

**CMCM - Cheetah Mobile, Incorporated**  
**Q4 2014 Earnings Call**  
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**Officers**

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Sheng Fu; Cheetah Mobile, Inc.; CEO  
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**Presentation**

Operator: Hello, and welcome to the Cheetah Mobile fourth quarter 2014 earnings conference call. All participants will be in listen-only mode. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

Now, I'd like to turn the conference over to Helen Zhu, IR Director. Please go ahead.

Helen Zhu: Thank you, Operator. Welcome to Cheetah Mobile's fourth quarter and full year 2014 earnings conference call. With us today are Mr. Fu Sheng, our CEO, and Mr. Andy Yeung, our CFO.

Following management's prepared remarks, we will conduct a Q&A session. Before we start, I refer you to the Safe Harbor Statement in our earnings release, which also applies to our conference call today, as we will make forward-looking statements.

At this time, I would like to turn the conference over to our CEO, Mr. Fu Sheng. (Speaking foreign language).

Sheng Fu: Okay. Thank you. Good evening, everyone, and I thank you for joining our call today. I'm excited to report that we made a significant breakthrough in our global business in Q4

and in 2014.

Revenues from mobile increased more than 6 times year-over-year and doubled quarter-over-quarter, and now account for 38% of total revenues as of Q4.

More importantly, we continue to see very strong reception for our mobile advertising business in the overseas market. Already, our overseas market revenue accounts for over 24% of our total revenues and 63% of mobile revenues last quarter. These successes clearly demonstrate the potential value of, and our ability to monetize our mobile apps and users, both in China and internationally.

Given those strong [changes], we are confident that mobile will remain the key growth driver for our Company and will account for more than 50% of total revenues by the end of the first half of 2015.

Additionally, our recent investment in MobPartner will further strengthen our mobile advertising technology and enrich our global talent pool, which further accelerates our monetization capabilities. Going forward, we will remain focused on building one of the leading global mobile advertising platforms.

Now, I would like to highlight the progress in the three strategic areas -- first, our products and the user growth. During the Q4, our global mobile user installations has surpassed a tremendous milestone by exceeding 1 billion installations. On the MAU front, we have now reached over 395 million globally. This is an impressive increase of 138% year-over-year and, now, over 69% of our mobile users are outside of China.

Also, for the full year of 2014, we added about 230 million mobile MAUs. Led by the success of Clean Master, we have built a strong product matrix of mobile apps. By using our existing products to cross-promote new apps, today, five of our apps are among the top-40 non-game apps on Google Play, and four of our apps have more than 100 million downloads on Google Play. According to App Annie, Cheetah Mobile was the number two publisher for non-game apps globally on Google Play, and is the number one publisher for the tools category.

Furthermore, we continue to roll out new apps and services that improve the mobile experience for users worldwide. For example, recently, Samsung has integrated Clean Master into its flagship Galaxy S6 smartphone worldwide.

In China, Tencent, Xiaomi and WiFi Master are all promoting Clean Master. With these strong partnerships, we are confident that our mobile user growth will remain strong both in China and overseas.

Second, we see strong progress in our overseas monetization capabilities. During Q4, mobile revenues grew 610% year-over-year and doubled quarter-over-quarter to RMB222 million,

accounting for over 38% of total revenue. For the full year 2014, mobile revenues grew 741% year-over-year to RMB465 million.

Our overseas monetization has already exceeded our expectations, and now accounts for 24% of our total revenues and 63% of mobile revenue in Q4.

The growth in overseas mobile advertising was driven by our growing user base, the significant progress we made in big data analytics and mobile advertising technology, as well as our expanding partnerships with key mobile advertising platforms worldwide.

In 2014, we improved the big data analytics which we can improve our effective ads for our advertisers.

In addition, we have greatly expanded partnerships with more than 20 leading global mobile advertising platforms, resulting in us being the top partner of Facebook Audience Network. As a result, not only can we increase the availability of our ad inventory; we are also seeing a significant increase in the value for our ad inventory. We expect that overseas will continue to be the major growth driver for our company.

Third, we will continue investing in mobile and global. Our results and our achievements in 2014 have clearly shown the validity of our previous investments, but this is just the beginning for us as we navigate our expanding mobile market.

Recently, the daily run rate of our overseas mobile ad revenues surpassed USD500,000 per day. The rapid growth in our overseas mobile monetization demonstrates the huge value of our utility apps in the global market.

