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MOMO - Q1 2018 Momo Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to First Quarter 2018 Momo Inc. Earnings Conference Call. (Operator Instructions) Please note this conference is being recorded today.

I would now like to hand the conference over to your first speaker today, Ms. Cathy Peng. Thank you. Please go ahead, ma'am.

Cathy Peng

Thank you, operator. Hello, everyone, and thank you for joining us today for Momo's First Quarter 2018 Earnings Conference Call. The company's results were released earlier today and are available on the company's IR website.

On the call today for Momo are: Mr. Tang Yan, Co-Founder, Chairman and Chief Executive Officer; Mr. Wang Li, President and Chief Operating Officer; and Mr. Jonathan Zhang, Chief Financial Officer. Mr. Tang and Mr. Wang will discuss Momo's business operations and company highlights, followed by Mr. Zhang, who will go through the financials and guidance. They will all be available to answer your questions during the Q&A that follows.

Before we begin, I would like to remind you that the call may contain forward-looking statements made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current expectations and current market and operating conditions and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the company's control, which may cause the company's actual results, performance or achievements to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties and factors is included in the company's filings with the U.S. Securities and Exchange Commission. The company does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise, except as under -- as required under law.

I will now pass the call over to Mr. Tang. I will translate for him. Mr. Tang, please.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)



Cathy Peng

Good morning, and good evening, everyone. Thanks for joining our conference call today. Q1 was a good quarter and a great start to the year 2018. Back in March, we outlined the 3 priorities for us this year: user base expansion, top line growth and a healthy profitability level. I'm glad to see that we have achieved outstanding results on all those 3 fronts. Now my team and I will review the details with you.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Firstly, from a high level, total revenue reached \$435.1 million for the quarter, up 64% year-on-year and 13% quarter-over-quarter. The strong top line performance reflected the organic growth momentum we have been seeing from the live streaming business, which is in turn driven by the continuous strengthening of our content ecosystem.

Adjusted operating income for the quarter was \$159.9 million, up 59% from the same period last year and representing a 36.7% operating margin. What we achieved financially in Q1 reflected the strong operating leverage of our business model, leaving ample room for us to make significant investments for our future while maintaining a healthy level of profitability.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Now a deeper dive into the quarter. Firstly, our community continued to expand, total MAUs on Momo platform reached 103.3 million for the quarter, up 21% year-over-year and representing a 4.2 million net addition from the previous quarter. We are proud to see that despite the negative seasonality in Q1, per user time spent per day still showed a slight uptick from Q4's level and grew meaningfully by 16% on a year-over-year basis.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

We believe the growth of the community in both size and engagement is mainly attributable to the continuous expansion of the social use cases on the platform.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

At our last earnings conference call, I mentioned that for the coming 2 quarters, we will focus our product efforts on introducing new ways for the users to discover connections and build interactions. In Q1, we rolled out quite a few new features and updates serving that goal.

For example, in January, we launched Liao Tian Shi, or audio chat room, which enables the users to engage in live audio chat in a group environment. Compared to the earlier group video chat feature, the audio version lowers the barrier for user participation. It also provides a flexible framework for us to build on and add new features to make the interactive experience more enjoyable.

One example is that recently, we made karaoke function available to the chat room users. Our plan is to gradually introduce more of these types of tools for the users to have greater fun together. Other than the newly launched chat room experience, we also expanded the Werewolf game into a collection of interactive social games, many of which used to be played offline to bring people more closely together.

Although many of these new offerings are still at early stages, we believe they provide more diversified medium over which users can more effectively build connections and interactions. We will continue to iterate and optimize on these experiences to make them better serve the social demand of our users.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Another key focus of ours in Q1 was to improve the quality of content in the Nearby posts. As said before, as a social platform, we are focusing on distributing not just any type of content, but the type of content that facilitates interactions and relationship-building.

Last Q4, we rolled out a new recommendation engine powering the Nearby post feeds. On top of the location and recency dimensions, the new engine also considers the personal and social preference of the users as well as the interactive quality scores of the content. The new algorithm increased the total number of interactions by more than 20% in Q4 from Q3.

