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Q2 2022 LIZHI INC. Earnings Call

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## CORPORATE PARTICIPANTS

**Effy Kang** *LIZHI Inc. - Head, Capital Markets*  
**Marco Lai** *LIZHI Inc. - Founder, CEO*  
**Zelong Li** *LIZHI Inc. - Chief Operating Officer*

## CONFERENCE CALL PARTICIPANTS

**Vicky Wei** *Citi - Analyst*  
**Yijiao Chen** *TF Research Institute - Analyst*

## PRESENTATION

### Operator

Hello, ladies and gentlemen. Thank you for standing by for LIZHI Inc.'s Second Quarter 2022 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'll now turn the call over to your host, Effy Kang, Head of Capital Markets for the Company. Please go ahead.

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### **Effy Kang** *LIZHI Inc. - Head, Capital Markets*

Thank you very, much. Hello, everyone. And welcome to LIZHI Inc.'s second quarter 2022 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 will begin with prepared remarks on business development, I will then deliver prepared remarks of financial results on behalf of Ms. Lu, and the call will conclude with a Q&A session.

As a reminder this conference is being recorded. In addition, our 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 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.

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

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### **Zelong Li** *LIZHI Inc. - Chief Operating Officer*

(Interpreted) Hello, everyone. And thank you for joining our second quarter 2022 earnings conference call. In the second quarter of 2022, we remained focused on dual pillar approach of interactive entertainment plus audio-based social networking business development and effectively executing globalized diversified product matrix strategy.

In the second quarter, our total average mobile MAUs amounted to 49.7 million, average monthly paying users totaled 485,000 and revenue reached RMB516 million. We also took steps during the quarter to elevate our organizational efficiency and advance the development of our in-house suite of technologies, while continuing to execute effective operational strategies.

As a result, we've further improved profitability and achieved a new record high gross margin of 34%, representing an increase of 600 basis points year-over-year and 200 basis points quarter-over-quarter.

Moreover, we achieved our third consecutive quarter of net income on a GAAP basis, which increased to RMB18.85 million in the second quarter, up 15% sequentially and recording a profit versus a net loss in the same period of last year.

Next, I'd like to share more details regarding our business development in the second quarter. At the beginning of this year, we identified interactive audio entertainment business as our operational focus and directed our resources and marketing tactics accordingly. This strategy has significantly improved our operating efficiency and overall profitability. To augment our existing interactive entertainment ecosystem, we recently incubated and launched the new interactive entertainment products such as Xiao Xi Mi, further enriching our interactive entertainment product matrix.

In addition, by building a unified content creator operational platform we unlocked additional value and a greater creativity from our high-quality content creators, laying the foundation for the long-term growth of our interactive entertainment business.

In the second quarter, we also effectively strengthened content creator engagement through diverse operational activities, which further boosted the profitability of our interactive entertainment business.

For example, we hosted a Summer Carnival Creator event improving content creator productivity and fortifying their connection with users through innovative interactive competitions.

We also launched the novel events, such as the Hall of Fame to cultivate and support new-generation creators, boosting their long-term development on the platform. Furthermore, we partnered with the gaming brand League of Legends: Wild Rift to foster our brand connectivity and organized the cover song contest "Voice of Shining Heros", which encouraged the users to interact in real-time by creating and sharing relevant content.

We were pleased to see that the user penetration rate of our interactive audio entertainment business increased 350 basis points year-over-year to 18.5% and the average mobile MAUs reached 9.17 million in the second quarter.

In addition, we enhanced the activity of these mid to long-tail content creators through traffic support and other strategies, which further optimized our cost structure and overall gross margin. As we approach our next stage of growth, we will continue to concentrate resources on expanding our interactive entertainment business, incubating and creating a diversified interactive audio entertainment product [matrix](added by company after the call) that covers more key user groups to improve its user penetration rate and further elevate the paying conversion rates.

With respect to our global development, in the second quarter, we further upgraded the product features of our global social product TIYA by enriching the interactive formats of the "real-time interactive group space".

As an example, we added the innovative functions such as "Truth or Dare" and audio GIF images to guide users' online interactions and social activities in various ways, reinforcing TIYA's social attributes. Through the integration of real-time interaction and online entertainment, we hope to create an online social space for young people and provide innovative social formats to users.

As TIYA's user engagement and activity grew, so did the upward trends in new user friend interaction rates and average time spent per user. In the second quarter, the average daily time spent per user increased by 44% year-over-year and the average monthly group penetration rate was up 150% year-over-year. As of the end of June, the number of pairs of friends' connections increased by 140%

compared with the same period of last year.

