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MOMO - Q2 2019 Momo Inc Earnings Call

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**Yang Li**

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to Second Quarter 2019 Momo Inc. Earnings Conference Call. 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 Second Quarter 2019 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 statement as a result of new information, future 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.

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

(foreign language)

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

[Interpreted] Good morning, and good evening, everyone. Thank you for joining our conference call today. Q2 was a good quarter. Despite the challenges caused by the homepage suspension, the team was able to navigate through them with solid executions and came out stronger and poised for further growth in a healthier shape. At the same time, I'm proud that we still delivered strong financial results amid those challenges. 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

[Interpreted] Firstly, an overview of the financial performance. For the second quarter 2019, total revenue reached RMB 4.15 billion, up 32% year-over-year. Adjusted operating income for the quarter was RMB 1.45 billion, representing a 35% adjusted operating margin. Excluding Tantan's financial impact, core Momo's adjusted operating income for the quarter was RMB 1.5 billion, representing a 39% adjusted operating margin, up from 35% from the same period last year. The consistent record of profit growth coupled with a strong operating cash flow from the core Momo business positioned the company well to continue to deliver return to our shareholders while making investments to build long-term growth drivers.

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

(foreign language)

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

[Interpreted] Now, a deeper look into the quarter. Firstly, the growth of our community. The core Momo app had 113.5 million monthly actives for the second quarter, up 5% year-on-year, but down by 1% from the previous quarter. Due to the suspension of the user posting and the homepage newsfeed update, since the beginning of May, the number of active users on core Momo saw a downward trend in May and the first half of June. The user posting and the newsfeeds are basic social infrastructures on the platform. Many users rely on these features to make discovery of new relationships and build interactions with their connections. Therefore, the suspension of the posting function and the newsfeed update had caused the user engagement to decrease more than the overall active user count did. For the month of June, total user time spent decreased by 12% from the month of March. After Momo's posting suspension was lifted on June 21, we undertook a major campaign to call back the users. By mid-August, DAU has gone back to the level that we saw before the inspection period. The gap between the current time spent and the daily average time spent in March has narrowed to low single-digit percentage.

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

(foreign language)

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

[Interpreted] Total paying users for the core Momo platform was 8.6 million in Q2 2019, down by 400,000 from the previous quarter due to the significant decrease in the number of membership subscribers on the core Momo. For those who are not quite familiar with Momo's paid features, there are 3 different groups of paying users, paying for different services on the core Momo. The first group, our membership subscribers, will pay a fixed monthly fee for certain premium features. The second and the third groups of paying user are those who pay for virtual gifting and live streaming businesses, respectively. Since the beginning of 2017, we've shifted the focus of VAS business more toward virtual gifting and thus the membership subscription business has not grown much since then. One of the key premium features offered to paying subscribers hinges upon user posting function, which was suspended in May and most part of June. In addition, due to the suspension, we have also ceased to run promotions around the membership subscription. These factors have caused the number of subscription members to decrease significantly in the second quarter.

The number of paying users for virtual gifting business and the live streaming business also saw some negative impacts from the self-inspection. However, paying users for these 2 business still saw descent sequential growth in the second quarter as the impact from the suspension got largely absorbed by the natural growth momentum of these 2 businesses.

In summary, the decrease in the paying users in the second quarter solely came from the decline in the paying member counts, which we view as a non-issue as far as Momo's core fundamentals and future growth prospects are concerned. We have plan to gradually convert these churned paying subscription members, whose ARPPU was extremely low in the past into a higher-ARPPU VAS paying users going forward. With the issue around the homepage suspension behind us, we are confident that the total number of paying users on the core Momo will get back on the growth track from Q3 onwards.

