

JOYY Inc.

3Q 2022 Earnings Call Prepared Remarks

Operator:

Ladies and gentlemen, thank you for standing by, and welcome to the JOYY Inc.'s Third 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 third 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 third quarter 2022 earnings call.

Let me start with an overview of our quarterly results.

Despite global macroeconomic uncertainties, we recorded \$586.7 million in revenues, including \$483.3 million of revenue from BIGO, in line with our previous guidance.

Our decisive and proactive optimization measures to improve our operational efficiency have proven effective. During the third quarter, we generated a non-GAAP net profit of \$76.9 million at the group level, with a non-GAAP net margin of 13.1% when excluding YY Live. The BIGO segment recorded

\$84.1million in non-GAAP net profit, with a non-GAAP net margin of 17.4%. More importantly, our operating cash inflow remained strong, reaching \$117.1 million for the quarter.

At present, increasing global macro uncertainty continues to impact our short-term monetization growth. Ongoing inflation and unfavorable exchange rates are adversely affecting users' purchasing power and discretionary spending. Meanwhile, as international travel restrictions in some regions are lifted and reopening trends continue, users' time and spending are being further diverted to offline activities.

Since the first half of 2021, we have been comprehensively and consistently reviewing the cost structures and management processes of our core businesses. At the same time, we undertook a series of operational adjustments to enhance product synergies, improve operational efficiency, and ultimately ensure the health and sustainability of our business.

Our forward-looking strategic planning and effective execution of our optimization measures to the above stated goals have equipped us to better navigate through the current macro challenges. As a result, we achieved full-year profitability in 2021, and further expanded our profits and improved our operational cash inflow during 2022, even as global macro conditions deteriorated. During the first three quarters of 2022, our BIGO segment expanded its non-GAAP net profit to \$230.4 million, up 193.3% year over year. Given the current macro environment, we will continue to prioritize sustainable, high-quality growth while further enhancing our operational efficiencies. Going forward, we are confident that our increasing business resilience will position us to better capture long-term growth opportunities.

Despite near-term macro headwinds, we remain focused on our long-term product strategy of delivering value to our users and creators. Our efforts have yielded positive results. Bigo Live's MAUs increased by 14.2% year over year in the quarter, reaching a new historic high of 35.4 million. Sequential growth was also encouraging, with the scale of growth comparable to that we witnessed during the pandemic period. This is particularly impressive considering such growth was achieved in a period of disciplined marketing spending, demonstrating the increasing efficiency and effectiveness of our user acquisition strategy. Looking ahead, we will continue to cultivate diverse premium content, innovate interactive product features, and organize activities tailored to local markets. These initiatives will further improve our user experience, and ultimately facilitate the growth of our user community and monetization, two factors that correlate positively with user satisfaction over time.

In addition, our diversified operations across a number of regions, including North America, Europe, the Middle East, and Southeast Asia, have given us greater overall flexibility and allowed us to mitigate the risks that arise from relying on any single market. As markets and governments employ differing measures to contain the pandemic and tackle current macro challenges, we will closely monitor shifting market conditions and devote more resources towards outperforming markets. Compared with a single-market-focus, this refined strategy of dynamic adjustments will enable us to generate a higher ROI against the backdrop of macro volatilities.

Going forward, we remain committed to our globalization strategy. We will continue to enhance our international and localized operational capabilities by further strengthening our local talent teams' technological expertise, global vision, and local knowledge.

Now let's take a closer look at the developments in each of our product lines. We'll start with Bigo Live.

Despite the macro headwinds and monetization challenges, Bigo Live maintained its user growth trajectory thanks to effective local operations and product feature upgrades. During the third quarter, Bigo Live's MAUs increased 14.2% year over year to 35.4 million. Notably, MAUs in Europe and in the Middle East increased by 9.8% and 7.8% respectively, while MAUs in Southeast Asia and other emerging markets increased by 19.2% year over year. We also observed a recovery trend in Bigo Live's number of paying users across various regions, as the number of paying users in Europe, North America, the Middle East, and Southeast Asia resumed sequential growth this quarter.

