

JOYY Inc.

First Quarter 2023 Earnings Call Prepared Remarks

Operator:

Ladies and gentlemen, thank you for standing by, and welcome to JOYY Inc.'s First 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 first 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. 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 2023 earnings call.

We kicked off 2023 with a strong quarter despite ongoing macro uncertainties. Let me first touch briefly upon some of our most notable achievements, which I will discuss in more detail shortly.

First, during the quarter, we recorded \$583.6 million in revenues, including \$467.9 million of revenue from BIGO, exceeding the high end of our guidance. Notably, we maintained our profit growth momentum. Our group's non-GAAP net profit reached \$49.9 million, representing a year-over-year increase of 138.7%, with a non-GAAP net margin of 8.5%. The BIGO segment recorded a non-GAAP net

profit of \$56.8 million, with a non-GAAP net margin of 12.1%. We also maintained a healthy positive operating cash flow of \$67.5 million during the quarter, further enhancing our robust financial position.

Second, our global average mobile MAUs returned to positive quarter over quarter growth. In the first quarter, our global average mobile MAUs reached 272.9 million, increasing by 1.9% from the previous quarter. Bigo Live's MAUs grew steadily, increasing by 19.0% year over year.

And third, following two years of operational adjustments and optimizations, Likee continued to make significant progress. Importantly, Likee once again achieved financial breakeven, after first hitting this milestone in the second half of last year. At the same time, Likee's revenues increased by 9.0% sequentially, and its core user base DAUs grew by 5.2% on a quarterly basis.

While we have seen some green shoots of recovery, we remain cautiously optimistic regarding industry outlook, given that ongoing macroeconomic uncertainties may still pressure consumer confidence and user spending on online social entertainment.

Looking to the future, we remain committed to our long-term growth strategy. Globalization remains a key driver of our business growth. We will continue to prioritize high-quality, sustainable growth, improve monetization and profitability across all business units, and further strengthen our financial resilience by generating robust operating cash flows. Harnessing our global technological and localized operational capabilities continues to be our top priority and fundamental to our worldwide business success. We will cultivate our global user community and provide exceptional interactive experiences to our users through product innovation, diverse content, and localized offerings.

In line with our global positioning and commitment to high-quality, sustainable growth, we intend to further concentrate our resources on building our core strengths and global businesses that align with our long-term strategies.

Evolving our core competencies in both global localized operations and technology requires continuous commitment. We have mentioned many of our recent efforts on localized operations, today I would like to take this opportunity to discuss some of our progress on technology implementation and development.

Our technological approach has always been leveraging cutting-edge technology to drive product innovations, improve user experience and optimize our operating efficiency.

At BIGO, we employ around 1,400 R&D personnel, including approximately 150 experts and engineers specializing in the development of AI. Their expertise spans a diverse range of AI applications, including computer vision, facial recognition, image comprehension, and natural language processing. Our team leverages AI to advance our text, image, and video recognition capabilities, analyze user behavioral data, improve intelligent recommendations to users, and manage content quality. In Bigo Live and Likee, we use AI to identify nuanced user interests and direct users toward more relevant and personalized content. It has also improved our discovery process for talented creators, and allows us to more

effectively channel resources to them. This is highly valuable for developing our interest-based communities and thriving content ecosystems.

As we operate in over 150 countries and regions, we have established local regulatory teams and professional content moderators all over the world to ensure regulatory compliance and align our content with local cultural norms. AI has proven to be a powerful tool for improving content quality and cultivating our content ecosystem. By utilizing AI, we have significantly improved the efficiency of our content moderation. We have developed various AI recognition models based on a database of millions of policy violations, and created a directory for filtering inappropriate content in more than 20 languages. With approximately 1.5 to 1.6 million livestreaming rooms and 4 to 5 million short videos on BIGO every day, we need to review over 600 million images on a daily basis. Our successful implementation of AI has reduced the manual moderation rate to a mere 0.05% and brought the accuracy rate of our AI detection system to over 99.8%.

We have also leveraged technology to bring innovative interactive experience to our users. For example, Hago's new 3D Space empowers users to create virtual avatars and interact with each other in various 3D virtual scenes, enabling users to engage in an immersive social experience. Hago's 3D avatar models can be generated by adjusting various facial parameters, or directly from photos uploaded by our users. Using deep learning technology, we synchronize multilingual pronunciation, mouth movements, and facial expressions between users and their digital avatars in real-time. For the karaoke scene, virtual characters can even dance to the rhythm of musical beats.

