

LIZHI INC. First Quarter 2021 Conference Call SCRIPT

Operator:

Hello ladies and gentlemen. Thank you for standing by for LIZHI INC.'s first 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 first 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 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

Hello everyone. Thank you for joining us today.

We are very pleased to have started the year off strong as we maintained our robust growth momentum in the first quarter of 2021, laying a solid foundation for sustainable development throughout this year. Our overall user base continued to grow in the quarter with average mobile MAUs reaching 59.7 million while the average monthly paying users increased by 12% quarter-over-quarter to approximately 475,000. Thanks to the effective execution of our operational strategies, we also witnessed strong growth in our first quarter revenue of RMB495 million, up 34% year-over-year and 18% sequentially.

During the first quarter, we continued building and enhancing our unique and virtuous audio ecosystem, in particular, expanding our footprint overseas to further reinforce our globalization strategy. In the meantime, we continued to advance our core technological capabilities in AI, and audio transmission and processing to empower our business development. I would now like to share with you more information on recent developments.

First, our audio-centric UGC community built on the LIZHI App maintained its high level of engagement in the first quarter. Notably, our average monthly interactions maintained 3.3 billion times during the period. As of the end of March, cumulative audio content across the platform reached 273 million. As part of our operational strategies, we continued to enrich content genres and enhance the community atmosphere surrounding hot social topics. In an effort to tap into genres that are widely sought by younger generation, including youth literature, emotional expression and ACG, we joined forces with a number of influential KOLs to create exclusive premium audio programs, and promote these programs across and outside our platform. This effort has attracted a large number of users to join our platform to listen to, comment on, praise and share our audio content, further uplifting the vibrancy of our audio community and amplifying the community's influence. In addition, we remain committed to helping outstanding content creators grow on our platform. For example, our "Talk Show Star Talent Program," specifically unveiled for content creators, influenced a variety of content creators to produce content and supported them to discover their vocal talents. In early April, we also successfully held our branded campaign - 2021 LIZHI Voice Festival. This online carnival event featured various industry celebrities, quality content creators and voice enthusiasts, attracting voice lovers to come together and enjoy the fun of voices, and providing a space for more

people to showcase vocal talents. During the event, there were more than 2 million people having participated in the live streaming show, and also gained widespread attention across and outside our platform.

Leveraging diversified campaigns and operational strategies, we increased user engagement and interaction in our UGC community. In the meantime, our efforts to encourage content creators from the pre-recorded audio content segment to join live streaming and audio interactions under audio entertainment segment have effectively boosted the integration of both segments. Those content creators can build upon the interactive features and the live streaming features to interact with users and therefore, our user engagement further increased and the number of our paying users has grown effectively.

As we executed our global strategy, TIYA App, our audio-based social networking app targeting overseas markets, continued its strong growth momentum in the first quarter. We are pleased to note that TIYA's mobile MAUs rose to more than 2 million in March, representing a 90% increase compared with the average mobile MAUs in the fourth quarter of 2020. In the quarter, TIYA remained among the leading social networking apps in the U.S. market.

Furthermore, we continuously work to optimize overseas operations along with iteration of products by pivoting to enhancement of user engagement and retention, extension of social scenarios, and related aspects. Our new features enabled TIYA's users to make social connections based on various interests and topics, interacting via real-time online audio, and making friends virtually with people who share their interests across a wide range of topics. Meanwhile, we help users form and foster diverse interest circles, improving user stickiness while further strengthening the social networking capabilities of TIYA. In the first quarter, we also noticed that a number of KOLs focused on gaming and animation joined the TIYA platform to interact and play games with TIYA users through group audio live streaming. And all kinds of user-generated interest groups grew exponentially on TIYA, which greatly spur user interactions. In addition, we also saw growing engagement across user groups with different social networking topics. We are seeing a wider spectrum of chat room topics, including gaming, animation, lifestyle, music, daily lives, etc. Notably, the average monthly chat rooms in the first quarter increased by 450% from the prior quarter. Based on a wide array of interests

and topics, our users have made more new friends on TIYA. As of March 31st, the number of user friend connections increased by 230% from December 2020.

