Cheetah Mobile Inc.
Q2 2021 Earnings Conference Call
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Officers and Speakers
Sheryl Zhang, Director, Investor Relations
Fu Sheng, Chairman and Chief Executive Officer
Thomas Ren, Chief Financial Officer

Analysts
Melody Chan, Jefferies

Presentation

Operator

Good day and welcome to the Cheetah Mobile Second Quarter 2021 Conference Call. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions.

Please note, this event is being recorded. I would now like to turn the conference over to Sheryl Zhang, Investor Relations Director of Cheetah Mobile. Please go ahead, ma'am.

Sheryl Zhang

Thank you, operator. Welcome to Cheetah Mobile's Second Quarter 2021 earnings conference call. With us today are Mr. Sheng Fu, Chairman and CEO, and Mr. Thomas Ren, CFO. Following management's prepared remarks, we will conduct the Q&A session.

Before we begin, I refer you to the Safe Harbor Statements in our earnings release, which also applies to our conference call today as we will make forward-looking statements.

At this time, I would now like to turn the conference call over to our CEO Mr. Sheng Fu.

Please go ahead Fu Zong.

CEO – Sheng Fu

Thank you, Sheryl. Hello, everyone.

In the second quarter of 2021, Cheetah Mobile's revenue was RMB212 million, which is within our previous guidance. It is worth mentioning that this is for the first time in past 10 quarters, we realized quarter-over-quarter revenue growth.

For our internet business, our membership maintained a strong momentum in both membership number and revenue. We are happy to see the increase in renewal rate and more and more

members have been choosing 3 months, 6 months and even longer time membership. This shows our members are satisfied with the superior experience we deliver. The single advertising model has been successfully transformed to a diversified model of advertising plus subscription. We will stick to this strategy to expand the size of our membership business. In addition, on mobile platform, we have been developing and launching new products to attract more high-value young users. These products have effectively increased users' time and brought in revenues for the Company. In General, although in past two years we experienced huge external challenges, we have efficiently reshaped our internet business into right direction. As you see, this quarter we have resumed sequential quarterly revenue growth.

Besides the resuming domestic internet business we just mentioned, we also have two services to utilize our overseas experience and resources to empower Chinese companies to develop business outside China. One service assists domestic companies to launch advertisement on large overseas advertising platforms. The other service provides an integrated cloud platform for enterprises so they can seamlessly alternate through multi cloud platforms at low costs. With our services, companies can improve operation and save costs. We expect these two businesses will take off in the second half of 2021.

For our AI business, we have made good progress with the business model of shopping-mall coupon-selling robots. We created a brand new inside-shopping-mall marketing mode to attract customers for merchants and have got really positive feedback. So far, our robots sell more than 1000 kinds of coupons for more than 1000 merchants in nearly 40 cities all over the country. Weekly average GMV has increased for consecutive 11 weeks with a compounded growth rate of about 20%. Next, we plan to deepen our focus on high quality shopping malls and merchants. In this model, merchants can attract more customers, customers can get good benefits and we can achieve sustainable growth. This is a real multi-win situation.

Lastly, I would like to mention that with great efforts, the Company's operational efficiency has been significantly improved. In past quarters, the gross margin has been increasing and non-GAAP operating loss has been narrowed. We will keep working to get the best outcome with very reasonable input. And as of June 30th, 2021, our cash position was around USD259 million and long-term equity investments was about USD374 million. The abondunt cash enables the rally of our internet busiess as well as the rapid development of our AI and other business. We are confident, in the second half of 2021we will get out of difficult position and achieve all-round growth in our business.

With that, I will now turn the call to our CFO, Thomas Ren, to go through the details of our second-quarter financial results.

CFO Thomas Ren

Thank you, Sheng, and hello everyone. Thank you all for joining us today.

Now, I will walk you through our key financial highlights. Please note that unless stated otherwise all money amounts are in RMB terms.

As Sheng just mentioned, we delivered a healthy quarter. In the second quarter of 2021, our total revenues were 212 million, representing a year-over-year decrease of 46% and a quarter-over-quarter increase of 7%. The revenue was within the range of our previous guidance. To explain the reasons behind the changes, now let me break down our revenues into internet, and, AI and others sectors.

Revenues from the Company's internet business decreased by 46% year over year and increased by 9% quarter over quarter to 204 million in this quarter. The year-over-year decrease was due to the Company's strategic efforts to diminish the gaming-related business in past quarters. And the quarter-over-quarter increase was mainly from the growth of our membership business and the commercialization of several new utility products.

Revenues from AI and others were 8 million in the second quarter of 2021, representing a 59% year-over-year decrease and a 27% quarter-over-quarter decrease. The year-over-year decline was primarily attributable to the planned drop in sales of consumer-facing AI-related products. The quarter-over-quarter decrease was from the expected volatility during the transition of business model. Although in the last couple of months, we have seen some preliminary success in the business model of shopping-mall coupon-selling robots, fluctuations could happen in the short term, as we are still optimizing this business model.

Turning to costs and expenses. The following discussion of results will be on a Non-GAAP basis, which excludes stock-based compensation expenses. The use of Non-GAAP measures in this context will help us to better present the results of our operating performance without the effect of non-cash items. For financial information presented in accordance with U.S. GAAP, please refer to our earnings release.

