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YY - Q1 2019 YY Inc Earnings Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to YY Inc.'s First Quarter 2019 Earnings Call. (Operator Instructions) Please note this event is being recorded. I'd now like to hand the conference over to your speaker host today, Mr. Matthew Zhao, IR Director of YY. Thank you. Sir, please go ahead.

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### Matthew Zhao - YY Inc. - IR Director

Thank you, operator. Good morning, and good evening, everyone. Welcome to YY's first quarter of 2019 earnings conference call. Joining us today are Mr. David Xueling Li, Chairman and CEO of YY; Mr. Bing Jin, CFO of YY; and Ms. Ting Li, COO of YY. For today's call, management will first provide a review of the quarter, and then we will conduct a Q&A session. The first quarter of 2019 financial results and webcast of this conference call are available at [ir.yy.com](http://ir.yy.com). A replay of this call will also be available on our website in a few hours.

Before we continue, I refer you to our safe harbor statement in our earnings press release, which applies to this call as we will make forward-looking statements.

Finally, please note that, unless otherwise stated, all figures mentioned during this conference call are in renminbi. I will now turn the call over to our Chairman and CEO, Mr. David Xueling Li. Please go ahead, sir.

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### Xueling Li - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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### Bing Jin - YY Inc. - CFO

[Interpreted] Thank you, Matthew. Hello, everyone, welcome to our earnings conference call for the first quarter. Before we start to discuss this quarter's performance, I should mention that some of you may have already noted that I've been recently appointed as the CEO of YY by our Board. After almost 2 years as the company's acting CEO, I am very excited and honored to lead the new YY group, which consists of our YY, Huya and Bigo business.



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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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**Bing Jin** - YY Inc. - CFO

[Interpreted] After the completion of the Bigo acquisition, YY has become a global social media platform with over 400 million in global video and live streaming average mobile MAUs in the first quarter of 2019. Among these MAUs, more than 75% came from markets outside of China, which demonstrates the progress that we have achieved in our globalization strategy so far. Additionally, the composition of our user base is very diverse. Of our over 400 million average MAUs, 192.4 million come from our short-form video and live streaming services. This large proportion of users has enabled us to strengthen our leadership in both short-form video and live streaming sectors around the world. In addition, 211.8 million MAUs came from IMO, a global video communication application. Going forward, with the global strategy and focus on AI technology, we are confident in our ability to bring YY to -- into a new stage and solidify our position as a global video-based social media platform.

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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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**Bing Jin** - YY Inc. - CFO

[Interpreted] We started 2019 with the strong first quarter results. Upon completion of the acquisition of Bigo on March 4, 2019, we began to consolidate its financials. Our total revenues increased by 47.1% year-over-year to RMB 4.78 billion during the quarter. Excluding the consolidation of Bigo's financials, our top line results still outperform the high end of our previous guidance range. Revenue from our live streaming business grew by 47.9% year-over-year to RMB 4.49 billion. Revenue from our game licensing subsidiary, Huya, increased by 93.4% year-over-year to RMB 1.63 billion.

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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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**Bing Jin** - YY Inc. - CFO

[Interpreted] These strong growth numbers were a result of our commitment to the following: First, rigorously expanding our global operations; second, continually enriching and upgrading our content offerings; and three, consistently improving our technology capabilities, especially our AI know-how.

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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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**Bing Jin** - YY Inc. - CFO

[Interpreted] First, I would like to highlight YY's global expansion strategy and our progress to date. As mentioned earlier, YY's user base is very global and diverse, including users from segments in live streaming, short-form videos, video messaging and our other products and service offerings. Out of our over 400 million average mobile MAUs in the first quarter of 2019, 211.8 million were from IMO. IMO has developed a large



user community, mainly in the Middle East and South Asian markets by offering high-quality video communication tools and services. Additionally, IMO's community is highly engaged and attracted to video content. IMO's video communication services were used over 55 million times per day on average, and these users' daily average usage time for video communication was about 40 minutes in the first quarter of 2019. IMO's core competitiveness comes from its ability to fulfill the video communication need of users in a variety of scenarios, including home, entertainment and business. Moving forward, we plan to further develop IMO into a more powerful super app by providing increasingly diverse content, functions and services to our users. Recently, we started to embed our short-form video feed and video moments into IMO that allow users to access high-quality content. Going forward, we will consider embedding live streaming and other types of content into IMO as well.

