

LIZHI INC. First Quarter 2020 Conference Call SCRIPT

Operator:

Hello ladies and gentlemen. Thank you for standing by for LIZHI INC.'s first 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, Investor Relations of the Company. Please go ahead.

Effy Kang:

Thank you very much. Hello everyone and welcome to LIZHI INC.'s first quarter 2020 earnings conference call. The Company's financial and operating results were released via newswire services earlier today and are available online. Participants on today's call will include our Founder and CEO, Mr. Marco Lai, Co-Founder and CTO, Mr. Ning Ding, and our CFO, Ms. Catherine Chen.

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 discussion 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 the Company's 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 the unaudited non-GAAP measures to the unaudited GAAP measures.

Marco Lai

Hello everyone and thank you for joining us on our call today. The first quarter of 2020 represents a remarkable start for Lizhi as we successfully listed on Nasdaq, allowing us to gain even broader recognition as the go-to online audio platform in China. We are proud to deliver strong first quarter results, reaching new records in our key operating and financial metrics.

For the first quarter, our average mobile MAUs grew by 34% year-over-year reaching 54.5 million, a new high. Our content creator base also reached a record high with average monthly active hosts of approximately 6.2 million in the first quarter of 2020. With our enhanced commercialization model, our average monthly paying user base has increased by 60% year-over-year. Our revenue also reached an all-time high of RMB370million, surpassing the top end of our management guidance. Also of note, we have achieved meaningful improvement in gross margins. These metrics, individually and combined, demonstrate our strong execution and healthy business model.

We attribute our success to our dynamic UGC audio content ecosystem, along with our highly engaged and interactive community. We are thrilled to see our platform increasingly favored by young generation and to continue increasing the vitality of our UGC community as we remain dedicated to content enrichment, product innovation and technology empowerment. Our robust growth momentum in the first quarter reaffirms the demand for digital audio experiences and audio social interactions. As we strive to continue meeting this demand, we believe we are well positioned to capture broad opportunities in the online audio market.

With that foundational overview, I would like to go through some of the key initiatives and trends we are seeing in our core businesses and how they fit into our longer-term strategy.

First, I would like to begin with our content ecosystem. As leading UGC audio platform in China, Lizhi has cultivated one of the most attractive and welcoming environments for audio content creators. We are dedicated to enhancing the simplicity of the audio content creation process through a suite of simple yet intuitive audio recording and editing tools, proprietarily developed by our inhouse team. With only a mobile phone, content creator can easily create, edit, and upload audio content, operate their own live streaming channels, actively interact with audiences and gain access to a broad fan base. Encouragingly, Lizhi is becoming many people's first choice when it comes to audio content creation, consumption, and social interactions. At the end of the first quarter, the accumulative number of podcasts uploaded to our platform reached a new record high of 196 million, up 52% year-over-year.

We focus heavily on increasing the vitality of our UGC ecosystem, and have rolled out features such as Radio Logs or Rlogs and new version of Voice ID cards, helping us engage larger numbers of new users in audio content creation and sharing. Many people use Lizhi to record their daily life, test their voice feature and share with their friends. In February, we held Online Lizhi Voice Gala in recognition of all of our content creators' efforts. An audience of more than 6 million joined the event to support the award-winning audio content creators. With a large and growing audio content creator base and effective operational campaign, we are gaining more diverse and creative audio content submissions, which is

enhancing our mass market appeal and driving organic user growth.

For the first quarter, our most heavily trafficked verticals were life & relationship, entertainment, and education. For life & relationship, we promoted Rlog and the Lizhi companionship plan, as during the lockdown period, people were keen on staying connected by ways of recording their lives, expressing themselves, supporting their friends and families, finding companionship to get emotional and psychological relief.

For entertainment, to tackle the challenges due to restricted offline performance during the period of curtailed public movement, we brought online over 300 crosstalk performers nationwide and promoted a series of Chinese crosstalk audio live streaming shows. These high-quality crosstalk live shows, including shows performed by Chengdu Haha Crosstalk Club, have engaged around 1 million audience members. During the first quarter, we've also engaged more than 60 artist, actors, and entertainers, such as Yitian Hu, Ziwen Wang and Landi Li, to host audio-based live streaming events or record Rlog to share their life.

For education, we have promoted a 'Read-aloud Together' campaign in cooperation with Chinese Literature Magazine, and a 'Reading Textbooks at Home' study program. Besides, we jointly launched parenting melodrama series on our platform in partnership with Chinese animation GG bond. All of these attracted numerous users to participate. In addition, many users use podcasts, audio-based live-streaming, and chatrooms on Lizhi platform for classes and live learning together online.