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

(foreign language)

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

[Interpreted] Now turning to Tantan. Due to the download suspension and the related in-app purchase ban on iPhone users, Tantan's paying users decreased to 3.2 million for the quarter. Tantan's download and payment service have been fully restored by mid-July. Since then, we have started to see a strong rebound in all the core metrics, including the numbers of active users, paying subscribers as well as the daily grossing. By August 25, the paying users already went back to 4.1 million. The robustness of Tantan's recovery demonstrated the strong demand for online dating service in China and Tantan's irreplaceable position in this sector. There are hundreds of millions of millennials and the so-called Gen Z in China. Unlike in the Western world, in Asian culture, people do not have as many off-line options when it comes to discovering new relationships, making Internet dating service a more important source for romantic discoveries. At the same time, we also noticed that the stigma attached to online dating is gradually fading away among younger generations. These factors make us believe that Tantan has ample room to drive further growth in China. On top of the addressable market domestically, we are now also seeing huge growth opportunities in the oversea market. The team will continue to penetrate into these addressable market through product and marketing endeavors. Our goal is to build Tantan into an important driver of the company in the coming few years.

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

(foreign language)

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

[Interpreted] As we put the temporary disruptions behind us and started the second half of the year, I would like to reiterate on the 4 strategic priorities that we laid out at the beginning of the year: number one, continue to grow the user base and engagement through product innovations

and effective marketing approaches; number two, drive steady and healthy growth from live broadcasting business through product and operational efforts; number three, cultivate the paying potential for middle cohorts and long-tail users through greater VAS experience; and number four, drive monetization growth from Tantan through the optimization of existing premium features and the introduction of new paying experience.

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

(foreign language)

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

[Interpreted] I'm glad that we made good progresses across all these priority areas during the past quarter. I'm going to elaborate a little bit more on the first priority, which is primarily related to user growth and product innovations. Wang Li will cover the second and the third, which are more monetization related and Wang Li will be talking about Tantan's product and monetization endeavors later.

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

(foreign language)

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

[Interpreted] On the product side, I'm very happy to see that 2 of our earlier product experiments, the parking lot and the farm gradually rose to popularity in the second quarter due to continuous upgrades and optimizations. These 2 experiences enable the users to break the ice and interact non-synchronously via mini game experiences. For example, with the parking lot experience, if you do not feel comfortable with directly saying hi to a person nearby, you can park your car in her backyard to draw attention and potentially start a conversation, or you can issue a ticket to the users who have unduly parked into your backyard. Alternatively, if you want to show a nice gesture, you can send a virtual car as a gift as well. The farm experience largely works under the same logic. These virtual community experiences allow the users to establish virtual identities and interact with other people in a less pressured way. Today, over 40% of our users connect with others via these 2 virtual community experiences each day, and the team have already started to build value-added services elements into the parking lot experience. These are interesting new experiments on the core Momo platform. If we continue our success in these experiences, they can make meaningful contributions to both user engagements and monetization.

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

(foreign language)

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

[Interpreted] In addition to the progresses we made on the product side, in the second quarter, we also took strides in making our business ecosystem stronger, and building new growth drivers that can continuously pump gas into the engine. Now here is Wang Li to give you a detailed review on those efforts.

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

(foreign language)



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

[Interpreted] Thanks. Now let me review the progresses we've made across our priorities on the monetization side. Number one, drive steady and healthy growth from live broadcasting business through product innovations and operational efforts; number two, cultivate the paying potential from the middle cohort and long-tail users through greater VAS experience; number three, drive monetization growth of Tantan through optimization of existing premium features and the introduction of new paying expenses. Wang Yu will elaborate on the third one later in his remarks. So next, I'm going to take you through what we've done in the future plans regarding the first 2 priorities.