Going forward, we will continue to optimize our products based on user's diverse interests and hobbies as well as young people's trendy lifestyles, strengthen user engagement and build a more closely connected online social space.

In line with our globalization strategy, we have been consistently exploring new markets and incubating new products for international markets through our in-house development capabilities.

Based on potential market opportunities and market differences, we will leverage our well-established experience in product operation and our multi-dimensional localized innovation capabilities to expand the market boundaries of our business within our diversified product matrix strategy, while unleashing more commercialization potential and enriching our diversified product portfolio.

Meanwhile, leveraging our years of experience and advantages of our self-developed technologies, we have been strengthening the development of our versatile technology platform. Recently, we unveiled "Voice Cloud," an in-house hybrid cloud computing platform we developed to meet the Group's business demands.

By integrating the three cloud computing models, namely, IaaS, PaaS and SaaS, we created a full-link technology matrix to provide a one stop comprehensive solution for our business. The Cloud infrastructure of Voice Cloud is based on the iRock hybrid cloud architecture, empowering a unified platform through which LIZHI Group can operate multiple cloud tools [more](added by company after the call) securely and reliably.

On the PaaS side Voice Cloud features DOREME, a self developed RTC real-time audio and video streaming technology platform and VoderX, an instant messaging platform. Thanks to our innovative real-time audio and social networking technologies, together DOREME and VoderX provide a fast, secure, high quality audio and messaging transmission network and support more tailored features and services for our various products.

In addition, Voice Cloud's SaaS segment is represented by LIZHI's Business Intelligence (BI) platform, which aims to upgrade internal data management efficiency through the automated intelligent data analysis and optimize the group's smart asset management database, driving business development through the data analysis.

Voice Cloud also integrates an intelligent marketing platform and other business related services, which help to advance product R&D, marketing and operational efficiency. We believe our proprietary technology and in-house development capabilities are the cornerstone of our business development. We plan to further integrate self-developed technology and services, and then roll out Voice Cloud across our businesses, ultimately, empowering business innovation and our global business expansion.

In summary, our accomplishments in the second quarter have laid a solid foundation for the long-term sustainable development of our business. Going forward, we will continue to refine and execute our product matrix strategy, globalization initiatives and optimize our resource allocation. By devoting key resources to advancing our interactive entertainment and audio based social networking business and elevating our core technology capabilities, we will further unleash commercialization potential and accelerate our global business development.

Thank you. Next I will turn the call over to our Head of Capital Markets, Effy Kang, who on behalf of our Acting CFO, Ms. Chengfang Lu, will provide more details of our financial results.

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**Effy Kang LIZHI Inc. - Head, Capital Markets**

Thank you, Zelong, and hello, everyone. Today I will deliver the following remarks on behalf of Ms. Lu. We are pleased to report improving profitability in the second quarter of 2022. With our diligent efforts to enhance operational efficiency, our gross margin hit a record high at 34% in the second quarter, up 600 basis points year-over-year.

More excitingly, we have achieved a profit on a GAAP basis for the third consecutive quarter, with net income growing 15% sequentially

to RMB18.85 million. Moving forward, we will remain dedicated to executing our diversified product matrix strategy and enhancing core technology development to progress product innovation and commercialization.

Now, I would like to provide a brief overview of our financial results for the second quarter of 2022. In the second quarter, our total net revenues were RMB515.7 million, compared to RMB559.3 million in the second quarter of 2021, primarily due to the decreases in the number of paying users and the average amount of user spending on our audio entertainment products.

Cost of revenues was RMB340.1 million in the second quarter of 2022, compared to RMB400.5 million in the second quarter of 2021, primarily due to a decrease in the revenue sharing fees because of a decrease in net revenues and the revenue sharing percentage to content creators.

Gross profit was RMB175.6 million in the second quarter of 2022, representing an increase of 11% year-over-year. Non-GAAP gross profit was RMB176.8 million in the second quarter of 2022, representing an increase of 9% year-over-year.

Gross margin for the second quarter of 2022 increased to 34% from 28% in the second quarter of 2021. Non-GAAP gross margin for the second quarter of 2022 grew to 34% from 29% in the second quarter of 2021.

Operating expenses were RMB161.6 million in the second quarter of 2022, compared to RMB190.3 million in the second quarter of 2021.