During the quarter, Bigo Live further cultivated its content ecosystem by emphasizing localized operations and developing diverse, premium content. For example, in Malaysia, Bigo Live launched BIGO Gagaga, an all-new online variety show, featuring entertainment content including gaming and standup comedy. The show starred Bigo Live's most popular streamers and some of Malaysia's top radio broadcasters, and combined elements of livestreaming with pre-existing forms of mainstream media to create a fresh and unique viewing experience. In the Middle East, Bigo Live once again collaborated with Mobile Legends: Bang Bang to stream one of the largest fall professional tournaments in the Middle East and North Africa region.

Bigo Live also held a world tour for its mascot, Dino. The 16-foot-high, 8-foot-wide mascot visited landmarks in dozens of countries across the globe, including Singapore, Thailand, the UK, Italy, Germany, France, and the U.S., appearing at a series of on-site events to interact with local users. During the tour, Bigo Live invited popular local streamers to host a number of performances for local audiences. This helped stimulate interest in our product and promoted brand awareness among local communities. At the same time, Bigo Live launched a number of tour-related videos and online challenges, encouraging local users to join the festivities and meet their friends at these events. These efforts combined to create a unique, memorable experience for Bigo Live users, bridging online and offline interaction.

Our iteration of the "Community" feature and localized creator support continued to contribute to content diversification and user engagement improvements in the BAR channel. Sequentially, the volume of BAR's video content increased by 14.5%, and its average views per user increased by 16.4%.

Next, let's turn to Likee.

As mentioned in the previous quarter, for products that are currently still loss-making, such as Likee and Hago, we continue to focus on the steady improvement of their respective monetization capabilities and organic growth. We aim to stick to a disciplined sales and marketing strategy, and to optimize their cost structures in order to steadily narrow their respective operating losses and ultimately achieve self-sufficiency.

In the third quarter, in line with our expectations, we made further progress in narrowing Likee’s operating loss. Likee’s operating loss in the first three quarters this year was reduced by 86% compared to the same period last year.

On the product update front: Following the trial-launch of the “Loop” feature in the U.S. and Europe in the second quarter, Likee officially introduced “Loop” to other regions around the world. This feature has helped users with similar interests better connect and share content, and has further improved the quality of Likee’s user interactions. As a result, the number of videos shared per user per day in the anime community increased by 379% sequentially, while in-app instant messaging users grew by 7.1% in the same period. Overall, average user time spent on Likee increased by 21.5% sequentially.

In addition to its regular localized activities, Likee expanded its operational efforts to include activities that have a positive impact on local communities. For example, after flooding in some Southeast Asian countries, Likee launched dedicated pages for local users to share information on government relief, emergency response, and other breaking details of the disaster in real time. Separately, as a number of Likee’s users are currently facing an energy crisis, Likee partnered with 10 Minute School to launch a campaign aiming to raise public awareness of energy conservation. During the campaign, teachers from 10 Minute School and other creators posted videos about power-saving tips and the importance of conserving electricity, providing users with convenient access to important and useful information. The campaign attracted the participation of more than 1 million users.

Next, we can turn to Hago.

During the third quarter, Hago’s livestreaming revenue and number of paying users both increased year over year, while its operating loss further narrowed substantially over the previous quarter thanks to enhanced monetization and disciplined spending.

Hago launched a one-on-one voice chat feature and upgraded its user loyalty benefits, which promoted user interaction and improved the loyalty of its paying users. Both initiatives drove growth in long tail users’ spending.

Hago also introduced further updates to its new feature Hago Space. Users were granted greater freedom in designing the appearance and costumes of their 3D avatars, and given the opportunity to engage and interact in new 3D virtual scenes such as karaoke. Both updates contributed to an increasingly innovative, immersive, and interactive experience. Thanks to these upgrades, Hago Space’s penetration rate and average user time spent both improved significantly over the previous quarter. More importantly, revenues from Hago Space increased by 409% sequentially. Although Hago Space’s revenue contribution is still relatively small, we seek to bring more innovations to the feature to further improve its user experience and further diversify Hago’s monetization streams.

