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MOMO - Q3 2018 Momo Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Cathy Peng** *Momo Inc. - Head of IR*

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

**Wang Yu**

**Xiaosong Zhang** *Momo Inc. - CFO*

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

## CONFERENCE CALL PARTICIPANTS

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

**Karen Chan** *Jefferies LLC, Research Division - Equity Analyst*

**Qi Chen** *JP Morgan Chase & Co, Research Division - Research Analyst*

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

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to Third Quarter 2018 Momo 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.

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### Cathy Peng - Momo Inc. - Head of IR

Thank you, operator. Hello, everyone, and thank you for joining us today for Momo's Third 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 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, 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)

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**Cathy Peng** - Momo Inc. - Head of IR

Good morning and good evening, everyone. Thank you for joining our conference call today. I'm pleased that we delivered solid operational and financial results for the quarter. At the same time, we continue to push forward on product and operational front in order to build out longer-term growth drivers as we start to look beyond 2018 into next year. Now my team and I will take you through the details.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Firstly, from a high level, total revenue reached \$536 million for the quarter, up 51% year-on-year. Adjusted operating income for the quarter was \$125.1 million, up 21% from the same period last year.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Now a deep dive into the quarter. Firstly, our community continued to grow. The core Momo app had 110.5 million monthly actives for the third quarter, up 17% year-on-year and representing a 2.5 million net addition from the previous quarter. During the past few quarters, we have made solid progresses with our strategic priorities around product innovation and improving marketing efficiency. As a result, we've been seeing steady growth in both user base and the engagement level. However, as the community evolved and the social use cases increasingly diversify, we also realize that we need to deal with the spammers in the ecosystem who also evolve as the community does.

Since September, we've stepped up our efforts in cleaning up the spam accounts. These efforts involved updating the algorithm to identify more sophisticated spamming and other harmful activities as well as implementing more stringent measures on the identified accounts. Although the campaign has caused some pressure on the user growth rate, we believe that's the right thing to do because the targeted accounts and activities were harmful to the ecosystem without creating any real value to either of the users or our business. Cleaning them up will ensure the long-term well-being of the Momo community. The other thing worth mentioning is that the user retention on an ex-spam basis in September was actually stable with a slight uptick as compared with the June quarter, which provides a very solid foundation for us to drive continuous growth of our user base and a healthier environment going forward.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Total paying users for the Momo platform reached 8.9 million in Q3 2018, representing a 22% year-over-year growth or a 400,000 net addition from the last quarter. The healthy increase in paying users showed the growth of the core commercial value of the Momo platform remains very strong.

The other thing that I feel excited about is the rapid growth of the Tantan community. In Q3, Tantan reached 3.6 million in its paying subscribers, a quarterly net addition of 500,000. That number demonstrate a continuous growth of Tantan's MAU base as well as the increased paying conversion from Tantan's newly launched monetization features. Wang Yu will have more details for you later on in this call.

Tantan's success in building premium features this year speaks well to its unique value proposition in the dating space. We are confident that its potential will be further unleashed next year as Tantan continues to innovate and bring new features that create value for the users.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Now let me shift back to Momo and briefly review the product initiatives that we took in the past quarter. In Q3, we remain focused on executing against our key strategic priorities in reaching the social features, optimizing the recommendation algorithm and driving a constant quality for the video services.

For example, we made a couple of key upgrades to the Chatroom experience that was introduced earlier this year. The karaoke function has been optimized and connected to more social modules within the Momo ecosystem. The users are now able to share the KTV room either to the news feed or to their Momo friends so that other interested users can join them and have fun together.

We also started to test the experience of creating and sharing pre-recorded karaoke songs on Momo. In August, we further introduced a new interactive game called Ni Hua Wo Cai or draw and sketch games into the Chatroom experience. This game, which used to be a popular off-line party game, further diversifies the form of interactions and lowers the barrier for our users to socialize and have fun in an open environment. As a result of these optimizations, the overall usage and DAU penetration for Chatroom continue to ramp in the third quarter and is now one of the key social use cases on the platform.