In Q1, we made further optimizations through the algorithm, including adding the amount of greetings into the evaluation system. As a result, Q1 compared with Q4 last year, we saw another 30% rise in the number of interactions around Nearby posts. We view this as a significant progress because it shows that content is playing an increasingly important role in helping people discover new connections and build interactions around it.

That progress is made possible because the technological development of data machine learning is enabling us to better understand what type of content a specific user is more likely to interact with. We believe that algorithm and machine learning are opening up many doors in helping our users discover relevant connections and interact more effectively. We plan to capitalize it in a bigger way going forward.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Speaking of content improvement, one of the most encouraging trends that we are seeing on the platform is the continuous improvement in the content ecosystem around the live streaming service, which is the underlying driving force for the strong organic growth momentum that we're seeing right now. And when we talk about growth, we are not purely talking about revenue growth but also the underpinning factors that can

make such growth sustainable, such as content quality and diversity as well as the number of professional broadcasters. Wang Li will elaborate a bit more in his remarks.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Lastly, about Tantan. We closed the transaction in May. And together, we'll be moving forward as a dominant player in China's open social territory. We view Tantan as a strategic complement to the Momo platform. And its complementarity comes in several aspects. First of all, its users on average are younger than ours. Secondly and perhaps more importantly, Tantan is very much focused on one-to-one matching for romantic relationships while we are focused on connecting people in a much broader sense over a variety of social use cases.

By acquiring Tantan, we strengthened our leadership and dominance in China's open social space. In addition, we also believe that Tantan has a great deal of potential to be unlocked both in terms of user growth and in terms of monetization. In fact, although Tantan officially launched its monetization features only in January 2018, it has been showing a very impressive growth trajectory ever since. All of these give us high conviction that Tantan will be adding a great deal of value to our ecosystem going forward.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Overall, I'm very proud about the strong results and the progresses we made on product and operational fronts in Q1. All of these set us up for a strong year ahead.

Now I'm passing the call over to Mr. Wang Li, our President and COO, for business review. Mr. Wang, please.

Li Wang - Momo Inc. - COO, President & Director

(foreign language)

Cathy Peng

Thanks. Now let me take you through the key things that we've done as well as the future direction for our major business lines.

Li Wang - Momo Inc. - COO, President & Director

(foreign language)

Cathy Peng

First of all, on live streaming, although we did see some negative impact from the Lunar Year holiday, particularly in the month of February, the robust organic growth momentum gave us a good January and March, so we ended up delivering an extremely strong Q1, growing 75% year-over-year and 13% sequentially to \$371.5 million.

That strong growth trend came from the fundamental improvement of the content ecosystem, driven by our collaborations with the talent agencies. In Q1, we further optimized the agency incentive program that was rolled out in last Q4. The new plan focused on 2 key areas. Number one is to encourage the agencies to bring in more quality new broadcasters. Number two is to strengthen our control over the performing talents that we view as important to our platform.

We believe that our strong social attributes and unique community atmosphere give Momo's streaming service strong competitive advantages in terms of the development of new performers as well as user stickiness. As we open up doors to the agencies, we are happy to see that more and more MCNs are realizing such competitive advantage of our platform and view Momo as a promising opportunity for them to build their business and grow their revenues.

Because of their contribution, we saw a substantial increase in the number of mid- to high growth in broadcasters from Q1 from Q4 last year. Those high-performing talents and the competition among them are the underlying driving force for better quality content, which in turn drives the increase in the number of core paying users for the talent show business. Our goal is to perpetuate that cycle in order to gain share against the overall backdrop of market consolidation.

Li Wang - Momo Inc. - COO, President & Director

(foreign language)

Cathy Peng

Other than optimizing the incentive system, in Q1, we also took the initiative to drive the content diversity. Our radio service continues to do well during Q1 in terms of usage and revenue, contributing to the number of long tail paying users with a moderate ARPPU level.