In 2015, we will continue to invest aggressively in developing our service and build better apps and expanding our successful promotional efforts. Our recent acquisition of MobPartner will also further enhance our monetization capabilities and global sales footprint, allowing us to improve the effectiveness of our advertising and expand our customer base.

We also plan to open additional overseas offices to localize our service offerings. These initiatives should help us further strengthen the foundation for our future success.

In short, through our hard work and solid results in 2014, we have demonstrated that a China-based Company, such as Cheetah Mobile, can successfully monetize its utility apps in the overseas markets. It clearly demonstrates that the free-to-use model of Chinese tool apps can be replicated in the global market. Additionally, it significantly strengthens our resolve and confidence in investing aggressively in the mobile business.

We are confident that we can build Cheetah Mobile into a leading global mobile advertising platform over the next 2 or 3 years. We expect 2015 to be another year of high growth in mobile users, as well as the overall mobile advertising market.

We have an aggressive strategy that we will significantly increase our investment in product development and marketing in order to solidify and expand our leading position in the mobile space. Through large-scale investments, we aim to, one, reach 600 million mobile MAUs by the end of 2015; two, increase our revenues by 100% growth year-to-year in 2015; and three, increase mobile revenues, especially overseas mobile revenue, making it the main source of revenue and our key growth engine going forward. In fact, we anticipate 1Q mobile revenues could exceed 50% of our total revenues.

This concludes my portion of the presentation. I will now turn the call over to our CFO, Andy Yeung.

Andy Yeung: Thank you, Sheng. Good evening, everyone. We closed a landmark year with a solid quarter. For the full year 2014, our total revenues increased by 135% year-over-year to RMB1.76 billion. In the fourth quarter, our total revenues grew 119% year-over-year and 23% quarter-over-quarter to RMB589 million, exceeding the high end of our guidance. This strong performance was driven by organic business growth, primarily due to our robust mobile platform's performance globally.

As Sheng mentioned earlier, mobile revenues grew 610% year-over-year and doubled quarter-over-quarter to RMB228 million, accounting for over 38% of total revenues.

For the full year 2014, mobile revenues grew 741% year-over-year to RMB465 million. Most notably, our overseas monetization has exceeded our expectations since its launch in the second quarter 2014. And now, it already accounts for 24% of total revenues and 63% of mobile revenues in the fourth quarter. Our success in mobile, particularly in the overseas markets, clearly validates our previous investments in the mobile and global arenas.

Now, I will walk you through the details of our financial performance. All financial numbers are in RMB unless otherwise noted.

Revenue from online marketing services for the fourth quarter were approximately RMB446 million, an increase of 110% year-over-year and 24% quarter-over-quarter. For the full year 2014, revenues from online marketing services increased by 116% year-over-year to RMB1.3 billion.

The increases were primarily driven by a strong demand for our mobile advertising business in both the domestic and overseas markets. Mobile advertising business already accounts for 28% of our total revenue and 75% of our revenues in the fourth quarter. Looking ahead, we see strong trends that will allow mobile advertising to be the key growth driver for the Company.

Our revenues have continued to diversify throughout the year. In 2014, revenue contribution from top-three customers in aggregate was 41% of total revenues, compared to 58% in 2013. This was mainly due to a significant ramp-up in our mobile business.

Revenue from IVAS for the fourth quarter were approximately RMB137 million, an increase of 226% year-over-year and 28% quarter-over-quarter. For the full year 2014, revenues from IVAS increased by 382% year-over-year to RMB401 million. The increases were primarily driven by a larger number of games and paying users compared to the same period last year.

Revenues from internet security services and other for the quarter were approximately RMB6 million, a decrease of 60% year-over-year and 44% quarter-over-quarter. For the full year 2014, revenues from internet security services and other decreased by 26% year-over-year to RMB40 million. The decrease was primarily due to the Company ceasing to promote subscription services in a strategic reorientation which started in 2011.

Now, moving to costs and expenses -- SBC expenses for the fourth quarter were approximately RMB51 million, compared to RMB10 million in same period last year, and RMB57 million in the previous quarter. SBC expenses for the full year 2014 were approximately RMB173 million, compared to RMB37 million in 2013.

As we stated in the past, we have incurred higher SBC expenses in 2014, largely due to shares and options granted to management and employees prior to the Company's IPO in May 2014.

To help facilitate the discussions of the Company's operating performance, the following discussion will be on a non-GAAP basis, which excludes stock-based compensation expenses. For financial information presented in accordance with US GAAP, please refer to our press release, which is available on our website.