Other than the Chatroom experience, Quick Chat, after several iterations this year, also reached a steady growth stage, both in terms of usage and in terms of monetization. It is now becoming a new driver for the VAS business line.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

The other important initiative that we have been taking since Q4 last year was to diversify the connecting elements on top of the single dimension of location so that we can help the users more effectively discover new relationships and build meaningful interactions. We have seen this strategy working well in driving the number of interactions around the content and the response rate around Nearby People. In Q3, while the team continues to test and optimize different recommendation formulas around Nearby functions, they also started to test new recommendation strategies in the follow-up feeds. We saw early positive impact in increasing the click-through and watch-through rates as well as the number of interactions around the follow-up feeds. These changes showed us the possibility that big data and algorithm changes of our users make more relevant discoveries, increase their chances of getting meaningful interaction and thus reduce their level of frustration and make them feel less lonely and isolated. A lot of the things that we're doing in this area are early-days experiments. We do see plenty of opportunities for further optimization, and we'll keep exploring these opportunities going forward.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

On the content side, in Q3, we mainly focus on beefing up our content supply system through various initiatives. Wang Li will have for more for you later, so I won't go into details.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

To sum up what I said on today's call and the previous calls, Momo has made impressive progresses this year in extending the form of interaction based on audio and video technology and pushing the ways we connect people beyond physical proximity and in providing higher-quality entertaining content to our users. These progresses are important to us because they enable us to go after not only the new registrations, but also the huge amount of dormant users who churned due to the limitation in the form of interactions and the ways that we connect people in the past.

In addition, the new use cases also increased our ability to build monetization features and drive business growth beyond live streaming shows in the future. We see a lot of potential here, and we'll continue to pursue these opportunities going forward.

With that, I'm handing over to Wang Li for our business review.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

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.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Firstly, on live streaming, total revenues from live broadcasting business for the quarter was \$406.9 million, an increase of 34% from the same period last year. In Q3, we mainly focused on strengthening the supply end of our content ecosystem. That included a number of different initiatives to make sure that we have a constant supply of high-quality, high-grossing, performing talents that are committed to the Momo platform. For example, during Q3, we substantially expedited the process of tying down the professional broadcasters by exclusive contract, or internally, we call them golden broadcaster contracts. In addition, we've adjusted our talent incentive program to lean more towards new and entry-level agencies so they can feel more motivated and grow their business faster.

As a result of these efforts, the number of professional broadcasters continue to grow rapidly by a double-digit percentage point in Q3 from Q2. Moreover, the number of quality agencies, which we define as the agencies who cross the monthly grossing threshold of CNY 1 million, also increased significantly both year-on-year and quarter-over-quarter. We believe the golden broadcasters and the quality agencies are the core of our content supply ecosystem.

Now with that core part getting bigger, stronger and more closely tied up with the platform, we are in a much better position to drive further growth leveraging them.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

As many of you can see from our Q4 revenue guidance, the macro headwind and the consumption softness have slowed down the growth of our live broadcasting business. In the past, the KPIs that we set for agencies and broadcasters center around the growth in the number of professional broadcasters and the golden broadcaster contract signing. Such KPI system was established to address the content supply issue that we encountered in the second half of last year. That system needs to be adjusted when the key challenge moved from the supply side towards the demand side. Right now, the team is working on a new KPI system in order to more effectively leverage the agencies and the broadcasters to drive consumption from the users. At the same time, we are also starting to devise the product and operational plans for the year 2019 to deal with the new macro trends that we're seeing now.