With the advantage of integrated podcasts and our live streaming content ecosystem, we are able to offer more granular and interactive choices and experiences to satisfy varying user demands.

In terms of the expansion of our community, we remain focused on fostering user engagement and interaction among users and hosts by broadening social interactive features and products. We're excited to see in the first quarter, the average daily time spent on our mobile app grew to 55 minutes, a substantial increase from 47 minutes in the year-ago period and 53 minutes in the fourth quarter of 2019. With the increasing popularity of our audio social interactive features such as friends hall, match making, and Lizhi Party online karaoke, overall user interactions on our platform also reached record highs. Our users and content creators together generated over 2.9 billion monthly average interactions through chats, comments, likes and on-air dialogues.

We have integrated our fan-based membership programs across podcasts and live streaming in the first quarter to enhance content creator's connections with their fans, providing more services and better experience to our users.

Turning to our commercialization. Entering into 2020, we continued to enhance our leadership position as an exciting and growing UGC platform that provides a wide range of audio content and audio social entertainment experiences, capable of strong underlying commercialization. The community-driven phenomena on our platform positions Lizhi to constantly strengthen the bonds between content creators and users and we are exploring new opportunities. In the first quarter, our audio entertainment revenue continues to deliver robust growth. Meanwhile, we are making positive progress across our new commercialization initiatives, such as our fan-based membership program, paid content, advertising, and games.

Looking at the rest of the year, our top priorities continue to be focused on the expansion of a compelling UGC ecosystem, the cultivation of our highly interactive community and the further enhancement of our powerful AI technology - all of which are key drivers to successfully achieve new user growth while retaining our existing user base.

The upcoming IoT era will dramatically transform the way people enjoy online audio, and represents a wide range of new user scenarios dominated by audio interactions. To capitalize on this upcoming new growth wave, we are investing in online audio applications to capture enormous opportunities in the new IoT era. In September 2019, we started a strategic partnership with Baidu to co-develop interactive audio applications for IoT ecosystems. In first quarter of 2020, we launched Lizhi on Xiaodu smart speakers, including our most popular interactive audio functions, namely live streaming, on-air dialogues, and bullet chatting. We are committed to our IoT strategy which we believe will unlock significant growth potential in the long run.

In summary, notwithstanding the coronavirus outbreak which posed certain impact on our business operations in the first quarter, we are excited to get the year off to a solid start. We continue to see enormous opportunity for future growth, and we are confident in our commercialization models and strong competitive position bolstered by our clear strategies, strong execution track record and technology-driven innovation capabilities.

Mr. Ding

Thank you, Marco. and hello everyone. I am Ning Ding and I'm glad to join today's call.

We are extremely encouraged with our momentum entering 2020, as we started this year with another strong quarter and delivered robust operational results. We will continue to strengthen our strategic efforts and further optimize operations to expand our user base and improve overall user engagement.

Leveraging our audio-centric technology capabilities, we are able to complement our massive content library with a wide spectrum of interactive features. In addition, AI-driven content distribution and

recommendation, help deliver a superior experience for both content consumers and creators. We have seen interactive entertainment products and programs experiencing accelerated growth in user base and activities, underscoring the significance of this particular strategic focus.

AI technology has been increasingly playing a vital role in driving our business growth. We applied AI not only in content distribution, but also to content creation, along with cutting-edge data analytics and insights into user behaviors and preferences. This allows us to improve user stickiness and loyalty to our community. Content creators also benefit from the implementation of AI technology as it increases the effectiveness and efficiency of their creation and distribution process, as having a better understanding of their audience to enhance commercialization.

Looking ahead, we are excited about more innovative opportunities that can come from our diversified commercialization models. We will continue to advance our technological capabilities to provide more personalized and interactive entertainment services, improve AI technology applications in various aspects of our operations, and further strengthen our well-established leading position in the UGC audio market.

Ms. Catherine Chen

Thank you, Mr. Ding, and hello everyone.

We are excited about the solid start to 2020, despite the impact from the coronavirus outbreak. In the first quarter, our total net revenues surpassed RMB370 million, up 42% year-over-year and exceeding the top end of our guidance. Our average number of monthly paying users increased by 60% year-over-year reaching 450.3 thousand in the first quarter, mainly attributable to our experience and ability to monetize our fast-growing user traffic through our diverse social interactive products.

