JOYY Inc.

2Q 2022 Earnings Call Prepared Remarks

Operator:

Ladies and gentlemen, thank you for standing by, and welcome to the JOYY Inc.'s Second Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. After the management's prepared remarks, there will be a question-and-answer session.

I'd now like to hand the conference over to your host today, Jane Xie, the company's Senior Manager of Investor Relations. Please go ahead, Jane.

Jane Xie (Senior Manager, Investor Relations):

Thank you, operator. Hello everyone, welcome to JOYY's second quarter 2022 earnings conference call. Joining us today are Mr. David Xueling Li, Chairman and CEO of JOYY; Ms. Ting Li, our COO, and Mr. Alex Liu, the General Manager of Finance.

For today's call, management will first provide a review of the quarter, and then we will conduct a Q&A session. The financial results and webcast of this conference call are available at ir.joyy.com. A replay of this call will also be available on our website in a few hours.

Before we continue, I would like to remind you that we may make forward-looking statements, which are inherently subject to risks and uncertainties that may cause actual results to differ from our current expectations. For detailed discussions of the risks and uncertainties, please refer to our latest annual report on Form 20F and other documents filed with the SEC. Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in USD.

I will now turn the call over to our Chairman and CEO, Mr. David Xueling Li. Please go ahead, sir.

David Xueling Li (Chairman and CEO):

Hello, everyone. Welcome to our second quarter 2022 earnings call. Let me start with an overview of our quarterly results.

Despite global macroeconomic uncertainties and the seasonality impact of the Ramadan holiday in the Middle East, we achieved $596.1 million in revenues, including $502.6 million of revenue from BIGO, approaching the higher end of our previous guidance. We grew our non-GAAP net profit to $51.5 million at the group level, realizing a non-GAAP net margin of 8.6%. Notably, the BIGO segment expanded its non-GAAP net profit to $86.3 million, and improved its non-GAAP net margin to 17.2%. Our operating cash inflow continued to be strong, reaching $61.7 million for the quarter. The steady expansion of our profitability amidst current market conditions demonstrated the improved efficiency and enhanced resilience of our business.

We are in an environment of increased macro uncertainty. Rising inflation and increased cost of living continued to negatively impact consumer spending. The lifting of lockdown and travel restrictions imposed during the pandemic contributed to a resurgence in travel demand during the summer season, further diverting consumer time and spending to offline activities. The aggressive appreciation of the U.S. dollar was also an unfavorable factor, as our prices rose in local currency terms. These various headwinds have and will affect the short-term monetization efficiency for a wide variety of global companies, including JOYY.

Despite these macroeconomic challenges, a significant proportion of global users is still underserved for social entertainment services. In a time of increased uncertainties, users are seeking more emotional value from their products, such as a sense of belonging and meaningful connections with others. That's why we responded to this volatile macro environment first and foremost by turning inward, continuing to iterate our products and cultivate our user community while maximizing the emotional value our services can provide. In recent quarters, we launched several major product feature updates, including Bigo Live's "Virtual Live" and "Community", Likee's "Loop" (an interest-based community feature), and Hago's "3D Hago Space". These features serve to improve the quality and efficiency of our users' social experience, enabling them to better engage and foster meaningful connections with those who have similar interests. Together with our diverse and inclusive community culture, we believe these efforts will help our products deliver an important and unique emotional value to our users.

In addition to maximizing this emotional value, we continue to be fully dedicated to creating value for our creators. By providing creator-friendly video creation tools and monetization features, and cultivating a user community that is built on equality and connection, we have established a creator-centric ecosystem that enables a large number of creators to showcase their talents in front of a global audience and at the same time enjoy promising economic returns. Over the past few years, we have invested a cumulative total of over US$1 billion in creator rewards. With the support of our global operations team and the implementation of a variety of activities tailored to local users' evolving needs, we empower our creators to gain exposure both locally and internationally, and enable them to realize new levels of personal and professional success.

Going forward, we remain committed to delivering value to our users and creators. We will continue to cultivate diverse premium content, innovate interactive features, and organize tailored local activities. We expect these efforts will further improve the user experience, and ultimately facilitate the growth of our user community and global business.

To mitigate risks against the current market, we proactively implemented a series of measures to further improve our efficiency and enhance the resilience of our business. As we continue to execute a sustainable growth strategy and emphasize our products' organic growth, we will be more adaptive in the execution of our user acquisition strategy. This means we will dynamically adjust our strategy based on ROI, and closely monitor shifting market conditions. For products that are still loss-making, such as Likee and Hago, we will focus on the steady improvement of their respective monetization capabilities, stick to a disciplined sales and marketing strategy, and optimize their cost structure in order to steadily narrow their respective operating losses. We will also continue to enhance product synergy and optimize our business processes to drive further improvement of our operating efficiency at the group level.

