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YY - Q2 2019 YY Inc Earnings Call

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

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to YY Inc.'s Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. (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 Inc. 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 Second Quarter 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 second quarter of 2019 financial results and a 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] Hello, everyone. Welcome to YY's earnings conference call for the second quarter of 2019.



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

(foreign language)

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

[Interpreted] Following our successful acquisition of BIGO in March, the second quarter was the first time we had a full quarter consolidation of BIGO's financials. I would like to take this opportunity to share with you the latest business updates as well as the strategy and development focus for the YY group. As you all know, after the acquisition of BIGO, YY has evolved into a world-leading social media platform, offering a comprehensive suite of video-centric products and services, including instant messaging, short-form video, live streaming and et cetera.

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

(foreign language)

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

During the second quarter, we have achieved notable progress on 3 fronts: first, introduce short-form video content into our instant messaging product, IMO, and further enhance its user stickiness; second, drive rapid growth of overseas short-form video users through Likee; and third, further strengthen YY Live and BIGO Live operations and solidify our global leadership in the entertainment live streaming market.

Starting from this quarter, we have also revamped our disclosure of operating metrics. We believe that this heightened disclosure transparency will help investors to better understand and follow YY group's business development 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] In the second quarter, our global average mobile MAUs reached 433.5 million. Our global short-form video mobile MAU increased by 431.2% year-over-year to 90.3 million and global live streaming mobile MAUs increased by 39.2% year-over-year to 140.9 million.

More importantly, IMO, our instant messaging product, achieved a massive user base of almost 212 million MAUs in the quarter. The increasing diversity of our user base offers great potential for future monetization and the development of synergies across our business units. As a result, in the second quarter, our total revenues increased by 66.8% year-over-year to RMB 6.3 billion, exceeding the high end of our previous guidance range. Revenue from our live streaming business grew by 66.4% year-over-year to RMB 5.92 billion, of which RMB 906 million came from overseas market.

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

(foreign language)

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

[Interpreted] Next I will introduce the latest update for our key areas of business: IMO, short-form video and live streaming. IMO's goal is to become the instant messaging platform catered for young generation. As we embed a variety of content offerings into IMO, we continue to enhance IMO's

product stickiness. Meanwhile, the content offerings can also increase user engagement, which in turn, drives the scale and quantity and quality of our UGC production.

In the second quarter, we started to gradually embed short-form videos from Likee into IMO. As a pilot program, for example, we made Likee's short-form video content services available to more than 17.5 million MAUs in over 40 countries and regions across South Asia, Central Asia and Europe on the IMO platform. We were very pleased to see that over 50% of IMO's users were converted into short-form video users.

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

(foreign language)

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

[Interpreted] Going forward, in addition to the short-form videos already embedded into IMO, we also plan to introduce moments, group chats, official accounts, mini games, live streaming and other categories of content and services within IMO to bolster social interactions among users. Furthermore, on the monetization front, IMO's advertising business has already shown a very encouraging trend. And the content feeds within IMO will provide much bigger monetization potential for the advertising in the future.

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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 the second quarter, Likee continued strong momentum for its users across the world. In Indonesia, for example, Likee's MAUs grew by 114% sequentially in June 2019, while constantly ranked at the top of Google Play's free apps list in Indonesia during the same month.

Likee has continuously expanded the content offerings in the form of high-quality user-generated short-form videos. In May 2019, Likee introduced a WeMedia support program to attract more content creators to cultivate an increasingly diverse, engaging and entertaining content library.

In the second quarter, Likee's daily active video uploaders remained above 10% of its total DAUs, outperforming the majority of other short-form video apps and platforms in the world.

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

(foreign language)

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

[Interpreted] Moreover, in June 2019, Likee co-organized an awards ceremony for key inferences in digital world with local music radio stations, celebrity agencies and digital medias in India. A large number of local artists, idols as well as key opinion leaders in fashion, beauty, travel, food and body building participated in the event. This event increased Likee's influence among young generation and contributed to the rapid expansion of Likee's user base in India.