In addition, the users of IMO's video conferencing services also had significant monetization potential. In the first quarter of 2019, on average, over 200,000 video conferences featuring 3 or more participants are initiated on IMO every day. This level of usage represents significant future monetization opportunities for IMO. In fact, it puts IMO on equal footing with the major business-oriented video-conferencing service providers on the market today.

Generally, as we continue to cultivate synergies between our different business units, we will create more diverse social media content and best-in-class user experience for our global user community.

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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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**Operator**

Problem with the speaker line. You'll be on mute -- or I mean you'll be on music hold while we're fixing this concern. (technical difficulty)

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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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**Bing Jin** - YY Inc. - CFO

[Interpreted] In addition, our overseas short-form video and live streaming user base also continues to expand rapidly in the first quarter, as the average MAU for Bigo short-form video and live streaming services increased by 160.6% year-over-year to 78.7 million. This increase was primarily driven by user growth from LIKE. Originally, LIKE was a short-form video editing platform that allows users to add special effects into their original video work. In the second half of last year, LIKE has evolved into a leading global short-form video social platform. We believe that we are still at the early stage of the competition in the global short-form video market which has tremendous growth opportunities.

Currently, the majority of short-form video content in the market, whether it's generated by users called UGC or professionally called PGC, is mostly in entertainment or lifestyle categories. So we also realize that short-form video is an efficient way to help people acquire knowledge in the future.

In fact, a variety of knowledge, skill sets and lifestyle tips can be taught and learned from short-form videos effectively. This reflects tremendous commercial and social value of short-form videos. Recently, LIKE started a program to support high-quality talented PUGC or WeMedia performers to further enrich the content offerings.

Moreover, through the efforts of industry-leading AI experts and algorithm specialists, Bigo has further enhanced user stickiness and viewing experience. In addition, our overseas live streaming business, Bigo Live, maintained healthy user growth and further improved its monetization system and cemented our global leadership in the first quarter. Bigo Live has accumulated extensive monetization experiences in its live streaming offering through years of successful operation in the international markets. This operational experience will set LIKE apart from the competition

by enabling it -- to monetize through live streaming offerings. Since it is able to give content providers better economic results and returns, it also encourage them to provide better quality content. Therefore, we are well positioned to capture higher global market share by leveraging our valuable content on vibrant social media ecosystem.

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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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**Bing Jin** - YY Inc. - CFO

[Interpreted] Another progress on the globalization front is HAGO, YY's casual game-oriented social network platform, which also maintained its rapid growth trajectory. During the first quarter of 2019, HAGO continued adding more casual games to its portfolio. As a result, it maintained a very high level of user engagement as the daily time spent on HAGO per user exceeded 1 hour in the first quarter. In addition, we also introduced voice chat rooms with virtual gifting features on HAGO. These chat rooms and their features enable users to interact with each other while enjoying casual games. We believe these features will serve as a solid foundation for HAGO to develop its monetization capabilities. HAGO also consistently ranked as one of the top applications on Google Play in Indonesia and Vietnam. According to Sensor Tower, HAGO ranked among top 10 by downloads in the social networking apps worldwide in the first quarter of 2019.

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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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**Bing Jin** - YY Inc. - CFO

[Interpreted] Secondly, we continue to introduce innovative features and high-quality professional user-generated content. For example, we started a new show by combining live streaming with a social deduction game which allows users to watch 6 hosts play the game live while utilizing a series of interactive features to support their favorite hosts.

Regarding our high-quality PUGC, we introduced a reaction show featuring our top host, Modern Brothers. The show attracted over 450,000 viewers who joined the live showroom and watch Modern Brothers live streaming their own TV reality shows. We believe that these types of innovation will continue to expand and strengthen the loyalty of our live streaming community going forward.

