

JOYY Inc.

4Q & FY 2021 Earnings Call Prepared Remarks

Operator:

Ladies and gentlemen, thank you for standing by, and welcome to the JOYY Inc.'s Fourth Quarter and Full Year 2021 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 fourth quarter and full year 2021 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 refer you to our Safe Harbor statement in our earnings press release, which apply to this call as we will make forward-looking statements. 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 fourth quarter 2021 earnings call.

Let me start the call with an overview of our fourth quarter results. We grew our total revenues by 16.8% year over year to \$663.7 million. Specifically, BIGO's revenue increased by 13.2% year over year to \$576.1 million. Meanwhile, we further improved our non-GAAP profitability at the group level when excluding YY Live, as we earned a non-GAAP net profit of \$98.3 million and improved our non-GAAP net margin to 14.8%. BIGO's non-GAAP net profit expanded to \$103.5 million, while its non-GAAP net margin improved to 18% from 8.7% in the previous quarter.

As a result, for the full year of 2021, we generated \$2.62 billion in total revenue, an increase of 36.5% from 2020. Notably, we grew BIGO's full year 2021 revenues by 34.1% to \$2.32 billion. At the group level, our global business reached another major milestone as we attained full-year non-GAAP

profitability for the first time when excluding YY Live, having booked \$108.9 million in non-GAAP net profit with a 4.2% non-GAAP net margin. This was mainly attributed to BIGO's strong financial performance, as it turned profitable for the full year for the first time by generating \$182.0 million in non-GAAP net profit with a corresponding non-GAAP net margin of 7.8%.

Looking back, 2021 was a year marked by growth, strategic adaptation, and breakthroughs.

On the growth front, in 2021, we continued to expand our revenue, driven by our enhanced monetization capabilities across multiple social entertainment products. Consequently, for the full year of 2021, Bigo Live's revenues grew by 31.3%, Likee's revenues grew by 97.8%, and Hago's revenues grew by 54.6%, all contributing to the 36.5% top-line growth at the group level.

On the strategic adaptation front, we proactively implemented some strategic realignments in early 2021 because we value the long-term growth, health, and sustainability of our products. We made certain adjustments to Likee's and Hago's marketing strategies and prioritized investment in their content and social ecosystems, which we believe are fundamental to the user experience and long-term competitiveness of our products. After a few quarters of executing these adjustments, under a more prudent marketing strategy, we are pleased to report significant improvements in the monetization efficiency, financial and operational healthiness of these products. As a result, we substantially narrowed their operating losses, even though their MAUs experienced a few short-term fluctuations.

The combination of the increased monetization of the aforementioned products, our proactive adjustments in marketing strategies, the growing synergies among our products, and our enhanced operating efficiency across the board has led us to an important breakthrough, enabling us to achieve full-year profitability for our global business for the first time since the deconsolidation of YY Live. Our healthy cash flows demonstrate that we have entered into a new phase of sustainable development. Following a positive operating cash flow of \$77.6 million in the third quarter, we generated another positive operating cash flow of \$150.2 million in the fourth quarter.

Looking back, we continued to achieve innovative breakthroughs as evidenced by our proven track record of incubating, developing, and monetizing our products. With our existing global market presence, healthy cash flows, and sustainable growth momentum, we are confident in our future prospects as we continue to reinvent ourselves, explore the global market, increase our global market share, and capture greater growth opportunities in the social entertainment industry.

Next, let me share greater details of the progress we made in each of our product lines during the fourth quarter. Let's start with Bigo Live.

Our efforts in cultivating a diversified global content ecosystem have been fruitful in expanding our product reach, as Bigo Live's MAU grew by 11.9% year over year to 32.2 million in the fourth quarter.

Despite macroeconomic uncertainties, challenges posed by the resurgence of Covid-19, and some depreciation of certain currencies against the US dollar that partially offset our growth momentum, our business demonstrated superb resilience. On a year-over-year basis, Bigo Live's livestreaming revenue and paying users increased by 12.5% and 10.3% respectively in the fourth quarter, as we continued to make headway with Bigo Live's growth trajectory in multiple geographic regions. In particular, revenues and paying users from Europe increased by 42.2% and 14.7% respectively, while revenues and paying users from Southeast Asia and other emerging markets increased by 16.6% and 24.4% respectively.

