

JOYY Inc.

Second Quarter 2024 Earnings Call Prepared Remarks

Operator:

Ladies and gentlemen, thank you for standing by, and welcome to the JOYY Inc.'s Second Quarter 2024 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 2024 earnings conference call. Joining us today are Ms. Ting Li, Chairperson and CEO of JOYY; Mr. David Xueling Li, co-founder and director, 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. 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 Chairperson and CEO, Ms. Ting Li. Please go ahead, Ms. Li.

Ting Li (Chairperson and CEO):

Hello everyone, I'm Li Ting. Welcome to our second quarter 2024 earnings call.

This is my first time addressing you as JOYY's Chairperson and CEO. I am truly excited to connect and share ideas with you all. Today we are pleased to be joined by our founder David, who I would like to invite to say a few words to kick off our call. David, over to you.

David Xueling Li (Co-Founder and Director):

Thank you, Li Ting. Hello everyone. As we announced earlier this month, with the Board's approval, I have officially resigned from my roles as Chairman of the Board and CEO as of August 3, passing the baton to Li Ting to oversee the company's daily management and operations.

This carefully planned leadership transition marks an important milestone in JOYY's development. It underscores our commitment to enhancing our corporate governance and strengthening our organizational capabilities to foster sustainable, long-term growth. Li Ting has been an integral part of our leadership team as COO since 2016, and has played an instrumental role in driving our strategic transformations and navigating key growth phases. Her operational expertise makes her the ideal person to lead JOYY into its next chapter. I have complete confidence in Li Ting and our current management team, and I am pleased to entrust the company's leadership to her capable hands.

To ensure continuity and maintain our business momentum, I will remain actively involved as a member of our board. In this capacity, I look forward to offering strategic guidance and supporting JOYY as we prudently explore long-term opportunities.

With that, I'd like to hand the call back to Li Ting.

Ting Li (Chairperson and CEO):

Thanks, David. I'm grateful for your support and your trust. I look forward to building on the strong foundations you have laid.

Under David's leadership, we've established our globalization strategy, and our business has achieved remarkable growth on a worldwide scale. According to Data.AI, our flagship products are ranked among the top social apps by consumer spend globally. And, importantly, our business continues to generate robust cash flows. Together, these lay a strong foundation for our future, which empowers us to strike a balance between focusing on our core strategy in the near term while exploring long-term growth prospects.

We uphold our corporate mission of enriching lives through technology. Moving forward, our strategic focus remains clear and consistent:

First, we remain committed to executing on our global strategy. We will advance continuous product innovation, with a focus on optimizing user social interactions and content experience to enhance user satisfaction. We see significant growth potential in our global business, and we will leverage our strong product capabilities and user-centric approach to drive healthy expansion of our global user community.

From day one, we have been dedicated to building an inclusive, diverse global community. Our platform transcends geographical boundaries, allowing users from different cultures to connect, interact, and form meaningful relationships. Today, what sets us apart is the truly global nature of our user community and the widespread cross-regional social connections across our platform.

To fully leverage our platform's unique value, we're sharpening our ability to match our diverse global users with their preferred content and connections. Our R&D team constantly finetunes our recommendation algorithms to better understand our users and the content they engage with. Our goal is to create more precise and effective connections between people and the content they love.

While enhancing our recommendation algorithms is crucial, it's just one part of our approach. We're also focused on innovative features that directly impact how users interact on our platform and enhance their experience. Take Bigo Live's Real Match feature, for example. Launched last year, it creates a space for users to meet new people. After several rounds of optimization, Real Match's DAU penetration rate has nearly doubled in the past six months, now exceeding 20%. This success has had a ripple effect, boosting Bigo Live's user registration, payment conversion, and overall ROI. Enhancements such as Real Match strengthen our competitive edge, and optimizing our user experience will remain a core goal moving forward.

Second, we are laser-focused on balancing growth with operational efficiency to drive steady expansion in product and group profitability.

Our global operations are a complex ecosystem encompassing user acquisition, bandwidth and payment infrastructure, KOL management, and monetization and marketing initiatives. In the long term, we aim to optimize every link in this chain to comprehensively strengthen the efficiencies and capabilities of our global operations.

Third, we will keep cultivating long-run initiatives that will further diversify our revenue and create sustainable growth. Our years of effort in advertising are bearing fruit, with advertising playing an increasingly meaningful role in driving the BIGO segment's revenue recovery in 2024. However, we must acknowledge that the scale of our new monetization streams is still small. We are taking a long-term view, and will continue to nurture and develop them to maximize their potential.