As we have maintained a healthy growth trajectory in our profit and cash flow since 2021, we are in a strong financial position that allows us to have greater flexibility and continued investment in core areas that build our long-term capabilities. We expect to emerge from the above recalibration as a more focused and more productive organization, better positioned to capture long-term growth opportunities.

Now, let me dive deeper into the progress we made in each of our product lines. Let's start with Bigo Live.

As a result of macroeconomic uncertainties and the seasonality due to Ramadan holiday in the Middle East, Bigo Live's livestreaming revenue and number of paying users declined during the second quarter.

Yet Bigo Live's user base and engagement level continued to grow thanks to our innovative feature updates and localized activities which embrace regional traditions and user needs. During the second quarter, Bigo Live's MAUs increased 10.6% year over year to 32.6 million. Notably, users in Southeast Asia and other emerging markets increased by 18.6%, while users in Europe increased by 8.7% year over year.

To help our users in the Middle East and certain Southeast Asian countries celebrate their Ramadan holiday, Bigo Live launched a series of live events tailored to local traditions. These included cooking sessions, quiz shows, and singing contests, and invited local celebrities and influencers to demonstrate the unique cultural traditions of their regions. Our new "Community" feature, which was launched last quarter, continued to contribute to content diversification and user engagement improvements in the BAR channel. BAR's average views per user increased by 14.1%, and the volume of its video content increased by 7.3% sequentially. Bigo Live also upgraded its "Virtual Live" feature to enable a trendier livestreaming experience for its users, driving up both the number of users and cumulative time spent on Virtual Live sessions substantially over the previous quarter.

Next, let's turn to Likee.

During the second quarter, for similar reasons to Bigo Live, Likee's livestreaming revenue and number of paying users declined. As mentioned earlier, given the current macro environment and the fact that short-video monetization is still at an early stage of development, Likee continued to exercise prudence in its sales and marketing strategy, further optimized its cost structure, and actively explored new opportunities for monetization. We have made progress in executing these objectives, and we successfully narrowed Likee's operating loss by 85% year over year during the first half of 2022.

In mid-June, Likee launched a new feature called "Loop" in Europe and the U.S. Loop is a community feature that helps users with similar interests connect with each other, and we have so far received positive feedback from our users. For example, shortly after Loop was launched, the anime community shared more than six million episodes of video content, and over 50% of the users in the anime community are following one another. This indicates that Loop has contributed to the fostering of a high level of connection. We also observed steady improvements in user engagement and stickiness, especially in the regions where Loop was introduced, as the average time spent on Likee per user increased sequentially by 10.2% globally and 22.7% in these regions.

During the second quarter, in addition to launching a variety of localized campaigns, Likee partnered with four charity organizations in the Middle East and South Asia to launch a cross-regional donation campaign. By logging in to Likee and participating in the “Ramadan” campaign, users collected “energy points” every day, which could later be converted to a certain donation amount to be made by Likee through local charity organizations. More than 200,000 users participated in this campaign, demonstrating that users today seek to make a positive impact on their communities while being entertained and engaged. We will continue to actively explore other opportunities to further empower our users to make positive differences in their local communities.

Next, we can turn to Hago.

During the second quarter, Hago’s livestreaming revenue increased by 7.1% year over year, and its number of paying users grew by 12.8% over the same period. As we continued to optimize Hago’s content recommendation algorithm, Hago’s user engagement improved, as evidenced by an increase in its featured channel penetration rate of 1.8% sequentially.

During the quarter, Hago focused on updating its newly launched “3D Hago space” feature. Hago introduced more localized makeup, costumes, and accessories, enabling users to design their 3D avatars according to their personal and cultural preferences. Additional interactive items and 3D virtual scenes were also introduced, both of which were well received by Hago users, as demonstrated by the increase of Hago Space’s next-day user retention rate by 14.9% sequentially.

In the coming quarters, Hago plans to further update users’ Hago Space experience by introducing more 3D virtual scenes and items that cater to local culture and user needs. We expect to continuously increase the user penetration rate for our Hago Space feature, and further enrich Hago users’ social experience.

Finally, some updates on capital return. During the second quarter, we bought back an additional $12.1 million of our shares. We will continue to actively utilize our share repurchase program to enhance returns to shareholders.

To conclude, we will always strive to establish stability and find opportunity amid uncertainty. The current macro environment does not change our demonstrated track record in capturing some of the largest growth opportunities nor our long-term outlook on the industry, and we view the current market fluctuations as opportunities to deepen our focus and plan for the future. We remain committed to generating value for our users and creators while improving efficiency and enhanced resilience. As we continue to invest in building our long-term capabilities, we firmly believe that JOYY as a company will emerge from the current uncertainties as a more focused and productive organization, and be well positioned to capture long-term growth opportunities and generate sustainable shareholder value.

This concludes my prepared remarks. I will now turn the call to our General Manager of Finance, Alex Liu, for our financial updates.

