

## **JOYY Inc.**

### **Second Quarter 2023 Earnings Call Prepared Remarks**

**Operator:**

Ladies and gentlemen, thank you for standing by, and welcome to the JOYY Inc.'s Second Quarter 2023 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 2023 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 Vice President 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](http://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 2023 earnings call.

Let's begin by reviewing our overall performance for the second quarter.

During the second quarter, we delivered a strong performance that was in line with our expectations. Our group revenue came in above the high end of our guidance, at \$547.3 million. We hit a non-GAAP net profit of \$97.3 million, a 89.1% year-over-year increase, with a non-GAAP net margin of 17.8%. Importantly, we maintained a positive operating cash flow of \$61.8 million, which boosted our already solid financial position.

The BIGO segment recorded revenue of \$471.1 million, a slight quarter-over-quarter increase, demonstrating further signs of stabilization. Its non-GAAP operating profit reached \$75.5 million, and it further expanded its non-GAAP operating profit margin to 16%.

In the second quarter, our global MAUs grew to 275.6 million, a quarterly increase of 1% and a slight annual increase, showing continued recovery and our effective product strategy, even as we adhered to our disciplined marketing spending. In particular, Bigo Live's MAUs sustained its strong growth momentum, increasing by 18% year over year to 38.5 million. This was the fifth consecutive quarter in which Bigo Live recorded double-digit year-over-year MAU growth.

Our performance in the second quarter was largely driven by our effective product strategy, as we continue to enhance our users' content and social experiences through cultivation of diverse, premium content, product feature innovations, and localized operations.

On the product front, we constantly develop and strengthen our platform's content and social interaction features. For instance, we have harnessed AI to refine our understanding of user profiles on Bigo Live. This helps us optimize our recommendation algorithms and deliver personalized content that better suits users' individual interests. At the same time, we expanded interactive tools and social scenarios to enhance interactions between users. As we enable user interaction in a range of virtual environments such as livestreaming sessions, interest-based communities, and swipe-to-match channels where users meet and chat with new people, we cater to a broader and much more diverse set of social needs. We are also actively developing and testing some new AIGC-related features to facilitate content creation and streamer-fan communication. Heading into the second half of 2023, we will explore new ways to further improve users' content and social experiences through product upgrades. We believe continuous efforts to improve product experience and facilitate engaging social interactions are fundamental elements for sustainable user growth and paying user conversion.

On the operational activities front, we partnered with a diverse spectrum of KOLs and institutions during the quarter. This has enriched our diverse, high-quality, localized content, and successfully enhanced our brand's influence within local communities.

Meanwhile, as a global tech company dedicated to enriching lives and delivering value to our users and local communities, we are actively and progressively embedding social responsibility into our day-to-day operations. During the Ramadan, we launched a wide range of online campaigns across the Middle East, Southeast Asia, and other regions, encouraging users to participate and share their acts of kindness to embrace the festive spirit. We raised funds through multiple online campaigns on our platforms, and extended our support to various programs under several international charities such as the Indonesian Cancer Foundation (YKI), the Children's Cancer Center of Lebanon (CCCL), and Jordan's TUA (Tkiyet Um Ali). Being a community-driven platform, giving back to society is a crucial part of our values. As such, we remain committed to operational innovation with an emphasis on creating positive social impact.

Looking ahead to the second half of 2023, while there have been some continued signs of recovery, we remain cautiously optimistic regarding industry outlook, given that ongoing macroeconomic uncertainties may still pressure consumer spending.

We will continue to drive effective, high-quality growth through ongoing product and operational innovations. Moreover, as communicated in the previous quarter, globalization remains a key driver of our business growth and our top priority. We intend to further concentrate our resources on building our core strengths and global businesses that align with our long-term strategies, and actively pursue growth opportunities.

