



China Digital TV
Second Quarter 2017 Earnings Conference Call Script

Operator:

Good morning and good evening everyone and welcome to China Digital TV's Second Quarter 2017 Earnings Conference Call. All participants are now in listen-only mode. Should you need assistance, please notify a Conference Specialist by pressing the star key followed by zero. After the management's presentation, we shall have a question and answer session.

As a reminder, this conference is being recorded. In addition, a webcast of this conference call will be available on China Digital TV's investor relations website.

I would now like to turn the call to the host for today, Mr. Nan Hao, Investor Relations Director at China Digital TV. Please go ahead.

Mr. Nan Hao:

Thank you, operator.

Good morning and good evening everyone. Thank you for joining China Digital TV's second quarter 2017 earnings conference call. With me here today is Mr. Zhenwen Liang, our CFO, who will answer your questions after the prepared remarks.

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

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On behalf of our CEO, Mr. Jianhua Zhu, and CFO, Mr. Zhenwen Liang, I shall begin our presentation with highlights from the second quarter, followed by an overview of the financial results.

As mentioned recently, we have been focused on several important areas of our business and have made notable strides that include increasing both registered and covered users, expanding our geographic footprint, and diversifying content in our cloud business.

Turning to some of the details, first, we are very pleased with levels of user expansion. As of June 30, 2017 the total number of [registered and covered] users increased to 6.2 million and 160 million, respectively. This ongoing strong momentum is primarily attributable to the ongoing expansion of our geographic footprint and our ability to achieve leverage from such expansion. As an example, during the quarter we further expanded to the Shanxi province through our partnership with Taiyuan Radio and Television, which covers approximately 1.1 million users. Under our new agreement, we plan to deploy our cloud platform service with Taiyuan Radio and Television and expect to launch it online in 2018.

In addition to expanding our geographic presence, we also experienced exciting results in content expansion during the second quarter. During the quarter we expanded our E-sport program, a video game-on-demand platform, and further broadened its content to include Dota2, LOL, StarCraft, King of Glory and many other popular E-sport games. It is now capable of providing over 5,000 hours of video games to our users. In addition, during the quarter it was launched on Gehua Cable TV and Hunan Broadcasting System. We are glad to see its average daily active user count has already reached 4,000 and believe this is merely the beginning of a rapid growth trajectory.

On the new product development front, we continue to make good progress. We have recently put a lot of effort into cloud VR. This is a new product we developed by leveraging our expertise in streaming. Our advanced streaming technology enables us to operate and store VR content on the cloud and stream it to our users in the form of video. We have significantly reduced response times and eliminated the wires of traditional VR products for a sharper, cleaner look and the implementation of the cloud enables our users to have multi-screen content sharing. We believe our cloud VR product developments have and will continue to enhance the overall user

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experience to new levels. Importantly, this product is built upon our cloud infrastructure, which significantly reduces our VR investment costs.

In May 2017, our cloud VR commercial system won the bid from Dalian Tiantu, the only authorized cable TV service provider in Dalian, which further demonstrates our achievements and prowess in cloud VR. Our system will provide a wireless and steady VR experience to over 2.1 million users through their cable set-top boxes.

Overall, we were very encouraged by our progress in the second quarter as we made meaningful strides in increasing both registered and covered users, expanding our geographic footprint, and diversifying content in our cloud business.

Now, I'd like to spend some time also addressing with you a few strategic areas of focus for our business going forward.

First, by leveraging our legacy relationships with cable operators, we plan to continue to expand into new geographic markets and increase our registered and coverage users.

Second, through our partnership with content suppliers, we will continue to diversify and innovate our content offerings and increase our ARPU along the way. We believe our program initiatives for VR and game watching will enable us to penetrate into new markets nationwide. At the same time, we plan to move into new fields, such as E-sports, education, health care for the aging, among others as we seek to accelerate the development of cloud based entertainment in Chinese homes.

Third, we will increase our marketing efforts to promote our new content and products and reinforce our brand recognition.

Lastly, we want to expand our growth drivers as we move forward. Hence, we will consider and explore potential opportunities to acquire new operating businesses or assets to further diversify our current operations and enhance our growth levels in the future. The Board and the management team are intently focused on this effort and on executing it wisely and efficiently.

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In summary, we see many opportunities ahead and will work hard to manage through any existing challenges. Our full team remains committed to further fortifying our position as China's leading provider of cloud platforms and generating incremental value to our shareholders.

With that, we will turn to the financial results for the second quarter. Please note that, unless otherwise stated, all monetary amounts are stated in US dollars.

Net revenues increased by 34.5% to 1.3 million from 0.9 million in the prior year period. The increase in net revenues was primarily due to the increased revenues from products in the second quarter of 2017.

Cost of revenues increased by 125% to 0.7 million from 0.3 million in the prior year period. The increase in cost of revenues was primarily due to the increase of net revenues in the second quarter of 2017.

Gross profit in the second quarter was 0.6 million, which remained stable as compared with the period year period. **Gross margin** was 47.9%, as compared with 68.9% a year ago. The decline in gross margin was mainly due to an increased proportion of revenues from products during the quarter, which have a relative lower gross margin than services.

Operating expenses in the second quarter decreased by 13.3% to 2.3 million from 2.6 million in the prior year period. The decline was mainly due to a decrease in personnel related expenses.

Loss from continuing operations in the second quarter of 2017 narrowed by 15.5% to 1.7 million from 2.0 million in the prior year period.

Income tax expenses for the second quarter was 0.05 million, as compared with 0.03 million in the same period last year.

Net loss attributable to China Digital TV Holding in the second quarter of 2017 narrowed by 46.3% to 0.9 million from 1.6 million in the prior year period. The decrease was primarily due to a combination of decreased operating expenses and increased interest income.

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Non-GAAP net loss attributable to China Digital TV Holdings in the second quarter of 2017 was 0.7 million, as compared with net income of 2.4 million in prior year period.

As of June 30, 2017, China Digital TV had cash and cash equivalents, restricted cash and term deposits totaling 27.6 million on the balance sheet, compared to US\$125.5 million as of March 31, 2017. The decrease was primarily due to the payment of a special dividend of US\$1.5 per ordinary share, representing a total cash dividend paid in June 2017 of US\$100.3 million.

This concludes our prepared remarks. Now we are ready for the question and answer session. Please note that our CFO will answer the questions in Chinese and I will then translate into English. Operator, we can begin the Q&A session.

Closing remarks for Mr. Nan Hao:

Once again, thank you all for joining us today. Please don't hesitate to contact us if you have any further questions. Thank you for your continued support and we look forward to speaking with you in the coming quarters.