In the fourth quarter, we made additional progress in diversifying our content ecosystem, enriching our localized content offerings, increasing our supply of premium content, and improving user engagement.

In December 2021 and January 2022, we hosted a series of online events in multiple regions across the globe, such as Europe and the Middle East. These events featured many popular regional artists, musicians, singers, and dancers in addition to the region's top live streamers.

To provide users with a refreshing and immersive social experience, we launched innovative product features in the fourth quarter, incorporating computer vision, virtual reality, augmented reality, and many other cutting-edge technologies. In December, we introduced a brand-new feature called "Virtual Live," which enables users to create customized 3D digital avatars as their virtual representations that mirror their live body movements and facial expressions via camera when streaming on Bigo Live. We plan to upgrade the "Virtual Live" feature continuously in the future to increase user personalization, boost user interactions, and enhance user engagement. Beyond that, we also introduced into Bigo Live a virtual background feature for single-user livestream rooms and implemented a tiered system for granting special user privileges in multiuser live-streaming rooms. All these technological innovations have produced encouraging results, as the average and cumulative duration of live streaming sessions increased year over year by 12.1% and 8.3%, respectively in the fourth quarter.

To enhance our brand influence, we continued to organize signature events by leveraging the extensive localized operational experience of our international talent. For example, in January this year, we hosted the Bigo Live Annual Gala, inviting around 100 streamers from a variety of cultural backgrounds to perform through video feeds in front of their global fans. During the annual gala, through the grand debut of our recently launched "Virtual Live" 3D Avatar feature in collaboration with the Toys, a Thai singer, Bigo Live delivered a brand-new viewing experience through seamless integration of physical and virtual realities. As is the tradition for this annual event, we selected Bigo Live's most influential streamers of the year and featured them on advertisement billboards at famous landmarks around the world, including Times Square in New York, and many more.

Going forward, Bigo Live will continue executing its globalization strategy to enhance its leadership position in the social and pan-entertainment livestreaming industry across the world. It will continue to

focus on key regions like North America, Europe, the Middle East, and the East Pacific while accelerating investments in emerging markets. Bigo Live will also continue to localize, diversify its social content ecosystems with a focus on content categories such as music, dance, comedy, games, and ecommerce, and further increase the proportion of its premium content, to elevate user expansion and engagement. Meanwhile, through constant product innovation and localized operations, Bigo Live will seek to construct interest-based online communities to help users establish more fulfilling social connections on the platform. We believe that diversified content and positive social relationships on the platform will further enrich our users' social entertainment experience, attract more users to our community, cultivate their spending habits, and ultimately drive Bigo Live's monetization growth.

Next, let me share some recent updates on Likee.

As discussed on our previous earnings calls, we have been fine-tuning Likee's marketing strategy since the first quarter of 2021 and prioritizing our investment in our content and social ecosystem. Although Likee's overall MAU experienced some short-term fluctuations as a result and reached 67 million, the downward trend moderated further during the fourth quarter, especially in the Gulf States in the Middle East region.

Likee's livestreaming revenue continued to grow during the fourth quarter, increasing by 26.5% year over year. Its revenues from the Middle East increased by 59.1% year over year.

With a focus on identifying and cultivating talented content creators via its comprehensive creator support program, Likee continued its efforts in fostering a friendly and vibrant content creation community. Motivated by a series of incentive programs, the number of certified creators on Likee increased by 22% sequentially in the fourth quarter. The number of certified creators for the gaming category, which are widely popular among GenZ users, increased by 173% sequentially, and the average quantity of premium gaming content produced per day increased by 97% sequentially.

As part of our efforts to cultivate and support creators, Likee rolled out a series of upgrades to its product features. During the fourth quarter, Likee expanded the implementation of the Superlike feature to a broader user base, leading Superlike to become a unique icon for users to publicly endorse their favorite creators and support premium content. Meanwhile, certified creators received nearly 6 times more incentives through the Superlike feature in December than in September. In addition, we introduced another new feature called Superfollow to enable creators to publish exclusive content for their Superfollowers by earning a monthly subscription fee on Likee. All these new features provide more diverse monetization channels to creators, enrich their interactions with fans, and incentivize them to produce more individualized and high-quality content.