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

(foreign language)

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

[Interpreted] In addition to supercharging our growth engine through instant messaging and short-form videos, we continued to fortify our global leadership in live streaming through BIGO Live. To ensure operation efficiency and culture sensitivity in different markets and regions, we focused on developing BIGO Live's localization capabilities.

We also continued to enhance our footprint in developed world, and BIGO Live's revenue generated in developed markets during the quarter continued to increase as a result. Revenues from North American and European countries, in particular, accounted for 16% of BIGO Live's total revenues compared to 14% in the previous quarter. For emerging markets, the lite version of BIGO Live app lowered the entry barrier for users and drove BIGO Live's user growth in these markets simultaneously.

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

(foreign language)

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

[Interpreted] Meanwhile, HAGO, our casual game-oriented social media platform, rapidly grew its user base and revenues during the second quarter of 2019, forming a closed-loop monetization ecosystem. As we continued to add new game titles and diversifying game prize on the platform, we also embedded additional social features into HAGO, such as live streaming, chat rooms and karaoke, which further increased the platform's user stickiness. As a result, the average user time spent on a daily basis for HAGO exceeded 60 minutes in the second 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] Returning to the domestic market, we continued to optimize YY Live's content creation model during the quarter. In order to provide more innovative live streaming content, we focused on facilitating collaborations between different hosts and third-party content creators to encourage the joint production of creative content on our platform. For example, we partnered with Yue Hua Entertainment to launch an exclusive online broadcast of Yue Hua family's concert in June. Since the concert featured performances and interactions from all the top celebrities under Yue Hua's management, we were able to leverage the exclusivity of our broadcast to attract a substantial number of fans and encourage them to interact and support their favorite celebrities through chatting on our platform.

Following this success, we will continue to explore the possibility of partnering with more artists and celebrities to attract and maintain different cohorts of celebrity fans through live streaming content on our 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] Moreover, as many of you have noticed, YY's stock price has currently reached its lowest level during the past 52 weeks. However, as management, we remain fully confident about the company's future growth prospects.

With the approval from the Board, today, we announced a share repurchase program, under which the company may repurchase up to USD 300 million of shares over the next 12 months.

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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 summary, our global video-based social media platform has taken good shape during the second quarter of 2019 and is zooming along its next phase of growth trajectory. We are only at the very initial stage of reaping benefits from our globalization strategy, and we are very excited about the unlimited potentials.

Today, overseas users account for 78% of our global user base, but contributed less than 20% of our total revenue, leaving substantial headroom for financial growth.

The capital infusion from our recent convertible bond offerings has supercharged our engine of innovation, creativity and growth. As we continue to enhance our AI technology capabilities and invent new monetization venues, we are very confident that we will achieve our vision to connect people and enrich their lives through video.

That concludes David's prepared remarks.

Now as YY's CFO, I will talk about the financial results.

We continued to deliver solid financial and operating metrics during the second quarter of 2019. Our total net revenue for the second quarter increased by 66.8% year-over-year to RMB 6.3 billion. Specifically, our live streaming revenues for the second quarter increased by 66.4% year-over-year to RMB 5.92 billion, accounting for 94.1% of our total net revenues for the quarter. In the second quarter, mobile contributed 71.7% of our live streaming revenues.

Cost of revenues for the second quarter increased by 80.4% year-over-year to RMB \$4.17 billion. Revenue sharing fees and content costs paid to performers, guilds and content providers increased to RMB 3.15 billion in the second quarter, which was in line with the increase in live streaming revenues of the company. In addition, bandwidth cost for the second quarter increased to RMB 423.8 million, primarily reflecting continued overseas user base expansion, mainly due to the impact of the consolidation of BIGO.

Gross profit for the second quarter increased by 45.4% year-over-year to RMB 2.12 billion. Gross margin was 33.7% compared to 38.7% in the prior year period, primarily due to the impact caused by the relatively low gross margin of Huya and BIGO segments as their contribution to net revenues increased substantially year-over-year. The decrease in gross margin was also attributable to the increase in revenue sharing fees and content costs.