Research and development expenses were RMB70.3 million in the second quarter of 2022, representing a year-over-year increase of 15%. The increase was primarily due to the higher salary and welfare benefits expenses and rental expenses.

Selling and marketing expenses were RMB60.8 million in the second quarter of 2022, compared to RMB106.3 million in the second quarter of 2021, primarily due to the decrease in the promotion and marketing expenses, partially offset by the increased salary and welfare benefits expenses. We will evaluate and adjust our marketing strategy and budget based on the business performance, operational needs and market conditions.

General and administrative expenses were RMB30.6 million in the second quarter of 2022, representing a year-over-year increase of 32%. The increase was mainly due to increased salary and welfare benefits expenses, estimated litigation compensation related to copyright matters and other professional service fees.

Operating income was RMB14.1 million in the second quarter of 2022, compared to a loss of RMB31.6 million in the second quarter of 2021. Non-GAAP operating income was RMB21.2 million in the second quarter of 2022, compared to loss of RMB21.7 million in the second quarter of 2021.

Net income was RMB18.9 million in the second quarter of 2022, compared to a net loss of RMB29 million in the second quarter of 2021. And non-GAAP net income was RMB26 million, compared to non-GAAP net loss of RMB19.2 million in the second quarter of 2021.

Basic and diluted net income per ADS were RMB0.37 and RMB0.36, respectively, in the second quarter of 2022, compared to basic and diluted net loss per ADS of RMB0.58 in the second quarter of 2021.

Non-GAAP basic and diluted net income per ADS were RMB0.50 in the second quarter of 2022, compared to non-GAAP basic and diluted net loss per ADS of RMB0.38 in the second quarter of 2021.

As of June 30, 2022, we had cash and cash equivalents and restricted cash of RMB588.1 million.

Okay, this concludes all of our prepared remarks today. I will now open the call to questions. Operator, please go ahead.

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## QUESTIONS AND ANSWERS

**Operator**

Thank you. (Operator Instructions).

Our first question comes from the line of Vicky Wei from Citi. Please go ahead

**Vicky Wei Citi - Analyst**

(Foreign Language Spoken)

**Marco Lai LIZHI Inc. - Founder, CEO**

(Foreign Language Spoken)

**Effy Kang LIZHI Inc. - Head, Capital Markets**

Okay. I will translate.

**Vicky Wei Citi - Analyst**

Okay. So, good morning, management. Thanks for taking my questions. I have two questions. The first one is which aspect the management focus more in terms of live streaming tipping regulations after implementation and more regulations should we be aware of? And my second question is, what is the biggest challenge for LIZHI going global or Chinese companies to go global? In terms of strategy and competition? Thank you.

**Marco Lai LIZHI Inc. - Founder, CEO**

(Foreign Language Spoken)

**Effy Kang LIZHI Inc. - Head, Capital Markets**

Thank you, Vicky. I will translate for Marco. In terms of the regulations, we have been paying close attention to the relevant policies and regulations of the industry. And we have also noticed that the regulatory authorities have refined some requirements on product functions and operational specifications and data management and other aspects. We believe that clear and more detailed regulations can help promote the industry's long-term development and help create a better networking environment.

**Marco Lai LIZHI Inc. - Founder, CEO**

(Foreign Language Spoken)

**Effy Kang LIZHI Inc. - Head, Capital Markets**

We have been carrying out timely self-examinations according to the latest policies to ensure that we comply with the latest regulatory requirements. And in the future, we will continue to follow up on the different changes in regulatory policies and meet the compliance requirements in all aspects, and ensure that the sustainable and solid development of our business.

**Marco Lai LIZHI Inc. - Founder, CEO**

(Foreign Language Spoken)

**Effy Kang LIZHI Inc. - Head, Capital Markets**

The second question is about the biggest challenges for LIZHI me going global or any other Chinese companies to go global in terms of the strategy and the competition. So I will translate for Marco.

I think for all of the Chinese companies looking to expand overseas, the challenges and the competition mainly concern on the localization and talent development, cultural varies between different countries and regions worldwide.

So absorbing more excellent talents who understand the local market is the key to achieving product and operational localization. This is also fundamental for companies to lay a solid foundation in various markets.

So we have set up local offices in key target markets around the world and actively recruited local talents and build localized teams and enhance our market research and product design operational capabilities in the international markets.