In 2022, we will continue to invest more resources in identifying and nurturing talented creators. We will provide these creators across various content verticals with abundant user traffic support, efficient

content creation tools, professional support from our localized operation teams, and diverse monetization methods to pave a path for their long-term personal growth and career development. We believe a vibrant content community and lively interactions between creators and fans are fundamental to sustaining Likee's monetization growth and reversing Likee's user downward trend in the future. In addition to monetization via livestreaming, we are also steadily steering the growth of Likee's brand advertising business and further diversifying its revenue stream. Going forward, we are confident that Likee will be able to maintain its top-line growth trajectory, further narrow its operating losses, and gradually resume user expansion over a longer period of time.

Last, on Hago.

During the fourth quarter, Hago continued its monetization growth momentum, as its livestreaming revenue and paying users increased by 32.1% and 33.9% year over year, respectively, mainly driven by the optimization of several fan engagement features and the launch of a new "couple" feature in dating-themed livestreaming rooms.

We also upgraded Hago's products to better satisfy user demand for multiplayer social interactions. Considering the differences in user lifecycles and user origins, we implemented an updated recommendation algorithm for users to easily locate their favorite live streaming rooms. As a result, in the fourth quarter, the penetration rate for Hago's featured channels increased by 2.2% sequentially.

In 2022, Hago will continue to provide users with a better multi-player interactive entertainment experience by optimizing its product features, enhancing user matching capabilities, and diversifying user interaction scenarios to cultivate an interest-based social entertainment community. We believe that we will continue to drive Hago's monetization growth, further narrow its operating losses, and make further progress on its path toward breakeven in 2022.

In summary, 2021 was a fruitful year for JOYY. The enhanced monetization capabilities across multiple products helped us achieve full-year revenue growth of 36.5%. The combination of our increased monetization for the aforementioned products, proactive adjustments in marketing strategies, better synergies among multiple products, and enhanced operating efficiency across the board led us to full-year profitability not only for BIGO but also for the whole group.

On capital return front, for the full year, our board of directors has authorized additional share repurchase programs for an aggregate of \$1.2 billion. As of December 31, 2021, we have bought back a cumulative \$393 million of our shares, \$236 million of which was out of the \$1.2 billion newly added repurchase plan. Additionally, we have paid out a total of \$160 million in dividends. These efforts are to demonstrate our confidence in the Company's long-term growth prospects and to reward our shareholders for their long-term support of the Company.

Looking ahead, we will continue to localize our diversified global social entertainment ecosystems, expand our market reach, and fortify our leadership position in core geographic regions. As an innovator and a pioneer, we remain committed to our vision of bridging communications among people from around the globe and bringing them joyful and youthful experiences. This concludes my prepared remarks. I will now turn the call to our General Manager of Finance, Alex Liu, for a more detailed explanation of our financial results.

Alex Liu (General Manager of Finance):

Thanks, David. Hello, everyone. As JOYY's finance general manager, I'll talk about the financial results.

Since a majority of our revenues and expenses are now denominated in USD, starting from January 1, 2021, we have changed our reporting currency from Renminbi ("RMB") to U.S. dollar ("US\$"), to better illustrate our operational 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 near future, the historical financial results of YY Live are reflected in the Company's consolidated financial statements as discontinued operations accordingly, starting from the fourth quarter of 2020.

During the fourth quarter of 2021, despite the recent volatility in the macro environment and increased uncertainty due to Covid-19, and some depreciation of certain currencies against the US dollar that partially offset our growth momentum, our business growth remains resilient. Our total net revenues for the fourth quarter increased by 16.8% year over year to US\$663.7 million from US\$568.2 million in the same period of 2020, primarily attributable to the enhanced monetization capabilities across multiple products, including Bigo Live, Likee and Hago.

In particular, our live streaming revenues for the fourth quarter increased by 15.0% year over year to US\$620.9 million, and other revenues in the fourth quarter increased by 50.3% to US\$42.8 million.

Cost of revenues for the fourth quarter increased by 9.6% year over year to US\$440.2 million. Revenue-sharing fees and content costs increased to US\$297.3 million in the fourth quarter from US\$254.2 million in the same period of 2020, which was in line with the increase in live streaming revenues. Bandwidth costs decreased to US\$20.6 million from US\$27.0 million in the same period of 2020, primarily due to the Company's improved efficiency in bandwidth usage, partially offset by the increased bandwidth usage as a result of continued user base expansion of Bigo Live.