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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

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**Bing Jin** - YY Inc. - CFO

[Interpreted] Thirdly, we have made solid progress towards enhancing our technology through the application and integration of artificial intelligence. Through content recommendation, we improved the efficiency of our AI-powered content distribution engine. Through this improvement, we have created an optimal experience for our users by ensuring that they find the most -- their most desired content faster and easier than ever before. For host recommendation, we upgraded our existing machine learning models which previously ranked hosts based on their estimated click-through rates only. By utilizing our deep neural network technology, we build recommendation algorithms that can simultaneously estimate and quantify metrics, such as host click-through rates, average user time spent and conversion rates. As we improve the accuracy and effectiveness of our recommendations, our new users, on average, spend 25% longer on our platform in the first quarter compared with -- compared to the previous quarter.



**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

**Bing Jin** - YY Inc. - CFO

[Interpreted] In summary, we continued to execute our global expansion strategy firmly which helped us to achieve strong growth in the first quarter. We also maintained our focus on innovating our live streaming content offerings and helping our hosts to grow their audiences. Looking forward, we remain committed to strengthening our market leadership, both domestically and internationally. As we continue to invest in our content offerings and AI technology innovations, we believe we can further enhance user engagement and the monetization going forward.

That concludes David's prepared remarks. Now as YY's CFO, I will talk about the financial results.

We continue to deliver solid financial and operating metrics during the first quarter of 2019. Our total net revenues for the first quarter increased by 47.1% year-over-year to RMB 4.78 billion. Specifically, our live streaming revenues for the first quarter increased by 47.9% year-over-year to RMB 4.49 billion, accounting for 93.8% of our total net revenues this quarter. Even excluding the effects of the consolidation of Bigo, we exceeded the high end of our previous guidance range by over 5% due to the strong financial performance for both YY and Huya segments.

In the first quarter, mobile contributed 69.6% of our live streaming revenues, while mobile live streaming MAUs of YY Live plus HAGO increased by 65.6% to 59.8 million -- 59.8 million as compared to the same quarter in 2018. Live streaming paying users of YY increased by 17.1% to 4.1 million in the first quarter of 2019.

Cost of revenues for the first quarter increased by 56.8% year-over-year to RMB 3.16 billion. Revenue-sharing fees and content costs paid to the performance guilds and content providers increased to RMB 2.52 billion in the first quarter, reflecting the growth of live streaming revenues of YY, Huya and Bigo. In addition, bandwidth cost for the first quarter increased to RMB 297.4 million, primarily reflecting continued overseas user base expansion.

Gross profit for the first quarter increased by 31.4% year-over-year to RMB 1.62 billion. Gross margin was 33.9% compared to 38% in the prior year period, primarily due to the increase in revenue-sharing fees and content costs. The decrease in gross margin was also attributable to the impact caused by the relatively low gross margin of the Huya segment as its contribution to our net revenues increased significantly year-over-year.

Operating expenses for the first quarter were RMB 1.2 billion compared to RMB 649.1 million in the prior year period, primarily due to our increased effort in sales and marketing activity as we continue to expand in overseas markets as well as the increase in staff-related expense for AI research and development personnel.

Sales and marketing expenses for the first quarter were RMB 534.2 million or 11.2% of total revenue compared to RMB 235.7 million or 7.3% of total revenue in the prior year period. Our R&D expenses for the first quarter of 2019 were RMB 404.7 million or 8.5% of total revenues compared to RMB 249.5 million or 7.7% of total revenues in the prior year period. G&A expenses were RMB 276.4 million or 5.8% of total revenues in the first quarter of 2019 compared to RMB 164 million or 5% of total revenues in the prior year period.

Our GAAP operating income for the first quarter was RMB 473.6 million compared to RMB 596.4 million in the prior year period. Operating margin for the first quarter was 9.9% compared to 18.4% in the prior year period, primarily due to the decrease in gross margin and the increase in sales and marketing expenses, which is partially related to the acquisition and consolidation of Bigo.