We've also broadened the content categories of Momo official channel from singing and dancing to comedy and outdoor activities. Although a lot of these efforts are still early experiments with limited contribution to monetization, we believe they are helpful in broadening the user base of the streaming service. Therefore, we plan to continue down that path.

Li Wang - Momo Inc. - COO, President & Director

(foreign language)

Cathy Peng

Next, turning to VAS business. Despite a negative impact from the Lunar Year holiday, VAS revenues generated impressive year-over-year and sequential growth in Q1 driven by 3 factors: number one, the ramp-up in SVIP subscription; number two, our different experimental monetization efforts around the new use cases, such as werewolf and chat room; and number three, the natural growth of the virtual gifting revenue in existing social use cases, such as greetings and interest groups.

These factors contributed positively to the ARPPU of the VAS business, growing by 23% from last quarter. Our focus for VAS business this year is to build paying features than can enhance the social experience and thus contributed positively to the overall user retention and stickiness. As compared with the talent show business, such monetization features tend to be relatively moderate in ARPPU and thus can appeal to a much

broader base of paying users. We believe that the larger user base and the bigger variety of social themes on Momo provide a long runway for us to cultivate the right type of VAS opportunities. The potential is big, and we will be moving forward in a careful and methodical manner to make sure we get the product experience right.

Li Wang - Momo Inc. - COO, President & Director

(foreign language)

Cathy Peng

Now briefly on Tantan. Although Tantan only started to monetize in January this year, it is already making remarkable progress. What's more exciting for us to see is that the paying feature does not only drive revenues but also improve the matching efficiency and thus contributes positively to user experience and retention. Tantan's early monetization results stand as a good example of how the VAS model, if done right, can help drive the virtuous cycle in monetization and user experience. As Tantan keeps pushing forward with its monetization progress, we believe it will be contributing meaningfully to the VAS business line in the year 2018.

Li Wang - Momo Inc. - COO, President & Director

(foreign language)

Cathy Peng

Now briefly on mobile marketing business. With the growing activities around the live video, short video and content feeds, the potential to build ad inventories also increases. However, as the priority of the company this year is still growing user base and engagements, we will be very careful in limiting the ad load and making sure that the ad quality and relevancy continues to improve to take better care of user experience.

On the other hand, our expertise in building video and AR elements into social activities and the higher tendency of Momo users to interact with people and content are things that we can uniquely leverage to develop innovative ad products, such as sponsored lenses. These products are playful in nature and are met well with the overall attributes of our community. They also provide the ad customer a truly native marketing solution that can blend into the consumer experience in a positive way. We've just made an official reading of such kind of interactive ad products to the market. That will be the key focus for the team for the coming few quarters.

Li Wang - Momo Inc. - COO, President & Director

(foreign language)

Cathy Peng

Overall speaking, we are off to a strong start for the year 2018. I'm excited about the many opportunities ahead and we'll continue to capitalize on them to deliver good business results.

With that, I'm passing the call over to Jonathan for the financial review.



Xiaosong Zhang - Momo Inc. - CFO

Thank you, Tang zong, Wang zong and Cathy. Hello, everyone, thank you for joining our conference call today. We started the year off with a great quarter. Our user base continued to expand while both top line and bottom line showed robust growth.

Total net revenue for the first quarter reached \$435.1 million, up 64% year-over-year, exceeding the high end of our revenue guidance by 8%. Despite the negative seasonality from Chinese New Year, we still achieved a 13% sequential growth in revenue due to the strong organic growth momentum from live streaming business. Rapid top line growth grouped with operating leverage enabled us to deliver a 36.7% non-GAAP operating margin. Non-GAAP net income attributable to Momo was \$142.3 million, up 57% from the same quarter last year.

Looking into the key revenue items. In the first quarter 2018, the revenue from live video services reached \$371.5 million, up 75% year-over-year. In Q1, we continued our initiative and incentivized the talent agencies, which significantly boosted the improvements of our content ecosystem.

At the same time, our operational efforts focused on introduction of new gamifications into showrooms during the nonevent days, allowing the organic growth momentum of live streaming business to overcome the net negative impact from Lunar Year holiday, grew at impressive 13% on a quarter-over-quarter basis. As a result, the number of live streaming paying users for the quarter was 4.4 million, a 7% increase from the same period last year. The quarterly ARPPU was RMB 563 before excluding VAT compared with RMB 385 from a year ago.