Gross profit increased by 34.2% year over year to US\$223.5million. Gross margin in the fourth quarter of 2021 improved to 33.7% from 29.3% in the same period of 2020.

Operating expenses for the fourth quarter decreased to US\$168.2 million from US\$251.6 million in the same period of 2020. Among the operating expenses, sales and marketing expenses decreased to US\$112.6 million from US\$146.4 million due to disciplined spending on user acquisition via advertisement for certain products, including Likee and Hago.

Through the combination of improved synergy among multiple products, enhanced operating leverage, and prudent marketing strategy, we continued to achieve a steady expansion in profitability, for both BIGO segment and for the entire group.

Our GAAP operating income for the fourth quarter was US\$60.6 million, compared to operating loss of US\$83.8 million in the same period of 2020. Operating income margin for the fourth quarter was 9.1%, compared to operating loss margin of 14.7% in the same period of 2020.

Our non-GAAP operating income for the fourth 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\$83.5 million in this quarter, compared to non-GAAP operating loss of US\$33.2 million in the same period of 2020. Our non-GAAP operating income margin for the fourth quarter was 12.6% compared to non-GAAP operating loss margin of 5.8% in the prior year period.

GAAP net income from continuing operations attributable to controlling interest of JOYY in the fourth quarter of 2021 was US\$73.2 million compared to net loss of US\$118.9 million in the same period of 2020. Net income margin was 11.0% in the fourth quarter of 2021, compared to net loss margin of 20.9% in the corresponding period of 2020.

At the Group level, we continued to achieve a positive non-GAAP net income from continuing operations attributable to controlling interest of JOYY in the fourth quarter, with a non-GAAP net income of US\$98.3 million, compared to non-GAAP net loss of US\$22.4 million in the same period of 2020. The Group's non-GAAP net income margin was 14.8% in the fourth quarter of 2021, compared to non-GAAP net loss margin of 3.9% in the same period of 2020. Notably, BIGO also continued to achieve a positive non-GAAP net income, as its non-GAAP net income expanded to 103.5 million in the fourth quarter, with non-GAAP net income margin improved to 18.0% from non-GAAP net loss margin of 0.4% in the prior year period.

Now turning to our results for the full year of 2021. Our total net revenues increased by 36.5% year-over-year to US\$2.62 billion. Our net loss attributable to controlling interest of JOYY for the full year of 2021 was US\$115.9 million, compared to US\$18.7 million in 2020.

We have attained the first full-year non-GAAP profitability at Group level since we deconsolidated YY Live. Our non-GAAP net income attributable to controlling interest and common shareholders of JOYY for the full year of 2021 was US\$108.9 million, compared to non-GAAP net loss of US\$164.0 million in 2020. Non-GAAP net income margin for the full year of 2021 was 4.2% compared to non-GAAP net loss margin of 8.6% in 2020.

In addition, in accordance with our quarterly dividend plan approved on August 11, 2020 and on November 16, 2020, we will be distributing a dividend of US\$0.51 per ADS for the fourth quarter of 2021, which is expected to be paid on April 29, 2022 to shareholders of record as of the close of business on April 14, 2022.

Next, an update on our execution of the share repurchase program.

In September and November 2021, our board of directors have authorized additional share repurchase plans, under which the Company may repurchase up to US\$1.2 billion of its shares in total. As of December 31, 2021, the Company had repurchased approximately US\$ 235.7 million of its shares under these programs. This means that for the full year of 2021, we have bought back a cumulative US\$393 million of our shares. These efforts demonstrate our confidence in the Company's long-term growth prospects, and our sincerity to reward our shareholders for their long-term support of the Company. We will continue to actively utilize share repurchase to create value for our shareholders.

Going forward, we will continue to further expand our global market reach, cultivate our highly engaged user community, and enhance our high-quality content offerings.

Beginning in the second quarter of 2021, we have anticipated some negative impact on users' online social entertainment activities from the gradual lift of pandemic-related lockdowns in certain countries. We expect our net revenues for the first quarter of 2022 to be between US\$601 million and US\$616 million, excluding the revenue contribution from YY Live in the same period of last year. We currently have limited visibility surrounding the COVID-19 epidemic's long-term impacts and geopolitical 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.