With these adjustments, we remain confident about the growth prospects for live broadcasting business in the year 2019.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Now turning to VAS. Revenues from VAS grew 221% year-on-year to \$84.2 million, driven by the continuous momentum from the virtual gifting business on Momo's core app as well as the contributions from Tantan. Wang Yu will go through Tantan's business later, so I'm going to be focused on the VAS business for the core Momo app. On an ex-Tantan basis, VAS revenues for the quarter totaled \$60.1 million, an increase of 129% year-on-year. Similar to what we saw in the past couple of quarters, the continuous outperformance of VAS can be attributable to several factors. Number one, we've been introducing more gift features and operational efforts into the established consumer experiences, mainly the Nearby People and the interest groups. Number two, the new paying use cases that we've been testing with some of the relatively new consumer experiences continue to ramp up steadily. Among the new consumer experiences that we currently have, Werewolf has been the biggest contributor to the VAS business for the past few quarters.

In Q3, I'm happy to see that Quick Chat also started to ramp up rapidly, more than tripling its revenues from Q2. As Quick Chat gradually moves into a stable growth pace in terms of usage, we expect it to continue to contribute to the growth of VAS business.

The Chatroom, which by far the largest amount the new use cases introduced since the second half of 2017, currently is not a revenue-oriented product and has minimal revenue contribution to VAS. However, as the consumer use cases in Chatroom is very rich and dynamic, we do see plenty of opportunities to more proactively build value-added services within this experience in the future.



At this point, the focus of chat room team is still primarily on removing the frictions of the product and improving the user experience. Therefore, we'd like to defer monetization until a later stage. Overall, As I said many times before, we do believe that the users generally have a strong inclination to pay for value-added services to enhance their social experience. So if we come up with the right type of paid feature, monetization can improve consumer experience instead of going against it. Moreover, the expanding social use cases, many of which are facilitating audio and video-based real time interactions, also provide a rich canvas for us to explore more VAS features.

Many of our explorations on that front involve early-stage experiments. We have a long, long way here and also the commitment and patience to take this forward step by step.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Next, our mobile marketing revenues for the quarter decreased slightly by 1% year-over-year to \$17.2 million. Q3 was a tough quarter for mobile marketing business due to the regulatory headwinds in the financial and the gaming sector. The other reason is that the World Cup event also has caused some of our brand customers to shift their ad budget toward other platforms who had bigger World Cup presence.

Overall, we expect the macro environment to remain challenging for mobile marketing business. Our current strategy here is to focus on product experiments, leveraging Momo's unique resources such as live and short video and users' playful nature.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

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

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**Wang Yu**

Thank you. So let me briefly review Tantan's operational business development in the past quarter.

Firstly, on user growth. As said on last quarter's earnings call, user growth is our most important objective this year. I'm glad that in Q3 we performed well on that front, growing our user base much faster than we did in the second quarter. Paying subscribers reached 3.6 million as of the end of Q3, a net addition of 500,000 from 3 months ago. As platform expands its scale, the commercial value also increases. In Q3, Tantan contributed RMB 164 million to the company's VAS revenue line. That translated into an average monthly revenue increase of 77% from June's level, exceeding the high end of our previously expected range between 60% and 70%.

Now let me go through some of the important progresses we made that enabled us to deliver the robust results that we posted for the quarter. In July, we launched 2 new paid features - See Who Likes Me, abbreviated as See, and Super Exposure. These 2 new features, especially the See, have been well received by users. I'm happy to see that it drove the increase in both the paying conversion and the average revenue per paying user and thus boosted the revenue significantly in Q3.



As said before, the premium features that we offer such as VIP services and the See not only drive top line growth but also enhance user experience and improve retention ratios as these premium features all aim at increasing a user's chance of getting meaningful connections. That is an important principle that we are holding on to in building the monetization features on Tantan because it aligns the commercial interests of the platform with our goal to drive user growth.

Moving into Q4 2018. We will continue to optimize the existing monetization features. As we do so, we expect the number of paying users and revenues to continue to grow. In addition to the optimization of the existing premium features, we're also beginning to plan for next steps of our monetization road map. Currently, we have a couple of ideas that we're going to try to explore. We'll update investors when any of them gets to a more mature stage.

