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MOMO - Q2 2018 Momo Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Second 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 Second 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 from Momo are: Mr. Tang Yan, Co-Founder, Chairman and Chief Executive Officer; Mr. Wang Li, President and Chief Operating Officer; Mr. Wang Yu, Founder and Chief Executive Officer of Tantan; and Mr. Jonathan Zhang, Chief Financial Officer. They will discuss the company's business operations and highlights as well as the financials and guidance. They will all be available to answer your questions during the Q&A session that follows.

Before we begin, I would like to remind you that this 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 the 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 and 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, further events or otherwise, except 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. I'm glad to be delivering another solid quarter with impressive financial results and progresses across different strategic priorities outlined at the beginning of the year.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Before getting into the results of the quarter, I'd like to introduce Mr. Wang Yu, Founder and CEO of Tantan to the investor community. Starting from this quarter, we -- he will be joining our team and the earnings call -- on the earnings call to speak with investors. Now together, we will take you through the specifics of our quarterly results.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Firstly, from a high level, total revenue reached \$494.3 million for the quarter, up 58% year-on-year. Adjusted operating income for the quarter was \$163.4 million, up 88% from the same period last year and representing a 33% operating margin. Again, the continuing top line strength and the operating leverage we are gaining leave ample room for us to invest in a meaningful way to build our future.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Now a deep dive into the quarter. Firstly, our community continues to get larger and stronger. The core Momo app reached 108 million in monthly access for the second quarter, up 18% year-on-year and representing a 4.7 million net addition from the previous quarter. More importantly, the engagement of the core Momo application continued to improve. Per user time spent per day for the core Momo app grew 11% on a year-over-year basis.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)



Cathy Peng

I'm proud that we are able to continue to drive steady growth of our community in both size and engagement in a very competitive market environment. This achievement can be attributable to 3 key factors: the enrichment of social features, the optimization of the algorithm as well as the improvement in the content quality and diversity. Now let me share some of the recent updates on those 3 fronts.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Firstly, on the new features. In the second quarter, we rolled out a number of key updates to optimize the new social experiences that we introduced in the recent quarter. For example, for the chat room feature that we rolled out in Q1 this year, in May, we further broadened the karaoke function. Now our users can not only engage in group audio chat, but also can immerse in the entertaining and social experience they used to have in all (inaudible) KTV. The introduction of the KTV function allows us to improve the engagement of the chat room experience significantly in the second quarter. Now the chat room experience has reached similar level of DAU penetration compared to the group function.

Moreover, the user -- per user content in chat rooms far exceeds that in other social experiences on our platform. After the success of the Karaoke rooms, we plan to test and introduce other tools for the users to have greater fun together and thus more effectively interact and build new relationships. Other than the introduction of new KTV experience, we also revamped the Quick Chat experience and introduced a number of new trivia social games such as Dart Combat and Quizy quizzes to keep the user engaged.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

In addition to the front end updates, on the back end, we also moved forward with our initiative to optimize the algorithm for more effective connections and interactions. Since Q4 last year, we have made a few important changes to our recommendation engine, powering the Nearby Posts feeds. That has allowed us to achieve encouraging improvement in the quality of Nearby feeds and increased a number of interactions around it in a meaningful way. The number of feeds shared and the number of interactions around the feeds continued to grow in the second quarter and reached an all-time high since the beginning of 2017. In Q2, we took a substantial step forward to apply the algorithm change to the Nearby People function. Rather than purely ranking the Nearby People List based on physical proximity, as we previously did, now we are starting to add other elements to the algorithm to consider how likely the 2 users are to interact with each other. Initial results have so far been pretty encouraging. The number of screens and the response rate increased double-digit in June as compared with those metrics in March.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

