

YY Inc.
4Q16 Earnings Conference Call Script
March 2017

Operator:

Good morning and good evening everyone. Welcome to YY's fourth quarter and full year 2016 earnings conference call.

At this time all participants are in listen-only mode. With us today is Mr. Zhou Chen, CEO of YY, Mr. Rongjie Dong, CEO of Huya, and Mr. Eric He, CFO of YY. Following management's prepared remarks, we will conduct the Q&A session.

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 Company's CFO, Mr. Eric He.

Mr. Eric He

Thank you, operator. Hello, everyone. Welcome and thanks for joining us for our fourth quarter and full year 2016 earnings call.

We are delighted to have completed another quarter of solid results, rounding out a strong 2016. Driven by accelerating growth in the live streaming industry in China, YY's live streaming business increased dramatically by 41.7% as compared with the prior year period. Our live streaming revenues for the full year of 2016 reached over seven billion RMB, which is a testament to our ability to maintain our market leadership and capture the growth in our industry despite the highly competitive landscape.

Looking at the excitement surrounding the live streaming industry, recent research shows that by 2020, its market size will reach 60 billion RMB annually. In an industry that is rapidly evolving, the platforms that can continuously provide rich and attractive content and guarantee profitable returns for its content providers are the ones that can sustainably expand their market share and win over the long run. That is why we remain committed to both our content strategy and monetization ability.

In the past quarter, we focused on expanding our product and content offerings in new diverse market segments to enhance our content ecosystem. Our two live streaming platforms, YY Live and Huya broadcasting, have different focuses and strategies in their content development. YY Live is a leading integrated entertainment live broadcasting platform. In addition to the successful relationship and sports content we introduced in the third quarter of 2016, in the past quarter, we focused on the development of new outdoor vertical content, including travel, wildlife activities, adventure, and many others. We believe the new content we are offering on YY Live will be extremely interesting and exciting to our users, as if we are opening a door for them to see and explore the world via the YY Live platform. In the future, we will continue to enhance our content offerings and expand the categories covered in the outdoor vertical.

Moving on to Huya broadcasting, which primarily focuses on content for live game broadcasting. In the fourth quarter of 2016, we prioritized our efforts on strengthening our mobile gaming content. With the rapid development in the mobile gaming industry, we witnessed increasing demand of mobile game live streaming content from our users. We are well aware that in order to stay competitive, we need to continue to focus on providing quality mobile game live broadcasting content via Huya broadcasting, and we are pleased that we have successfully occupied the leading position in this fast growing space.

Aside from our content expansion efforts, we are also actively exploring applications of live streaming in everyday social interactions. Today's younger generation is more willing to showcase themselves than ever before, making live broadcasting an increasingly popular choice fulfilling their social needs. Not only can our users leverage our products for entertainment, they can also use our live streaming platforms to share the bits and pieces from their daily lives with their acquaintances and strangers. Going forward, we will continue to encourage these types of social sharing through enhanced user experience across YY Live and Huya broadcasting.

In the fourth quarter of 2016, we continued to see strong growth momentum in our revenues, with total net revenues increasing by 30.8% year over year to 2.48 billion RMB. Our revenue growth was driven by the rapid growth in our live streaming business, which we believe will continue to generate healthy revenue and accelerate our growth in the future.

Our live streaming revenues increased by 41.7% year over year in the fourth quarter of 2016. In particular, revenues for Huya broadcasting increased by 150%, which not only ensured our platform's strong profitability capabilities, but also safeguarded the long-term profitable returns for our content providers. In addition, the growth in our paying users remained robust in the past quarter, with live streaming paying users increasing by 91.9% year over year to 5.2 million. Specifically, paying users for YY Live increased by 63.2% year over year and paying users for Huya broadcasting increased by 160% year over year. The strong growth in the number of paying users is the foundation of our continued revenue generation and the basis of our competitive advantage compared with other live streaming platforms.

Importantly, despite the intense competitive landscape in the live streaming industry in 2016, our profit margin for the year exceeded 20%, which is a testament to our content strategy as well as the solid strength and long-term competitiveness of our platforms. Looking ahead, we are confident that both YY Live and Huya broadcasting will continue to maintain healthy financial performances in the rapidly developing live streaming industry.

Now I will turn to our quarterly financial results. 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 fourth quarter of 2016 increased by 30.8% to 2.48 billion. This increase was primarily driven by the increase in live streaming revenues.

Live streaming revenues increased by 41.7% to 2.22 billion, which was mainly driven by the growth of Huya broadcasting revenues.

Revenues from online games were 125.4 million, as compared to 172.4 million in the corresponding period of 2015, which primarily reflected the continued softness in China's web game market.

Revenues from membership were 74.7 million in the fourth quarter of 2016, as compared to 80.8 million in the corresponding period of 2015.

Other revenues, mainly including revenues from our online education platform and online advertising revenues, were 65.9 million in the fourth quarter of 2016, compared with 81.4 million in the corresponding period of 2015.

Cost of revenues increased by 33.5% to 1.56 billion, which was primarily attributable to an increase in revenue-sharing fees and content costs to 1.22 billion in the fourth quarter of 2016. The increase in revenue-sharing fees and content costs paid to performers, channel owners and content providers was slightly higher than the increase in live streaming revenues due to more diverse content offerings in the fourth quarter. In addition, bandwidth costs slightly increased to 168.9 million in the fourth quarter of 2016, primarily reflecting the continued user base expansion and the video quality improvements, but partially offset by our improved efficiency and pricing terms.

Gross profit increased by 26.4% to 924.6 million in the fourth quarter of 2016. Gross margin was 37.2 % in the fourth quarter of 2016, as compared to 38.5% in the prior year period.

Our non-GAAP operating income increased by 42.9% to 673.0 million in the fourth quarter of 2016. The Non-GAAP operating margin was 27.1% in the fourth quarter of 2016, as compared to 24.8% in the prior year period.

GAAP net income attributable to YY increased by 59.3% to 572.3 million in the fourth quarter. Net margin in the fourth quarter of 2016 increased to 23.0% from 18.9% in the corresponding period of 2015.

Non-GAAP net income attributable to YY increased by 42.4% to 598.6 million from 420.4 million in the prior year period. Non-GAAP net margin in the fourth quarter of 2016 increased to 24.1% from 22.1% in the corresponding period of 2015.

Diluted net income per ADS in the fourth quarter of 2016 increased by 56.1% to 9.74 RMB from 6.24 RMB in the prior year period. Non-GAAP diluted net income per ADS increased by 40.3% to 10.17 RMB from 7.25 RMB in the prior year period.

Finally, looking at our business outlook, for the first quarter of 2017, the Company expects its net revenues to be between 2.2 billion RMB and 2.3 billion RMB, representing a year-over-year growth of approximately 33.4% to 39.5%. These forecasts reflect the Company's current and preliminary view on the market and operational conditions, which are subject to change.

This concludes our prepared remarks. Thank you for joining us today.