

# JOYY Inc.

## 1Q 2022 Earnings Call Prepared Remarks

**Operator:**

Ladies and gentlemen, thank you for standing by, and welcome to the JOYY Inc.'s First 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 first 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](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 first quarter 2022 earnings call.

Let me start the call with an overview of our first quarter results.

In line with our previous expectations, as various parts of the world started to emerge from pandemic restrictions, a combination of forces including macroeconomic weakness, seasonality, and unfavorable foreign exchange impacts contributed to a drag on our top-line growth during the first quarter. For the first quarter of 2022, our group's total revenues were \$623.8 million, decreasing by 3% year over year, among which BIGO's revenue was \$534.6 million, decreasing by 8% year over year.

However, our global business has demonstrated resilience despite the challenging market environment

and weak seasonality. Such resilience is mainly attributable to our sustainable growth model, and further improvements to our operating efficiency. When compared to prior year periods, we achieved steady improvement in profitability during the first quarter of 2022. Excluding YY Live, we recorded a non-GAAP net profit of \$20.9 million and expanded our non-GAAP net margin to 3.3%, compared to a non-GAAP net loss margin of 3.7% in the prior year period. BIGO's non-GAAP net profit grew to \$59.9 million, while its non-GAAP net margin improved to 11.2%. In addition, our operating cash flow remained healthy and reached positive \$59.2 million in the first quarter.

I talked last quarter about some of the increasing macro complexities facing our business. As a global company with worldwide operations, we are not immune to international macroeconomic volatilities. During the initial outbreak of COVID-19 from early 2020 to mid-2021, we experienced an acceleration in business growth as the online social entertainment industry in general enjoyed greater user engagement and activities amidst prevalent lockdowns. However, as the world limped into the post-pandemic era, the long-term effects of COVID lingered, and the global economy suffered from anemic growth recovery and significant inflationary pressures. These adverse macro trends dampened global consumer confidence, reduced their spending power, and posed challenges for our business growth in the short run.

However, from a medium- and long-term perspective, global users' diversified individual demand for social entertainment remains high, and the long-term trend of transitioning social entertainment activities from offline to online is still irreversible. As we look further into our key operational regions, including North America, Europe, Pacific East, the Middle East, and Southeast Asia, our product penetration rate is still relatively low, which creates substantial headroom for us to further penetrate the market.

On top of that, I want to share some thoughts on our operating philosophy. First, we remain committed to our globalization through localization strategy, which has been vital to the rapid growth in our global business over the past few years. Globalization and diversification help us minimize our single region exposure, cushioning the blow from cyclical fluctuations in certain regions. We will further localize our operations team by recruiting professionals with international backgrounds to drive our content localization, innovation, and integration. Second, we will grow our user communities by offering diverse social entertainment services with rich, local, and premium content offerings. At the same time, by continuously upgrading our products and user interface & experience innovation, we seek to further optimize the immersive interest-based social networking experience of our users. With our rich and diverse content, efficient content recommendation engine, and products that better nurture users' social networking needs, we should be able to further expand our product reach and ultimately fuel our monetization growth. Third, we will continue to execute our sustainable, ROI-driven growth strategy and balance between growth and profitability in 2022. We believe that under the current market environment, maintaining a strong operating cash flow is crucial to safeguard our mid- to long-term growth.

As a company established in 2005 and with 10 years of listing history, we have been constantly adapting to evolving market conditions, and have achieved significant breakthroughs. We believe that with our established operational capacity, continuous iteration on our user-centric products, persistent execution on a sustainable growth model, and striving to maintain robust cash flows, we are in a stronger position to navigate the current macroeconomic challenges and seize emerging growth opportunities along the way.

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

In the first quarter, Bigo Live's MAU grew by 8.8% year over year to 31.7 million.

As I have just mentioned, impacted by global economic uncertainties, seasonal weakness, and multiple local currencies depreciating against the US dollar, Bigo Live's livestreaming revenue and paying users in the first quarter decreased by 9.6% and 1.5% year over year, respectively. Geographically speaking, our operations in Europe were less affected when compared with prior year periods. During the quarter, both our revenue and the number of paying users from Europe sustained their growth momentum and increased by 10.4% and 3.1% year over year, respectively.