The rapid evolution of AI technology is set to transform the industry and economies worldwide. It also presents a multitude of opportunities for companies to create value and enhance operational efficiency across various applications. We are committed to exploring and iterating ways to integrate AI into our business, in order to deliver accessible and captivating interactive experiences to our users across the globe, and further improve our operational efficiency.

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

During the first quarter, Bigo Live sustained its double-digit user growth momentum for the fourth consecutive quarter, with its MAUs increasing by 19.0% year-over-year to 37.7 million. Growth was observed across several key regions, with 7.3% growth in Europe, 13.2% growth in the Middle East, and 23.6% growth in Southeast Asia and other emerging markets, year over year.

In terms of monetization, Bigo Live saw steady recovery in its paying user growth in the first quarter. The number of paying users in Europe and North America increased year over year by 9.9% and 10.2%, respectively. Bigo Live's livestreaming revenues in Europe, North America, and the Middle East all rebounded from the previous quarter.

We launched a series of operational events across major regions in the first quarter, and successfully engaged with and encouraged active participation from our creators and users. In February, Bigo Live launched the "Big Star Search" event, a talent competition open to North American participants that enables us to recruit the most exceptional creators across a wide range of categories such as dance,

music, cosplay, cooking, etc. The event's six-month duration and wide variety of content genres make it Bigo Live's largest, longest-running, and most impactful talent competition to date. In the Middle East, Bigo Live boosted user engagement when it once again collaborated with Mobile Legends: Bang Bang to livestream the M4 World Championships. The quarter also marked the first collaboration between Bigo Live and ULTRA ABU DHABI. ULTRA ABU DHABI is the first Middle Eastern edition of the world-famous Ultra Music Festival. Bigo Live brought exclusive live concert experiences, exciting performances, and behind-the-scenes footage to online audiences. Bigo Live also set up a booth at the festival venue to interact with thousands of audiences, further enhancing its brand awareness in the local community.

In terms of content development, Bigo Live remains focused on incentivizing BAR channel content production. In the first quarter, our strategic efforts to enhance the creation and distribution of high-quality content resulted in an 18.7% sequential increase in video content in BAR. Furthermore, by utilizing computer vision technology, we have also improved the channel's automatic content tagging and its recommendation algorithms. These improvements resulted in an 8.8% sequential growth in average impressions per user on the BAR channel. For livestreaming and social interaction, user engagement has continued to grow. This is mainly due to optimized multi-person room interfaces and new features including sound effects and interactive tools. Sequentially, the number of multi-person room hosts increased by 9.3%, and the number of users going live increased by 8.7%.

Next, let's turn to Likee.

To ensure the healthiness and sustainability of our ecosystem and growth model, we have been proactively adjusting Likee's marketing strategy since the first quarter of 2021, and focusing on enhancing its monetization efficiency and organic user acquisition capabilities. We are happy to announce that we have seen some meaningful progress during the first quarter. Likee's revenue increased by 9.0% sequentially in the first quarter. It also achieved breakeven during the quarter, after first hitting this milestone in the second half of last year. In terms of user engagement, Likee's interest-based communities grew and quality of user interactions improved. During the first quarter, Likee's core user base DAUs increased by 5.2% sequentially.

In the first quarter, Likee further optimized its creator services and delved deeper into understanding creators' needs. The number of official creators increased by 6.2% sequentially. Likee also reinforced its positioning as an interest-based community by collaborating with professionals in various fields, including music, racing, food, and sports. This actively encouraged them to create high-quality content on the platform, bolstering an already vibrant content ecosystem.

We also continued to integrate corporate social responsibility into our daily operations and create positive impacts on the community. During Ramadan, Likee partnered with the Jordanian charitable organization Tkiyet Um Ali (TUA) for the "Share a Meal" campaign. This initiative encouraged users to post videos of their Ramadan experience and share blessings during the holiday. For every user who participated in the campaign, Likee donated a certain amount of money to TUA on their behalf. Nearly 100,000 users participated in the event.

Next, on to Hago.

During the quarter, Hago remained dedicated to enhancing user activity and boosting social engagement. As we have mentioned previously, over the past two years Hago has been gradually transitioning its strategic focus to become a multiuser social platform. By utilizing social channels including video and audio multiplayer chat rooms, Hago Space, and Groups and Families, Hago offers users a growing range of social interaction opportunities and has created a highly interconnected user community. In the first quarter, the penetration rate of Hago's social channels increased by 4.4% sequentially. In addition, the daily average time spent by users continued to grow, reaching 90.8 minutes. We have also conducted multiple rounds of Net Promoter Score surveys among users, the results of which indicated consistent enhancement of user satisfaction, particularly in Indonesia, the Philippines, Brazil, and Mexico. Furthermore, many users have expressed their appreciation for how Hago enhances their social experiences.