Operating expenses for the second quarter were RMB 2.09 billion compared to RMB 779.6 million in the prior year period, primarily due to the increase in sales and marketing expenses of RMB 853.4 million and research and development expenses of RMB 359.5 million. Sales and marketing expenses for the second quarter were RMB 1.1 billion or 17.5% of total revenue compared to RMB 246.1 million or 6.5% of total revenue in the prior year period. The increase in sales and marketing expenses were primarily attributable to the company's increased efforts in sales and marketing activities in overseas markets and the impact of depreciation and amortization related to the consolidation of BIGO.



Our R&D expenses for the second quarter were RMB 655.4 million or 10.4% of total revenues compared to RMB 295.9 million or 7.8% of total revenues in the prior [year] (added by company after the call) period, mainly due to the increase in staff-related expenses related to R&D. G&A expenses were RMB 336 million or 5.3% of total revenues in the second quarter compared to RMB 237.5 million or 6.3% of total revenues in the prior year period.

Our GAAP operating income for the second quarter was RMB 71.9 million compared to RMB 713.8 million in the prior year period. Operating margin for the second quarter was 1.1% compared to 18.9% in the prior year period, primarily due to the decrease in gross margin, the consolidation of BIGO and other overseas expansion initiatives.

Our non-GAAP operating income for the second quarter, which excludes share-based compensation expenses, impairment of goodwill and investments, amortization of intangible assets from business acquisitions as well as gain on deconsolidation and disposal of subsidiaries, was RMB 524.9 million compared to RMB 933.1 million in the prior year period. Our non-GAAP operating margin for the second quarter was 8.3% compared to 24.7% in the prior year period.

GAAP net income attributable to controlling interest of YY for the second quarter of 2019 was RMB 42.1 million compared to a net loss attributable to controlling interest of YY of RMB 99.9 million in the prior year period. Non-GAAP net income attributable to controlling interest of YY was RMB 424.2 million compared to RMB 910.2 million in the prior year period.

Non-GAAP net margin in the second quarter of 2019 was 6.7% compared to 24.1% in the prior year period. Diluted net income per ADS in the second quarter of 2019 was RMB 0.27 compared to a diluted net loss per ADS of RMB 2.14 in the prior year period. Non-GAAP diluted net income per ADS was RMB 5.14 compared to RMB 13.75 in the prior period.

Looking forward to the third quarter of 2019, we expect our net revenues to be between RMB 6.57 billion and RMB 6.77 billion, representing a year-over-year increase of 60.2% to 65.1%. 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 up the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Thomas Chong from Jefferies.

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### Thomas Chong - Jefferies LLC, Research Division - Equity Analyst

(foreign language) My question is about our competition in overseas market. As we see, our users are ramping up very quickly in overseas across different applications in BIGO Live, BIGO Likee and also IMO, how should we think about the competitive landscape and our spending in sales and marketing expenses in the second half and next year?

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

(foreign language)

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

[Interpreted] This is David. Let me answer your first part of your question. So firstly, in terms of the competition for the instant messaging platforms globally, so when we monitor the trend, there always be 2 to 3 of the different platforms to exist in the market simultaneously that makes the market bigger. They will not have the similar situation that what happened in China, which is a winner-take-all situation. So we are still very confident in terms of the futures of IMO's development. Especially in the future, firstly, we'll continue to bring in more technical forces to continue help BIGO to develop the different kind of functionalities. And meanwhile, we also will, as I mentioned in the prepared remarks, we also will bring in the different -- brought in the different kind of content as well as the services into IMO to continually improve the user stickiness as well as the user scale.

So -- and meanwhile, if you look at our -- the DNA of the company, we -- in the past decade, we actually has been accumulating a lot of experience in terms of develop instant messaging-related functionalities as well the services. So we -- from that perspective, we're also very confident in terms of future for IMO's development.

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

(foreign language)

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

[Interpreted] And from another perspective, if you look at the instant messaging services, it really looks like the visual ID card for each individual users from the Internet cyberspace. So -- but when we look at the overseas peers' operations, we think that they didn't put that much of the effort in terms of the content operations. But we -- but in terms of the content operation, we were really good about that. For example, as we mentioned in the prepared remarks, IMO's currently, the user's conversion rate from the instant messaging to the short-form video services has reached to over 50%.