Moving on to the VAS and mobile game business. Revenue from VAS, which includes membership subscriptions and virtual gifting services, together was \$37 million, up 62% from same period last year. The year-over-year increase was largely driven by the fast-growing virtual gifting business and increase in SVIP subscriptions, as Wang Li mentioned earlier.

As the social behaviors on our platform continue to evolve and the social use cases continue to diversify, one of our key observations is that some social experiences previously put under live streaming business line and VAS business line are actually converging. For example, the same person who used to chat in the live channels or video services under live streaming can shift to chat rooms or Quick Chat experiences, which are under VAS business line. And vice versa can happen, too.

As more and more our users adopt live interactive experiences, we expect the line between what is live streaming and what is not live streaming to get increasingly blurred. Therefore, we would encourage investors to look at paying users from VAS business and live streaming business holistically.

The total number of paying users from VAS and live streaming services without double-counting the overlap was 8.1 million for the first quarter 2018, up from 7 million from the same quarter last year and 7.8 million a quarter ago or a 0.3 million quarterly net add. Revenue from mobile game revenue decreased by 43% year-over-year to \$6.2 million due to our strategic defocus on jointly operated games.

Now on revenue from mobile marketing. The revenue from mobile marketing services was \$18.7 million, up 5% year-over-year. The increase was driven by brand ad revenue growth. The number of key account customers grew significantly from same period last year as we gained more recognition from the brand marketers.

Now quickly to talk about some highlights on the cost and expenses items for the first quarter 2018. Our cost of revenue on a non-GAAP basis totaled \$209.1 million, up 74% from the same quarter last year. This was primarily attributable to the increase in revenue sharing with the live streaming broadcasters and agencies.

However, on a sequential basis, the organic growth of live streaming services during the nonevent days came in extremely strong during Q1. We scaled back the revenue-oriented operating efforts around the quarterly competition event. Therefore, cost on bonus or rewards offered to broadcasters during the March tournament was significantly reduced. As a result, the non-GAAP cost of revenue as a percentage of total net revenue dropped by 3.6%.

Non-GAAP sales and marketing expenses for the first quarter was \$41.1 million compared to \$31.8 million for the same quarter last year. The increase was mainly due to our stepped-up efforts in marketing spending to drive user growth. The sequential decrease in sales and marketing expenses

was largely due to the seasonality in our marketing spending. Q1 tends to be the lowest season in our marketing activities. We do expect marketing spending to pick up from Q1's level both in terms of absolute dollar amount and as a percentage of revenue as we head deeper into the year.

Non-GAAP R&D expenses for the first quarter was \$15 million compared to \$7.2 million for the same period last year, representing a 3.4% and 2.7% of total revenue, respectively. The increase reflected our strategy to step up our investment efforts in R&D area by recruiting additional R&D talents to support our product innovations. We ended the quarter with 1,303 total employees, up from 985 a year ago, of which 46% and 39% are R&D personnel, respectively.

Non-GAAP G&A expenses for the first quarter was \$11.2 million compared to \$6.4 million for the same quarter last year. The G&A expenses as a percentage of total net revenue remains stable. Non-GAAP operating income was \$159.9 million, up 59% year-on-year from \$100.6 million.

The non-GAAP operating margin for the quarter was 36.7%, 5.8% higher sequentially. However, as the year progresses, the investments tend to ramp up in different areas, such as marketing and R&D activities. The operating margin will come down from Q1 level and fluctuate on a quarterly basis. We will carefully manage the balance of this investment, driving overall business growth and annual profitability target.

Now turning to balance sheet and cash flow items. As of March 31, 2018, Momo's cash, cash equivalents and term deposits totaled \$899.4 million compared to \$1,059.6 million as of December 31, 2017. The decrease was mainly due to the first tranche of payments in connection with the acquisition of Tantan, which was \$229.8 million. Net cash provided by operating activities in the first quarter was \$129.9 million compared to \$95.4 million for the same quarter last year.