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

(foreign language)

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

[Interpreted] Firstly, on live broadcasting business. Total revenue from live broadcasting business for the quarter was RMB 3.1 billion, an increase of 18% from the same period last year. Unlike in the previous quarter, where most of the year-over-year growth came from the middle cohort of users, the second quarter saw the growth coming pretty much across the board from both the middle and the top spenders. The reacceleration in live streaming business growth shows the effectiveness of our strategy to apply different product and operational efforts to drive spending from different cohorts of users. For the middle layer, we continue to leverage the interactive gifts to drive the spending. In the second quarter, we launched a couple of new interactive gift experiences similar to "the penguin" which have been well received by the user. A few weeks ago, we launched a new interactive gift, called snowball fight. This new experience is fully integrated with the "Lianping PK" feature, which means one-to-one broadcaster knockout match with connected channels. The broadcasters can organize the team events to battle against the enemy camp in the snowball fight. Unlike the penguin-like experience, whereby the users pretty much play on stand-alone basis, the snowball fight allows the users to enjoy the interactive experience in a team work environment, so that the users can have stronger feeling about being part of the show. We will continue to go down that path in order to provide better entertaining and interactive experience for the middle and longer-tail users.

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

(foreign language)

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

[Interpreted] As I mentioned on our last earnings call, although the top spenders' spending only grew on a year-over-year basis in Q1, we actually believe that live broadcasting business still has plenty of growth opportunities within the wealthier class, if we can come up with the effective promotional and operational efforts. In the second quarter, the team started to pull the levers they have in hand in a methodical way. In May, we held our first offline music tour in Shanghai. At the event, we let some of our high-paying users invite their friends who had not previously been exposed to live streaming shows to join them in the party. Together, they could resonate with what makes live streaming shows a unique entertaining experience. The May event turned out to be more successful than we originally anticipated. Therefore, we had a second one in June in Zhangzhou, Fujian province and the third one in Zhangzhou 2 days ago. The purpose of the offline music tour is to enhance the top spenders' experience as well as to expand the pool of high-paying users. I'm glad that the tours have proven to be effective in achieving these goals.

Other than the off-line tours, we also rolled out the long-awaited nobility system in late June. As many investors know, one of the key issues with our old user ranking system is that it lacks a demoting mechanism, which is crucial in keeping the paying users, especially new ones, motivated. In the new system, we solved that issue by assigning different titles to the hardcore users based on their spending levels. The titles and their attached privileges need to be re-determined on monthly basis based on users' spending level. The nobility system almost immediately started to take effect, giving a boost to the spending from the top of the pyramid paying users. In the third quarter, we will continue to optimize the new ranking system and plan to further connect it with the competition experience to make it more compelling.



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

(foreign language)

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

[Interpreted] Due to these concerted efforts to improve the experience from different layers of paying users, we were able to achieve a reacceleration of live broadcasting business, with growth coming across the board from both the top and the middle cohorts. More importantly, many of the new growth drivers that we have built this year focus on long-term structural improvement rather than simply throw in economic stimulus. Therefore, the growth in the first half of 2019 happened with an improved margin trend, which is something the management feels proud of, given the highly competitive environment in live broadcasting industry today.

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

(foreign language)

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

[Interpreted] Now turning to VAS. Revenue from value-added service or VAS continue to grow decently, reaching RMB 948.4 million in the second quarter 2019, a 169% growth on a year-over-year basis. Wang Yu will talk about Tantan business later, so I will be focusing on the VAS business for the core Momo part. Excluding Tantan, Momo's VAS's revenue was RMB 663.6 million, a 106% increase from last year. Despite a headwind from the posting suspension and associated decline in traffic, VAS revenue ex Tantan still grew by 9% from the previous quarter, as the regulatory impact had largely been absorbed by the robust growth momentum of the virtual gifting business as well as the new products and operational initiatives that the team has taken. In the second quarter, the virtual gifting revenue in the traditional social experiences, including interest groups, greetings and IM chatting continued its rapid ramp with a sequential growth rate of over 20%. The growth was mostly driven by an operational event called "the romance car" that we ran in the interest groups. We are currently working on some optimizations and intend to repeat the experience in Q3. In addition to the growth from the traditional use cases, the Quick Chat and Party experience also contributed meaningfully to the growth of virtual gifting business. For the chat room experience, in Q2, we opened up more traffic to the monetization testing, so there has been a decent ramp up in revenue. However, at this point, chat room remains at a testing phase and small in terms of overall revenue contribution.