On the last earnings call, I mentioned that improving the algorithm is another big focus for us on the product side. We built up our AI team in the second quarter and started testing recommendation strategies, first in the city of Nanjing. And then, in Q3, we further rolled it out to Jiangsu province. The initial results have been satisfactory, especially in driving the post-match interactions. We plan to supply these algorithm changes to a larger scale down the road.

Overall, I'm pleased with Tantan's achievement in the past quarter. Compared to a few quarters ago, we now have a much stronger team and richer resources to leverage in order to move faster towards our goals.

With that, let me turn the call over to Jonathan for the company's financial review. Jon, please?

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**Xiaosong Zhang** - Momo Inc. - CFO

Thanks. Hello, everyone. Thank you for joining our conference call today. Let me briefly take you through the financial review.

In the interest of time, I will not review the revenue line items in detail, which has been covered pretty much comprehensively by Wang Li and Wang Yu.

One thing I'd like to mention here is that our total revenue for the third quarter 2018 was USD 536 million, 51% year-on-year growth and 8% Q-on-Q, to mirror the Q3 guidance provided on the last quarter earnings conference call. On a constant-currency basis, our total revenue for the third quarter was RMB 3.65 billion, representing a 54% year-on-year growth and 16% sequential growth. The fluctuation on the exchange rate during the quarter created approximately 8% negative impact on the revenue sequential growth rate in U.S. dollar terms.

Next, let me talk about our paying user metrics. Total number of paying users across Momo platform was 8.9 million for the third quarter 2018 compared to 7.3 million for the same quarter last year and 8.5 million a quarter ago or 0.4 million quarterly net addition.

This number includes both live streaming and VAS paying users on Momo app without double-counting the overlaps. Both live streaming and VAS contributed to the paying user growth and live streaming paying user went up slightly faster than VAS paying users.

As of September 30, Tantan had 3.6 million subscribers, up from 3.1 million a quarter ago or 0.5 million quarterly net addition.

As we pointed out several times before on our previous earning calls, many different social experiences on Momo platform nowadays support live audio-video chats. Some of these are put under VAS and others are under live streaming, but these audio and video experiences are essentially all supported by streaming technologies.

As we continue to build new social use cases and test new premium features in the live interactive experiences, the line between what is live streaming and what is not has become increasingly blurry. For that reason, from Q3 onwards, we will no longer provide separate paying user accounts for Momo's VAS and live streaming businesses. We will continue to disclose Tantan's subscriber information separately on a quarterly basis.



On the cost and expenses items, our non-GAAP cost of revenue as a percentage of revenue was 55%, an increase of 5% from the same quarter last year. The downward trend in gross profit margin in the past couple of quarters was mainly due to the production costs related to the Phanta City variety show as well as the investment in strengthening the content system. More specifically for the quarter, we offered a sign-up incentive to the golden broadcasters in order to speed up the process of securing quality contents. In addition, we also tweaked our agency incentive plan in order to motivate more small and medium-sized agencies.

On sequential basis, the gross margin decreased by less than 1 percentage point due to these efforts to beefing up the content ecosystem, offset by the fact that the net drag impacted by Phanta City to gross profit narrowed on a quarter-over-quarter basis, and to a lesser extent, by Tantan's business, which bears higher gross margin than the core Momo business.

Non-GAAP sales and marketing expenses for the third quarter was \$73.9 million or 13.8% of total revenue compared to 15.3% in the third quarter 2017 and 9.8% in the previous quarter. The sequential increase was primarily due to the full quarter consolidation of Tantan, whose biggest spending area is marketing, and to a lesser extent, the marketing spending in connection with promotions of Phanta City shows.

Non-GAAP R&D expenses for the third quarter was \$29 million compared to \$11.1 million for the same quarter last year, representing a 5.4% and 3.1% of total revenue, respectively.

