related to the increased average salary.

Operating income was RMB7.8 million in the second quarter of 2023, compared with RMB14.1 million in the same period of last year. Non-GAAP operating income was RMB13.6 million in the second quarter of 2023, compared with RMB21.2 million in the same period of last year.

Net income was RMB11.6 million in the second quarter of this year, compared with RMB18.9 million in the same period of last year. Non-GAAP net income was RMB17.3 million in the second quarter of 2023 compared with RMB26 million in the same period of last year.

Basic and diluted net income per ADS were RMB0.25 and RMB0.24, respectively, in the second quarter of 2023, compared with RMB0.37 and RMB0.36, respectively, in the same period of last year. Non-GAAP basic and diluted net income per ADS were both RMB0.35 in the second quarter of 2023 compared with RMB0.50 in the same period of last year. As of June 30, 2023, we had cash and cash equivalents, short-term investments and restricted cash of RMB697.1 million.

Okay. This concludes all of our prepared remarks today. Now I would like to turn the call to Effy for the closing remarks.

Effy Kang LIZHI INC. - Head of Capital Markets

Thank you once again for joining us today. If you have further questions, please feel free to contact LIZHI's Investor Relations through the contact information provided on our website, ir.lizhi.fm, or The Piacente Group Investor Relations. Thank you.

Operator

Thank you. That concludes the conference call. You may now disconnect your line. Thank you.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the company sponsoring this event.

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