Non-GAAP costs of revenues for the fourth quarter were RMB140 million. Non-GAAP costs of revenues for the full year 2014 were RMB402 million. The increases were primarily due to higher costs associated with the mobile game business, and higher bandwidth and IDC costs from increased user traffic, as well as higher amortization costs from acquired intangible assets.

Non-GAAP gross profit for the fourth quarter was RMB449 million, up 105% year-over-year and 22% quarter-over-quarter. Non-GAAP gross profit for the full year 2014 was RMB1.36 billion, up 123% year-over-year.

Non-GAAP gross margins for the fourth quarter were 76%, compared to 81% in the same period last year and 77% in the previous quarter. Non-GAAP gross margin for the full year 2014 was 77%.

Non-GAAP R&D expenses for the fourth quarter were RMB105 million, up 96% year-over-year, and down 12% quarter-over-quarter. The year-over-year increase was primarily due to increased headcount associated with the expansion of our mobile business.

Non-GAAP R&D expenditure for the full year were RMB386 million, up 90% year-over-year.

Non-GAAP sales and marketing expenses for the fourth quarter were RMB182 million, up 115% year-over-year and 11% quarter-over-quarter. Non-GAAP sales and marketing expenses for the full year 2014 were RMB573 million, up 189% year-over-year. The increase was mainly due to promotional expenditures to expand our mobile business and deepen our global penetration. As Sheng mentioned, 2015 will be another investment year for acquiring mobile users and overseas expansion.

Non-GAAP G&A expenditure for the fourth quarter were RMB56 million, up 176% year-over-year and 73% quarter-over-quarter. Non-GAAP G&A expenses for the full year 2014 were RMB147 million, up 89% year-over-year. The increases were mainly due to increased professional service fees and headcount associated with being a publicly listed company.

Non-GAAP operating profit for the fourth quarter was RMB105 million, an increase of 76% year-over-year and 103% quarter-over-quarter. Non-GAAP operating profit for the full year 2014 was RMB256 million, an increase of 98% year-over-year.

Non-GAAP operating margin for the fourth quarter was 18%, compared to 22% in the prior year period, and 11% in the prior quarter. Non-GAAP operating margin for the full year 2014 was 15%, compared to 17% in 2013.

Non-GAAP net income for the fourth quarter was RMB83 million, an increase of 132% year-over-year and 37% quarter-over-quarter. Non-GAAP net income for the full year 2014 was RMB241 million, an increase of 143% year-over-year.

Non-GAAP diluted earnings per ADS for the fourth quarter increased by 105% year-over-year and 37% quarter-over-quarter to RMB59 cents, or USD\$0.10. Non-GAAP diluted earnings per ADS for the full year 2014 increased by 108% year-over-year to RMB1.80, or USD\$0.29.

Now let me provide you with our first quarter 2015 revenue guidance. We currently expect total revenues for the first quarter to be between RMB640 million and RMB650 million, representing a 103% to 106% year-over-year increase. Please note, this forecast reflects the Company's current and preliminary view and is subject to change.

Finally, as mentioned previously, **while we experienced non-GAAP operating margin improvement quarter-over-quarter in the second half of 2014, mobile internet is still in its early stages of development. I would like to emphasize that profitability is still not a priority for us yet.**

**We'll continue to see 2015 as an investment year. As a result, we will continue to invest heavily and aggressively in improving our products and acquiring more users to fortify our leading position in this growing market.**

And this concludes our prepared remarks for today. Operator, we are now ready to take questions.

## Question-and-Answer Session

Operator: Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions). George Meng with Morgan Stanley.

George Meng: (Speaking foreign language). My question is about your overseas advertising monetization, especially you are now taking a three-pronged approach. So basically, you have your own sales force selling your advertising directly. You actually partner with Facebook in terms of their Facebook Audience Network, and you also partner with some of the third party ad exchanges. So I'm just wondering what's the revenue mix and then how do you allocate that? Is it all on a RTB real-time bidding basis or do you actually allocate those budgets or inventories manually? And is there any one particular source that shows higher ROI or any particular trait than the others? Then that's my question, thanks.

Sheng Fu: Okay. I'll answer the question in Chinese and Andy will translate it for me. (Speaking foreign language).

Andy Yeung: (Interpreted). Thank you for your questions, George. Your question is about the distribution between our revenue share or the percentage of our advertising overseas coming from Facebook or third parties or other outside source. I think that percentage continues to change (inaudible) as we develop our mobile advertising business overseas. And I think at this point, we would not like to disclose too much details about that at this moment.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). Of course, partnership with overseas mobile platforms is very important for us and in fact, I will be attending the Facebook Audience Network Partner Conference --

Sheng Fu: (Speaking foreign language).