Before we move on to the detailed product updates, I would like to provide an update on capital return. We significantly stepped up our share buyback during the second quarter and bought back an additional \$214.3 million of our shares. Since 2020, we have distributed around \$1.32 billion of capital to our shareholders through share buybacks and dividends. This represents 4.5 times our total non-GAAP net profit excluding discontinued operations over that period, a substantial amount, especially when compared to our market cap. It demonstrates our ongoing dedication to reward our shareholders' long-term support. We remain committed to creating and returning value to our shareholders, and we will continue to actively utilize our share buyback programs going forward.

Now, let's take a closer look at our products. We'll start with Bigo Live.

In the second quarter, Bigo Live maintained its double-digit user growth momentum for the fifth consecutive quarter, with MAUs increasing by 18% year over year to 38.5 million. We observed growth across several key regions, with year-over-year growth rates of 10.3% in Europe, 14.9% in the Middle East, and 20.8% in Southeast Asia and other emerging markets,.

Bigo Live's revenue continued to stabilize during the quarter, and we saw recovery from developed regions, specifically Europe, Japan, and Korea.

Bigo Live launched a series of themed activities across various regions in the second quarter, delivering a continuous stream of diverse, local, and premium content to users. In April, Bigo Live partnered with social media influencer Kway and launched a reality dating show in North America. This innovative content proved extremely popular, drawing in over 2.3 million in viewership. This was the second original Bigo Live reality show following the successful launch of its previous series, "Game Changer", back in February. The production process for both shows, including script planning, artist management, filming, production, and marketing, was carried out by Bigo Live's local team. The success of these series showcases our ongoing dedication to cultivating diverse, high-quality content for our local user communities. Similarly, in June, Bigo Live partnered with the Ravolution Music Festival in Vietnam to provide users with an eight-hour live broadcast of the event. This gave users the ultimate music festival experience and attracted hundreds of thousands of viewers worldwide.

We actively encouraged user engagement in Bigo Live's social communities through a number of organized events. Our Family feature, launched in 2019, brings together streamers, fans, and others united by similar interests to uphold the honor of their respective Families. It has become a vital bonding element for our user community. In May, we introduced Family Month to further strengthen these bonds. During this event, Bigo Live held a number of activities and contests, with Families ranked and awarded based on participation and interaction levels. In the Middle East, Bigo Live held an offline

meetup for the top local families, which created a unique opportunity for Family members to build offline connections. Family Month generated significant user interest and attention, and fostered rapid growth in Family sizes. The number of contracted streamers who are members of a Family grew by 5.1% from the first quarter, and daily paying users with Family membership rose by 3.8%.

On the content development front, Bigo Live retained its focus on incentivizing the creation of video content in the BAR channel. Our introduction of newly-refined video creation tools, and implementation of a reward system to encourage creation, consumption, and sharing on BAR, drove a 26.5% sequential increase in the amount of BAR video content produced in the second quarter, with the total number of video shares and downloads doubling over the same period. During the quarter, we also upgraded our user interface and optimized our content recommendation algorithms. These initiatives further improved users' overall viewing experiences in BAR, and average impressions per user increased by 5.7% sequentially in the second quarter. At the same time, we enhanced social interactions by introducing the ability to send images and play games within live sessions on Bigo Live. This fueled a 1.0% sequential increase in the number of users going live in multi-guest rooms, along with a 15.1% sequential increase in the number of users actively engaging per live session.

Next, let's move on to Likee.

Likee's focus remains set on improving product monetization efficiency and organic user acquisition capabilities. During the second quarter, Likee increased its revenues by 11.2% sequentially, and continued to deliver profitability at the product level. This marks its second consecutive half-year of achieving breakeven, after initially doing so in the second half of last year. Despite a sequential decline in Likee's MAUs this quarter, its DAUs saw a slight increase quarter over quarter. Its DAUs even grew by double digits in some core regions.

In the second quarter, Likee further developed its creator services and improved user content and social experiences.

