

CMCM Earnings Call Transcript

Date: 2025-11-26

Quarter: 3

Operator: Good day, and welcome to the Cheetah Mobile Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Please note today's event is being recorded. I would now like to turn the conference over to Helen, Investor Relations for Cheetah Mobile. Please go ahead, Helen.

Jing Zhu: Thank you, operator. Welcome to Cheetah Mobile's Third Quarter 2025 Earnings Conference Call. With us today are our company's Chairman and CEO, Mr. Fu Sheng; and our company's Director and CFO, Mr. Thomas Ren. Following management's prepared remarks, we will conduct a Q&A section. Please note the management's script will be presented by an AI agent. Before we begin, I refer you to the safe harbor statement in our earnings release, which also applies to our conference call today. Management will make forward-looking statements. At this time, I will now turn the conference call over to our Chairman and CEO, Mr. Fu Sheng. Fu Sheng, please go ahead.

Sheng Fu: Good day, everyone, and thank you for joining Cheetah Mobile's Third Quarter 2025 Earnings Call. I'm Fu Sheng, the CEO of Cheetah Mobile. I'm very happy to report that our turnaround efforts are paying off. We hit quarterly breakeven ahead of expectations. In Q3, we made an operating profit -- first time in 6 years. We believe we are well positioned to approach breakeven for the full year 2025. At the same time, our growth stayed strong in Q3, building on the momentum from the first half of the year. Q3 revenue rose 50% year-over-year, driven by both our Internet business and our AI and other businesses. Our AI and other segment grew even fast, up 151% year-over-year and 6% quarter-over-quarter and now presenting 50% of total revenues. So far, 2025 has been a solid year for Cheetah. Revenue in the first 9 months rose around 48%. We became profitable in Q3 and took important steps in our two AI focus areas, AI robots and AI tools. We believe this progress shows our investors were right to trust our vision and work. I want to thank our shareholders for their support. I know many of you invested in Cheetah because you believed in our ability to deliver a comeback. We are working hard every day to make that happen. I remain fully committed to leading the company forward and our results this year show that the turnaround is real. Looking ahead, we will focus on driving growth by building new growth engines through our AI initiatives, AI robots and AI tools. Today, I will talk about our vision and progress in these areas. Thomas will follow with more on how we are building a lean cost structure to support long-term profitability. Both AI robots and AI tools have enormous market potential, and Cheetah Mobile has strong advantages to build new growth engines in these areas. Additionally, we hold minority investments in several companies in this space, which could extend our organic growth in the future. In Q3, our AI robotic business contributed about 15% of total revenue, growing about 100% year-over-year and 40% quarter-over-quarter. We see two drivers of this growth. First, strong demand for our voice-enabled wheel robots in China. In Q3, for the second quarter in a row, revenue from these robots doubled year-over-year. They now make up around 5% of our total revenues, supported by both repeat orders and new wins. As of September 30, 2025, the contract backlog for these robots in China was up 32% from the previous quarter. Since then, the backlog has doubled again, reflecting sustained demand. These trends make us comfortable for a continued strong [UA] growth in our revenue from these robots in the fourth quarter. Why is demand rising? First, more customers are open to using robots. And today, wheel robots are the most reliable and cost-effective option for large-scale deployment. But more importantly, product experience is getting better. AgentOS, our voice system powered by AI agents, gives our robots a smarter brain to understand and respond

more naturally to people. That improved experience allows us to charge a premium even in a competitive market, but most of our revenue growth came from higher shipment volume. We believe AgentOS not only enhances user experience but also strengthens our leadership in voice-enabled robots. Our voice-enabled wheel robot, which integrated with Google's Gemini 2.5 Flash was recently featured by Google Cloud at its AI Asia Conference. We believe this is a strong sign of endorsement. We are continuously upgrading our AI agent capability and applying it to our products. Looking forward, we think these robots can do even better overseas as we combine third-party genAI and multimodal models with our strength in voice AI and autonomous mobility to drive real-world applications. Second, our robotic... [Technical Difficulty]

Operator: Sorry for the interruption, everybody. This is the conference operator. Looks like we've lost the main speaker connection. I will place hold music in the call, and we will get them connected again. Please standby. Thank you for holding, everyone. This is the operator. I've reconnected the main speaker line. Please proceed with your call.