So in the future, since we continue brought in more different kind of content there, definitely, we can continue to improve the ID card functionalities as well as the people's participation into the instant messaging 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 are very optimistic in terms of the synergies between Likee and IMO's platform in the future. For Likee's platform, the producers -- the short-form video producers' participation rate is much higher than other peers. And for IMO, since they have the video communication users, so they also have more motivation to consume more short-form video content in IMO's platform. So the 2-part of the platform will continue interactive and bring more synergies in the future as Likee's producer short-form video content and IMO's users will consume as well as the produce short-form video content at the same time.

So in the future, as I mentioned, we definitely will see more synergies happen between the 2 platforms.

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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 the future, we also will brought in more different functionalities and so it's a change for IMO, such as live streaming, mini games, as well as the media account, et cetera. So through those kind of additional services, definitely, we will continue to see the user time spent as well as the user stickiness for IMO will continue to grow.

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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 truly believe the business model, which is we bring in more synergies between the content production platform as well as the instant messaging platform, it's a very unique competitive edge for our company. So are still very confident in terms of the future for IMO's development.

Okay. Let me address the second question in terms of the sales and marketing strategy. First of all, if you look at the second quarter margin impact, that is mainly due to the consolidation of BIGO. And you have seen from the operating margins of BIGO business, the Likee, the shop-form video app has achieved rapid growth. And also, after we acquired IMO, as David has mentioned, we have gradually embedded more content in IMO and promote IMO product on a global basis. So the impact of margin came from the consolidation. That's the first point.

Secondly, for sales and marketing, we will be more prudent going forward after the acquisition of BIGO. We will track the ROI for every single product in different markets. And the second point is that if we look at the cost basis, the user acquisition and both user retention costs, those tend to be lower than China in many of those emerging markets. So I think the ROI tend to be better from that perspective.

Thirdly, going forward, we will embed more content into IMO and then the marketing campaign focus will be greater shifting to IMO. And to just take example, if we can achieve 50% user conversion from IMO to short-form video, that means for every 2 users we acquire into IMO, one of them will be converting to short-form video users. Plus, that 2 users into IMO, they will not only become short-form video users, they could also become a live streaming user. They could also become a WeChat kind of group users. So the efficiency of acquiring user into IMO will be much better than the other products. So I think those are the strategies around sales and marketing.

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**Operator**

Your next 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. So my question is related to our overseas short video platform, Likee. We have seen a very robust growth in the user base. And we also see that in China, there's another short-form video -- short video platform, Kuaishou, who's doing like very well in terms of monetization. So just wondering, how are we looking at the Likee's monetization outlook maybe in the next 1 to 2 years? And then recently, we see that we have just starting to test the live broadcasting function of Likee. So how -- what's the latest update in terms of like the user conversion and also monetization?

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

(foreign language)



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

[Interpreted] Thank you for your question. This is David. Let me address your question. So firstly, YY or we, as a company, has very rich expertise in terms of the live streaming content operation as well as monetization in the world. So we're still -- so there has no doubt in terms of the Likee's future monetization, we will definitely leverage our capabilities in terms of the live streaming monetization in the future.

But currently, if you look at Likee's development stage, we have to agree we're still in the development stage, which is focused on grabbing bigger market share rather than monetization. So currently, if you look at our spendings, we actually had the main focus on the R&D expenses, especially for all of the short-form video content, one of the competitive edge will definitely be coming from the very advanced AI capabilities. So we also had the same kind of approach, which is spend a lot of effort and resources in terms of the AI development. At current stage, especially the synergies and the connections between Likee and IMO's platform also has been caused our -- a lot of the focus in terms of the technical development strategies.

So compared with the monetization at current stage, we're really focused on the -- to increase the market share. But in the future, if we look at the nature of Likee's -- the product seems to be providing the short-form video content streaming. So those kind of format is very suitable for both of the live streaming monetization as well as advertisement monetizations. So in the long run, we are still very confident in terms of the Likee's monetization from the global market.

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

(foreign language)

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

[Interpreted] When you look at both Likee and IMO, so in terms of the future monetization model, we actually I think -- since both of the products is focused on the content fees of the services. So in the future, definitely both of the product will using both of the live streaming and advertisement to monetize.

