



**YY Inc.
3Q16 Earnings Conference Call Script
November 2016**

Operator:

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

At this time all participants are in listen-only mode. With us today is Mr. Zhou Chen, CEO of YY, 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 Mr. Zhou Chen.

Mr. Zhou Chen – Overview and Strategic Highlights

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

As I said last quarter, my goal as the CEO of YY is to enhance our platform through accelerating the innovation in our content and service offerings and fully executing on our expansion strategies in order to stay ahead of our competitors. I am pleased to report that in the past quarter, we have achieved solid results and made significant progress in enhancing the content offerings across our platform. This is extremely important as we believe that high-quality content not only increases stickiness for existing users, but it attracts new members to our platform and fosters further growth of the YY community.

We finished the third quarter with solid top- and bottom-line growth across the board. Importantly, our revenues increased by 40% compared to the same period last year to 2.1 billion RMB, which was primarily driven by the robust 55% year-over-year revenue growth in our live streaming business. In addition, our total mobile MAUs on *YY Live* and Huya has reached 53.4 million in the third quarter of 2016. In particular, mobile contributed to 53% of *YY Live's* revenues, as compared with 45% in the second quarter of 2016. On the Huya side, mobile contributed to 39% of its revenues, which is also a big step up from 25% in the second quarter. This is a testament to the success of our business and content strategy as well as the progress we have further made in mobilization.

In the third quarter, we have made significant strides in the expansion of our content offering for both *YY Live* and Huya broadcasting. On *YY Live*, we continued to focus on the development of PUGC, or the professionally-curated user generated content, and PGC content. With that, we launched a new program that features influential speakers to discuss a wide range of relationship issues grappling the modern day couples in an interactive way. In addition, we are pleased to have enriched our sports offerings through the partnership with Chinese Basketball Association, or CBA, to broadcast all of this season's basketball games live. On the Huya side, we saw dramatic growth in Huya's revenues, which increased by 139% year-over-year and 38% quarter-over-quarter. Consistent with the platform's core strength, we continued to introduce more mobile game live broadcasting content in the past quarter. Importantly, Huya's massive user base, user stickiness and monetization capabilities are way ahead of its competitors and demonstrate the strength of our platform.

Overall, we are pleased with the results we are seeing so far. We believe that by enabling our creative user base to continually develop new offerings on our tech platform as well as continuing to diversify our market segments and enhance the quality of our content, we will be able to build a comprehensive content ecosystem that provides innovative content offerings and superior user experience to our existing and new users. We are confident that we

have the right strategy and people in place to stay ahead of our competitors and solidify our leading position in the interactive, live streaming industry.

With that, I would like to turn the call over to our CFO, Mr. Eric He.

Mr. Eric He – Financial Results

Thank you Chen Zhou and good day, everyone.

Before I discuss our operational and financial results, I would like to first talk about the changes YY is making in our revenue breakdown and recognition. As you can see in our earnings release, instead of Internet value-added services (IVAS), which was composed of four categories – online music and entertainment, online game, online dating, and others, we now break down our revenues in four new categories – live streaming, online games, membership, and others. The primary reason that we are making these changes beginning this quarter is that we believe the new method is more transparent and better captures the way YY generates revenue. As the Company moves towards a leading interactive, live broadcasting platform, we believe that segmenting our revenues by how they are generated is a more reliable method than breaking them down by business lines.

Now I would like to turn to our results for the quarter. As Chen Zhou mentioned, our revenues grew 40% year-over-year, primarily driven by the strong 55% year-over-year increase in live streaming revenues. The rapid revenue growth was a result of our strong paying users growth, which increased by 63% compared to the same period last year to 4.6 million. We are extremely pleased with the solid progress we are seeing in paying users as it will ensure continued healthy revenue generation going forward. Specifically, Huya's rapid revenue growth in the third quarter was driven by its remarkable 134% year-over-year growth in paying users. We are confident that we will achieve profitability ahead of our competitors in live game broadcasting and believe that Huya will contribute more to the Company's profit going forward.

In the third quarter, our gross margin remained stable at 39% as compared with the same period last year. Looking ahead, we will continue to invest solely in content that is suitable for live streaming and do not expect any major investments in the short term. We are committed to driving our top-line growth while maintaining our margins. We believe that by leveraging our content ecosystem to further improve the product and service offerings across our platform, we are able to capture opportunities in our market and will continue to fortify our position as China's leading interactive, live streaming platform.

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 third quarter of 2016 increased by 40.3% to 2.09 billion RMB. This increase was primarily driven by the increase in live streaming revenues.

Live streaming revenues increased by 54.5% to 1.79 billion RMB, which was mainly driven by the growth of online dating revenues and Huya broadcasting revenues.

Revenues from online games were 149.5 million RMB, as compared to 168.3 million RMB in the corresponding period of 2015, which primarily reflects the continued softness in China's web game market.

Revenues from membership were 68.8 million RMB in the third quarter of 2016, as compared to 76.3 million RMB in the corresponding period of 2015.

Other revenues, mainly including revenues from our online education platform and online advertising revenues, were 81.1 million RMB in the third quarter of 2016, compared with 86.2 million RMB in the corresponding period of 2015.

Cost of revenues increased by 40.8% to 1.28 billion RMB, which was primarily attributable to an increase in revenue-sharing fees and content costs to 967.4 million RMB in the third 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 slightly increased to 149.2 million RMB in the third 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 39.4% to 814.8 million RMB in the third quarter of 2016. Gross margin was 39.0% in the third quarter of 2016, as compared to 39.2% in the prior year period.

Our non-GAAP operating income increased by 80.9% to 508.4 million RMB in the third quarter of 2016. The Non-GAAP operating margin increased to 24.3% from 18.9% in the prior year period.

GAAP net income attributable to YY increased by 155.8% to 400.0 million RMB in the third quarter. Net margin in the third quarter of 2016 increased to 19.1% from 10.5% in the corresponding period of 2015. Excluding the government subsidy of 18.7 million RMB, net income attributable to YY Inc. was 381.3 million RMB, representing an increase of 143.8% year over year.

Non-GAAP net income attributable to YY Inc. increased by 83.7% to 435.6 million RMB from 237.1 million RMB in the prior year period. Non-GAAP net margin increased to 20.8% in the third quarter of 2016 from 15.9% in the prior year period.

Diluted net income per ADS in the third quarter of 2016 increased by 150.9% to 6.90 RMB from 2.75 RMB in the prior year period. Non-GAAP diluted net income per ADS increased by 79.4% to 7.48RMB from 4.17 RMB in the prior year period.

Finally, looking at our business outlook, for the fourth quarter of 2016, the Company expects its net revenues to be between RMB2.4 billion and RMB2.5 billion, representing a year-over-year growth of approximately 26.3% to 31.6%. 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.