For users, TIYA is not only a tool to make real-time voice chat, but also gives the younger generation a space to connect with and get to know new friends. It is effectively an audio-based social networking platform for younger generation. Looking ahead, we will further broaden and optimize product features to strengthen our global footprint presence. We are poised to attract more younger generation to use and share TIYA as we remain focused on catering to their social networking needs. Building upon our innovative operational initiatives, we will also steadily cement TIYA's network effects to form a closed-loop that support a long-term and stable user growth.

In terms of implementation of podcast offerings and applications on multiple devices, we launched our brand-new vertical content platform LIZHI Podcast in January 2021. Leveraging the features and advantages of podcast that are applicable to a variety of devices and scenarios, we are propelling our strategy roadmap to in-car audio market. In this spirit, we have been establishing cooperations with more elite enterprises, launching LIZHI Podcast products that are compatible to the in-car scenario spanning an increasing number of vehicle models. Our new partners include more leading domestic companies such as automotive intelligence technology company ECARX, and electric-vehicle makers Enovate Motors and WM Motor. In addition to our expansion in the in-car scenario, we are committed to increasing the diversity of our podcast content library. In particular, aesthetic art, technology, lifestyle, and entertainment are highly popular amongst our users. We also continue to cooperate with more brands and enterprises in developing branded podcast programs to help increase their brand awareness, including POP MART, Tiger Brokers, WM Motor, etc. Meanwhile, in order to promote copyright protection of original podcast content created through LIZHI Podcast, we collaborated with AntChain to leverage its proprietary blockchain-based copyright solutions to provide greater copyright protection options for podcast creators.

In a bid to provide more efficient real-time connection and interaction between content creators and users, we debuted a new "Livestream Podcast" feature on LIZHI Podcast App in early April. Apart from attracting original content creators and KOLs exclusively with LIZHI Podcast to conduct livestreaming, we also invited the core production team of the history documentary film, Dunhuang-

Edge of the World, Kaixinmahua Comedy team, the punk rock band Joyside and other celebrities and groups from all walks of life to participate in our livestreaming podcasts, thereby delivering more diversified podcast listening experiences to our users. Livestreaming podcasts not only allow podcasts to be more interactive so as to better increase user engagement, but also deepen the connections between podcasters and audiences. Additionally, LIZHI Podcast also applied the “livestream podcast” feature for the in-car scenario, which was first unveiled on the smart in-car operating system of XPeng Motors. This is the first time livestreaming podcasts have been implemented in the in-car scenario. We expect to connect and integrate in-car podcast usage with mobile podcast usage, so that users can enjoy an immersive and interactive podcast experience in the in-car scenario as well. We strive to innovate our LIZHI Podcast products to offer more diversified podcast experiences for users. We are very pleased to note that LIZHI Podcast became one of the featured apps on Apple’s App Store several days earlier, making it the first Chinese podcast app recommended by Apple.

Aside from the positive progress in our businesses, we also further advanced the development and application of our in-house-developed technology in the first quarter. Specifically, our in-house audio technology solution, the DOREME project, provides technology infrastructure to support more businesses. The in-house real-time communication (RTC) technology provided by DOREME has also been applied to the “livestream podcast” feature of our newly launched LIZHI Podcast. In addition to the mobile devices, DOREME also effectively supports the application of livestream podcast in the in-car scenario, enabling users to have stable and smooth real-time communication and interactions through the internet. This is a remarkable achievement for our in-depth research on audio technology over years. Furthermore, we continue our focus on developing comprehensive audio technology solutions, consisting of audio filters, audio quality improvement and other technologies. We believe that strong technology capabilities are one of our key advantages to bolster LIZHI's competitiveness in the online audio space. We plan to implement an increasing share of our in-house technologies to a wider spectrum of businesses in the future, allowing users to have better listening and interactive experiences while further propelling our business growth.