Jing Zhu: Hello, everybody, this is Helen from Cheetah Mobile. I think there are some tech issues then our call disconnected. I will just replay our CEO's prepared remarks. Very sorry for the inconvenience.

Sheng Fu: Good day, everyone. And of this growth, first, strong demand for our voice-enabled wheel robots in China. In Q3, for the second quarter in a row, revenue from these robots doubled year-over-year. They now make up around 5% of our total revenues, supported by both repeat orders and new wins. As of September 30, 2025, the contract backlog for these robots in China was up 32% from the previous quarter. Since then, the backlog has doubled again, reflecting sustained demand. These trends make us comfortable for a continued strong [UA] growth in our revenue from these robots in the fourth quarter. Why is demand rising? First, more customers are open to using robots. And today, wheel robots are the most reliable and cost-effective option for large-scale deployment. But more importantly, product experience is getting better. AgentOS, our voice system powered by AI agents, gives our robots a smarter brain to understand and respond more naturally to people. That improved experience allows us to charge a premium even in a competitive market, but most of our revenue growth came from higher shipment volume. We believe AgentOS not only enhances user experience but also strengthens our leadership in voice-enabled robots. Our voice-enabled wheel robot, which integrated with Google's Gemini 2.5 Flash was recently featured by Google Cloud at its AI Asia Conference. We believe this is a strong sign of endorsement. We are continuously upgrading our AI agent capability and applying it to our products. Looking forward, we think these robots can do even better overseas as we combine third-party genAI and multimodal models with our strength in voice AI and autonomous mobility to drive real-world applications. Second, our robotic arm business is growing steadily supported by three key industry trends. Number one, in manufacturing, collaborative robotic arms are becoming more and more popular because they're smaller, easier to install and more affordable, they're also safer to work with. So they help fill many unmet needs in factories like doing tasks that need flexible movement, careful and precise work or real-time feedback. These tasks now rely on human workers today. Number two, in commercial spaces like coffee shops and smart retail, because of advances in lightweight design and easy programming and building vision of feedback, we are unlocking new use cases. Our team's ability to understand real-world needs and build practical products gives us an edge. Number three, robotic arms are a core part of embodied AI. As global demand for physical AI grows, we believe robotic arms will play a key role in bringing AI into the real world. We strengthened our robotic arm business through an acquisition, demonstrating our strategy of combining organic growth with M&A.; This business is a great fit for us. It is already profitable with tens of millions of RMB in annual revenue, most of it from overseas customers. By bringing this company into our group, we've expanded our product line and strengthened our presence in global markets. More importantly, we started testing how to combine our wheel robots with robotic arms to create embodied AI that can handle more complex real-world tasks. It's still in early days, but our solid foundation in both technology and product development puts us in a strong position to grow in this space in the long run. Moving on to AI tools. This is another area where we see long-term potential. We're using AI agents to quickly build a variety of new tools for both PC and mobile, and we're also upgrading some of our existing products with AI features. For example, in one of our legacy products, Duba Antivirus users can now interact with their PCs through natural language to complete tasks like

system settings. No need for complex manual steps. And small-scale testing of other tools like meeting summarizers, we've also seen strong user engagement and good willingness to pay. What makes this space exciting is that AI coding apps have greatly reduced the time and cost it takes to build and launch new products. This gives us the flexibility to test many ideas quickly and focus on what works. While we're still in the early stages, we believe our strength in building user-friendly tool-based apps, especially with the help of AI agents, puts us in a good position. And since subscriptions already make up more than 60% of our Internet revenue, we're confident in our ability to monetize future products through the same model. To close, I believe Cheetah has moved beyond the turnaround phase. Looking ahead, our focus is on building long-term value by scaling our AI robot business and capturing the upside of AI-native tools. While we're still early, both segments have real momentum and strong potential to drive growth in the years to come.