Our non-GAAP operating income for the first quarter, which excludes share-based compensation expenses, impairments of goodwill and investments, amortization of intangible assets from business acquisitions as well as gain on deconsolidation and disposal of a subsidiary, was RMB 717.3 million compared to RMB 727.3 million in the prior year period. GAAP net income attributable to the controlling interest of YY for the first quarter was RMB

3.1 billion compared to RMB 963.5 million in the prior year period, mainly due to the re-measurement gain of YY's previously held interest in Bigo, amounting to about RMB 2.7 billion which was included as part of the gain on fair value change of investments.

Non-GAAP net income attributable to controlling interest of YY was RMB 653.5 million compared to RMB 730 million in the prior year period. Non-GAAP net margin in the first quarter of 2019 was 13.7% compared to 22.5% in the prior year period.

Diluted net income per ADS in the first quarter of 2019 was RMB 44.55 compared to RMB 6.86 in the prior year period. Non-GAAP diluted net income per ADS was RMB 9.32 compared to RMB 10.96 in the prior year period.

Moving forward to the second quarter of 2019, we expect our net revenues to be between RMB 6 billion and RMB 6.2 billion, representing a year-over-year increase of 59% to 64.3%. This forecast reflects our current and preliminary views on the market and operational conditions which are subject to change.

That concludes our prepared remarks. Operator, we would now like to open the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question comes from the line of Daniel Chen from JPMorgan.

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

(foreign language) I will translate myself. Congratulations on a very solid quarter. So my question is on the AI. So we now have about 400 million global user base which is huge and based on lots of user data globally. So how are we going to utilize this data for our global products in the next few years?

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### Xueling Li - YY Inc. - Co-Founder, Chairman & CEO

(foreign language)

This is David. Let me answer your question. So thank you for your question regarding the AI technology. So AI technology actually is one of our major strategies for the corporation, [among our future] strategy which is one, globalization; secondly, AI technology. So starting from 2018, actually we have applied a lot of effort to apply AI technology into the daily operations for the company. Firstly, we actually use AI technology into the content management. So that part, not only including short-form video but also including live streaming as well as mini games, et cetera. So we're actually using the AI technology to better match the users when they play games from our HAGO platform or also watching live streaming content in our YY Live or other live streaming platforms. So in conclusion, the content management definitely will be using the AI technology to apply into that.

Then the second part is the base capabilities related to the AI technology. For example, like facial recognition, audio recognition, et cetera. For that kind of purpose, not only it's better to manage the content, but we also have some of the requirements from the content censorship as well as content management. So we're actually using the AI technology to better censor as well as manage our contents in all. And in the next 1 to 2 years, we think and we truly believe the major battlefield for the AI technology improvement will be focused on the short-form video content management. Because for the short-form content, most of them is quite fragmented coming from the different kind of topics. If we can use the better AI technology to provide users a better experience in the 1 to 2 years' time period with an united theme or united topic which is the live related content, so definitely that will be -- further improve the stickiness for our short-form video content. So as I mentioned, in the future, definitely the short-form video will be one part. We will put more focus in terms of -- to improve the AI capability.



And the second part, it's worth to mention, is in terms of our AI-focused personnel. For the whole YY group this year, we actually have accumulated and attracted more than 230 of engineers and AI experts which is focused on the algorithm as well as AI capabilities. So in terms of the scale of the AI teams, we're actually one of the biggest ones within -- of the China Internet companies. So in the future, we will further leverage those talent capabilities to continue to improve our algorithm competitiveness. Now one correction is our AI team's total people is 3,020 -- no, sorry, 320, not 230. Sorry. Thank you.

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**Operator**

And our next question comes from the line of Eileen Deng from Deutsche Bank.

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**Eileen Deng** - *Deutsche Bank AG, Research Division - Research Associate*

Congratulations on a strong quarter.

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**Xueling Li** - *YY Inc. - Co-Founder, Chairman & CEO*

(foreign language)

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**Eileen Deng** - *Deutsche Bank AG, Research Division - Research Associate*

(foreign language) My question really is mainly on the second quarter guidance. Can management give us a breakdown of how much is from Bigo and YY Live? And the second question is more on Bigo operating metrics. Can we have more color on key metrics such as paying users and ARPU? And also for the both key products Live and LIKE, what is the outlook for the full year revenue growth and margin outlook and also the monetization plan?