On the content side, both the live video and short video content ecosystem continues to improve in the second quarter. The number of professional broadcasters saw another quarter of sequential increase, while short video penetration reached 70% in the month of June. In July, Phanta City, a reality show we coproduced and sponsored, also debuted on (inaudible) ITV. The show innovatively innovates music, pay chart and the performing

art elements, and it's the first of its kind in China. Phanta City is backed by China's top-tier production crew and cast. As the coproducer and primary sponsor of the show, we're trying to achieve several goals here. Firstly, by deeply linking Momo's name with such a top-quality production, we are hoping to elevate Momo's brand equity. Secondly, and also more importantly, we plan to weave the live broadcasters and other products placements into the show. By putting our top performers on the same page with the real-world celebrities, we're promoting live streaming as a new form of entertainment. At the same time, we also -- we're also hoping to demonstrate to the performers as well as the users that live broadcasting is a career worth pursuing, not just because they can make money out of it, but also because they can win real respect as a professional entertainer. As our live broadcasting revenues get bigger and Momo increasingly becomes the leading player in the space, we are committed to building channels and opportunities for the top live-show performers to elevate their professional success and take pride in what they do so that more and more quality performing talents will be attracted to this business and to the Momo platform.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Overall, I'm very proud of what we have achieved in the past quarter. There are a lot of hard work ahead of us. We will continue to push forward against our strategic priorities.

With that, I'm passing the call over to Wang Li to review the company's business development. 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 directions for our major business lines.

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

(foreign language)

Cathy Peng

Firstly, on live streaming, total revenue from live broadcasting business for the quarter was \$411 million, an increase of 58% from the same period last year. The total incentive plan we rolled out toward end of last year continue to drive the expansion of the content ecosystem. The number of professional broadcasters continue to grow healthily on a quarter-over-quarter basis. Moreover, an increasing number of quality agencies are beginning to appreciate the uniqueness and social attributes of Momo platform. All of these are building a solid foundation for the continuous improvement of our content quality.

In the second quarter, our operational efforts were still largely leaning toward driving engagements and paying activities of the middle and long-tail users as well as promoting quality new talent. For example, in April, we organized a competition event called fence team battle. The rules of that game were purposely formulated to give the long-tail fans of the broadcasters better sense of participation and contribution. In a quarterly tournament that was held in May, we also introduced a new competition mechanism whereby the top performers need to pick new broadcasters



as their apprentices and compete together. Such arrangement can help the new talent grow and gain traffic more effectively. We also added something new to keep the tournament experience fresh and the users engaged.

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

(foreign language)

Cathy Peng

Q2 2018 was also the first time we had a World Cup event after live broadcasting business took off. As the World Cup matches happened from 8:00 p.m. till 2:00 a.m. to 3:00 a.m. in the next morning -- the next morning, which is also the peak time for the live streaming shows, we saw some diverting impact from the World Cup event on our live streaming business. However, through various operational initiatives, we were able to minimize the negative impact both on user engagement and on live streaming revenue. For example, we invited CCTV's first-tier sports commentators and famous Chinese soccer stars to go live on Momo and interact with our users during the matches. As a result, despite the diverting effect from World Cup, we were still able to beat our revenue guidance in a meaningful way.

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

(foreign language)

Cathy Peng

Now turning to VAS. Revenues from VAS grew 124% on a year-over-year basis to \$55.2 million, driven by the outstanding performance of the virtual gifting business on Momo core application as well as the initial contribution from Tantan's membership subscription business. Excluding Tantan's \$4.8 million revenue for the month of June, our VAS business grew 105% year-over-year. Momo's VAS business has been accelerating its Y-o-Y growth rates during the past few quarters, as we kept on introducing more paying use cases and virtual gifting features in one-to-one and group chat environment. In addition, we've also been testing different paying features between live and the new social experiences that we rolled out during the past few quarters, such as Quick Chat, trivia social games and chat rooms. These different paying use cases and features are all based on virtual gifting service. We view virtual gifting as a basic and very flexible monetization tool that we can apply in different ways across the various social offerings to improve the consumer experience and build commercial value at the same time. We intend to continue toward that direction for the rest of the year.

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

(foreign language)

Cathy Peng

Now briefly on Tantan. As Tantan continues to enlarge its user base and optimize its monetization features, we believe that it shall become a meaningful revenue driver for VAS as the year progresses. Wang Yu will review Tantan's progresses on monetization later, so I won't go into details here.