**Marco Lai LIZHI Inc. - Founder, CEO**

(Foreign Language Spoken)

**Effy Kang LIZHI Inc. - Head, Capital Markets**

On the strategy front, we think the most important thing is to be determined and remain committed to firmly executing our global strategy and conduct the localized operations and cultivate an international talent pool, develop in-depth insights into the market opportunities and identify development priorities at each different stage, may help us achieve breakthroughs in the international business.

**Marco Lai LIZHI Inc. - Founder, CEO**

(Foreign Language Spoken) Thank you.

**Effy Kang LIZHI Inc. - Head, Capital Markets**

This concludes Marco's answers.

**Vicky Wei Citi - Analyst**

Thank you.

**Operator**

Thank you. Our next question comes from the line of Yijiao Chen from TF Securities. Please go ahead. Yijiao, your line is open. Please go ahead.

**Yijiao Chen TF Research Institute - Analyst**

Okay. you can hear me?

**Operator**

Yes. We can.

**Marco Lai LIZHI Inc. - Founder, CEO**

Yes.

**Yijiao Chen TF Research Institute - Analyst**

Okay. (Foreign Language Spoken) So I'll translate my question to the English. The first question is intimately two, does the Company have any new plans for audio entertainment and what's the outlook for the MAU and ARPU in 2022 and 2023? And how can we increase our penetration rate and a spending level per user? That's the first question. The second question is, is there an update in our in-car audio business and what forms of cooperation will be adopted and what is the growth potential in the field? Thanks.

**Marco Lai LIZHI Inc. - Founder, CEO**

Thank you, Yijiao. (Foreign Language Spoken)

**Effy Kang LIZHI Inc. - Head, Capital Markets**

Thank you, Yijiao. I will translate for Marco for the first questions. So like our fundamental business, currently, we focus on audio entertainment business, we continue to focus on our diversified product matrix strategy to explore more market opportunities.

By integrating more products internally and enriching the product matrix, we can capture core user groups, expand the overall business scale and further improve the user penetration rates of the audio entertainment business.

**Marco Lai LIZHI Inc. - Founder, CEO**

(Foreign Language Spoken)

**Effy Kang LIZHI Inc. - Head, Capital Markets**

Our current focus will be on user groups with higher commercialization capabilities in the audio entertainment sector. And we will continue to optimize our marketing strategy and execute our precise user acquisition strategy.

In addition, through optimizing the product functions and launching diversified operational activities, we think more user scenarios can be explored to promote paying user conversion while also improving the user engagement, and ultimately enhancing the user spending level and exploring more commercialization opportunities.

**Marco Lai LIZHI Inc. - Founder, CEO**

(Foreign Language Spoken)

**Effy Kang LIZHI Inc. - Head, Capital Markets**

The second question is about the in-car audio business. In terms of our in-car audio strategy, we are mostly aiming at the long-term market opportunities. So currently we are more focused on partnering with more auto companies and IoV platforms to deploy the in-car applications in more vehicle models in order to reach a wider range of user groups and cultivate user habits gradually.

Recently through Huawei's HarmonyOS smart car system and Xiaomi Quick App Platform. We have launched the in-car audio program in AITO and Leapmotor Smart Electric Vehicles, respectively.

**Marco Lai LIZHI Inc. - Founder, CEO**

(Foreign Language Spoken)

**Effy Kang LIZHI Inc. - Head, Capital Markets**

Our cooperation with those auto companies currently are mainly focused on developing the in-car applications and other audio technology capabilities for the in-car operating systems. On the IoV platform front, our collaborations with them mainly consist on content capabilities and quick access application, adopting the multiple approaches to fulfill the diversified needs. We may empower a full spectrum of in-care audio entertainment scenarios and with the rapid development of IoT technology and the smart in-car platforms and the audio is one of the best across terminal medium, we believe there will be a greater growth potential in the future.

**Marco Lai LIZHI Inc. - Founder, CEO**

Thank you, Yijiao.

**Effy Kang LIZHI Inc. - Head, Capital Markets**

Thank you. This concludes Marco's answer.

**Operator**

(Operator Instructions) As there are no further questions, I'll now turn the call back to the Company for closing remarks.

**Effy Kang LIZHI Inc. - Head, 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 at [ir.lizhi.fm](http://ir.lizhi.fm) or The Piacente Group Investor Relations. Thank you.

**Operator**

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

**Marco Lai LIZHI Inc. - Founder, CEO**

Thank you.

**Zelong Li LIZHI Inc. - Chief Operating Officer**

Thank you.

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