Alex Liu (General Manager of Finance):

Thanks, David. Hello, everyone. Now let me go through the details of our financial results.

Please note that the financial information and non-GAAP financial information disclosed in our earnings press release is presented on a continuing operations basis, unless otherwise specifically stated. As the sale of YY Live was substantially completed on February 8, 2021 with certain customary matters to be completed in the future, we have ceased consolidation of YY Live business since February, 2021.

Our total net revenues for the second quarter was US$596.1 million, compared to US$661.7 million in the same period of 2021, primarily due to macroeconomic uncertainties and unfavorable exchange rates which negatively affect paying user sentiment.

Cost of revenues for the second quarter decreased by 17.6% year over year to US$377.7 million. Revenue-sharing fees and content costs was US$247.0 million in the second quarter, compared with US$289.1 million in the same period of 2021, primarily due to optimization of revenue sharing cost. Bandwidth costs decreased to US$20.0 million from US$27.5 million in the same period of 2021, primarily due to the Company's improved efficiency in bandwidth usage.

As we continue to execute a sustainable growth strategy and proactively implemented a series of cost optimization measures, we effectively improved our efficiency and enhance the resilience of our business, and maintained a healthy growth trajectory in our gross and operating profitability.

Gross profit increased to US$218.4 million in the second quarter, with our gross margin improved to 36.6% from 30.7% in the same period of 2021.

Our operating expenses for the second quarter decreased by 41.1% to US$185.0 million from US$314.0 million in the same period of 2021. Among the operating expenses, sales and marketing expenses decreased to US$98.4 million from US$112.2 million due to disciplined and efficient spending on user acquisition. General and administrative expenses decreased to US$23.7 million for the second quarter of 2022 from US$101.1 million in the corresponding period of 2021. Our general and administrative expenses was higher in the second quarter of 2021 primarily due to a one-off impairment loss arising from certain equity investments.

Our GAAP operating income for the second quarter was US$38.7 million, compared to operating loss of US$101.1 million in the same period of 2021. Operating income margin for the second quarter was 6.5%, compared to operating loss margin of 15.3% in the same period of 2021.

Our non-GAAP operating income for the second quarter, which excludes share-based compensation expenses, amortization of intangible assets from business acquisitions, as well as impairment of goodwill and investments and gain on disposal of subsidiaries and business, was US$59.9 million in this quarter, compared to non-GAAP operating loss of US$13.0 million in the same period of 2021. Our non-GAAP operating income margin for the second quarter was 10.0% compared to non-GAAP operating loss margin of 2.0% in the prior year period.

GAAP net income from continuing operations attributable to controlling interest of JOYY in the second quarter of 2022 was US$18.7 million compared to net loss of US$109.3 million in the same period of 2021. Net income margin was 3.1% in the second quarter of 2022, compared to net loss margin of 16.5% in the corresponding period of 2021.

Non-GAAP net income from continuing operations attributable to controlling interest of JOYY in the second quarter was US$51.5 million, compared to non-GAAP net loss of US$0.5 million in the same period of 2021. The Group's non-GAAP net income margin was 8.6% in the second quarter of 2022, compared to non-GAAP net loss margin of 0.1% in the same period of 2021.

Notably, BIGO's non-GAAP net income expanded to 86.3 million in the second quarter, with its non-GAAP net income margin improved to 17.2% from 3.3% in the prior year period.

Together with our improving profitability, we have maintained a strong operating cash flow as well. For the second quarter of 2022, we booked net cash inflows from operating activities of US$61.7 million. We remain a healthy balance sheet with a strong cash position of US$4.29 billion as of June 30 of 2022.

Importantly, we have continued to enhance returns to shareholders through dividends and share repurchases. In accordance with our previously announced quarterly dividend plans approved in August and November, 2020, we will be distributing a dividend of US$0.51 per ADS for the second quarter of 2022, to shareholders of record as of the close of business on September 22. Additionally, we have repurchased US$12.1 million of our shares under our previously announced share repurchase programs. As of June 30, 2022, we have in total repurchased approximately US$327.9 million of our shares repurchase programs. Given our current cash position, we should be able to balance between keeping sufficient cash to invest in building our long-term capabilities and enhancing return for our shareholders. We will continue to actively utilize share repurchase to create value for our shareholders under current market condition.

Going forward, as David just mentioned, we remain committed to delivering value to our users and creators, and we will continue to prioritize investment into the cultivation of our content, product interactive features and localized activities. We will continue to enhance our operational efficiency and effectively execute our long-term growth strategies.

For our business outlook, we expect our net revenues for the third quarter of 2022 to be between US$561.5 million and US$593.5 million, without considering Shopline. We currently have limited visibility surrounding the macroeconomic uncertainties on our business and the markets in which we operate. Therefore, this forecast only reflects our current and preliminary views on the market and operational conditions, which are subject to change.

That concludes our prepared remarks. Operator, we would now like to open up the call to questions.