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**Bing Jin** - *YY Inc. - CFO*

Yes, Eileen, thank you. Let me address the -- those questions. So the first question regarding the breakdown of the second quarter guidance, we provide guidance CNY 6 billion to CNY 6.2 billion. That includes both YY, Huya and Bigo. Now for YY's number, I think you can refer to the Bloomberg consensus, and I think Huya also, last week, they have announced their result and also their guidance so you can refer to that. And then you deduct both YY and Huya from the guidance, that will give you the number for Bigo, right? That's the breakdown.

For Bigo's operating metrics, they have different products obviously. The main monetization comes from Bigo Live. In terms of the paying ratio of Bigo Live, it's still relatively lower compared with YY Live in China because a lot of markets are still in early stage. In terms of ARPU actually it's very high because a lot of the donor, they are from the Middle East and obviously Middle East, very high purchasing power. So the ARPU in the Middle East is very high. But the ARPU in other emerging markets such as Southeast Asia and other parts of the world tend to be low. So we do think there will be a lot of room for growth for both paying ratio and ARPU.

For the revenue margin, as we told investors, that last year, Bigo generated close to USD 500 million revenue. This year, we're still seeing very high growth rate. For the margin, we also mentioned previously that last year, Bigo was lossmaking. This year, I think Bigo will continue to be lossmaking. But be careful with that Bigo Live is already making handsome money. So Bigo Live has handsome margin. But LIKE, as David mentioned, that's still in the early stage of short-form video market. There will continue to be more content upgrade and sales, marketing and branding effects. So the key focus for LIKE is to grow user base, that's why we'll continue to spend money. That's why the margin for LIKE itself will be negative.

Another component for Bigo part is called IMO, which we haven't properly discussed that before, but right now, we disclosed the IMO user number to be over 211 million MAU. And then we'll continue to add more features, including short-form video and live streaming, to enable better user experience for video conference and video communications. For monetizing, we also gradually ramp up the monetization in the IMO business,





including both the advertising and also going forward, the live streaming. But we do foresee that in the short term, we'll continue to invest in terms of content and in terms of sales and marketing. So I think putting all these together for Bigo business, it will be lossmaking still this year. But we do have a clear path to profitability which we can go further detail later. But on high level, I want to mention that this year's focus for YY as a group is to grow the user base. As you all see that we have 400 million MAU, that puts us into one of the world's leading social media platforms. So we hopefully will reaccelerate our user growth and drive a much better exciting story.

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**Operator**

(Operator Instructions) And our next question comes from the line of Ashley Xu from CLSA.

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**Ashley Xu** - CLSA Limited, Research Division - Research Analyst

(foreign language) I will translate myself. So I have 2 questions. One is on YY Live. We see that first quarter showed a better result than expected. So I want to have management guidance for the full year on YY Live. And what's HAGO's monetization progress? Do we have any target for the full year as well? And second question is on recent credit ratings dropped by S&P. It's reported that the drop is on company's request. Just want to check the background of this.

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**Bing Jin** - YY Inc. - CFO

Firstly, regarding the full year prospect for YY Live core business. As you see that the first quarter, our revenue on YY Live grows more than 10%. That is better than we expect because I think there are several reasons. One is that due to our operational expertise, we do have a better edge compared with some of our competitors, particularly in the first quarter, the government had been very stringent in terms of content screening. So that affects some of the smaller players but it actually benefits the big platforms like YY because we have been very stringent in the content screening and monitoring. So the ecosystem, the expertise really help. Secondly, after Chinese New Year, Spring Festival, we do see a very healthy returning pattern for the users and host. So we continue to benefit from that, I would say, recovery of the user demographic and host demographic. So looking ahead for the rest of the year, we do think that the similar pattern will continue. So that's the full year kind of prospect.

Secondly, you asked about the dropping of the rating. I think there are several reasons. One is, we had a public credit rating from S&P since 2015. So we maintain a regular dialogue with the rating agency. But given we don't have immediate plans for fixed income products or bond offering in the near term, so we don't think there's an emerging need for continuing a public credit rating. That's the first reason. Secondly, our business has been growing very fast, particularly recently we acquired Bigo. And then in terms of this -- in contrast of this fast-growing business, constantly upgrading -- updating agencies can take a very meaningful share of management time and resource. So as such, we believe that it's more efficient to withdraw our credit rating at this point so that we can focus effort on our business to optimize resource. So that's the key reason. Thanks.