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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 actually recently started to do a trial version as well as provide live streaming services for some of the Likee users in a very small scale. But it just started, but the performance is very well. So we will definitely continue to trial that.

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

(foreign language)

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

[Interpreted] Probably after 1 or 2 quarters, we'll have more colors we can share. And we have a more clear view in terms of the future monetization. Thank you.

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**Operator**

Your 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*

I have 2 questions here. First one is regarding BIGO...

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

(foreign language)

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

(foreign language) I will translate myself briefly. So I have mainly 2 questions. First one is regarding BIGO. Just want to get a sense about the revenue split among the different product lines that's Likee, IMO and BIGO Live and other platforms. Would appreciate if we can get a sense of respective year-on-year growth behind the different business lines as well. And also can you actually help us understand what's the current user geographic overlapping status quo among those 3 major platforms: Likee, IMO and BIGO Live. Also, what's your focus of areas for user growth in the following 6 to 12 months for those 3 products?

And second question is related with HAGO. Just wondering, can you help us understand what your -- what's the related revenue contribution from HAGO and also the additional sales and marketing spending related with the global expansion, especially with HAGO this quarter. Also, the margin profile of the HAGO product, is there any difference versus your core live streaming business?

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

Natalie, thanks. Let me address those questions. So the first question regarding BIGO's revenue composition. I would say, super majority is from live streaming. As I mentioned, IMO before acquisition, they have revenue coming from advertisement. And after we acquired IMO, we have tried new ways to further enhance the advertising dollar revenue. But again, as a total, BIGO's super majority revenue is still from live streaming. That's the first part of the first question.

Secondly, regarding the user -- original user composition for different products. IMO's user is mainly focused on South Asia. So the top markets are India, Bangladesh, Pakistan, and then Middle East, and then some of the Southeast Asian market. For the future user acquisition strategy, IMO would definitely focus on its key markets. As I said, those key markets are South Asia and Middle East. So we will continue to attract further users through the friends and friend's friends circle to grow the user base in those markets first. And then once it reaches a critical mass and then once the content within IMO reach a critical mass in terms of quality and quantity, IMO definitely will reach out to other markets as well. As you all know, IM product tends to have a network effect. So for every one user you acquire, you're potentially going to acquire 5 or 6 new users, because those new users are friends and families of the existing user. So that's the -- about IMO.

For BIGO Live. Core markets are Southeast Asia markets, roughly 40%, and then roughly 30-something percent coming from Middle East, and then roughly over 20% from developed world, including U.S., Europe, Korea and Japan. In terms of future strategies, BIGO Live will focus on, as we mentioned in the prepared remarks, will focus on developed world because we see that developed world users tend to have more social features and then high ARPU and monetization potential. So the U.S., European and Japan or Korean market will grow faster than the existing emerging markets. So that's about BIGO Live.

For the next product, Likee. Likee's key markets are in India, Indonesia, Russia, U.S. and some of the Latin American countries. In terms of strategy, it will be more balanced. Likee, because it's very easy for user to access and create short-form videos so we will go parallel, both in terms of



penetrating into emerging markets and developed world. As we mentioned, we have organized -- Likee has organized some of the offline events in India and also, in July, we organized a very popular event in Russia, attracts thousands of users, young generations, to play Likee in the offline setting and make friends and do social interaction. So we do see a lot of potential for Likee to acquire both developed world and emerging markets traffic. That's the long answer to your first questions.

Secondly, for HAGO business. HAGO's revenue is growing very rapidly. It's actually one of the main driver for YY's revenue growth. But again, in terms of percentage, it's still less than 10% of the total YY business. But again, we see very encouraging growth pattern. For the sales and marketing, we have spent, I would say, decent amount of spending in second quarter. But again, but right now, it's still not breaking even yet on a business stand-alone perspective, but we do see margin will improve and see a breakeven point coming in the foreseeable future. So that's the question to the HAGO -- the answers to the HAGO question.

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**Operator**

Your next question comes from the line of Jialong Shi from Nomura.

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

(foreign language) First of all, thank you very much for the data points shared by management about overseas businesses. And we think this user engagement data about YY's overseas business are quite impressive. I have a few questions about your overseas businesses. And for the 4 overseas apps, IMO, Likee, BIGO Live and HAGO, so which of the apps may have the biggest financial potential in the long run in the view of management?