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

(foreign language)

Cathy Peng

Next, revenues from mobile marketing grew 17% year-over-year to \$22.3 million. As we said at the beginning of the year, the focus of mobile marketing business this year is on building the right type of ad product and solution that takes advantage of Momo's unique attributes. That includes the users' strong tendency to interact with people and content as well as our growing influence and traffic around live and short video services. Our experiment in this area are still at an early stage and not expected to contribute to overall top line in a meaningful way anytime soon. However, we believe that long-term wise, that's the right thing to do.

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

(foreign language)

Cathy Peng

That's my brief review of the key business lines. Now let me hand over to Mr. Wang Yu to review Tantan's product and business development. Mr. Wang, please.

Wang Yu

Hi, everyone. It's pleasure to join the Momo family here and share Tantan's progress with the investor community. I'm going to talk mainly about 2 things today: the strategic focus for Tantan this year and the initiatives that we're taking to achieve those goals.

So the strategic focus for 2018. Our primary objective is still user growth. Tantan is a young brand, and we're still growing fast and at an early stage in penetrating into the market. We believe we have very significant room to further grow the user base through product and marketing efforts. With that said, we're also committed to building effective paid features in order to enhance user experience and drive the number of matches. Our observation is that retention levels of paying users tend to be much higher than that of nonpaying users. Therefore, although monetization is not our #1 priority this year, we do believe that enriching the paid features will make the overall user experience more enjoyable and improve the long-term intention of the platform.

Of course, developing and optimizing paid features will also contribute to revenue growth and narrow down the losses.

Next, I'm going to talk about some of the recent initiatives that we're taking. First, on the product side, improving the recommendation algorithm is our big focus for this year. Although we made good progress in optimizing our recommendation engine during the past few years, the logic of the algorithm is still quite basic. By applying machine learning, we see a great potential for us to improve the matching efficiency. We started to build up our artificial intelligence team who will be focusing on improving the matching efficiency and post-match interactions. Early testing results are encouraging, and we'll continue to push hard on that front.

Other than product efforts, improving the marketing efficiency is also one of our key areas of focus this year. We see many opportunities for optimization in this area. There are also resources and expertise that's been leveraged from Momo to drive synergies. We'll work more closely on this front going forward.

On the paid feature side, in January of this year, we officially launched VIP subscription service. Revenues and number of subscribers have been ramping up at a very impressive pace since then, indicating very strong intention from users to improve their chances of matching through purchasing value-added services. After success of VIP subscription, in July, we launched 2 new paid features: See Who Likes Me and Super Exposure. Consistent with our strategy, these 2 features aim at improving users' chances of matching and thus enhancing their experience. The new features have been a significant revenue booster since launch, which is reflected in the Q3 guidance. However, we do think there is quite some room for



further optimization. So in the second half of 2018, we'll be working on optimizing the existing monetization features, including the VIP package, See Who Likes Me and Super Exposure.

We believe we can continue to drive the subscriber and revenue growth through these efforts. That's the prepared portion of my presentation today. With that, I'm handing over to Jonathan for a financial review. Jon, please go ahead.

Xiaosong Zhang - Momo Inc. - CFO

Thanks. Hello, everyone. Thank you for joining our conference call today. I'm very delighted that we had a strong second quarter financial performance, with a better-than-expected top line and bottom line results. In the interest of time, I will skip the review of revenue line items, which have been covered pretty comprehensively by Mr. Wang Li. Please also refer to our press release for more detailed information and analysis.

Let me briefly review the paying user metrics first here. Paying users for live streaming services was 4.6 million, up from 4.4 million last quarter. Paying user for VAS on an ex Tantan basis was 5.3 million, up from 5.1 million from last quarter. The total number of paying users from live streaming services and VAS service, excluding Tantan, without double-counting the overlap, was 8.5 million for the second quarter of 2018, up from 8.1 million a quarter ago.