During the first quarter, we continued to diversify our localized premium content offerings on Bigo Live, driving improvement in its user engagement. For example, we hosted the Europe Talent Champions League, inviting streamers from various countries to produce locally-themed interactive content for European users. In Malaysia, we partnered with WeTV to offer our users exclusive access to stream television dramas and reality shows on Bigo Live. Thanks to our diversified premium content, our user engagement improved, as evidenced by the 9.9% and 2.1% sequential increases in the average duration of livestreaming sessions and the average viewer time spent, respectively.

Bigo Live has always been dedicated to fostering an engaging and inclusive community, and it has been an important venue for global users to connect with others with similar backgrounds or interests. In March, we launched a 'Community' feature, which is a space enabling users, especially new users, to establish and join different interest groups and quickly connect with like-minded people. Within each community, users can interact with friends' video posts and join their live sessions, thereby significantly improving the efficiency of social interactions. Since this feature's launch, various interest-based communities have flourished, with themes such as fitness, KPOP dance, dining, and others, thus enhancing the diversification of our user content production as well as promoting the consolidation of our real-time and non-real-time content pools.

Next, let's turn to Likee.

Following our proactive adjustment of Likee's marketing strategy, Likee's MAU fluctuation continued in the first quarter and its MAU reached 61.8 million in the first quarter. Due to the proactive adjustment, coupled with macro uncertainties and seasonal fluctuations, Likee's livestreaming revenue declined by 11.9% year over year. However, its livestreaming revenue in the Middle East region turned out slightly better than that in other markets, recording a year-over-year increase of 29.4%.

Likee continued to cultivate a diversified and vibrant content community by nurturing talented creators through our comprehensive support program. In the first quarter, Likee focused on equipping creators with additional interactive tools and localized operational services. Following the introduction of 'Superlike' and 'Superfollow' features, we launched a personal voice chat feature in certain regions on Likee, encouraging additional real-time and direct interactions between creators and their fan groups. In Southern Asia, during the local wedding season, Likee's local operations team launched a number of wedding-related challenges to encourage creators to showcase traditional wedding culture featuring local wedding dresses, makeup, and ceremonies, attracting millions page views. Thanks to our comprehensive creator support program, the number of Likee's certified creators increased by 8.4% sequentially in the first quarter.

To meet users' diverse social interaction needs, we also launched a 'Friends' feature to allow users to create their own private community groups and exclusively share their personal content with designated groups, enabling individualized social experience on Likee. We believe that the "Friends" feature will help merge Likee users' offline and online social networks, and reduce their psychological barrier to produce and share their own content online.

During the first quarter, as Likee continued optimization of its short videos and livestreaming features and enhanced integration between the two, user engagement with Likee's livestreaming improved, with average viewer time spent on livestreaming growing by 45.6% and Likee's livestreaming DAU penetration rate increasing by 10.9% sequentially.

Next, on Hago.

During the first quarter, Hago maintained its monetization growth trajectory, as its livestreaming revenue increased by 24.2% and number of paying users grew by 14.5% year over year.

Based on our product team's deep user insights, Hago upgraded several product features to explore new innovations in multiplayer social interaction and further enhance users' social experience. This quarter, Hago launched a new feature called 'Hago Space', allowing users to create their own 3D digital avatars and interact with one another in virtual 3D scenes. Users can engage in a variety of activities in their 3D avatar including voice chat, casual gaming, and gifting. Shortly after the new feature was launched, we observed positive impact on users' social activity and featured channel penetration. In the following quarters, Hago plans to further enrich users' Hago Space experience by introducing more 3D virtual scenes, virtual items, and casual games.

Finally, some updates on capital return. In the first quarter, we continued to enhance returns to shareholders and protect their interests through share repurchase programs. In the first quarter, we bought back a cumulative \$80.2 million of our shares. As of March 31st, we have repurchased in total \$315.8 million of our shares, out of the previously announced repurchase program of \$1.2 billion.

Taken together, by capitalizing on our diversified global product matrix, and continuous operating efficiency improvements, our global business demonstrated resilience amidst a challenging external environment during the first quarter. We remain confident in the mid- to long-term growth prospects of the global social entertainment market. We will continue to prioritize the cultivation of our content and social ecosystems and seek to maintain a strong cash flow while seizing emerging business opportunities along the way. We remain committed to delivering long-term value for our shareholders.