Andy Yeung: -- (inaudible) an audience conference next week. And then I think that shows you how much we are involved in the overseas partnership there.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So obviously, we are developing our mobile advertising technology platform. We have a rudimentary RBD systems, but again, it's still in the early stage. It helps us to automate the optimization of billings, but again, we emphasize we still (inaudible) right now.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). Right. So obviously, we continue to look at strengthening our direct sales force in overseas markets and that's probably the key reason for our acquisition of MobPartners, which we announced a couple of days ago, to basically strengthen our overseas presence, and also acquire some technology there.

In addition to that, so there's still in many areas, we continue to improve in our mobile technology platform. So that's probably the reason why we expect, as we improve each one of them, we would see a significant improvement in our revenue-generation capabilities.

George Meng: All right. Thank you.

Operator: Jeff Hao with China Merchant Securities.

Jeff Hao: (Speaking foreign language). Thank you for taking my question, and my question is regarding overseas competition. So we've seen the overseas competition has been quite severe in the first quarter this year, especially among those Chinese two apps developers, especially Qihoo. So can the management comment on what's your view on the competitive landscape? And are you planning to spend more marketing dollars to deal with the current competition? Thank you.

Sheng Fu: Okay. (Speaking foreign language).

Andy Yeung: (Interpreted). Thank you for your question, Jeff. Obviously, our success in the overseas market has attracted lot of entrants from China and other places, but those entrants have not really affected our user decisions or our business overseas.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). Right. So you go by some of the competitors, their main way of acquiring users are through very aggressive promotional activities there, and then after they help in terms of sudden monthly download numbers. But in terms of the size and the scale, I think they are still very significantly behind us.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So given our success in the overseas market, we believe that we have a lot of opportunity to create even bigger scales and bigger, better technologies overseas.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). Right. So in order for us to solidify our leading position in overseas market and expand it, and to achieve the scale of economy that we want to see, we will definitely increase our investments in marketing in product developments in overseas market.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So obviously, some of you guys all have seen there's quite a bit of competition on the Google Play ranking at this moment, but the part you don't see is the activity that we have, or the success that we have achieved in the offline user acquisition channel. In fact, if you look at our recent announcement, Samsung has integrated our Clean Master technologies into their recent flagship product.

And in addition to that, we are also working with other major OEMs, including [XTC] and (inaudible) and others, either (inaudible) our applications or to provide certain surfaces for them. So I think we're quite confident that that offline channel will also help us to both use our position as well.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So we're confident that we can maintain our leading position, despite the competition that's coming in.

Jeff Hao: Thank you.

Operator: Evan Zhou with Credit Suisse.

Evan Zhou: (Speaking foreign language). My question is regarding the overall spending plan to pursue the larger opportunities we foresee in the future. What's the breakdown by different types of spending scheme -- for example, like pre-installation, like partnership or traffic provision? Thanks.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So as you can probably tell from the mobile industry globally, it's still in a very high phase of growth and if you look at our peers, most of them have announced a significant increase in investment in the mobile business.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). I think personally, there's some questions about our business model in terms of monetizing our apps in the overseas market, but if you look at our first quarter results and in overall 2014 results, you'll see that we had very strong growth in our overseas market revenues. I think that clearly demonstrates the Chinese company like Cheetah Mobile's ability to actually monetize using applications in the overseas markets.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So today, our Board of Directors has approved our plan to be more aggressive in investing in the mobile business.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So number one, 600 million monthly active users so for our mobile user base in 2015.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So despite the high growth that we achieved in 2014, we also aim to double our revenues in 2015.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). But unlike last year, 2014, in 2015, we anticipate that the main key driver for our growth will be coming from mobile, not PC.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). We believe that we will be able to achieve a very important milestone in the first quarter, when our revenues, which we anticipate from mobile, to exceed 50% of total revenue.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So to achieve this pair of working goals of -- those three working goals, we believe that it's important to invest to achieve those ambitious goals. So in 2015, we will invest aggressively.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). The number one thing that we want to invest in is in product development. We have seen the values of this application. We want to create a powerful [part] matrix, not only in utility applications, but also in other areas, including in lifestyle and content areas. So that's a key area for our investment.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). I think some of our peers have tried to monetize in the overseas market and may face some challenges. I think one of the key challenges for them was the inability to develop a monetization of technology or advertising platform. So this is the area that we continue to rightly focus and invest in. As we mentioned, we want to be one of the leading mobile advertising platforms globally, so this is one key area of the method.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). And number three is that given we already have proven a very successful monetization model in the overseas market, it's the right time for us to increase and strengthen our user acquisition overseas, in order to achieve the scale of economy that we like to see.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So these are the three key areas of our investment focus.