In summary, we believe that our robust business development in the first quarter kicked off a great start of the year.

Going forward, we remain committed to building and enhancing a competitive audio ecosystem. We will strengthen our audio technology capabilities, drive the development of our audio community, execute our globalization strategy to create an audio-based social networking platform, and ultimately drive continuous business growth by leveraging our advantages to expand our product and service offerings across a broader range of devices.

Ms. Chengfang Lu

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

First, we are very pleased to have achieved strong top line growth in the first quarter of 2021. Our robust growth was driven by our continued efforts to build a competitive audio ecosystem including a vibrant UGC community and advanced commercialization capabilities. In addition, we have strategically invested to strengthen our brand equity as we boost our LIZHI Podcast and in-car audio business, and to expand our footprint overseas through Tiya, all of which we believe will propel our business growth in the future.

In the first quarter, our total net revenues increased by 34% to RMB495.1 million from the same period of 2020. Our audio entertainment business, which contributed RMB489.3 million to net revenues in the first quarter of 2021, and represented year-over-year growth of 34%. The increase was mainly due to the continuous growth in MAUs and paying users base, as well as enhanced commercialization capabilities of our Apps.

Additionally, *podcast, advertising and other revenues* grew by 50% year-over-year to RMB5.7million in the first quarter of 2021. The increase was primarily attributable to the increase in the number of advertisers.

Cost of revenues was RMB370.0 million in the first quarter of 2021, compared to RMB297.4 million in the first quarter of 2020. The year-over-year increase was primarily due to an increase in revenue sharing fees to our content creators, payment handling costs and bandwidth costs, which were generally in line with the growth of the Company's business.

Gross profit was RMB125.1 million (US\$19.1 million) in the first quarter of 2021, representing an increase of 72% from RMB72.9 million in the first quarter of 2020.

Non-GAAP gross profit was RMB127.7 million in the first quarter of 2021, representing an increase of 64%

year-over-year.

Gross margin for the first quarter of 2021 increased to 25% from 20% in the first quarter of 2020. **Non-GAAP gross margin** for the first quarter of 2021 grew to 26% from 21% in the first quarter of 2020.

Operating expenses increased by 64% year-over-year to RMB197.3 million in the first quarter of 2021.

Research and development expenses were RMB56.9 million in the first quarter of 2021, representing a year-over-year decrease of 3%. The decrease was primarily attributable to decreased share-based compensation expenses, as well as declining expenses related to research and development services provided by third parties, partially offset by the growth of salary and welfare benefits.

Selling and marketing expenses were RMB120.8 million in the first quarter of 2021, representing an increase of 238% from RMB35.7 million in the first quarter of 2020. The increases were primarily due to our increased investment in branding and marketing for our products and brand name.

General and administrative expenses were RMB19.6 million in the first quarter of 2021, representing a decrease of 26% from RMB26.4 million in the first quarter of 2020. The decrease was mainly driven by a decrease in the share-based compensation expenses and other miscellaneous expenses.

Operating loss was RMB72.2 million in the first quarter of 2021, up by 51% year-over-year. **Non-GAAP operating loss** was RMB64.0 million in the first quarter of 2021, compared to RMB28.7 million in the first quarter of 2020.

Net loss was RMB70.0 million in the first quarter of 2021, up by 45% year-over-year. **Non-GAAP net loss** was RMB61.8 million, compared to RMB29.2 million in the first quarter of 2020.

Basic and diluted net loss per ADS were RMB1.50 in the first quarter of 2021, compared to RMB5.33 in the first quarter of 2020. **Non-GAAP basic and diluted net loss per ADS** were RMB1.33, compared to RMB0.77 per ADS in the first quarter of 2020.

As of March 31, 2021, we had cash and cash equivalents, restricted cash, as well as short-term investments of RMB318.9million (US\$48.7 million).

Looking ahead, we remain committed to leveraging our strong operating capabilities and advanced technologies to further develop our global audio ecosystem and enhance brand building to consistently deliver solid long-term growth.