The increase reflected the progress we've made throughout the year to build up our R&D talent pool to sort our various product initiatives and also the consolidation of Tantan. We ended the quarter with 2,087 total employees, of which 491 are from Tantan. The R&D personnel as a percentage of total employees for the group was 53%.

Non-GAAP G&A expenses for the third quarter was \$13.8 million compared to \$9 million for the same quarter last year. The G&A expenses as a percentage of total net revenue remained stable.

Non-GAAP operating income was \$125.1 million, up 21% year-on-year from \$103.7 million. The non-GAAP operating margin for the quarter was 23.3%.

With the Phanta City impact behind us and Tantan's net loss continuing to narrow down, we expect the bottom line margins will be stabilized at Q3 level in the fourth quarter.

Now turning to the balance sheet and cash flow items. As of September 30, 2018, Momo's cash, cash equivalents, term deposits and restricted cash totaled \$1.48 billion compared to \$1.06 billion as of December 31, 2017.

Net cash provided by operating activities in the third quarter was \$50.9 million compared to \$104.6 million for the same quarter last year. The decrease in the operating cash flow for the quarter was because the revenue generated from Phanta City still sit as accounts receivable on the balance sheet as of the quarter-end while related costs had largely been fully paid.

Now turning to the fourth quarter revenue guidance. Given the recent volatility and uncertainty in foreign exchange rates, we are giving the guidance in RMB terms this quarter. All of the year-on-year and quarter-on-quarter comparisons below are made on constant currency basis. We estimated our fourth quarter revenue to come in the range from RMB 3.655 billion to RMB 3.755 billion, representing 43% to 47% increase year-over-year and flat to 3% increase quarter-over-quarter.

As the biggest majority the revenues from Phanta City fell into Q3, a much smaller portion will fall into Q4. The inclusion of Phanta City revenue will cause the quarterly revenue comparison not to properly reflect the growth prospect of our core business. On an ex-Phanta basis, we expect the total revenues in the fourth quarter of 2018 to be between RMB 3.624 billion to RMB 3.724 billion, an increase of 42% to 46% year-on-year and 4% to 7% quarter-over-quarter.

Please be mindful that this broadcast represents the company's current and preliminary view on the market and operational conditions, which are subject to changes.



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

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**Cathy Peng** - Momo Inc. - Head of IR

Yes. Just a quick reminder before the Q&A session. (Operator Instructions) Operator, ready for questions. Please take people in.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) We have the first question coming from the line of Jialong Shi from Nomura.

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

(foreign language) I have 2 questions. My first question is about the trend for next year. I just wonder if management can provide colors on the trends for each of Momo's business segments going into next year. In particular, I just wonder how we should assess the macro impact on each of Momo's business segments. My second question is about the competition landscape for live broadcasting space. We saw a few new entrants into the live broadcasting space such as Kugou and the short video app Douyin. So I just wonder if these new entrants are raising the competition for top performers and the guilds as well as competition for audience?

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Although the macro uncertainty does put some negative pressure on the growth rate for live broadcasting business, however, we do see plenty of growth opportunities next year on the product side and also the operational side. For example, next year, we will continue to introduce new product features and also more diversified content targeting different cohorts of paying users. A lot of the new things that we're planning for at this point are targeting the medium toward the longer tail paying users. We believe that within the middle cohort, we still have a lot of revenue potential to cultivate the story introduction of more gamified activities into the showroom. And the other thing is that the team is also working to operate the traffic end users more strategically to drive the conversion ratio from platform users to live streaming paying users. At the same time, we are looking to revamp the ranking system of the broadcasters in order to provide greater motivation and better stimulate consumption. At this point, the live streaming team has already started to put together the new product and also the operational plan for next year, and we will roll them out in a methodical way as we move into the year 2019.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