Once again, as the line between live streaming and the live chat experience within VAS gets increasingly blurred, we encourage investors to attract the total number of paying users across the Momo platform going forward. As of June 30, Tantan had 3.1 million subscribers.

Now on the cost and expenses items. Our non-GAAP cost of revenue as a percentage of revenues was 54.2%, an increase of 6.1% from last quarter. The blended payout ratio for live streaming business for the quarter increased slightly by approximately 1% due to continued incentive programs for agencies and various operational events that we ran during the second quarter.

The rest of the sequential increase in cost of revenue as a percentage of revenue was mainly due to the production cost incurred up to June 30 related to the Phanta City TV show. Even the show runs from July to October, we expensed the production cost as incurred from prudent or conservative perspective according to relative -- relevant accounting principles.

Non-GAAP sales and marketing expenses for the second quarter was \$48.3 million, or 9.8% of total revenues, compared to 21.2% in the second quarter 2017 and 9.4% in the previous quarter.

Selling and marketing cost was extremely high in the second quarter 2017 due to the branding campaign we launched in April last year.

As we moved into the second half of the year, we expect sales and marketing expenses to trend up meaningfully from Q2 level, both in absolute dollar amount and as a percentage of revenue due to the fact that Tantan is going to be consolidated on a full-quarter basis from Q3 onwards, and marketing is currently Tantan's biggest spending area.

In addition, according to our annual business plan, we have more promotions and marketing events scheduled during the second half of the year.

Non-GAAP research and development expenses for the second quarter was \$18.2 million compared to \$8.2 million for the same period last year, representing a 3.7% and 2.6% 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 as well as algorithm optimization for both Momo and Tantan. We ended the quarter with 1,924 total employees, of which 1,450 are from Momo. R&D personnel as a percentage of our total employees for the group was 45%.

Non-GAAP G&A expenses for the second quarter was \$12.3 million compared to \$8.5 million for the same quarter last year. The G&A expenses as a percentage of total revenue remained stable. Non-GAAP operating income was \$163.4 million, up 88% year-on-year from \$86.7 million. The non-GAAP operating margin for the quarter was 33.1%. We expect operating margin towards second half of 2018 will trend down from the above line item discussions.

On June 27, 2018, we announced the issuance of \$650 million convertible bonds. The transaction was closed on July 2, 2018, and an additional \$75 million of convertible bond was issued upon exercise of the green shoe element on July 30.

Now turning to the third quarter revenue guidance. As we generate almost all of our revenue in R&D., firstly, all on a constant-currency basis, we estimated our third quarter revenue to come in the range from RMB 3.58 billion to RMB 3.68 billion, represent a 13% to 17% sequential growth and 51% to 55% year-on-year growth. This is based on the assumption that Tantan's average monthly revenue run rate in Q3 increases by 60% to 70% from June level and the Phanta City contribute at least RMB 100 million. Then assuming CNY 6.805 exchange rate, our guidance in U.S. dollar term is between \$525 million to \$540 million.

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 half of 2018. As we step deeper into the year, we will continue to focus on our strategic priorities and to drive values for our shareholders.

That concluded our prepared portion of today's discussion. With that, let me turn the call back to Cathy to start Q&A.

Cathy Peng

Yes. Just one quick reminder before we get people in for questions. For those who can speak Chinese, please ask the questions in Chinese first, followed by English translation by yourself. (Operator Instructions) Operator, we're ready. Please take people in.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jialong Shi from Nomura.

Jialong Shi - Nomura Securities Co. Ltd., Research Division - Head of China Internet and Media Research and VP

Let me first ask my question in Chinese. (foreign language) I have 2 questions. My first question is about the MAU for Tantan. We noted that the reported MAU of 108 million for 2Q does not include the MAU from Tantan. So we were wondering what is the trend for Tantan's MAU in the second quarter and the second half. And how should we look at its revenue growth trajectory in second half? And my second question is about the overall growth strategy. The size of Momo's live broadcasting revenue is already quite big. So just wondering what are the company's strategies to further grow the live broadcasting revenue from current levels. And for the VAS business, how should we look at its growth potential -- revenue potential and what are the growth drivers?