Currently, we generate our revenue primarily from audio entertainment business, which contributed RMB366.4 million in net revenue in the first quarter of 2020, representing yoy growth of 41%. We continue to drive more and more online traffic to our audio entertainment segment through the further integration of our podcast and livestreaming ecosystem. This has contributed to the growth of our paying user base and monetization.

Podcast, advertising and other revenues grew by 172% year-over-year to RMB3.8 million in the first quarter of 2020. We are pleased with this enhanced monetization diversification, followed by increasing user spending on our podcast content services.

Cost of revenues increased by 62% year-over-year to RMB297.4 million and slightly decreased by 1% quarter-over-quarter. This was primarily due to the increase of revenue sharing fees and bandwidth

costs, which were generally in line with the growth of our business, as well as the recognition of share-based compensation expenses that became effective upon the IPO. The quarter-over-quarter decrease was due to the wind down of the short-term incentive program which was launched in third quarter of 2019 to encourage content creation and attract more content creators and users to our new podcasts and interactive audio features.

Gross profit was RMB72.9 million in the first quarter of 2020, representing a decrease of 6% year-over-year and an increase of 13% quarter-over-quarter.

Non-GAAP gross profit was RMB78.0 million in the first quarter of 2020, representing an increase of 1% year-over-year and an increase of 21% quarter-over-quarter.

Gross margin increased by 200bps (basis points) from fourth quarter of 2019, reaching 20% in the first quarter. **Non-GAAP gross margin** increased by 300bps (basis points) from fourth quarter 2019, reaching 21% in the first quarter of 2020.

Operating expenses increased by 37% year-over-year to RMB120.6 million in the first quarter of 2020.

Research and development expenses, a key component of operating expenses, was RMB58.4 million in the first quarter of 2020, representing a year-over-year increase of 101%. The increases were mainly due to our efforts in the development of AI applications and enhancing data security, as well as the share-based compensation expenses recognized upon and after our IPO.

Selling and marketing expenses were RMB35.7 million in the first quarter of 2020, decreased by 31% from RMB51.9 million in the first quarter of 2019. The year-over-year decrease was primarily attributable to a decrease in the expenses related to branding and promoting activities in the first quarter of 2020.

General and administrative expenses were RMB26.4 million in the first quarter of 2020, compared to RMB7.2 million in the first quarter of 2019 and RMB15.1 million in the fourth quarter of 2019. The increase was primarily due to the recognition of share-based compensation expenses that became effective upon the IPO.

Operating loss was RMB47.7 million in the first quarter of 2020, compared to RMB31.7 million in the fourth quarter of 2019. Non-GAAP operating loss was RMB28.7 million in the first quarter, narrowed by 10% from RMB31.7 million in the fourth quarter of 2019.

Net loss was RMB48.2 million in the first quarter of 2020, compared to RMB29.0 million in the fourth

quarter of 2019, the change is mainly due to the share-based compensation which was granted during the past 2 years that became effective upon IPO and was recognized in 1Q 2020. **Non-GAAP net loss** was RMB29.2 million, compared to RMB29.0 million in the first and fourth quarter of 2019.

Basic and diluted net loss per share were RMB0.27 in the first quarter of 2020, compared to RMB0.56 and RMB1.16 in the first and fourth quarter of 2019, respectively. **Non-GAAP basic and diluted net loss per share** were RMB0.04, compared to non-GAAP basic and diluted net loss per share of RMB0.04 and RMB0.11 in the first and fourth quarter of 2019, 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 March 31, 2020, the Company had cash and cash equivalents, as well as short-term investments of RMB326.9 million (US\$46.2 million), compared to RMB82.7 million as of December 31, 2019. The increase is mainly due to our IPO financing.

Overall, despite the impact from COVID-19, we achieved strong growth in the first quarter of 2020. We continue to be optimistic about the future of the broader online audio industry and are confident in the overall ecosystem and product pipeline that we are building.

We plan to further develop our commercialization, leveraging our growing traffic and increasing user participation in our audio entertainment segment. We also see benefits in further expanding our diverse revenue streams and continuing to improve our paying ratio. Longer term, we believe our monetization efforts, increasing paying user base and operational efficiency will yield further top line growth as well as bottom line improvement.

With that in mind, for the second quarter of 2020, we currently expect total net revenues to be in the range of RMB350 million to RMB380 million, translating to accelerated year-over-year growth in the range of 56% to 69%. This forecast reflects our current and preliminary views on the market and operational conditions, which are subject to change.