Finally, we will continue to advance shareholder returns. In the second quarter, we repurchased an additional \$71.4 million worth of our shares. We will continue to actively utilize share repurchase to reward our shareholders for their long-term support.

Now, let's review our overall performance during the second quarter.

In the second quarter, our group revenue was \$565.1 million, a year-over-year increase of 3.3%. Group non-GAAP net profit came in at \$74.0 million, up 10.2% quarter over quarter. We also continued to record positive operating cash flow at the group level, generating a healthy \$71.1 million.

Our core business segment BIGO recorded revenues of \$507.2 million, a year-over-year increase of 7.7%, sustaining its topline recovery trend for the fourth consecutive quarter. Notably, BIGO's advertising revenues, increased substantially year over year. BIGO's non-GAAP operating profit reached \$69.4 million, up 10.1% sequentially.

Next, let's take a closer look at our products, starting with Bigo Live.

In the second quarter, Bigo Live's MAUs recovered by 1.6% quarter over quarter to 37.7million. Our targeted strategy of reallocating advertising budgets and operational resources to regions with high-monetization potential paid off, particularly in Developed Countries. In these countries, Bigo Live saw year-over-year growth of 9.4% in MAUs, 20.3% in paying users, and 11.0% in revenue. While global

macro uncertainties persist, we will prioritize high-quality paying user growth and ROI to propel Bigo Live's topline recovery.

In the second quarter, we launched a series of innovative marketing initiatives tailored to local customs and user preferences, which brought fresh, diverse content to the platform and injected new energy into our user community. A standout example was Bigo Live's partnership with the Esports World Cup (EWC) from June to July. Bigo Live broadcast all Free Fire, MLBB, and PUBG Mobile events, offering users an immersive gaming experience and unique opportunities to interact directly with professional e-sports players. In June, Bigo Live also participated in the 13th VidCon, held in the United States. This event allowed us to showcase Bigo Live's vibrant creator ecosystem and cutting-edge livestreaming features to top American content creators, laying the groundwork for Bigo Live to expand its reach and boost its performance in key markets.

We further elevated Bigo Live's livestreaming experience with a suite of upgrades including more dynamic emoji interactions and seamless cross-room engagement features. These enhancements drove sequential increases of 4.2% in the number of streamers, and 6.5% in number of users going live.

Finally, let's look at our other products.

As we previously discussed, our other products currently contribute modestly to revenue and profit. Our main objective for these products is to enhance monetization efficiency, maintain strict cost discipline and achieve profitability at product level. Meanwhile, our operational strategy remains focused on the core markets for these products, as we develop their fundamental features and their unique value propositions.

In the second quarter, Likee remained profitable. Sequential DAU growth in Europe and advertising inventory optimization contributed to a 34.7% year over year increase in Likee's advertising revenue.

This quarter, we introduced significant upgrades to Likee's video toolkit by adding advanced AI-powered filters and effects. These enhancements have enabled the creation of higher-quality videos, leading to more diverse content and driving a 1.3% sequential increase in average DAU time spent. Additionally, Likee launched a series of creator-centric events and interactive features, helping content creators deepen their connections with their core fan base. This strategic approach is yielding positive results, with strengthened community ties and enhanced user retention. In June, Likee hosted its first fantasy music festival, Likee Fantasy Fest, where outstanding regional creators took the stage and interacted with fans. Held in Europe, the event provided local users with a live experience centered around their love of animation, film, music, and gaming. These initiatives underscore our commitment to evolving Likee into a deeply engaging platform.

Finally, let's look at Hago. In the second quarter, Hago sustained its positive operating cash flow.

We continued to enhance Hago with new features, including live bullet screen interactive games in voice rooms and tools to quickly summon Family members into live sessions. These upgrades delivered a positive impact on user engagement during the second quarter. Average time spent per user in Hago's

social channels increased sequentially to 103 minutes, accompanied by steady improvements in the product's next-day retention rate.

Hago also innovated on the monetization front, launching a zodiac-themed activity that featured customized visual gifts, along with collection and ranking features. The campaign was a major hit, engaging more than 60% of total paying users.

Looking ahead, we will adhere to our globalization strategy as we innovate and iterate our products, enhance user experience, and strengthen our unique value proposition. Operational excellence will remain at the core of our approach as we deliver sustainable growth and create long-term value for our global community and our shareholders.

Jane Xie (Senior Manager, Investor Relations):

Now, let's welcome the Vice President of Finance, Mr. Alex Liu, to provide our financial updates.

Alex Liu (Vice President of Finance):

Hello, everyone.