Wang Yu

Okay. So this Yu. Regarding the first question. So since the announcement of the acquisition in February, our MAU has seen significant increase and is continuously increasing. The thing is that we have a much stricter definition of MAU than the industry. So if we disclose the number, you guys will be comparing apples to oranges. And similar companies, like Match Group, do not disclose MAU either. So we think for now, paying users reflects the trend of growth. In terms of revenue projections, like Jonathan said, we have seen a significant increase in revenues after the release of See Who Likes You and Super Exposure. And we expect a 60s to 70% increase in our guidance for the average monthly revenues per month in Q3 over Q2 -- over June, actually. So -- and with continuous increase of the active users, we believe that this trend will continue.



Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Over a longer-term horizon, we do believe that live streaming represents a new form of entertainment. As the content continues to improve and as Chinese consumers step up their spending in entertainment, we do believe that there should be plenty of headroom for us to continue to drive the growth of paying users as well as our people. As far as our own operation is concerned, we're basically looking at several key drivers here.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

Well, first of all, Momo's overall user base is going to continue to grow, and we're working on things to improve the conversion ratio from Momo user to live streaming paying user. For example, on Android, we just launched a new version where we push Nearby live broadcasting onto the homepage, and the paying conversion from the Nearby live broadcasting on the homepage is much better than previously when we pushed live streamers into the Nearby People List.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

ARPPU is the last thing that we're going to worry about because from the beginning of the year up till now, we have been very disciplined in terms of putting in different operational efforts to drive the ARPPU growth, and that can be reflected in several aspects. Number one, we've been cutting back on the bonus that we put into different competition events. That can be reflected in the fact that the average payout ratio saw a pretty meaningful decrease in the first half of 2018 versus the second half of 2017. And number two, in terms of the operational policies around the competition events, we've been leaning towards the long-tail paying users. For example, the events such as fence team battle that we won in April is the reflection of such operational policy. And for some of the operational methodology targeting the [whale] user with a high-paying user, such as royalty system, we haven't used any such kind of operational methodology yet. So overall, we do think that there should be a pretty ample room for us to continue to drive the growth in ARPPU.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

With regards to the question on VAS and other business lines, if you look at the growth rate of the VAS business on an ex Tantan basis, it has been growing faster than the average growth rate of the company. And that was because of the fact that we started to push a little bit harder on the virtual gifting business in developing more use cases for the virtual gift. That is different from the tipping within the talent shows or the live streaming business because the virtual gifting within VAS is deeply connected with other non-live streaming social activities. As compared with live streaming revenues, VAS ARPPU tend to be lower, but it can appeal to a broader paying user base. As we continue to push forward in developing



more use cases for virtual gifting, we believe that VAS on an ex Tantan basis is going to continue to outpace the growth rate of the average growth rate in the second half of the year, and its revenue contribution as a percentage of total is going to continue to increase. As for advertising and gaming business, this year is still going to be in exploration phase for us. So internally, we do not have very aggressive growth target for these 2 business lines.

Operator

Our next question comes 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 2 questions. My first question is that we see the [lean] and other short video has been rising very rapidly recently. What are takes about the impact to Momo, if there's any? And my second question is about the macro impact to monetization in live streaming. And so maybe another question to Jonathan is about how should we think about the margin outlook in 2019, if there's any.

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

(foreign language)

Cathy Peng

Considering that I get to answer the same question almost every quarter, I remember in the past, people asked about Kuaishou and Tantan last quarter. Somebody asked about Douyin as well. However, if you look at the -- if you look at our operational and financial data since the beginning of the year, they have been showing some very positive trends, and we've also given our Q3 guidance. If you take out Phanta City and Tantan, the core Momo business is still growing very nicely. So I don't think investors need to worry about the competition overall.