On the other side of the business, if you look at Tantan and our own VAS business, as compared with live streaming, these 2 business lines tend to be more long-tail driven and bears lower ARPPU. So in a tough macro environment, these 2 business lines should be more defensive and resilient. Tantan has started to monetize only in January this year and is at a relatively early stage of monetization. Obviously, it has delivered very impressive



top line growth this year and all of these give us the conviction that we can build Tantan into a more important revenue driver next year. And our own VAS business has also been ramping up pretty rapidly since Q4 last year as we introduced on the call just now, we do see a lot of potential on that front as well. So overall next year, we're going to push the gas pedal a little bit harder to drive the growth for VAS and our own Tantan business. We believe that the revenue from Tantan and VAS is going to grow as a percentage of total revenue and the overall driving force for the company's top line is going to diversify pretty meaningfully next year.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

And there is another thing that's worth mentioning here. Momo's business model give us very strong operating leverage and also strong operating cash flow. Next year, as Tantan continues to push forward with its monetization effort, its net loss is going to continue to narrow down. At the same time, on the marketing side, we also have plans to scale back on some of the marketing spending, that bears lower short-term ROI. Through these initiatives, we are pretty confident that -- we're pretty optimistic about the growth opportunities for top line next year, and there is also a good chance that we're going to increase the bottom line margin from this year's level.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

First of all, Momo is a social application. Most of the users, when they choose to download Momo in the app store, what they're looking for is to build new relationships and effective interactions. If you look at the way that we -- when we think about the way we design a product and then also operate the product, we want them to revolve around that core user demand. That's the underlying difference between Momo and other applications such as a live streaming app, music app, short video or other social app facilitating the social activities within people who already know each other. We believe that Momo's boundaries centered around that sort of core user demand is very clear. As long as that boundary is clear, the live streaming service within that boundary is pretty unlikely to have head-on competition with other applications serving other sort of user demand. Because if what a user is primarily looking for is to find someone new to interact with, it is unlikely for that user to be choosing between Momo and a short video app or a music app. We think that user is more likely to be choosing between Momo and Tantan.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

With regards to the second question on the specific competition for the top broadcasters, actually, during the year 2018, we've very significantly strengthened the contents of our ecosystem centered around the top broadcasters as well as the talent agencies. And that can be reflected in the fact that the number of golden broadcasters as well as the quality agencies have all been ramping up pretty rapidly. At the same time, we are also happy to see that an increasing number of broadcasters and agencies are realizing that the social attributes and the unique user base of Momo platform means higher revenue potential for them. And these are the unique advantages that we can leverage to continue to attract more quality agencies and broadcasters. At this point, we are not seeing any concrete competitive pressure coming from any competing platform out there on that front.



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**Operator**

We have the next question coming from the line of Karen Chan from Jefferies.

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**Karen Chan - Jefferies LLC, Research Division - Equity Analyst**

(foreign language) My first question is, within our fourth quarter guidance, just wondering how much of a contribution from Tantan are we factoring in? Is there any subscriber target you can share with us? And how should we think about the revenue outlook for Tantan in 2019? My second question is, given the combination of factors, including adjustment in the incentive policy and also narrowing loss of Tantan, I'm wondering how we should think about gross margin and operating margin trend going into next year.

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**Xiaosong Zhang - Momo Inc. - CFO**