Our operating loss has been further narrowed with consistently improved operational efficiency. In the second quarter of 2021, our operating loss was 56 million, narrowed from 133 million in the same period of the last year and 58 million in the previous quarter.

Cost of revenues decreased by 56% year over year and 15% quarter over quarter to 50 million in the second quarter of 2021. The decrease reflects our ongoing efforts to streamline the business and improve the operational efficiency.

Research and development expenses decreased by 58% year over year and 33% quarter over quarter to 47 million in the second quarter of 2021. The decrease was due to the deconsolidation of certain gaming business in past quarters. And at the same time, the technologies to support our current AI business have been relatively well-developed. So comparing with past quarters, the investment in AI related R&D was lowered in this quarter.

Selling and marketing expenses decreased by 41% year over year and increased by 52% quarter over quarter to 121 million in the second quarter of 2021. This year-over-year decrease was attributable to the streamlining of our business and the strategic cost cutting. While the quarter-over-quarter increase was mostly from the promotion of our new utility products.

General and administrative expenses decreased by 47% year over year and increased by 6% quarter over quarter to 52 million in the second quarter of 2021. The year-over-year decrease was mainly due to the streamlining of our business and our effective expense control. While the quarter-over-quarter increase was caused by reversal of share-based compensation expenses due to forfeitures in the first quarter of 2021.

Now let me turn to our balance sheet. As of June 30, 2021, we had cash and cash equivalents, restricted cash, and short-term investments of US$259 million and long-term equity investments of US$374 million. We have maintained a strong balance sheet as always, which makes it possible for us to invest across our core business to support our long-term growth plans.

And for our third-quarter revenue guidance: we currently expect total revenues to be between 180 million and 230 million.

Please note, this forecast reflects our current and preliminary views and is subject to change.

This concludes our prepared remarks. Operator, we are now ready to take questions. Thank you.

Operator

When asking the question, please state your question in Chinese first, then repeat your question in English for the convenience of everyone in the call.

We will now begin the question-and-answer session. Melody Chan of Jefferies.

Melody Chan: (Speaking foreign language). I have 2 questions. The first one is on the advertising sector outlook, and the second one is about our AI shopping mall robot business. Can management share a bit more on their operations?

Thomas Ren: Thank you, Melody, for your questions. So I will answer your first question regarding the advertising industry. And I think Fu Sheng will answer your second question regarding the AI business. So for the advertising industry, recently in Q2, as we all know, there were some occasional Covid-19 cases in several cities across China. So therefore, we can see some negative impact on advertising for travel and transportation; and also because of the recent regulation on K-12 education. So we can see the online education industry is gradually starting out of the market.

However, we still see industries very active such as internet service, consumer goods, cars and so on. And for us, as we mentioned, we have been transforming our single advertising business model to a diversified business model of both advertising and subscription. So currently, we can -- for some of our utility products, we can see more than half our daily cash revenue received is from membership or user subscription. And also, as we mentioned, the renewal rate is up, and more and more members are choosing longer-term membership. So this will be our continuing strategy in the long run. And at the same time, we also -- as we mentioned, we also launched some new utility products. For this product, revenue is mostly from the user-paying model. Hope this answers your first question.

Sheng Fu: (Speaking foreign language).

Thomas Ren: Okay. Let me translate this part.
(Translated). So based on our recent exploration, we realized that in the shopping mall, our robots can provide to the customers about the -- like inquiries of locations and also the information about the local merchants. And we think there is a great chance we can do a really successful business model on the shopping mall. Yes, the local traffic in the shopping malls is increasing in the recent years, and the size of the local shopping malls are becoming bigger and bigger. So it will be difficult for a customer, when entering the shopping mall, there is a lack of a [channel] to obtain merchant information.

Our robots in the shopping malls, especially the noisy environment in the shopping malls, our robots can provide good voice interaction with the customers, so that they can quickly obtain the merchants' information in the shopping mall. This also help the shopping mall to improve its service quality. When a customer is inquiring information regarding certain merchants, we can also recommend some coupons for the merchants he is asking. This can bring more traffic to the local merchants in the shopping mall. This is a multi-win solution for the 3 parties, i.e., the shopping mall, the merchants and the customers.

As we all know, the local merchants, nowadays, their user acquisition is mostly from the big internet platforms, and the cost is becoming more heavier for the local merchants. So we can provide quick channels for the merchants to obtain local traffic. So far, our robots are selling more than 1,000 kinds of coupons for more than 1,000 merchants in nearly 40 cities all over the country. And the weekly average GMV has increased for consecutive 11 weeks with a compounded growth rate of about 20%. We believe this kind of business model can be -- can increase our growth substantially, and also we can create a service platform based on the shopping mall environment. So that's our answer about your second question. Thank you.

Operator

As there are no further questions at this time, I'd like to hand the conference back to our management for closing remarks.

Sheryl Zhang

Thank you all for joining us today. If you have any questions please do not hesitate to contact us. Thank you. Bye.

Operator

The conference has now concluded. Thank you for attending today's presentation. And you may now disconnect.