Hago will continue to adhere to a disciplined marketing spend strategy and optimize its cost structures. We expect a gradual improvement in Hago's operating losses over the coming quarters.

Finally, some updates on capital return. During the first quarter, we bought back an additional \$15.7 million of our shares. Given recent market volatility, we will step up our share repurchase in the second quarter, to reward the long-term support of our shareholders.

To conclude, despite the near-term macro challenges, we delivered solid results in the first quarter, as we maintained strong profitability at the group level and achieved accelerated growth in Bigo Live's MAUs. Looking ahead, we remain committed to enriching lives through technology. We will continue to cultivate our global user community and provide exceptional interactive experiences to our users through product innovation, diverse content, and localized offerings. We are confident that we are well-placed to seize long-term growth opportunities and generate sustainable shareholder value.

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 near-term macro uncertainties, we achieved solid results in the first quarter.

Our revenues in the first quarter exceeded the higher end of our guidance, and we continued to deliver better profits both at Group level and at product level, thanks to our effective execution of cost optimization measures and improved operational efficiency.

We were also encouraged to see continued sequential recovery in BIGO's paying users for the third consecutive quarter, as it increased by 7.8% year over year and 1.3% quarter over quarter to 1.57 million. As we continued to cultivate diverse, premium content and carried out effective localized operational activities, we boosted user engagement and drove further progress in user base expansion

in the quarter. We reversed the trend of our global mobile active users in the first quarter, which increased by 1.9% sequentially to 272.9 million.

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

Our total net revenues were US\$583.6 million in the first quarter.

Cost of revenues for the quarter decreased to US\$379.0 million, among which our revenue-sharing fees and content costs decreased to US\$248.1 million.

Gross profit was US\$204.6 million in the quarter, with our gross margin improved to 35.1% from 32.2% in the same period of 2022, primarily due to optimization of revenue sharing cost and other operational costs.

Our operating expenses for the quarter were US\$205.3 million, increased from US\$200.6 million in the same period of 2022. Among the operating expenses, sales and marketing expenses decreased to US\$97.6 million from US\$104.4 million due to our effective control over marketing expenses and optimization of overall sales and marketing strategies. R&D expenses increased to US\$75.8 million from US\$64.1 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.

Our GAAP operating income for the quarter was US\$2.5 million, compared to operating income US\$6.3 million in the same period of 2022. 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\$27.8 million in this quarter, compared to US\$33.3 million in the same period of 2022. Our non-GAAP operating income margin for the quarter was 4.8% compared to 5.3% in the prior year period.

GAAP net income attributable to controlling interest of JOYY in the quarter was US\$28.0 million compared to net loss of US\$27.5 million in the same period of 2022. GAAP net income margin was 4.8% in the first quarter of 2023, compared to net loss margin of 4.4% in the corresponding period of 2022.

Non-GAAP net income attributable to controlling interest of JOYY in the quarter was US\$49.9 million, compared to US\$20.9 million in the same period of 2022. The Group's non-GAAP net income margin was 8.5% in the quarter, compared to 3.3% in the same period of 2022.

Together with our improving profitability, we have maintained a strong operating cash flow as well. For the first quarter of 2023, we booked net cash inflows from operating activities of US\$67.5 million. We remain a healthy balance sheet with a strong cash position of US\$4.29 billion as of March 31 of 2023.

Importantly, we have continued to enhance returns to shareholders through dividends and share repurchases. In the quarter, we have in total repurchased approximately US\$15.7 million of our shares and declared cash dividends in an aggregate amount of US\$35.5 million, which altogether represent 102.8% of our non-GAAP net income. As of March 31, 2023, we still have around US\$784 million

unutilized quota under our 2021 Share Repurchase Program. Given the current market circumstances and our current cash position, we will step up our share repurchases in the second quarter.

As David just mentioned, in line with our global positioning and commitment to high-quality, sustainable growth, we plan to strategically streamline some of our non-core operations, so that we can concentrate our resources, both financial and management, towards building our core strengths and business that align with our long-term strategic goals. Therefore, partially as a result of the adjustments, for our business outlook, we expect our net revenues for the second quarter of 2023 to be between US\$520 million and US\$541 million. This forecast reflects our preliminary views on the market and operational conditions and business adjustment plans, which are subject to changes.

In summary, technology and our global localized operational capabilities continues to be the backbones to our global business success. We will continue to cultivate our global user community and provide better interactive experiences to our users through product innovation, diverse content and localized offerings. In the meanwhile, we will continue to pursue high quality growth and improve operating efficiency across all business units. 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 in good position to better seize long term growth opportunities and generate sustainable shareholder value.

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