Karen, this is Jonathan. Let me take your questions. Firstly, for the Q4 guidance, definitely, we included a revenue budget for Tantan. The reason we did not provide a separate guidance on Tantan's revenue was because for the past couple of quarters, we started to consolidate Tantan's revenue -- 1-month revenue in June and then a full quarter revenue for the third quarter. So we believe it's very helpful for the public to get to know the incremental increases. Since we have already completed the first quarter -- full quarter consolidation on a going-forward basis, we will not provide a separate revenue guidance on Tantan. But one thing I'd like to highlight is that Tantan only started the monetization efforts in January this year. And then in July, it launched See the new feature. The revenue growth has been very fast. The ramp in trend will continue. However, in Q4, the company doesn't have new monetization features to be launched on the platform, so the sequential growth rate probably will come down comparing to Q3 versus Q2. So this is the directional color. For 2019, we believe Tantan's revenue will continue to grow at a faster pace, not only the subscription business model. Management team will further explore monetization models outside the subscription business model. But we do believe, based on the Asian culture, there are a lot of potential the company can dig out in the future. But right now, it's still pretty premature for us to provide a detailed guidance for 2019. And the second question is for the incentive programs we launched in Q3 for the golden broadcasters. Actually, this is only for Q3. We have already scaled back the sign-up incentives to the golden broadcasters in Q4. We picked it, the overall incentive programs, focusing more on the incremental revenue growth to the agencies. We reduced -- comparing to the fourth quarter 2017, we significantly reduced the additional rewards to the top winning broadcasters. Overall, we'd like to achieve a balanced revenue growth and also the quality of our earnings growth. So we expect the -- with Tantan's revenue continue to pick a bigger portion in our business portfolio, we expect the Q4 gross margin will be at least stabilized at Q3 level. And -- but right now, because we are still in the middle of the annual tournament, the -- we still have to wait and see the actual results. So for 2019, actually, we haven't started it, our year-end planning, yet. We are going to reveal the 2018's business results and the business planning for 2019 in January. So we'll have a better color to share with the public in March when we release the Q4 earnings. But however, as Tang Yan mentioned earlier, given the strengthened ecosystem, we believe we have a much better -- we are in a much better position to grow our live streaming business in a healthy way into 2019. And also, we are going to leverage the -- our long-tail user base to step up our efforts to grow the VAS service revenue as well as from Tantan as well.

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**Operator**

We have the next question comes from the line of Mr. Daniel Chen from JPMorgan.

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**Qi Chen - JP Morgan Chase & Co, Research Division - Research Analyst**

(foreign language) My first question is related to the fourth quarter guidance. So excluding the Phanta City, the 4% to 7% Q-on-Q growth is a bit lower than the 9% Q-on-Q growth in the fourth quarter 2017. So may we know the reason behind? And also, especially on the annual gala, could management share some color on the strategy for this year if compared to last year? The other question I have is on Tantan. So first one, could management share some color on the long-term user addressable market for Tantan in China? Secondly is, how do we increase the total time spent and also retention after building social connection on Tantan?



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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Okay. Let me translate first. Well, first of all, if you look at our Q4 guidance, on an ex-Phanta City basis, we are actually guiding for the core Momo revenue to grow 4% to 7% on a sequential basis. And on a year-over-year basis, we are guiding to grow 42% to 46%. Given where the macro condition is, we feel that, that kind of growth is a pretty, pretty good growth rate. With regard to the question about the strategy for this year's year-end tournament experience, as we speak now, the year-end tournament has just started. If you look at the earlier part of this year, we have been pretty disciplined. We have been deemphasizing the quarterly tournaments from a revenue generation perspective. So as we move into the last event of the year, we do want to make it more exciting to heighten up the community atmosphere for the broadcasters, the talent agencies and also the users. However, given where the macro condition is, the total amount of bonus that were going to put into the year-end competition event is going to be less. It's going to decrease from what we saw last year in the quarterly tournament event. For example, last year, during the year-end tournament, we used very aggressive methodologies such as Xing Guang Fan Bei, which means doubling the payout for the top winners in the game. This year, we are not planning to use that kind of methodology again. So that's the question for the live streaming guidance and also the strategy at the year-end tournament. For the question of Tantan, let me pass over to Mr. Wang.

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**Wang Yu**

Okay. So in terms of the group growth for Tantan, we believe that we can grow to at least 3x the current size within China. And that's taking into account how big the market is for young people who are interested in dating. And also taking into account the total size of Momo's current number of both registered and active users. In China, we have 300 million millennials, and there's a lack of ways to meet off-line so online is the primary way to meet. And we believe that the best tools for doing that is through Tantan and Momo. So that's the first question. Second question regarding Tantan is how we plan to work on increasing the time spent on the app. And as I mentioned a few times, the algorithm in AI is a pretty big focus of ours in terms of product development. And we have seen some very encouraging results already and will continue to work on it in the coming year. And we believe that it will continue to increase the time spent and post-match interactions on the product. Now the second part is that we are exploring some product features that go outside the scope of just swiping, matching and chatting, but we're not at a stage where we're ready to disclose those features yet.