Now turning to the second quarter of 2018 revenue guidance. We estimate our second quarter revenue to come in the range from \$470 million to \$485 million, which translates into a year-over-year growth from 51% to 55%. As we closed the Tantan acquisition in May 2018, we will consolidate Tantan's financials from June 2018. Therefore, our Q2 guidance includes around \$4.5 million of revenue from Tantan, which represents our current estimate of Tantan's revenues for the month of June. Please be mindful that this forecast represents the company's current and preliminary view on the market and operational conditions, which are subject to change.

In summary, we are very pleased with the remarkable results achieved in the first quarter of 2018 that demonstrated the effectiveness of our strategy and strong execution capabilities of the management team.

That concluded the prepared portion of today's discussion. With that, I would like to turn the call back to Cathy to start the Q&A. Cathy, please.

Cathy Peng

Right. Before the Q&A, as always, a quick reminder for the Chinese speakers. Please ask the questions in Chinese first, followed by English translation by yourself. (Operator Instructions) Operator, we are ready for questions. Please take in the analysts.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have the first question from the line of Thomas Chong from Crédit Suisse.

Yiu Hung Chong - *Crédit Suisse AG, Research Division - Regional Head of Internet*

(foreign language) I have two questions. The first question is about Weixin, Douyin and other short video has been rising very rapidly recently. What's our take about the impact to Momo, if there's any? And my second question is, excluding Tantan, how should we think about the trend in terms of MAU and paying users in 2018?

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Let me translate first. Douyin has indeed been rising at an incredible pace during the past 15 months. However, we really haven't seen any negative impacts on our operating data. If you look at the operating metrics during the past few months on our platform, they have been showing some very positive trends, including the user growth, per user time spent, retention, number of interactions. And obviously, the revenue has been growing very robustly as well.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

I think the reason why we haven't seen any negative impact from the Douyin was mainly because we have very different positioning in the sense that the core type of user demands that we are trying to serve are very different. And that leaves a huge difference in the way we design our products and the way the users are using our products. So although on the face of it, there could seem to be some overlap in some of the use cases, there won't be direct competition between exactly the same kind of product offering. For example, what a user is primarily looking for on Momo is to find someone new to interact with. So even if you are talking about content consumption in use cases, such as live video and short video, these type of functionalities needs to be deeply integrated with other social features, such as user profile page, using interest groups and instant messaging in order to serve the users' demand to build new connections and to find other people to interact with. However, if we look at the situation for a lot of the live streaming and short video pure plays, the core user demands that they are trying to serve is content consumption itself. The way they design their products is, therefore, not centered around helping people to build new relationships or helping them to interact with other people. Instead, it is centered around encouraging the users to consume more and more and more content. Those 2 purposes, in a lot of occasions, contradict with each other as far as product design is concerned. So that's the reason why we really haven't seen as complete and comprehensive set of social infrastructure in either Douyin or Kuaishou. What a user is primarily looking for from a platform is to build new relationships to interact with other people, then that user is more likely to choose between Momo and Tantan instead of between us and a short video platform.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

So if you're talking about a short video platform that has been quickly rising in time spent then that short video platform is more likely to have higher level of competitive pressure on other types of short video platforms or to a broader sense, to other content consumption platforms. The negative impact that it's going to have on a platform like Momo is going to be extremely limited because we serve different demand and design our product in a completely different way. In the past, if you look at bigger players, such as Weibo or Weixin, Kuaishou, in the past, they have all pushing very hard in the area of live streaming or short video or both. And they have all been growing pretty well. But during the time that they have been growing pretty well, we actually have never seen any substantial negative impact on our platform. I think the reason for that goes back to the difference in the product positioning.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

So the first question is on MAU target -- MAU growth trend. We believe that this year Momo is going to see pretty positive trends in user world. And basically it is the function of several different factors. Number one is the retention of the Momo platform. Since October last year, the retention has been showing a stable trend with a slight uptick. In the year 2018, our plan is to continue to expand the social use cases through product efforts and content improvement in order to drive the retention ratio, especially mid- to longer-term retention ratio. As we step up our investments in research and development and speed up the pace of product innovations and upgrades, we are confident that we will be able to reach that goal.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