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

(foreign language)

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

[Interpreted] Other than these existing paying experiences within that, as Tang Yan mentioned earlier, we have also started to experiment monetization in one of the new community experiences, the parking lot. Unlike the virtual gifting service, whereby the users purchase gifts to send to someone else, the paying experience that we are testing within the parking lot allows the users to purchase items to establish their own virtual identity or interact with other users in a playful manner. While it is still early in its development, we are hopeful that it can activate a different paying mentality and thus appeal to a new cohort of users. This is the new ground that we are plowing into and the team will continue to explore different possibilities here. As Tang Yan mentioned earlier, if our success continues in this new area, it can open up new opportunities for both engagement growth and monetization growth.



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

(foreign language)

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

[Interpreted] Now briefly on other business lines. Mobile marketing revenue was RMB 76.2 million, a 46% year-over-year decrease. Because most of the ad units reside in the newsfeed, the user posting suspension has caused us a substantial portion of the marketing revenues during the second quarter. We currently expect mobile marketing revenue to rebound in Q3. However, given the headwinds in the overall ad market, mobile marketing will remain as a low priority effort for us this year. Mobile gaming business continue to shrink, bringing in only RMB 23.2 million for the quarter. Our expectation is that the jointly operated games as a business will gradually phase out on our platform.

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

(foreign language)

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

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

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**Wang Yu** - Tantan Limited - Co-Founder & CEO

Thanks. So let me briefly review Tantan's operational and business development in the past quarter and our next step plans.

First, on user growth. Due to the removal of the download service from all the China app stores since late April, in the second quarter, we experienced a substantial decline in the number of monthly and daily active users. In addition, from the 1st of May to 13th July, iOS suspended the payment service for all iPhone users in China as an extended measure to the download suspension. As a result, the number of paying users decreased more than the number of active users did because the majority of the existing iPhone paying users were unable to renew their subscriptions due to the in-app purchase suspension. As a result, in the second quarter, we had 3.2 million paying users compared to 5 million a quarter ago. By mid-July, Tantan's download and payment service have been fully restored at all application stores in China. After the resumption, we have significantly stepped up the marketing efforts to make up for losses during the inspection period, and happy to see a rapid recovery trajectory across all the major operating and revenue metrics. By August 25, the number of paying users has already rebounded to approximately 4.1 million.

Now briefly on financials. Total revenue for the second quarter was RMB 284.8 million, a 4% decrease from previous quarter. Due to the deferred revenue in connection with the subscriptions from multiple months, there is a lag between the change in total grossing trajectory and the change in revenue trajectory. For the second quarter, the 4% sequential decrease in revenue was a result of 24% decrease in total grossing and the revenue rolled in from deferred revenues of the prior periods. The decline in total grossing in the second quarter was roughly in line with the decrease in average paying user counts for the quarter. Due to the above-mentioned lagging effect between total grossing and revenue recognition, we expect Q3 revenue to rebound to a less degree than the total grossing will. Such effect has been reflected in our Q3 revenue estimate accordingly.

Next, I'm going to briefly review what we've done and our future plans against our strategic priorities. Our top priority is to expand the size of Tantan community through product innovations and marketing efforts. First and foremost, we have to make sure that our community grows in a healthy and sustainable environment. During the second quarter, we devoted substantial resources into strengthening our content reviewing and anti-spam system. We made significant investment in human resources, technologies as well as infrastructures to build a multilayered content review and monitoring mechanism, which is to ensure that harmful content and spamming activities are captured and removed in time. As a result of these efforts, Tantan users can now enjoy our products and services in a much healthier environment.





Other than the anti-spam endeavors, in the second quarter, we also took initiatives to enhance the social experiences for Tantan users. We continue to push forward with our real photo verification process. In Q2, we focused on improving the accuracy rate of the verification and made good progress. We're also working with the Momo team to leverage their face recognition technology in order to further improve the accuracy of verification and lower the cost associated with the verification. Real photo verification has improved the dating experience for our users in a meaningful way. At the same time, it also substantially increased the cost of conducting spamming activities on the platform.