Thomas Jintao Ren: Thank you, Fu Sheng. Hello, everyone, and thank you for joining the call. Unless otherwise stated, all financial figures are presented in RMB. In the third quarter of 2025, we are pleased to reach an important milestone. We reported our first quarterly operating profit in the past 6 years. This achievement reflects the disciplined execution of our teams and the continued improvement in our operational efficiency. Operating profit was RMB 4 million in the quarter. On a non-GAAP basis, operating profit reached RMB 15 million compared with an operating loss of RMB 60 million in the same period last year and an operating loss of RMB 2 million in the previous quarter. Let me walk you through the key financial results in the quarter. Total revenue reached RMB 287 million, up 50% year-over-year, driven by 151% growth in our AI and other segment. This segment accounted for 50% of total revenue compared with 30% in the same period last year. Our Internet business remained stable with revenue increasing 6% year-over-year in Q3. Gross profit increased by 64% year-over-year and gross margin improved to 75%, up from 68% in the year-ago quarter. Operating profit improved to RMB 4 million compared with an operating loss of RMB 72 million a year ago. On a non-GAAP basis, operating profit was RMB 15 million compared with an operating loss of RMB 60 million last year. By segment, our Internet business delivered approximately RMB 21 million in adjusted operating profit in this quarter, up 55% year-over-year. Adjusted operating loss for our AI and other segment narrowed by 82% year-over-year and 53% quarter-over-quarter to [RMB 15 million] in this quarter. On the balance sheet side. Our financial position remains strong. As of the 30th of September 2025, the company has cash and cash equivalents of about USD 224 million and long-term investments of USD 107 million. We continue to maintain discipline in cash flow management and capital allocation. Looking ahead for our Internet business, we will continue to deliver robust operating profits. We want to be clear that we prioritize operating profit growth over revenue growth. For our AI and other business, we also aim to further manage our cost and expenses to a more focused and efficient approach. First, we are focusing on high potential use cases for our robotics business, that is the only way to build sustainable and profitable business models. We concentrate on AI-powered, voice-enabled wheel robots, products that have proved to deliver a highly competitive ROI, [a cheaper] alternative for reception, museum and exhibition scenarios. Second, we leverage third-party and open source models and tools to enhance our robotic experience. This approach allows us to accelerate product updates, thereby increasing our overall efficiency. Third, for our advertising agency service and multi-cloud management services, we are taking a more disciplined approach, strengthening contract control [indiscernible] and customer value to better manage our costs and expenses. Overall, at the corporate level, we will continue to invest in AI robots and AI tools as we believe these two areas will drive our long-term revenue growth. However, we will stay disciplined and ROI focused in every decision. I believe Cheetah has entered a much better phase compared with a year ago. In product development, as we shared in the previous calls, we encourage our employees to use AI tools such as [coding] apps to build their own AI, not only to improve productivity, but also to enhance decision-making. Leveraging AI allow us to develop products faster and operate them with fewer people than before. Most importantly, with the AI opportunity, the business improvements we have achieved over the past year and growing recognition from the capital market, we are seeing renewed confidence and momentum across our teams. I personally believe these changes, stronger execution, disciplined investments, improved efficiency and an inspired team form the foundation for Cheetah to rebuild its success in this new chapter. Thank you. We are now happy to take your questions.

Jing Zhu: Operator, please open the call for...

Operator: [Operator Instructions] And our first question today comes from Thomas Chong from Jefferies.

Thomas Chong: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: Our next question comes from Vicky Wei at Citi.

Yi Jing Wei: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: Our next question comes from [Lydia Lin] at Morgan Stanley.

Unknown Analyst: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: Our next question comes from [Zhang Heng] with Everbright Securities.

Unknown Analyst: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: Our next question today comes from [Alicia Soh] with JPMorgan.

Unknown Analyst: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: Our next question comes from Zeping Zhao with ICBC International.

Zeping Zhao: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: Our next question today comes from Joanna Ma with CMBI.

Joanna Ma: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: Our next question comes from [Jing Wan] with CICC.

Unknown Analyst: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: Our next question comes from [indiscernible] from [CYN] Securities.

Unknown Analyst: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: Our next question comes from [Yongping Diao] with Guotai Haitong.

Unknown Analyst: [Foreign Language]

Unknown Executive: [Foreign Language]

Operator: And our final question today comes from [indiscernible] Securities.

Unknown Analyst: [Foreign Language]

Unknown Executive: [Foreign Language]

Jing Zhu: Okay. Operator, please check if we have any further questions. If not, we will end the call.

Operator: Yes, ma'am. We have no further questions in queue at this time. [Operator Instructions] I'm showing no questions, ma'am. You may proceed with any closing remarks.

Jing Zhu: Okay. And then we can end the call. Thank you so much for joining our earnings conference call today. Thank you so much.

Operator: Thank you, and thanks, everyone, for connecting to today's call. You may now disconnect your lines, and have a wonderful day.