And secondly, in terms of the top-of-the-funnel additions via user acquisition, this year compared with last year, we're going to be taking more result-driven kind of marketing approaches. For example, on pay channel marketing, other than new registrations, we are also going to be focused on resurrecting the dormant users by leveraging some of the new use cases that we introduced to the platform. In Q1, we actually did a pretty good job on that front. Resurrected users compared with complete new registrations, the per user acquisition cost is lower while the retention ratio is higher. And obviously, we're sitting on a huge amount of dormant users. So this year, we think that we will have a lot of opportunities on that front. And the other thing is that we are also looking at user acquisition opportunities by leveraging Momo's video content. For example, we are considering working with some of the well-known variety show IPs and other third-party partners both to elevate the brand equity and to drive the new registrations. So if you consider all these variables in the equation, we -- all of these give us a pretty good level of optimism about the quarterly net add -- about the opportunity to drive a healthy quarterly net adds to MAUs in the year 2018. Thomas, is there a second question on paying user or not? Or that's all? Is there a question on paying users?

Yiu Hung Chong - Crédit Suisse AG, Research Division - Regional Head of Internet

Yes. Cathy, I have a question on the paying users. Ex Tantan, how's the trend you have seen?

Cathy Peng

So the second question is on paying user?

Yiu Hung Chong - Crédit Suisse AG, Research Division - Regional Head of Internet

Yes, on the paying users...

Cathy Peng

On Tantan?

Yiu Hung Chong - *Crédit Suisse AG, Research Division - Regional Head of Internet*

It's Tantan, yes.

Cathy Peng

(foreign language)

Yan Tang - *Momo Inc. - Chairman & CEO*

(foreign language)

Cathy Peng

Tantan officially rolled out its membership subscription business in January 2018. And since then, its number of subscribers has been growing at a very impressive pace, much faster than the pace that we saw when Momo and other similar companies first rolled out these type of services. We believe that speaks to the very strong demand coming from Tantan users to improve their chances of matching through purchasing of value-added services. And we do think that Tantan, at this stage, is at a very early stage in terms of monetization. And if you look at the road map of other similar companies, they've actually achieved an acceleration in the number of subscriber growth and monetization growth. Up to this point, Tantan has done none of these yet. And therefore, even within the membership subscription area, we do think that Tantan still has a lot of potential to further grow its number of subscribers and monetization. In addition, as Tantan continues to grow its user base and enrich its social features, we do think that Tantan will have a lot of opportunities to monetize beyond the membership subscription business. As well in the area of diversifying into other business lines, obviously Momo has a lot of expertise and resources that Tantan can leverage down the road. And therefore, we have high level of confidence in the future growth trends about Tantan paying user as well.

Operator

The next question comes from the line of Alex Poon from Morgan Stanley.

Chun Man Poon - *Morgan Stanley, Research Division - Equity Analyst*

(foreign language) My first question is about Tinder -- Tantan, which is very successful in U.S., the Tinder version. And I want to ask about the future strategy and potential of this business in the next 2 to 3 years. You mentioned about the revenue is above USD 4 million to USD 5 million in June. If annualized, it's about \$50 million to \$60 million a year. How should we expect the revenue and margin in the next 2 to 3 years and also some MAU and paying ratio forecast? And my second question is about investments. Your balance sheet is very strong, operating cash flow is very strong. Can you share with us what would be your future focus on investments, whether it's R&D or M&A, et cetera?