To increase creators' efficiency, Likee rolled out a video collection feature to streamline the video production process. Likee also furnished creators with data and analytics tools to help them fine-tune their content and better align it with the interests of their audience. Likee has also supported its content creators by connecting them with e-commerce platforms and brand merchants to generate additional monetization channels. In June, Likee hosted its first-ever Summer Party. The event aimed to acknowledge outstanding creators from the past year and boost their visibility on the platform. It brought together hundreds of top talents and brand representatives, encouraging in-person interactions and networking. As a result, the number of official creators on Likee increased by 4% sequentially in the second quarter.

Likee also further enhanced user interactions within its community. In the second quarter, IM penetration rate continued to grow, increasing by 6.8% sequentially. Overall user engagement, as measured by the ratio of DAUs to MAUs, grew by 4.2% sequentially, while average user time spent increased by 15.8%.

Finally, let's turn to Hago.

In the second quarter, Hago's revenue increased by 6.4% sequentially, and it further narrowed its operating losses through continued cost optimizations. Importantly, Hago's operating cash flow turned positive during the quarter, reaching another milestone on the road towards self-sufficiency.

During the quarter, Hago upgraded a number of features to further enhance its monetization efficiency and improve user social engagement. To improve users' paying sentiment and enhance monetization, Hago launched Celebration Rooms, a new kind of multi-guest room themed for specific occasions such as birthday parties. It also introduced a voting feature to multi-guest rooms, and enabled additional decorations and communication privileges for Hago couples. Hago also optimized the distribution of multi-guest, real-time interactive rooms across different regions, and effectively upgraded users' interactive social experiences through the gamification of dressing-up 3D avatars. These product development efforts resulted in a 1.2% sequential increase in the penetration rate of Hago's social channels. Average user time spent on Hago per day rose as well, growing by 5.2% from the first quarter. To summarize, despite ongoing macroeconomic uncertainties, our strong execution enabled us to deliver a solid financial performance in the second quarter. Through continuous product improvements and operational enhancements, BIGO successfully navigated the headwinds and improved its operating margin, while Bigo Live sustained its strong user growth momentum. We also significantly stepped up our share repurchases during the quarter, underscoring our confidence in our future growth prospects and our commitment to reward the long-term support of our shareholders.

Looking ahead to the second half of 2023, we will continue to drive effective, high-quality growth through ongoing product and operational innovations. We will further concentrate our resources on building our core strengths and global businesses that align with our long-term strategies, and actively pursue growth opportunities. With our proven execution capabilities and robust financial position, we are well-positioned to seize growth opportunities and generate value for our shareholders.

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

**Alex Liu (Vice President of Finance):**

Thanks, David. Hello, everyone.

Despite macro uncertainties, we achieved solid results in the second quarter.

Our revenues in the second quarter exceeded the higher end of our guidance and we continued to deliver better profits, thanks to our strong execution to enhance our product experience and improve operational efficiency. Notably, BIGO segment showed more signs of stabilization by delivering a slight positive sequential growth in its revenue, while further improving its non-GAAP operating margin to 16.0%.

Our operating metrics are also continuing on its growth trajectory. We booked a positive year-over-year and quarter-over-quarter growth for our total global MAUs, even as we adhered to our disciplined marketing spend. Importantly, Bigo Live maintained its strong user growth momentum, increasing its

MAUs by 18.0% year-over year to 38.5 million in the second quarter, achieving double-digit year-over-year growth for fifth consecutive quarters. Both demonstrated our effective product strategy and enhanced user acquisition efficiency.

Next let me walk you through our group performance for the second quarter of 2023 in detail.

Our total net revenues were US\$547.3 million in the second quarter. Revenues from BIGO segment were US\$471.1 million.

Cost of revenues for the quarter decreased to US\$349.6 million, among which our revenue-sharing fees and content costs decreased to US\$222.6 million. BIGO's cost of revenues were US\$287.6 million, down by 7.0% year over year.

Gross profit was US\$197.8 million in the quarter, with a gross margin of 36.1%. BIGO's gross profit was 183.5 million, with a gross margin of 38.9%, up from 38.5% in the same period last year.