Also, just wondering if management can provide more colors on the competition landscape for the 4 overseas apps, such as who you guys are competing with in each of the 4 verticals.

And finally, if we think the overseas expansion may require multiple years investment. So I just wonder where YY is now in that investment cycle and when will we see a positive earnings contribution from your overseas business based on management best estimates?

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

(foreign language)

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

[Interpreted] This is David. Let me address your questions. So firstly, if you have to ask me to pick up one of the favorable product in the future, especially in terms of my vision, so the choice definitely will IMO. Because IMO, if you look at the nature of the platform, it's an instant messaging platform with a very -- with very strong growth potential in terms of the users as well as future in monetization. And currently, since IMO is still in the very early stage, so we actually didn't put very aggressive actions in terms of to monetize the currency users. But since we already have over 200 million MAUs, which is a massive user base, so in the long run, definitely, we are more confident in terms of future's IMO's monetization.

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

(foreign language)

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

[Interpreted] When we look at the competitive conditions in terms of the instant messaging product in China, outside of China, which actually is quite different. So in China, in most of the cases, the company will allocate a large scale of the research development teams, which is even over 1,000 people to develop the different functionalities or other services into the IM product. But by contrast, if you look at the overseas product operation, normally, it's coming from very small teams, like dozens of people, but develop a very focused functionality. But definitely compare the 2 part of the research and development capabilities, it has a huge gap. So for the Chinese company, we definitely have the expertise in terms of how we can better embed a content as well as develop the different kind of functionality into -- of the instant messaging product to continue to improve the user stickiness. So for that part, we have a very always competitive edge compared with the overseas peers.

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

(foreign language)

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

[Interpreted] So in the first part, definitely, we see a lot of opportunities in the instant messaging area. But meanwhile, if you look at the other products, especially I want to highlight BIGO Live, which is our major live streaming platform outside of China. So BIGO Live actually has been profitable in the past 1 to 2 years already. And actually, their profitability is -- used to be good enough to support of Likee's development. But very recently, we have more aggressive campaign in terms of the Likee's investment since we actually see the better ROI from the user acquisition part for the short-form video platform. So that is why we have relatively more aggressive spendings.

And meanwhile, it doesn't mean we spend money blindly. We actually look at -- close monitor a lot of different kind of features and operation metrics. So when we look at the better and the positive ROI coming from the -- those part of the investment, so definitely, that brings us more confident to continue spend and invest into of the Likee's development in the future. But as I mentioned before, so we actually can -- the overall BIGO business could be profitable at any time if we cut out the spendings from the Likee part. So that means we have very flexible of the control for this part of the business. So we can dynamically take control of the financial budget and close monitor that on a quarterly basis.

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

(foreign language)

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

[Interpreted] Our short-form video users has been growing up several times on a year-over-year basis into 90 million in the second quarter. So it's very -- so if we look at the massive user base, definitely, that has a lot of potential. And meanwhile, going forward, since we have more synergies happen between IMO and Likee, so definitely, you will see the short-form video users converted from IMO, which is an instant messaging products, will rapidly grow. So since we -- in the foreseeable future, once we build out the close loop for the -- and the ecosystem for the short-form video product, definitely, we will see better financial leverage from this product as well.

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

(foreign language)

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

[Interpreted] And for the product such as HAGO -- HAGO, sorry, H-A-G-O, so since HAGO will continue -- will become more mature for the product and is focused on the monetization progress so definitely, it also will be start breakeven and then generate positive cash in the foreseeable future.

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

(foreign language)

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

[Interpreted] In terms of the profitability road map for the overall BIGO business, we actually still stick on the original plan, which means until the end of next year, hopefully, we can achieve that single month breakeven for the overall BIGO business, and we'll continue to work on that goal.

**Operator**

There are no further questions at this time. I'll now hand the conference back to the management team for the closing remarks.

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

Thank you, operator. Thank you for joining our call. We look forward to speaking with everyone next quarter. Thank you.

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

Thank you.

**Operator**

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

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