Yan Tang - *Momo Inc. - Chairman & CEO*

(foreign language)

Cathy Peng

So maybe your second question first. I think the focus for the management team at this point is still to drive the organic growth in user base and business. But of course, in the general area of social and entertainment space, if there are good target companies that can help us expand along

the industry value chain or help us to diversify our product lines or brand portfolios, of course, we're going to consider to go through M&A opportunities to pursue higher and more efficient kind of development and growth.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Let me translate first. The second -- with regards to the second question about Tantan's monetization plan in the future, I've actually addressed a big part of it in the earlier question about Tantan's subscriber and paying user growth. I think I'm going to talk about two points here. Number one is since Tantan started to officially roll out its subscription business in January 2018, it has been growing at a very rapid pace. However, at this point, I don't think monetization is the most important thing that draws the attention and focus of us as the management of the combined company. Instead, the #1 priority for us is still user growth from Tantan. And the current user growth trajectory of Tantan since the beginning of 2018 is actually very positive. So that's the most important focus of us on Tantan. I think we'll pass on to CFO Jonathan to address the financial question.

Xiaosong Zhang - Momo Inc. - CFO

Alex, this is Jonathan. Just one color to add is as can be seen from our guidance of around \$4.5 million revenue added into our guidance, that only reflects the revenues generated on the existing subscription business. However, Tantan does have a plan to roll out new rounds of monetization efforts getting into the second half of this year. So we do expect the revenue to ramp from the current level in a meaningful way when those initiatives get launched.

Operator

The next question comes from the line of Alex Yao from JPMorgan. We'll move to the next question by Tian Hou from T.H. Capital.

Tianxiao Hou - T.H. Capital, LLC - Founder, CEO & Senior Analyst

(foreign language) So I want to follow up with the first analyst question regarding the short videos and Tik Tok and Kuaishou short videos developing really rapidly. And certainly because Tantan difference and user difference and two different things, Momo and the short videos, satisfy different needs, however, who knows what's going to happen? So I cannot believe that management has not preparing yourself for the future of potential pressure from short video. Or at least short video may be one of the direction that Momo can also get into to increase another source of content providing. So I really want to ask Mr. Tang, what have you done and how you're going to -- how are you doing in this area to prepare yourself for the future, either -- on the both front, defend yourself from competition and getting into a new area of the business? (foreign language)

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Right. So on the face of it, the two objects might seem the same. But if you peel off the very outer layer, the inside, they are actually very different things. The way we position our short video service is that we are hoping that our users can, through creation and consumption of short video content, build very effective connections and interactions. That's the reason why during the past 1.5 years period of time, we have been very proactively driving the integration of short video functionalities with every major social experiences and modules on the platform, such as news

feeds, user profile pages and live streaming. In Q1, because what we did to the algorithm around short video, we actually saw new highs around a lot of operating metrics, including the number of video viewed, the number of video published and some other operating metrics that internally, we view as more important, such as viewer penetration and number of interactions around the short video content. For example, in Q1, the short video DAU penetration ratio has already reached 67%. So it's fair to say that short video has already become a very important content medium over which users are building up their social activities.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Okay. With regards to future optimization around the live -- around the short video service, basically we are looking at several key areas. Number one is that we're going to continue to optimize the short video creation tools. For example, we will soon be launching a new feature that encourages the professional video creators on the platform to set examples and drive more and more content creation activities from regular Momo users. Number two is that we're going to continue to optimize the algorithm. And as a social platform, we are going to be optimizing for interactions -- for the users to build interactions and form new relationships instead of focused on -- purely focused on encouraging the users to consume more and more content. Number three is that we will be working on to drive more synergies between live video service and short video service. And we're seeing several benefits in here. Number one is that live broadcasting actually provides a very effective way for the short video creators to monetize. At the same time, the broadcaster, especially new ones, can very quickly build up their fan base and influence through the creation and distribution of short video content. And number three, that cycle between live video service and short video service can drive more and better quality short video content into the system for our users to consume and interact. So although I think we designed this overall short video product within Momo platform in a very different way as the way you see in some of the pure content consumption platforms, we do think that short video as a content medium that people use to build social activities will continue to be playing a very positive role to the overall social ecosystem. I think in the interest of time, that's going to be the last question for today's conference call. For those who really haven't got an opportunity to ask questions on the call, we are happy to entertain your questions offline. Thanks for joining us today. We'll see you next quarter.

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you all for your participation. You may all disconnect the lines now. Thank you.

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