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

(foreign language)

Cathy Peng

With regards to the specific question on Douyin and its impact on our live streaming business, our live streaming team has remained very vigilant about the competitive environment, especially what the bigger guys are doing out there in the market and our live streaming and short video and that, of course, includes Douyin. We did notice that since the second quarter this year, Douyin has made its live streaming service more prominent from -- both from a product perspective and from an operational perspective. However, up till now, we are not really seeing any meaningful impact from Douyin either from a traffic standpoint or from a revenue standpoint.

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

(foreign language)

Cathy Peng

As -- one thing that, I think, it's worth sharing here is that as a short video content consumption platform, Douyin is very, very different from Momo in its user portrait. The core user demand is trying to surge as well as the usage behavior on Douyin. For example, our user base -- if you look at our user base, it's, obviously, more skewed toward male users and people -- what people are primarily looking for on our platform is to look for someone new to interact with. And the usage behavior of live streaming users tend not to be as fragmented as the users you can see in a short video application. In all those fronts, our understanding is that Douyin is very, very different from Momo. And based on our several years of operational experience in the live streaming industry, we believe that Momo's user base is more conducive for monetization model that is on the back of tipping -- direct tipping, and that is also consistent with our current observation as what's happening out there in the market.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

With regards to the question about macro environment, I'm not sure whether I'm in a good position to answer that question or not, but I'll try to address that question here. So far -- I think simple answer is that so far we are not seeing any impact from the macro economic condition on the tipping spending on our platform, and that can be reflected in our Q3 guidance. And as far as our own operation is concerned, I think I've mentioned before that our operational team has really been very disciplined in terms of putting in different operational efforts. Well, first of all, I mentioned that we've cut back on the bonus that we put into different competition events. And if you look at the way that we operate different competition events, we are more leaning toward the long-tail users. For the long-tail users, we are running operational events, such as fence team battle. And if you look at some of the operational efforts targeting the [whale] users for things like royalty system, we really haven't put these efforts into the system yet. So overall, I think operational-wise, we are very confident that live streaming is going to continue to grow.

Xiaosong Zhang - Momo Inc. - CFO

Okay. Let me answer your third question on the margin trend. Firstly, let me answer your question in 2 aspects. One is on the core Momo business, then the Tantan business. Because we are a very skill-efficient business model. And as we continue to expand our revenue base, we'd like to maintain a flexibility room for the company to balance the bottom line profitability versus adequate resources to invest in the company's future growth. So the company actually manage the financial target on an annual basis, even though we see quarterly net margin fluctuations. But on an annual basis, as I communicated with the investors that we'd like to maintain similar level of non-GAAP net profitability compared to last year. And at this stage, we still confident we can achieve that financial target. And going forward, I don't believe we're going to change that mentality because we still believe we have a lot of arrears of innovative ideas to grow the business further. So as we continue to grow the business, we'd like to keep similar level of profitability. Of course, this is on a constant-currency basis. And now on Tantan, because it's for 2018, as Mr. Wang Yu discussed with you, it's still under investment period. For 2018, as we communicated previously, it's going to be a loss position. But -- however, as the monetization efforts continue to expand, we do expect the revenue will ramp at a fast pace. The net loss will -- on a quarterly basis will decline. So tying to the longer term, we expect the Tantan's business will turn into profitability and then that will actually help to improve the overall net margin.

Operator

Our 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 Tantan. As we're noting, there is a super successful brand in U.S. and international markets. And from the development point of view in China, what can Tantan do differently and -- or even better than Tinder in terms of the game play and the

monetization? And second is about Tantan revenue growth guidance of 60% to 70% run rate versus June. But as we know, the new VIP growth program raised the price by 5x. So 60% to 70% growth seems a little bit low. Could you give us a breakdown of what you expect for ARPPU and pay user growth separately? And my second question is about a variety show. Should we expect MAU growth and the collaboration with talent agencies to further improve and accelerate in 2019?

