

LIZHI INC. Third Quarter 2023 Conference Call SCRIPT

Operator:

Hello, ladies and gentlemen. Thank you for standing by for LIZHI INC.'s third quarter 2023 earnings conference call. Please note, all participants are in listen-only mode now and 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 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, and our Acting CFO, Ms. Chengfang Lu.

Management will begin with prepared remarks, introducing business development and financial performance in the third quarter. 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 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

Hello everyone, thank you for joining LIZHI INC.'s third quarter 2023 earnings conference call.

In the third quarter of 2023, we further strengthened the execution of our online audio-centric globalization strategy. Leveraging our long-term technological assets, we consistently empowered domestic business innovation while steadily advancing our global business, fostering a vibrant and diversified ecosystem. In the third quarter of 2023, our revenue reached RMB425 million. Our total average mobile MAUs amounted to 42.1 million, and our average monthly paying users totaled 402.6 thousand. Despite macro headwinds, we steadfastly pursued the course we had charted, reinforcing our commitment to our long-term vision. During the quarter, we continued to reduce costs and increase operating efficiency to improve organizational efficiency and agility while also reinforcing our globalization capabilities to better support the development of our diverse spectrum of businesses. Now let me go over our business developments during the third quarter.

In terms of our audio entertainment business, we remain committed to building a healthy and sustainable product ecosystem. Through proactive optimization of our operating strategies and meticulous refinement of our mechanisms for expanding and nurturing our content creator base, we have enhanced creator quality and increased the scale of our creator base while also solidifying our platform's competitive edges. During the quarter, in addition to the continuous optimization of our content creator platform, we launched the "Starlight Challenge," a strategic initiative designed to cultivate mid- and long-tail content creators and motivate our top-tier contributors. This program empowered content creators to showcase their distinctive vocal talents, further unlocking their creative potential while also elevating the platform's appeal to the content creator community.

In addition, we strove to improve the user experience and attract more high-quality users through enriched content offerings and product innovations. During the quarter, based on user preferences, we added a suite of carefully curated modules to enrich our content genres, providing our users with more diverse and engaging content options. Furthermore, we continued to iterate our product design and cultivate new product features and engagement tools, harnessing cutting-edge technologies to introduce innovative audio-based interaction experiences. We sustained active user participation through a diverse array of marketing programs and themed events, augmenting both user stickiness and engagement.

As for our global innovative business. We are deeply invested in delighting our users with next-generation

social networking products. By integrating advanced features, including cross-device functionality, real-time capabilities, AIGC technologies, and more, we continue to refine our products' interface and functionality. We leverage advanced technologies to empower product innovation catering to diverse user needs. Meanwhile, we endeavor to improve user engagement by enhancing the network effect of our offerings, thereby fostering organic user growth. Organization-wise, as we continue to boost our localization capabilities across product development, operations, and other key areas, we have also taken a collaborative, cross-team approach to product innovation to increase innovative productivity. Moving forward, we will continue developing international markets, reinforcing globalization capabilities, and ultimately accelerating the expansion of our global footprint.

With respect to technological advancement, we continued to strengthen our R&D capabilities to provide more customized product support. This, in turn, empowers product innovation and drives progress across our global business. We have also consistently deepened the integration and development of multimodal AIGC technologies into our innovative business framework. Through emotion-enhanced model training and algorithm optimization, we are fortifying our AI assets, unlocking vast opportunities for ongoing product innovation. On voice technologies, we have been constantly improving the stability and performance of automatic speech recognition and text-to-speech, i.e., ASR and TTS, for both Chinese and English languages, adapting them for diverse scenarios. We have also achieved breakthroughs in AI voice-changing technology, including its seamless integration into DOREME, our in-house RTC platform for real-time audio and video streaming. In the meantime, we further enhanced the quality of information transmission on our IM platform, VoderX, empowering our business with high-performance, low-latency, and scalable customized instant messaging capabilities. In terms of our versatile technology platform construction, we further improved data analytics and data management systems and applied AI technology to marketing and other fields. Collectively, these initiatives have improved overall operating efficiency. In general, we believe technological advancements are the cornerstone of business development. We remain committed to pursuing industry-leading technological standards and continually fortifying our core technological capabilities to empower business development.