Before I go into the details, we would like to remind you that despite the latest development in the sale of YY Live, to the date of this press release, we have not obtained control over YY Live and therefore have not consolidated the business. The financial results presented in our press release and this conference call primarily consisted of BIGO and All other segments, excluding YY Live.

I will now provide a recap of some key financial highlights for the second quarter.

Our total net revenues were \$565.1 million in the second quarter, up by 3.3% year over year. Revenues from BIGO segment were \$507.2 million, up by 7.7% year over year. In particular, BIGO's non livestreaming revenues were \$67.8 million, which was up substantially year over year, primarily due to the increase of advertising revenues.

Geographically speaking, as we prioritized to allocate our operational resources towards Developed Countries, our revenues from Developed Countries was up by double digits year over year, outperforming all other regions.

Cost of revenues for the quarter increased to \$366.2 million, among which our revenue-sharing fees and content costs increased to \$263.9 million. BIGO's cost of revenues were \$327.7 million, which was up year over year, mainly driven by increased traffic acquisition costs paid to third-party partners in relation to our advertising business.

Gross profit was \$198.9 million in the quarter, with a gross margin of 35.2%. BIGO's gross profit was 179.4 million, with a gross margin of 35.4%. BIGO's gross margin was lower year over year due to change of revenue mix with higher contribution of BIGO Audience Network advertising revenues.

Our group's operating expenses for the quarter were \$198.7 million, compared with \$191.7 million in the same period of 2023. Among the operating expenses, R&D expenses decreased to US\$69.9 million from \$75.5 million, primarily due to decreased salary and welfare and share-based compensation expenses. General and administrative expenses increased to US\$40.7 million from US\$29.0 million in the same period of 2023, primarily due to impairment losses of equity investments. BIGO's total operating expenses for the quarter were \$121.6 million, decreased from \$125.0 million in the same period of 2023, primarily due to decreased in sales and marketing expenses.

Our group's GAAP operating income for the quarter was \$2.3 million. Our group's non-GAAP operating income for the quarter, which excludes SBC expenses, amortization of intangible assets from business acquisitions, gain on deconsolidation and disposal of subsidiaries, as well as impairment of goodwill and investments, was \$30.0 million in this quarter, with a non-GAAP operating income margin of 5.3%. BIGO's GAAP operating income for the quarter was \$58.0 million, and BIGO's non-GAAP operating income was \$69.4 million, representing a non-GAAP operating income margin of 13.7%.

Our group's GAAP net income attributable to controlling interest of JOYY in the quarter was \$52.1 million compared to \$155.1 million in the same period of 2023. GAAP net income margin was 9.2% in the second quarter of 2024, compared to 28.3% in the same period of 2023. Our GAAP net margin was higher last year due to realized gains from the disposal of certain equity investments of 77.7 million and foreign currency exchange gains of 20.3 million. BIGO's GAAP net income in the quarter was \$64.6 million, with a GAAP net margin of 12.7%.

Non-GAAP net income attributable to controlling interest of JOYY in the quarter was \$74.0 million, compared to \$97.3 million in the same period of 2023. The Group's non-GAAP net income margin was 13.1% in the quarter, compared to 17.8% in the same period of 2023. BIGO's non-GAAP net income was \$77.8 million, compared with \$99.7 million in the same period of 2023. BIGO's non-GAAP net margin was 15.3% in the quarter, compared with 21.2% in the same period last year. BIGO's non-GAAP net margin was higher last year due to foreign currency exchange gains of 22.0 million.

For the second quarter of 2024, we booked net cash inflows from operating activities of \$71.1 million. We remain a healthy balance sheet with a strong cash position of \$3.3 billion as of June 30 of 2024.

In the second quarter, we continued to enhance returns to shareholders, and repurchased an additional of approximately US\$71.4 million worth of our shares. Our board has also authorized to extend our existing share repurchase program for another 12-month period upon its original expiry date under which we may repurchase up to US\$400 million of our shares till the end of November 2025.

Turning now to our business outlook. As we are fully dedicated to strengthening the efficiencies and sustainability of our global operations, we have taken some proactive actions to optimize our content costs, and we are gradually introducing some adjustments to BIGO's audio livestreaming product to enhance risk control. We anticipate such adjustments might cause near term fluctuation of BIGO's topline. At group level, we expect our net revenues for the third quarter of 2024 to be between \$555 million and \$569 million. This forecast reflects our preliminary views on the market and operational conditions, which are subject to changes.

Looking forward, we will remain dedicated to our strategic priorities, adhering to our globalization strategy, optimizing products and innovating our operations to create value for our users and stakeholders. We will continue to execute our ROI-oriented operational strategy in order to deliver a profitable, sustainable growth.

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