In Q2, we also made encouraging progresses with a few experimental product experiences that we have been testing. The core performance indicators around these new features are improving and we plan to gradually roll them out to a larger user base of users in Q3. We believe these new features will enable Tantan users to discover and interact with new connections in diversified ways with much more fun. Together, they also provide virtual community experience to users on top of the swiping and chatting experience. Enriching the product experiences is important for Tantan to appeal to new users and drive user engagement. Moreover, the virtual consumer experiences will also open up doors to future monetization opportunities.

Now quick update on our second priority, which is to drive monetization through the optimization of existing premium features and the introduction of new paying experiences. During the download suspension period, our team continued with their effort to test the optimizations of the VIP and See features. Thanks to their focus and effort, we now have a few readily available optimizations in the pipeline. We're going to roll them out in a methodical way to drive continuous revenue growth in the remainder of the year.

Other than these optimizations, we have also been testing new paid features that could potentially become future revenue drivers. Some of these are subscription based and some of them will move beyond subscription model to break the ARPPU ceiling. As I mentioned in previous calls, having good à la carte paying experiences is crucially important, not only to unleash the monetization potential, but also to provide better experience to users who are willing to spend more on dating. We're currently making strides with the project and looking to test launch the service with a small user base in Q4.

Lastly, I would like to take a few minutes talking about Tantan's overseas development. It is becoming increasingly clear that there are huge growth opportunities for dating services in overseas market. We have been working on this area for a while. In the recent several months, we've made impressive progress in user growth, product improvement as well as striving in the market ROI. Our approach in overseas market is centered heavily upon return on investment. It means that when tapping into a new market, we will evaluate the ROI by comparing the user acquisition cost with the monetization opportunities. If we have the assurance that the cost can be recovered within a reasonable period of time, we will get more aggressive in the marketing and sales efforts. Otherwise, we'll pull back from that specific market to try to find other alternative markets that make better sense in terms of the ROI. Now with quite a few proven successful cases in getting into new markets, in the first half of this year, we now feel well poised to pursue the overseas opportunities in a bigger way.

As of now, approximately 15% to 20% of our active users come from overseas market. Currently, the revenue contribution is lower in that percentage as overseas user base is still under monetized. With opportunities that we're currently seeing in our assessment of the advantages that Tantan bears, I am confident that the overseas market will become much more meaningful revenue and profit contributor in the coming 3 years.

With that, I'm handing the call to Mr. Jonathan Zhang for financial review. Jon, Please.

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

Thank you. Hello, everyone. Thank you for joining our conference call today. Now let me briefly take you through the financial review. Our total revenue for the second quarter 2019 was RMB 4.15 billion, up 32% year-on-year and exceeding the high end of our revenue guidance. Non-GAAP net income attributable to Momo was RMB 1.24 billion compared to RMB 893.2 million for the same period of 2018 or 39% increase year-over-year.

Let me directly jump into the review of cost and the expenses items, as revenue line items have been covered comprehensively by Wang Li and Wang Yu earlier. Our non-GAAP cost of revenue for the second quarter 2019 was RMB 2.04 billion compared to RMB 1.71 billion for the same period last year. The non-GAAP cost of revenue as a percentage of total revenue was 49.1%, a decrease from 54.2% for the second quarter 2018. Non-GAAP cost of revenue for the second quarter 2018, included the production cost of PhantaCity, which was RMB 158 million. Excluding the Phanta City



impact, the non-GAAP gross margin for the second quarter 2019 remained stable over the same period last year. On the quarter-over-quarter basis, the non-GAAP gross margin for the quarter improved slightly by 1 percentage due to the lower payout ratio from both live broadcasting and VAS businesses. The lower payout ratio for live broadcasting business was from the fact that there was no quarter end tournament event in the second quarter and thus some savings on the promotional costs. In the second quarter of 2019, the VAS service team continued to scale back from the promotional efforts around the virtual gifting business. Therefore, the margins for VAS business also improved on a sequential basis.