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.

During the first quarter of 2022, due to increased macroeconomic uncertainties, seasonality and some depreciation of certain currencies against the US dollar, our total net revenues for the first quarter decreased to US\$623.8 million from US\$643.1 million in the same period of 2021.

In particular, our live streaming revenues for the first quarter was US\$590.1 million, and other revenues in the first quarter increased by 16.3% to US\$33.7 million.

Cost of revenues for the first quarter decreased by 4.6% year over year to US\$422.6 million. Revenue-sharing fees and content costs was US\$279.9 million in the first quarter, compared with US\$282.0 million in the same period of 2021. Bandwidth costs decreased to US\$20.9 million from US\$29.5 million in the same period of 2021, 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 to US\$201.2 million in the first quarter, with our gross margin improved to 32.2% from 31.1% in the same period of 2021.

As we continued to enhance our operating leverage and execute a prudent marketing strategy, operating expenses for the first quarter decreased by 28.1% to US\$200.6 million from US\$279.0 million in the same period of 2021. Among the operating expenses, sales and marketing expenses decreased to US\$104.4 million from US\$137.4 million due to disciplined sales and marketing spending on certain products, including Likee and Hago.

As a result, we continued to achieve a steady expansion in our GAAP and non-GAAP profitability, for both BIGO segment and the entire group.

Our GAAP operating income for the first quarter was US\$6.3 million, compared to operating loss of US\$73.0 million in the same period of 2021. Operating income margin for the first quarter was 1.0%, compared to operating loss margin of 11.4% in the same period of 2021.

Our non-GAAP operating income for the first 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\$33.3 million in this quarter, compared to non-GAAP operating loss of US\$29.7 million in the same period of 2021. Our non-GAAP operating income margin for the first quarter was 5.3% compared to non-GAAP operating loss margin of 4.6% in the prior year period.

GAAP net loss from continuing operations attributable to controlling interest of JOYY in the first quarter of 2022 was US\$27.5 million compared to net loss of US\$87.3 million in the same period of 2021. Net loss margin was 4.4% in the first quarter of 2022, compared to net loss margin of 13.6% in the corresponding period of 2021.

Non-GAAP net income from continuing operations attributable to controlling interest of JOYY in the first quarter was US\$20.9 million, compared to non-GAAP net loss of US\$24.1 million in the same period of 2021. The Group's non-GAAP net income margin was 3.3% in the first quarter of 2022, compared to non-GAAP net loss margin of 3.7% in the same period of 2021.

Notably, BIGO's non-GAAP net income expanded to 59.9 million in the first quarter, with its non-GAAP net income margin improved to 11.2% from 1.6% in the prior year period.

Together with our improving profitability, we have maintained a strong operating cash flow as well. For the first quarter of 2022, we booked net cash inflows from operating activities of US\$59.2 million.

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 first quarter of 2022, which is expected to be paid on July 6, 2022 to shareholders of record as of the close of business on June 23, 2022. Additionally, 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. In the first quarter, the Company had repurchased an additional US\$80.2 million of its shares under these programs. As of March 31st, 2022, the Company had in total repurchased approximately US\$315.8 million of its shares under these programs. These efforts demonstrate our confidence in the Company's long-term growth and profitability prospects. We will continue to actively utilize share repurchase to create value for our shareholders under current market condition.

Going forward, as David just mentioned, while we prioritize investment into the cultivation of our content and social ecosystems, we will continue to execute our sustainable, ROI-driven growth strategy. We plan to continue to enhance our operating leverage, improve returns for each of our products and seek to maintain a strong operating cash flow, which we believe will provide us with greater financial flexibility to invest in our business and fundamental capabilities.

For our business outlook, we have anticipated some negative impact on users' online social entertainment activities from the gradual lift of pandemic-related lockdowns in certain countries. Macroeconomic environment volatilities and exchange rates fluctuations will also continue to post uncertainties for our global business. We expect our net revenues for the second quarter of 2022 to be between US\$579 million and US\$600million. We currently have limited visibility surrounding the macroeconomic environment, 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.