Finally, some updates on capital return. During the third quarter, we bought back an additional \$14.1million of our shares. As of September 30, we have repurchased a total of \$342 million of our shares, out of the previously announced repurchase program of \$1.2 billion. Our board has extended the expiry date of the program, under which we may repurchase up to US\$800 million until November,

2023. We will continue to actively utilize our share repurchase program in order to reward the long-term support of our shareholders.

To conclude, the combination of our forward-looking strategic planning and effective execution of our optimization measures drove a further improvement in our profitability during the third quarter, in spite of the volatile macro environment. By adhering to our long-term growth strategy, focusing on product upgrades, and emphasizing localized, diverse content offerings, we achieved steady, efficient growth of Bigo Live's user community. We will remain flexible and adaptive to the macro environment, continue to invest in building our long-term capabilities, and focus on delivering value to users and creators via our products. We are confident that as we become increasingly efficient and resilient, we will be better-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 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 third quarter was US\$586.7 million, compared to US\$650.5 million in the same period of 2021, primarily due to macroeconomic uncertainties and unfavorable exchange rates which negatively affect paying user sentiment.

As we continue to execute a sustainable growth strategy and proactively implemented a series of cost optimization measures, we maintained a healthy growth trajectory in our gross and operating profitability.

Cost of revenues for the third quarter decreased by 16.7% year over year to US\$366.5 million. Revenue-sharing fees and content costs was US\$245.8 million in the third quarter, compared with US\$290.1 million in the same period of 2021, primarily due to optimization of revenue sharing cost. Other operational costs, such as bandwidth costs also decreased year over year, as a result of our continued optimization of operational efficiency.

Gross profit increased to US\$220.2 million in the third quarter, with our gross margin improved to 37.5% from 32.4% in the same period of 2021.

Our operating expenses for the third quarter decreased by 3.1% to US\$202.2 million from US\$208.7 million in the same period of 2021. Among the operating expenses, sales and marketing expenses decreased to US\$96.8 million from US\$106.3 million due to disciplined and efficient spending on user acquisition.

Our GAAP operating income for the third quarter was US\$19.8 million, compared to US\$6.9 million in the same period of 2021. Operating income margin for the third quarter was 3.4%, compared to 1.1% in the same period of 2021.

Our non-GAAP operating income for the third 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\$43.1 million in this quarter, compared to US\$31.3 million in the same period of 2021. Our non-GAAP operating income margin for the third quarter was 7.4% compared to 4.8% in the prior year period.

GAAP net income from continuing operations attributable to controlling interest of JOYY in the third quarter of 2022 was US\$515.3 million compared to net income of US\$7.5 million in the same period of 2021, mainly due to the one-off remeasurement gain of an equity investment recorded upon the Company's consolidation of the investee as announced on August 22, 2022. Net income margin was 87.8% in the third quarter of 2022, compared to net income margin of 1.2% in the corresponding period of 2021.

Non-GAAP net income from continuing operations attributable to controlling interest of JOYY in the third quarter was US\$76.9 million, compared to US\$35.1 million in the same period of 2021. The Group's non-GAAP net income margin was 13.1% in the third quarter of 2022, compared to 5.4% in the same period of 2021.

Notably, BIGO's non-GAAP net income expanded to 84.1 million in the third quarter, with its non-GAAP net income margin improved to 17.4% from 8.7% in the prior year period. It means that for the first three quarters of 2022, BIGO segment's accumulated non-GAAP net profit has reached \$230.4 million, up by 193.3% year over year.

Together with our improving profitability, we have maintained a strong operating cash flow as well. For the third quarter of 2022, we booked net cash inflows from operating activities of US\$117.1 million. We remain a healthy balance sheet with a strong cash position of US\$4.28 billion as of September 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 third quarter of 2022, to shareholders of record as of the close of business on December 23, 2022.

Additionally, we have repurchased US\$14.1 million of our shares under our previously announced share repurchase programs during the third quarter. As of September 30, 2022, we have in total repurchased approximately US\$342 million of our \$1.2 billion 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 the current market condition.

Going forward, we remain committed to delivering value to our users and creators. We will remain adaptive to the macro environment, continue to prioritize investment into building our long-term capabilities, and drive effective and high-quality growth of our user community and global business.

For our business outlook, we expect our net revenues for the fourth quarter of 2022 to be between US\$594 million and US\$619 million. 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.