Wang Yu

Okay. So to answer your first question, what can we do better than Tinder, I don't think we are completely comparable to each other. But I'll try to answer the question. I think the model of double blind and mutual opt-in fits the Chinese market and Asian market much better than the Western market because Chinese people and Asian people tend to be more shy, right? So they need more help. There is no -- especially in China, there is no flirting culture. So there's a big lack of offline channels. Also, Chinese young people tend to be in different city than their hometown. So they're extra lonely. They don't have friends and family to -- so they're lonely because of that, and there's no one to introduce people to them. So what we can do for them is that they don't have to do the flirting stuff, right? When they like or dislike someone, that person doesn't know unless they like each other. So this thing, we believe, is much more valuable in Asia than in the West. That's one. The second is that China, as a whole, is a larger unified market, we believe, especially for singles. We did a small analysis, and I think the total amount of singles in Asia is roughly 75% of all singles in the world because you have huge populations of China, India, Southeast Asia, Japan and Korea, right? So we believe that we're targeting a much larger -- if we just talk about China, it's a huge unified market. And thirdly, we think that the revenues prospects of China and Asia is actually very lucrative. If you look at the ARPPU for VAS, value-added services, in Asia and especially connected to dating and social, it can be much higher than in the West, right, as evidenced by Momo and games. So we believe that right now we're not really aggressively trying to maximize revenues. We're doing the revenue models that, we believe, enhances user experience, and this is to drive growth, right? So that's the first part. The second part is about the margin, right -- or the increase in revenues. You think that 60% to 70% is a bit on the low side. That's interesting because if you look at how much revenues grew when Tinder launched Tinder Gold. From my memory, because I don't have the numbers in front of me, I think it grew by around 50%. So this is a higher increase than what we saw from them. And I think it's reasonable for everyone to realize that revenues does not increase linearly with price. Otherwise, everyone will just increase their prices indefinitely, right, to infinitely increase the revenues. So what we do is basically that we try to find the best price points to maximize total revenues. And from our understanding that our increase actually is bigger than what Tinder saw when they launched Tinder Gold. We think that we have done a pretty good job with that. The reason we decided on a low price for VIP in the beginning was that, that was what's created the maximum revenue. And also, we want to broaden the user base who have initially made first payment for later on when we launched future revenue models. Now with See Who Likes You, we think that from our A/B testing, we have seen that the total revenues from the price points we selected is the best solution and the best combination with the current VIP package. And setting at a higher price point also enables us to, further down the road, do different kinds of campaigns to further improve -- increase revenues. Thank you.

Yan Tang - Momo Inc. - Chairman & CEO

(foreign language)

Cathy Peng

First of all, Phanta City is our first try in producing professional entertaining content. The fourth -- the 4 episodes that have already -- the first 4 episodes that have already been aired so far have triggered mass amount of discussions on social media and won very good reputation from the audience base, especially within people who are below 23 years old and with college degree or above. Up till the fourth episode was aired, the number of hashtag topic discussions has exceeded 3 million on Weibo, and number of impressions of such hashtag discussions has exceeded 1.8 billion, making it the most heavily discussed TV variety shows on the Internet at the time. The reason why Momo wants to get into the professional entertaining content production area is from a long-term strategic standpoint. Over a longer-term horizon, we think that's going to benefit the company in several different ways. Number one, it can promote Momo's overall brand equity. And number two, we are providing greater level of motivation to our top broadcasters by helping them expand their career success beyond the live streaming industry, so that more quality new talents will be attracted to the live streaming industry and to the Momo platform. Number three, by placing the broadcasters and other elements into the show, we are promoting live streaming as a new form of entertainment and building a positive image for live streaming industry as a

whole. Actually, short-term user growth is not one of the key objectives that we're trying to achieve here, because we've seen cases before where variety shows brought in a surge in new users who came specifically for the show, but later on, after the show is over, it was difficult for the application to be able to retain this cohort of users. Alex, I'm not sure whether these address all of your questions or you have some additional one regarding Phanta City, we kind of missed the later part of your question.

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

I think that is all good. (foreign language)

Cathy Peng

I think in the interest of time, that concludes our call today. Thank you for joining us. We'll see you next quarter. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

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