Our group's operating expenses for the quarter were US\$191.7 million, increased from US\$185.0 million in the same period of 2022. Among the operating expenses, sales and marketing expenses decreased to US\$87.2 million from US\$98.4 million due to our effective control over marketing expenses and optimization of overall sales and marketing strategies. R&D expenses increased to US\$75.5 million from US\$62.9 million in the same period of 2022, primarily due to increased R&D personnel-related expenses as we prioritized resources into building our technological capabilities. BIGO's operating expenses for the quarter were US\$125.0 million, down by 8.0% year over year.

Our group's GAAP operating income for the quarter was US\$9.4 million. Our non-GAAP operating income for the quarter, which excludes SBC (share-based compensation) expenses, amortization of intangible assets from business acquisitions, as well as impairment of goodwill and investments, was US\$34.4 million in this quarter, with a non-GAAP operating income margin of 6.3%. BIGO's GAAP operating income for the quarter was US\$60.4 million, and BIGO's non-GAAP operating income was US\$75.5 million, representing a non-GAAP operating income margin of 16%, up from 15.5% in the same period last year.

Our group's GAAP net income attributable to controlling interest of JOYY in the quarter was US\$155.1 million compared to net income of US\$18.7 million in the same period of 2022. GAAP net income margin was 28.3% in the second quarter of 2023, compared to net income margin of 3.1% in the corresponding period of 2022. Our group's GAAP net income was larger in the second quarter this year, mainly due to the realized gains from the disposal of certain equity investment, increased interest income driven by higher market interest rates, and foreign currency exchange gains during the quarter. BIGO's GAAP net income in the quarter was US\$83.7 million, increasing by 26.6% year over year. BIGO's GAAP net margin was 17.8%, up from 13.1% in the same period last year.

Non-GAAP net income attributable to controlling interest of JOYY in the quarter was US\$97.3 million, compared to US\$51.5 million in the same period of 2022. The Group's non-GAAP net income margin was 17.8% in the quarter, compared to 8.6% in the same period of 2022. BIGO's non-GAAP net income was

US\$99.7 million, increasing by 15.5% year over year. BIGO's non-GAAP net margin was 21.2%, up from 17.2% in the same period last year.

For the second quarter of 2023, we booked net cash inflows from operating activities of US\$61.8 million. We remain a healthy balance sheet with a strong cash position of US\$3.8 billion as of June 30 of 2023. Our cash position decreased quarter over quarter as we repurchased US\$432 million of our 2025 convertible note and our accelerated share buyback, partially offset by proceeds received from disposal of certain equity investment during the quarter.

In the second quarter, we continued to enhance returns to shareholders through dividends and share repurchases. We have substantially accelerated our share buyback and repurchased approximately US\$214.3 million of our shares and declared cash dividends in an aggregate amount of US\$34.2 million, which altogether represent 255% of our non-GAAP net income. We will continue to actively utilize our share repurchase program in the coming quarters.

As communicated last quarter, in line with our global positioning and commitment to high-quality, sustainable growth, we have strategically streamlined and implemented certain proactive adjustments to some of our non-core operations since last quarter, so that we can concentrate our resources towards building our core strengths and business that align with our long-term strategic goals, and further enhance healthiness of our ecosystem. Therefore, partially as a result of these adjustments, for our business outlook, we expect our net revenues for the third quarter of 2023 to be between US\$537 million and US\$567 million. This forecast reflects our preliminary views on the market and operational conditions and business adjustments, which are subject to changes.

In conclusion, we have made meaningful progress in the past several quarters in our efforts to enhance our efficiency, expand our profitability, improve our user experience and re-accelerate user growth. We have also strengthened our execution capabilities and improved the healthiness of our global ecosystem. Going forwards, we will continue to cultivate our global user community and provide better interactive experiences to our users through constant product innovation and operational enhancements. We expect to continue to prioritize our resources into high-potential businesses that align with our long-term strategies and building our core capabilities, while maintaining self-sufficient in our cashflows. With our robust financial position, we are confident that we are well-positioned to seize growth opportunities and generate sustainable shareholder value.

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