



YY Inc.
4Q15 Earnings Conference Call Script
March 2016

Operator:

Good day everyone and welcome to YY's fourth quarter and full year 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

Thank you, operator. Welcome to YY's fourth quarter and full year 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

Hello, everyone. Welcome to our earnings call.

In the fourth quarter, we continued to see strong top-line growth with our net revenues increasing by 62% year over year to 1.9 billion RMB, primarily reflecting the growth momentum across our core business lines, namely online music and entertainment, online dating, and Huya broadcasting. Furthermore, we were able to increase our quarterly paying users by 30% year over year to 3.2 million in the fourth quarter of 2015. As expected, revenue growth was partially offset by the lackluster performance of our online games segment due to the continued industry-wide softness.

In our core online music and entertainment segment, top-line growth continued with revenues increasing by 69% to 1.14 billion RMB. At the same time, paying users further increased by 45% year over year to 2.2 million, and ARPU increased 17% year over year to 531 RMB. Furthermore, on the mobile front, revenue in this segment increased four and a half times year over year to 527 million RMB, which represents 45% of total revenues – up from only 14% a year ago. Mobile ARPU in this segment increased by 139% year over year to 388 RMB, and mobile paying users increased 131% year over year to 1.4 million. We view the build-up of our mobile offering as a crucial long-term investment – one that may bring down our overall ARPU in the short-term, but will eventually rebound and contribute to ARPU growth as mobile users continue to grow strongly.

Turning to our online dating business – we witnessed revenues grow by an impressive 102% year over year to 189 million RMB. The ongoing strong growth was primarily fueled by a 109% year-over-year increase in ARPU to 837 RMB in the fourth quarter of 2015, partially driven by the contribution from the 2015 YY Online Dating Annual Event Competition, which was held for the first time in December 2015. We expect the growth of our online dating business to continue in 2016 on an absolute basis, but after the strong performance in 2015, its relative growth momentum is expected to moderate as the Law of Large Numbers dictates.

Now moving on to our online game broadcasting business. In the fourth quarter, revenues from Huya broadcasting grew by a strong 154% year over year to 135 million RMB, primarily reflecting the growth of paying users and ARPU, which increased by 70% and 48% year over year, respectively. Going forward, Huya broadcasting will remain a focus of our business, and we will further enrich our content and event offerings in order to expand its user base, accelerate its development on the mobile end, and optimize its positioning within our ecosystem.

As we expected, our overall revenue growth was partially offset by the soft performance of online games, which was mainly due to the continued industry-wide softness across China's web-based game market. In order to strengthen our revenue stream and expand our user community in this sector, we will launch more client-based games in the periods to come.

Going forward, we will continue to ramp up our mobile platform and expand our offering of both user-generated and professionally-generated content, as we strive to meet users' evolving demands in the dynamic internet market. One example of our mobile expansion was the launch of our ME App, which enables users to broadcast live and interact with other users anytime and anywhere. The content on our ME App is relevant to users' daily lives and by that token it has strong potential to attract more users and accelerate our mobile growth. Furthermore, under our YY Finance business, we launched a new online finance broadcasting offering called Zhiniu Finance in cooperation with multiple financial service institutions, including Guangfa Securities and Capital Securities, in order to provide our users with investment consulting, brokerage, and other financial-related services. We will continue to invest in this business and capitalize on emerging opportunities in the internet finance market. Overall, despite continuing to face certain challenges, we are confident in our ability to strengthen our position as the leading real-time interactive platform in China. Looking ahead in 2016, we will focus on leveraging our cutting-edge technology to continue to augment and adapt the services across our diversified business lines.

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 fourth quarter of 2015 increased by 62% to 1.90 billion. This increase was primarily driven by the increase in IVAS revenues.

IVAS revenues increased by 61% to 1.83 billion, which was mainly driven by the 30% year-over-year growth in number of paying users and 24% year-over-year growth in ARPU. Now let's look at each of our IVAS business lines.

- **Revenue from online music and entertainment** increased by 69% to 1.15 billion in the fourth quarter of 2015. This increase was driven by an increase of 45% in the number of paying users to 2.2 million, and an increase of 17% in average revenue per user ("ARPU") to 531. More importantly, mobile ARPU grew by an impressive 139% to 388 RMB in the fourth quarter of 2015 from 162 RMB in the corresponding period of 2014.
- **Revenue from online games** was 172 million in the fourth quarter of 2015, compared to 229 million in the prior year period. This decline was primarily caused by a 33% year-over-year decrease in paying users to 340,000, reflecting the continued softness in China's web game market, but was partially offset by an 11% year-over-year increase in the ARPU of online games.
- **Revenue from online dating** increased by 102% to 189 million. This increase reflected a 109% year-over-year increase in ARPU to RMB837 in the fourth quarter of 2015, which was partially driven by the contribution from the 2015 YY Online Dating Annual Event Competition, which was held for the first time in December 2015.
- **Other IVAS revenues** increased by 131% to 325 million in the fourth quarter of 2015. This mainly includes revenues from Huya Broadcasting which increased by 154% to 135 million, and revenues from membership subscription fees which increased by 36% to 81 million.

Other revenues, mainly including revenues from our online education platform, 100 Education, online advertising revenues from Duowan.com, and ecommerce, increased by 123% to 68 million in the fourth quarter of 2015.

Cost of revenues increased by 87% to 1.17 billion, which was primarily attributable to an increase in revenue-sharing fees and content costs to 807 million in the fourth quarter of 2015. 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 users. In addition, bandwidth costs increased to 161 million in the fourth quarter of 2015, primarily reflecting the continued user base expansion and the video quality improvements.

Gross profit increased by 34% to 732 million in the fourth quarter of 2015. Gross margin was 38.5%, compared to 46.7% 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 and