We are delighted to announce that, last month, the Company was lauded as One of China's Top 100 Internet Companies by the Internet Society of China. This marks the fifth consecutive year that we have received this honor, representing powerful recognition of our comprehensive capabilities by the Internet Society of China and the broader industry. Going forward, despite macro challenges, we will spare no effort in proactively refining our business strategies and building a more competitive ecosystem. We will continue to improve our core technology capabilities while also adopting and more deeply integrating AIGC and voice AI technologies

throughout our business. Meanwhile, we will further streamline our operations and improve the effectiveness of resource allocation, propelling the Company's long-term sustainable development with fresh momentum.

Ms. Chengfang Lu

Thank you, Marco, and hello, everyone.

Our net revenues in the third quarter of 2023 were RMB425.1 million. Despite the complex backdrop and market uncertainties that persisted, we remained steadfast in strengthening our core competitiveness through technological innovation during the quarter. Moving forward, we remain committed to further enhancing organizational efficiency, developing globalization capability, and enhancing overall agility, positioning us to deliver enduring value to our stakeholders.

Now, I would like to provide a brief overview of our financial results for the third quarter of 2023.

In the third quarter, our **total net revenues** were RMB425.1 million, compared with RMB565.2 million in the same period of last year, primarily due to the decline in average paying users and user spending on our audio entertainment products.

Cost of revenues was RMB317.3 million in the third quarter of 2023, compared with RMB376.2 million in the same period of last year, mainly attributable to the decreased revenue sharing fees, share-based compensation expenses, payment handling costs, and other miscellaneous costs.

Gross profit was RMB107.8 million in the third quarter of 2023, compared with RMB189.1 million in the same period of last year.

Non-GAAP gross profit was RMB107.9 million in the third quarter of 2023, compared with RMB190.8 million in the same period of last year.

Gross margin in the third quarter of 2023 was 25%, compared with 33% in the same period of last year. **Non-GAAP gross margin** in the third quarter of 2023 was 25%, compared with 34% in the same period of last year.

Operating expenses were RMB167.9 million in the third quarter of 2023, compared with RMB176.6 million in

the same period of last year.

Research and development expenses were RMB83.8 million in the third quarter of 2023, representing an increase of 7% year-over-year, primarily due to the increased salary and welfare benefits expenses related to increased severance pay to optimize the R&D efficiency, partially offset by the decreased expenses related to research and development services provided by third parties.

Selling and marketing expenses were RMB59.1 million in the third quarter of 2023, compared with RMB71.2 million in the same period of last year, primarily attributable to decreased branding and marketing expenses. The Company will monitor its discretionary advertising and promotion expenses and adjust accordingly depending on market conditions.

General and administrative expenses were RMB25.1 million in the third quarter of 2023, compared with RMB27.1 million in the same period of last year, mainly driven by decreased professional service fees provided by third parties, provision for litigation contingencies, and other miscellaneous expenses.

Operating loss was RMB60.1 million in the third quarter of 2023, compared with operating income of RMB12.5 million in the same period of last year. **Non-GAAP operating loss** was RMB55.0 million in the third quarter of 2023, compared with non-GAAP operating income of RMB20.2 million in the same period of last year.

Other expenses were RMB5.9 million in the third quarter of 2023, compared with other income of RMB1.7 million in the same period of last year, mainly attributable to the remuneration fees to the depositary bank in relation to the ratio change of ADS on September 20, 2023.

Net loss was RMB62.0 million in the third quarter of 2023, compared with net income of RMB19.8 million in the same period of last year. **Non-GAAP net loss** was RMB56.9 million in the third quarter of 2023, compared with non-GAAP net income of RMB27.5 million in the same period of last year.

Basic and diluted net loss per ADS were both RMB11.01 in the third quarter of 2023, compared with basic and diluted net income of RMB3.81 and RMB3.79 per ADS in the same period of last year. **Non-GAAP basic and diluted net loss per ADS** were both RMB10.07 in the third quarter of 2023, compared with non-GAAP basic and diluted net income of RMB5.29 and RMB5.26 per ADS in the same period of last year.

As of September 30, 2023, we had cash and cash equivalents and restricted cash of RMB615.8 million.