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**Operator**

(Operator Instructions) And our next question comes from the line of Natalie Wu from CICC.

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**Yue Wu** - China International Capital Corporation Limited, Research Division - Analyst

(foreign language) I'll translate myself. So I have a question on IMO. You had actually shed a little bit of light. So my first question is the growth of the users. And second, management -- has management increase short-form video and live broadcasting feature. I wonder how should we think about the acquisition of this product whether it's more like a utility app or independent app? And how should we think about the future monetization models of IMO?



**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language) Thank you for your question. This is David. So IMO, at the beginning, it actually had very simple functionality which is focused on video call, especially targeted into the Android phones. So you can think actually IMO is kind of perfect type into the Android phone. So because of the app has very simple and -- very simple functionality, so actually, it has been -- accumulated a lot -- a very significant user base because between of Android phones as well as between iPhone phones and Android phones, people were using IMO to use -- to having the video calls to each other. So that's a major reason IMO has accumulated a large user base. And now what our monitoring is IMO's user base has entered to the most stabilized of the 3. So the next step, we will focus on -- that also actually provides us a lot of opportunities to continue to bring in more different kind of services as well as content into IMO's product to enable IMO continue evolving into a super app.

So another thing it's worth to mention is with the app, actually the user stickiness was very high for users spend over 40 minutes in IMO everyday. So that also provide us a lot of opportunities to expand our -- into all the different kind of content as well as the services in the future. We -- from the higher end, we truly believe through the IMO, we actually have the YY group to complete of the user closed loop because based on the -- we actually already have a large short-form video platform which is LIKE, provides a huge amount of the short-form video content on a daily basis. But through IMO's platform, we actually can have the better distribution through the LIKE -- through the video moment as well as other functionalities embedded into IMO to better distribute the short-form video content into IMO as well as other external social media platform. Then after the user has been accumulated a lot of popularity, we also will encourage the users back to our platform such as LIKE to generate more content. So that will complete our users loop within our platform.

And also another thing, it's worth to mention, is if we look at IMO's current daily active users, actually more than 30% has already converted into the short-form video of the users. And in the future, we truly believe this ratio will continue to improve, which just means with IMO, there has -- more and more users continue using more short-form video content. So in the future, connect the things together, we will make YY group very unique of the video players which is quite different compared with other video players within the market because through LIKE will be helping us generate a huge amount of content. Then through IMO, help us distributing of those kind of short-form video content, then we can use live streaming to better monetize those kind of short-form video content. So that will make YY quite different of the players compared with the mainstream of the video players in the market such as YouTube. So in conclusion, IMO will play a very important role in our future as overall group's video strategy. Thank you.

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**Operator**

And your next question comes from the line of Hillman Chan from Citigroup.

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**Hillman Chan** - Citigroup Inc, Research Division - Research Analyst

(foreign language) So my first question is on the overseas strategy for Bigo. Could management share more on the utilization and marketing strategy going forward and also on the bottleneck or challenges that we face so far in some of these overseas markets? And regarding IMO's super app strategy, could management share more on the new features to be introduced in the second half of this year?

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**Xueling Li** - YY Inc. - Co-Founder, Chairman & CEO

(foreign language) Thank you for your question. This is David. So firstly, I think your first question is more related to the Bigo Live business. So for Bigo Live business, which is our leading live streaming platform in overseas, we truly believe going forward our major goal is still focused on to build out the global users community as well as the users relationship into the one-by-one different country or regions because based on our -- in the past experience in China, we actually had a deep understanding in terms of the live streaming content as well as live streaming ecosystem. So going forward, we will continue to leverage those kinds of experience into the overseas expansions.