Evan Zhou: Thank you.

Operator: Alex Yao with JPMorgan.

Alex Yao: (Speaking foreign language).

Sheng Fu: Okay, a good question. (Speaking foreign language).

Andy Yeung: Before I ask Sheng Fu for those answers, maybe I will translate the question in English first. The question was about in 2015, one of our strategic goals is to achieve the 600 million monthly active user mark. And the question is to achieve that, are we going to have a more balanced portfolio of products? And also, in terms of user engagements, and what's the trend profile?

So the answer that Fu Sheng initially mentioned is that one, obviously, our flagship product, Clean Master, is very important for us. It continues to grow very fast and it's very important too for us to promote our -- to cross-promote our application. But if you look at some other applications that we have launched, particularly CM Security, which we launched in the first quarter of 2014, we already have accumulated more than 100 million users in just less than 1 year.

Sheng Fu: (Speaking foreign language).

Andy Yeung: Yes.

Sheng Fu: (Speaking foreign language).

Andy Yeung: From the user base perspective, it's probably one of the largest mobile security software applications today globally.

Sheng Fu: Yes. (Speaking foreign language).

Andy Yeung: (Interpreted). Right. So in addition to CM Security, in fact, I think we have two other products that have more than 100 million user downloads already. But in addition to that, we have also recently launched several products, including CM Launcher. So in the coming year, we expect that we will form a very strong partner matrix and to cross-promote these applications. So we expect that the penetration among our own applications will be even higher.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). Right. So in terms of the ad inventory that we make available for advertising, I do not want to disclose the precise number of impressions, but I think if you look at it on a year-over-year basis, we have more than doubled the inventory that we have made available for advertising. And I think if you look at the ability for us to increase the impressions and inventory and page (inaudible), we think we still have significant room to improve on that.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So if you look at, in addition to the volumes of inventory that have increased, another key area for increasing mobile revenue is what we call eCPM, and eCPM, one of the technologies in terms of mobile advertising. So it's how you can optimize pricing, how you can do better tracking; how can you sell to more advertisers, so you can -- and also we can vary different pricing models. So we continue to improve on that. So overall, I think you look at volume, you look at eCPM, we continue to see a lot of room for improvement and a lot of room for growth.

Alex Yao: Okay. Thank you.

Operator: Thomas Chong with Citigroup.

Thomas Chong: Hi, thanks for taking my questions; I have two questions. Can management give us some color about the geographical revenue mix for your advertising business? And my second question is any color about your business strategy in the China market going forward? (Speaking foreign language).

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). So as we mentioned earlier already, mobile accounts for -- overseas revenues account for more than 60 -- passing almost [62]% of our total mobile revenues. So obviously, the rest of that is in China. For overseas, you can tell that our business mirrors very much the existing international advertising, mobile advertising market, which is maybe coming from North America and also Europe.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). Right. And we also want to point out that even in China, we see

again the acceleration of our growth in the mobile advertising business.

Sheng Fu: (Speaking foreign language).

Andy Yeung: (Interpreted). Right. We're tracking our user base right now, so while our users today are coming from North America and Europe and also for more advertising business in those countries are also more developed. So the revenue-generating abilities in those markets are bigger. So our focus in those markets today, in addition to user growth, is monetization.

Now, we also want to point out that all this trend today in the mobile market is that in the emerging markets, the user growth is growing faster. So a country like India and those places, we see faster user growth, and I think that represents a very important potential market for monetization in the future. So that's our view on both the current revenue contributions for mobile and also our future outlook for that in terms of geographic outlook.

Thomas Chong: Thank you.

Operator: Henry Guo with JG Capital.

Henry Guo: Thanks for taking my question. So it's a very quick one. So Andy, this is a question for Andy. So could you break out the mobile advertising and mobile game for the mobile revenue for the quarter?

Andy Yeung: Right. So right now, the majority of our revenues come from advertising. In fact, I think we mentioned that. Almost 75% of our mobile revenues today are coming from advertising in the fourth quarter.

Henry Guo: Okay, thank you.

Operator: All right. And as there are no more questions at the present time, I would like to turn the call back over to management for any closing comments.

Helen Zhu: Thank you for joining our conference call, and if you have any questions, please let us know. Thank you so much

Operator: Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect. Have a nice day.

Sheng Fu: Thank you.

Andy Yeung: Thank you.