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**YY Inc.**  
**3Q15 Earnings Conference Call Script**  
**November 2015**

**Operator:**

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Good day everyone and welcome to YY's third quarter 2015 earnings conference call.

At this time all participants are in listen-only mode. At this point, I would like to turn the call to Charles Eveslage, from ICR.

**Charles Eveslage**

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Thank you, operator. Welcome to YY's third quarter 2015 earnings conference call. With me 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**

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Hello, everyone. Welcome to our earnings call.

In the third quarter, our overall business continued to expand, as net revenues grew by nearly 50% year over year to almost 1.5 billion RMB, primarily driven by our traditional music and entertainment business, and emerging online dating business, but offset by the softness of our online games segment. At the same time, we were able to grow our paying users in tandem with revenues to 2.8 million.

What's more impressive is that in our core online music and entertainment segment, our paying users increased over 65% year over year to 1.9 million. On mobile front, revenue contribution from our online music and entertainment business increased to 35% of total revenues as compared to only 9% in the prior year period. Additionally, paying users from mobile increased 239% year over year to 1.1 million and mobile ARPU continued its strong growth, which further accelerated by 69% to RMB252 this quarter from only RMB149 a year ago. Even though the increased contribution from mobile is lowering our overall ARPU, we firmly believe, and are experiencing, that this will recover as mobile ARPU continues to grow over the mid- to long-term. Moreover, we launched two new businesses in the third quarter. The first is *Wan Chang Hui*, a highly-interactive live-broadcasting concert service that connects celebrities, onsite audience participants and YY's large community of users virtually. This new innovative service leverages the highly-successful business model of our online music and entertainment business and encourages the fans of established singers to become YY users. The other new business *Fen Si Zao Xing* (粉丝造星) incorporates a new model that enables our users to support their favorite YY singers on our platform as they aim to create original and professional works and attract a larger fan-base. In the past few months, it has helped to support many artists to successfully launch hundreds of original works. Although these new businesses are still in an early stage, we are confident that they will bring considerable opportunities for YY going forward.

Now, I want to turn to our online dating business. Revenues from online dating continued to grow impressively with 169% year over year increase to 173 million RMB in the third quarter. This strong growth was driven by solid

paying user growth of over 43% year-over-year. We expect our online dating business to continue its strong growth in the fourth quarter of 2015, but given the large size of its user base, we expect the growth momentum to start to normalize in 2016.

As for our online game broadcasting business, revenues from Huya live game broadcasting increased by over 80% year over year to 82 million RMB in the third quarter of 2015 and remains a strategically important business for us. We will continue to develop and expand this business with top tier events and talent as we aim to further broaden its user base and content offering.

Our overall growth was offset by softer-than-expected performance of our online games segment, due to intensifying competition, widespread softness in the web game market as well as the postponed release of several new games. We are working hard to revitalize growth for online games by introducing several new games over the next several quarters. However, we do not expect these games to contribute to our revenues until 2016, and thus anticipate continued softness in the online gaming for the rest of the 2015.

As we expected, a shift in our revenue mix and increased competition has led to continued margin pressure. Additionally, there were several one-time occurrences which adversely affected our performance in the third quarter, which I would like to discuss briefly. First, we experienced a one-time loss of 37 million RMB in foreign currency exchange in the third quarter due to the depreciation of Chinese Yuan when we converted our Off-shore RMB to U.S. dollars. This was a one-time event as we are now holding all U.S. dollars in our off-shore account. Next, our share-based compensation increased, which was mainly driven by our one-time payment (a value equivalent of 28 million RMB) to the management of one of our online education teams. Additionally, due to the departure of key individuals in the online education business, we incurred an impairment charge of 110 million RMB as well as an adjustment gain of 74 million for fair value change of contingent consideration associated with unobtained earn-out payments.

Despite some of the secular headwinds we face and adverse one-time occurrences in the third quarter, we are generally optimistic about the Company with our cutting-edge proprietary technology, diversified business lines, large user community, and innovative concept to expand into new businesses.

Now I will turn to our quarterly financial details. Before I get started presenting our financial numbers, 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 third quarter of 2015 increased by 49% to 1.49 billion. This increase was primarily driven by the increase in revenues from online music and entertainment as well as online dating.

**IVAS revenues** increased by 50% to 1.42 billion, which mainly reflected the growing number of paying users across all segments except for online games. Now let's look at each of our IVAS business lines.

- **Revenue from online music and entertainment** increased by 60% to 854 million in the third quarter of 2015. This increase was driven by an increase of 65% in the number of paying users to 1.9 million, but partly offset by a 3% decrease in average revenue per user ("ARPU") to 439. The year-over-year decrease in ARPU was a result of increased mobile contribution to the total music and entertainment revenues. More importantly, mobile ARPU continues to experience solid growth, having grown 69% to RMB252 in the third quarter of 2015 from RMB149 in the corresponding period of 2014.
- **Revenue from online games** was 168 million in the third quarter of 2015, compared to 235 million in the prior year period. This decline was primarily caused by a 31% year-over-year decrease in paying users to 336,000. The number of online games operated by YY as of September 30, 2015 increased to 283 from 183 as of September 30, 2014.

- **Revenue from online dating** increased by 169% to 173 million. This increase reflected a year-over-year increase of 43% in the number of paying users to 219,000 and an 88% year-over-year increase in ARPU to RMB788 in the third quarter of 2015.
- **Other IVAS revenues** increased by 94% to 223 million in the third quarter of 2015. This mainly includes revenues from Huya Broadcasting which increased by 81% to 82 million, and revenues from membership subscription fees which increased by 41% to RMB76 million.

**Other revenues**, mainly including revenues from our online education platform, 100 Education, and online advertising revenues from Duowan.com, increased by 37% to 72 million in the third quarter of 2015.

**Cost of revenues** increased by 88% to 905 million, which was primarily attributable to an increase in revenue-sharing fees and content costs to 573 million in the third quarter of 2015. The increase in revenue-sharing fees and content costs paid to performers, channel owners and content providers was mainly due to higher levels of user engagement and spending driven by promotional activities as well as an increasing number of new, emerging business lines in different categories. In addition, bandwidth costs increased to 147 million in the third quarter of 2015.

**Gross profit** increased by 13% to 584 million in the third quarter of 2015. Gross margin was 39%, compared to 52% in the prior year period. The decrease in gross margin was mainly attributable to the change in our business mix to include new business lines involving user-generated content, and higher revenue-sharing fees in music and entertainment, as well as increased investments in Huya Broadcasting.

**Our non-GAAP operating income** decreased by 19% to 281 million in the third quarter of 2015, which was mainly due to the growth of operating expenses, such as the increase of share-based compensation and goodwill impairment as I discussed earlier. The Non-GAAP operating margin fell to 19% from 34% in the prior year period as a result of the decreased non-GAAP operating income.

**GAAP net income** attributable to YY was 156million in the third quarter of 2015, compared to 286 million in the prior year period. Net margin in the third quarter of 2015 was 10%, compared to 29% in the corresponding period of 2014.

**Non-GAAP net income** attributable to YY Inc. was 237 million, compared to RMB322 million in the prior year period. Non-GAAP net margin decreased to 16% in the third quarter of 2015 from 32% in the prior year period.

**Diluted net income per ADS** in the third quarter of 2015 was 2.75, compared to 4.77 in the prior year period. Non-GAAP diluted net income per ADS was 4.17, compared to RMB5.37 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.