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**Cathy Peng** - Momo Inc. - Head of IR

Yes, operator, we'll take the last person in. And after that person, please hand back to me for closing.

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**Operator**

Sure, ma'am. We have our next question coming from the line of Tian Hou from T.H. Capital.

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

(foreign language) So 2 questions. The first question is regarding the activities format on the platform. We have person-to-person chat and chat room, short videos, social games. So I wonder, on the platform users, how do they allocate their time? And also in the past, what is the change in terms of how they're using their time? Increasing? Decreasing? Or what is it? So that is trying to understand the situation. And also, since we have multiple formats, I wonder is that a good thing or bad thing in terms of developing -- for the development? Multiple scenario, multiple activities may need -- may require a different focus and different strategy. So will that be a stretch for us? So I would like to hear some explanation from you guys. And also, the second question is related to go abroad. And in China, we all know a lot of regulations and business activities have a lot of



constraints. However, overseas expansion seems like it's a trend among the Chinese IT companies. So I wonder what's Momo's plan. And given you have technology, you also have a lot of cash. That's all my question.

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

Your first question first. Well, first of all, we currently -- our data capability does not support us to very precisely break down the time spend among different product modules, so we are not ready to disclose that data point to the public yet. But in terms of DAU penetration, the order of ranking among different stand-alone use cases goes like this: the biggest one is still Nearby People and then it's live streaming, Diandian, interest group and chat room. And there are 2 special use cases, the short video experience and also the Nearby Post, because these 2 functions are interconnected with other stand-alone product modules. In terms of the penetration, they are actually the highest, but these 2 are not stand-alone social experiences. For other social use cases such as Werewolf and Quick Chat, these 2 are relatively smaller in terms of the size of the DAU. They also have their pretty established and sizable user base. I would say this overall diversification of social experiences has been playing a very positive kind of role in growing the user base and also user engagement during the past period of time. But with regards to the question about whether that's an advantage or a disadvantage, as far as monetization is concerned, we think that kind of diversification is quite expensive that we need to diversify the business model as well. We believe that virtual gifting is a very flexible monetization methodology and is very suitable for a platform like us with multiple social use cases. When you connect virtual gifting with different formats of social features and products, we can actually build different paying use cases and monetization model out of that same virtual gifting service to target different cohorts of paying users. So we do see a lot of potential in building monetization opportunities around the virtual gifting service. Next year, we're going to continue to go deeper on that front. (foreign language)

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

(foreign language)

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**Cathy Peng** - Momo Inc. - Head of IR

With regards to the question of overseas opportunities, actually, we have been conducting regular research about the overseas business opportunities. But so far, we don't have any definitive plan to develop -- to expanding to overseas markets because, currently, we are still seeing many bigger opportunities in the China market. However, that is indeed an area where we will keep monitoring, and we will remain vigilant about any emerging opportunities in overseas markets. If we ever decide to go into overseas markets, there needs to be a proven and established business model. And we also need to have the comparability that it is an opportunity that our team, Momo team, specifically, have the capability of seizing. So overall, we will be making such kind of assessment in a very careful and prudent way. So that's the answer to your second question.

Given time, that's going to be the last question that we take in. We thank you for the participation of our investors on this conference call. We'll see you next quarter.

Operator, ready to close.

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**Operator**

Certainly, ma'am. I would now like to hand the conference over to Ms. Peng. Please kindly take over.



**Cathy Peng** - Momo Inc. - Head of IR

This is she. We're ready to close, operator.

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**Operator**

Certainly, ma'am. Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may disconnect your phone lines now. Good day.

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