Another thing, it's worth to mention, is what we monitor is the live streaming content is not only popular within the developing countries but also is very popular within the developed world. For example, our revenue contribution coming from American plus European has been increased into



14%, 1-4, of the total revenues in the first quarter of this year, and the total overall Tier 1 countries, our revenue contribution has been reached to 20%. So that's also demonstrating in the Tier 1 or the developed world, we also have a strong demand for the live streaming content from the user base. And so going forward, in conclusion, for Bigo Live, we will continue to focus on live streaming expansion from global wide.

Your second question related to IMO. So the IMO's nature is still -- we truly believe is still focused on the social communication as well as social relationships. And in the future, as I mentioned before, so the IMO's major role still how we can better distribute our short-form video content through the IMO's platform. We actually gave the different kind of growth for our different kind of products. For example, like LIKE, which is the short-form video platform, going forward, we will continue to focus on producing and consume of the short-form video content. By contrast, IMO will be more focused on the distribution of the short-form video content. So we -- so going forward, we think one of the key focus for better development of the social relationship within IMO, we will continue to focus on the development of the group functionalities. So the group will -- starting from the people, that's around 3 to 5 people, then extend to a dozen, then even into over hundred or even thousands. So we will try to build up a better relationship within those kinds of different interest-based group, and we can better distribute our short-form video content within those kind of groups. So that is our thinking in terms of the IMO's future strategy. Thank you.

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**Operator**

And our last question comes 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 going abroad is a great thing because the users are -- really haven't started to adapt to what we have already so familiar with in China. However, those countries are much smaller than in China. So the marketing effort has to be country by country, different than when you were doing that in China, 1 advertisement can be seen or accessed by millions of millions of youngsters in China. So in that case, the marketing efforts must be difficult than we were in China. So how do you envision the marketing efforts going abroad? And also how your margin is going to be throughout the year?

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**Xueling Li** - *YY Inc. - Co-Founder, Chairman & CEO*

(foreign language) This is David. Let me answer your first question. So in terms of our sales and marketing expenses in the overseas market, firstly, as you may notice, so in terms of the sales and marketing directly related to the brand promotions, it actually is quite low as a percentage of total sales. We only have some of the branding campaigns in the major countries with large populations. For most of the smaller countries, we actually make or use performance-based advertisement as a major channel to promote our product. And another thing worth to mention is currently we're actually also using the AI technologies to monitor and manage the overall performance from the performance advertisement platforms. And going forward, as our AI technology continue to become more mature and comprehensive, we truly believe that can deliver our better ROI through the AI managed of the performance-based product promotions. Thank you.

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**Bing Jin** - *YY Inc. - CFO*

And also I want to add 2 additional points. One is in some of the foreign market, actually the ROI for advertisement can be better than in China, because in China, you have a lot of advertising agencies so that each of them take a cut on the sort of budget. But in foreign market, they're basically Google Play and Facebook. So it's relatively transparent. And as David mentioned, we will use AI to closely monitor the ROI. That's the first thing.

Secondly, you asked about the margin profile for Bigo. As I mentioned before, Bigo has different business unit. Bigo Live definitely is making profit. LIKE will be a key area for sales and marketing because we do see LIKE's user base double in the last half year, and we see even more greater opportunities. So we need to make sure that when we spread content globally, we need to make sure that more and more audience are aware of this product.

Now for IMO, even though it has over 211 million MAU, it actually doesn't do a lot of sales and marketing. They had very little sales and marketing spending before. The users basically come organically, as David mentioned, because IMO provides a very seamless video communication tool and environment. Going forward, as we include more content, we might also do some of the sales and marketing and branding for IMO as well. So those are the 2 spending areas for Bigo. So in total, Bigo will still be lossmaking, but I think we're very encouraged by the future prospect of this business. Thanks.

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**Operator**

Thank you so much. I would now like to hand the conference back to the management team for the closing remarks.

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**Xueling Li - YY Inc. - Co-Founder, Chairman & CEO**

Thank you, operator. Thank you all for joining us today. That closed our call today. We're looking forward to speaking with you in the coming quarters. Thank you.

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**Matthew Zhao - YY Inc. - IR Director**

Thank you.

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**Bing Jin - YY Inc. - CFO**

Thank you.

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**Operator**

And that does conclude our conference for today. Thank you for participating. You may all now disconnect.

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