



YY Inc.
1Q16 Earnings Conference Call Script
May 2016

Operator:

Good day everyone and welcome to YY's first quarter 2016 earnings conference call.

At this time all participants are in listen-only mode. With us today is Mr. Eric He, CFO. I would also like to mention that due to the pending going-private transaction, we will not be hosting a Q&A session at the end of the call.

Before we begin, I refer you to the Safe Harbor Statement in our earnings release, which also applies to our conference call today as we will make forward-looking statements.

I will now turn the call over to the CFO, Mr. Eric He.

Eric He

Hello, everyone. Welcome to our earnings call.

In the first quarter of 2016, our top line continued to see solid growth momentum, increasing by 43% year over year to 1.65 billion RMB, primarily driven by our IVAS business. Meanwhile we were able to further grow our paying users by 57% year over year to 3.9 million in the first quarter. As we expected, our overall revenue growth was partially offset by the soft performance of online games. It was mainly due to the continued industry-wide weakness across China's web-based game market.

In particular, we saw significant growth in the mobile broadcasting business and have been able to rapidly capitalize on these opportunities through our newly launched mobile broadcasting app ME, which we will further develop during the year. As we mentioned in the previous quarter, the content on ME App is relevant to users' daily lives and it enables users to broadcast live and interact with each other anytime and anywhere. Furthermore, we feature top stars and hold various entertainment events every day on ME to enhance its social function and highly diversified content. We believe there is significant potential to further accelerate its growth and enhance the ME app popularity amongst our core and new users.

Moving on to Huya, our online game broadcasting business. We are quite excited and proud of the success we have achieved from the recent revamping of the Huya management team, Huya's improved user interface and most significantly, the improved monetization capabilities we've implemented over the past several quarters- all of which have resulted in significant growth. To exemplify this, during the first quarter, we saw revenue increase impressively by 114% year over year to 117.7 million RMB. This growth was primarily fueled by a significant 132% year-over-year growth in paying users to 899,000.

In our online music and entertainment business, we maintained strong revenue growth of 56% year over year to 919.1 million RMB, and paying users further grew by 68% year over year to 2.7 million in the first quarter of 2016. Meanwhile, our mobile music and entertainment business continued its robust growth with 203% year-over-year increase in revenue, and 138% year-over-year increase in paying users. During the first quarter, mobile paying users accounted for 68% of total paying users in our online music and entertainment business. Going forward, we will continue to focus on strengthening our content offerings, especially the professionally-generated entertainment and sports content, to further expand our user community and user stickiness on our platform. One example is our *Da Pai Wan Chang Hui*, an interactive concert broadcasting service that connects celebrities and

participants virtually. It was launched in cooperation with the traditional media outlet, Chongqing TV, and has been quickly gaining popularity since inception. These sorts of cooperation's are aimed at helping to drive continued user acquisition and stickiness as we strengthen our overall platform.

Now turning to our online dating business. In the first quarter, revenue continued to grow, increasing by 60% year over year to 211.2 million RMB, mainly driven by the 47% year-over-year growth of paying users to 283,000.

Another growth driver I'd like to highlight is our PK Show, which is a competitive program for hosts to practice and compete against one another to see who can be more popular. During the first 12 months since its launch in April 2015, PK Show's growth metrics and monetization rates, including revenue and revenue growth rate, have outpaced our online dating business' growth metrics during the same time period in its development. Such new and innovative ideas and uses of the YY platform exemplify the power our technology has and the ability to significantly enable those who think outside of the traditional entertainment boxes.

Going forward, we will continue to leverage our ecosystem and expand our innovative content and service offerings across our business lines. This strategy has resulted in successful growth of both our core businesses as well as many other emerging business ideas and initiatives and is one of our key differentiators as we strive to meet the evolving demands of our massive user base in the dynamic internet market. Overall, we remain confident in our market opportunity and aim to continue fortifying our position as the leading real time internet platform in China.

Now I will turn to our quarterly financial details. Before I get started, I would like to clarify that all the financial numbers we are presenting today are in Renminbi amounts and percentage changes are year-over-year comparisons, unless otherwise noted.

Net revenues for the first quarter of 2016 increased by 43% to 1.65 billion. This increase was primarily driven by the increase in IVAS revenues.

IVAS revenues increased by 45% to 1.61 billion, which was mainly driven by the 57% year-over-year growth in number of paying users. Now let's look at each of our IVAS business lines.

- **Revenue from online music and entertainment** increased by 56% to 919.1 million in the first quarter of 2016. This increase was driven by a year-over-year increase of 68% in the number of paying users to 2.7 million. In addition, mobile ARPU continued to grow by 27% year over year to 243 RMB.
- **Revenue from online games** was 171.1 million in the first quarter of 2016, compared to 231.7 million in the prior year period. This decline was primarily caused by a 36% year-over-year decrease in paying users to 306,000, reflecting the continued softness in China's web game market, but was partially offset by a 15% year-over-year increase in ARPU of online games.
- **Revenue from online dating** increased by 60% to 211.2 million RMB. This increase reflected a 47% year-over-year increase in paying users to 283,000 and 9% year-over-year increase in ARPU to 746 RMB in the first quarter of 2016.
- **Other IVAS revenues** increased by 97% to 310.4 million in the first quarter of 2016. This mainly includes revenues from Huya Broadcasting which increased by 114% to 117.7 million, and revenues from membership subscription fees which increased by 12% to 69.4 million.

Other revenues, mainly including revenues from our online education platform, Huanqiu Education Online, online advertising revenues from Duowan.com, and ecommerce, were 37.5 million in the first quarter of 2016, compared with 39.4 million in the corresponding period of 2015.

Cost of revenues increased by 58% to 1.06 billion, which was primarily attributable to an increase in revenue-sharing fees and content costs to 707.7 million in the first quarter of 2016. The increase in revenue-sharing fees and content costs paid to performers, channel owners and content providers was in line with the increase in revenues and was primarily due to higher level of user engagement and spending driven by promotional activities, as well as the Company's investments in expanding the amount of new and innovative content it provides to users. In addition, bandwidth costs increased to 182.9 million in the first quarter of 2016, primarily reflecting the continued user base expansion and the video quality improvements.

Gross profit increased by 23% to 588.8 million in the first quarter of 2016. Gross margin was 35.7%, compared to 41.5% in the prior year period. The decrease in gross margin was mainly attributable to our higher margin online gaming revenue concentration decreasing year over year, from 20.1% of total revenue to only 10.4% in the first quarter of 2016. This was the result of us experiencing a significant increase in UGC content revenues across the YY platform as a percentage of overall revenue.

Our non-GAAP operating income increased by 13% to 310.6 million in the first quarter of 2016. The Non-GAAP operating margin fell to 18.8% from 24.0% in the prior year period.

GAAP net income attributable to YY was 208.3 million in the first quarter of 2016, compared to 227.0 million in the prior year period. Net margin in the first quarter of 2016 was 12.6%, compared to 19.7% in the corresponding period of 2015.

Non-GAAP net income attributable to YY Inc. increased by 1% to 262.3 million from 258.8 million in the prior year period. Non-GAAP net margin decreased to 15.9% in the first quarter of 2016 from 22.5% in the prior year period.

Diluted net income per ADS in the first quarter of 2016 was 3.65 RMB, compared to 3.83 RMB in the prior year period. Non-GAAP diluted net income per ADS increased by 5% to 4.59 RMB from 4.36 RMB in the prior year period.

This concludes our prepared remarks. Thank you for joining our call today, and we would like to conclude the call now.