Non-GAAP R&D expenses for the second quarter was RMB 204.8 million compared to RMB 116.1 million for the same period last year, representing 4.9% and 3.7% of total revenue, respectively. The year-over-year increase reflected our strategy to invest in R&D area throughout 2018, mainly to recruit additional engineering talents to support our various product innovation initiatives as well as the full quarter consolidation of Tantan in second quarter 2019 versus only June month for the second quarter 2018.

We ended the quarter with 2,075 total employees, of which, 528 are from Tantan. The R&D personnel as a percentage of total employees for the group was 54% compared to 45% in Q2 last year.

Non-GAAP sales and marketing expenses for the second quarter was RMB 502.3 million or 12.1% of total revenue compared to RMB 308.9 million or 9.8% of total revenue for the same period of last year. On a year-over-year basis, the increase in the sales and marketing expenses as a percentage of revenue was due to the full quarter consolidation of Tantan. While the core Momo non-GAAP sales and marketing expenses as a percentage of total revenue remained stable.

Our non-GAAP G&A expenses was RMB 119.4 million for the second quarter 2019 compared to RMB 78.6 million for the same quarter last year, representing 2.9% and 2.5% of total net revenue, respectively.

The GAAP G&A expenses was RMB 500.7 million for the quarter compared to RMB 127.7 million for the second quarter last year.

The company recognized a G&A-related share-based compensation of RMB 381.3 million in the second quarter of 2019 compared to RMB 49.1 million in the second quarter of 2018. The big jump in the share-based compensation expense was due to the same one-off event that we discussed on our last earnings conference call.

Let me give a quick recap here. As we disclosed in our 2018 20-F, in August, 2018, Tantan Limited granted [3,578,205] (corrected by company after the call) shares options to its founders with 4-year vesting period, representing 12% of Tantan shares on a fully diluted basis. The vesting can be accelerated based on achievement of certain performance conditions.

According to relevant U.S. GAAP literature, a share-based compensation expense of RMB 466.9 million was amortized in the first quarter 2019 based on the progress of achievements of the performance conditions as of March 31, 2019. During the second quarter of 2019, the performance conditions were fully met and accordingly, we recognize a share-based compensation expense of RMB 323.7 million in connection with above-mentioned option grant.

The amortization of the share-based compensation expense in connection with this option grant will have no future impact from Q3 onwards. Non-GAAP operating income was RMB 1.45 billion, representing 35% non-GAAP operating margin for the quarter. Excluding Tantan consolidation impact, the core Momo adjusted operating income for the second quarter of 2019 would have been RMB 1.5 billion or 39% non-GAAP operating margin.

Now turning to the balance sheet and cash flow items. As of June 30, 2019, Momo's cash, cash equivalents, term deposits and short-term investments totaled RMB 12.5 billion compared to RMB 11.3 billion as of December 31, 2018. Net cash provided by operating activities in the second quarter was RMB 1.4 billion compared to RMB 992.4 million for the same quarter last year.

Lastly, for the third quarter revenue guidance. We estimated our third quarter revenue to come in the range from RMB 4.25 billion to RMB 4.35 billion, representing an increase of 17% to 19% year-on-year. Excluding PhantaCity revenue contribution in third quarter 2018, our third quarter



revenue guidance on apple-to-apple basis represents a year-on-year increase of 22% to 25%. Please be mindful that the forecast 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 for Q&A. Cathy?

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

Yes, actually just one quick reminder, for those who can speak Chinese, please ask your questions in Chinese first, followed by English translation by yourself. Operator, ready for questions.

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## QUESTIONS AND ANSWERS

### Operator

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

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

(foreign language) Congratulations on a solid set of results. My question is about Tantan. Can management give us some color about the revenue and the bottom line outlook or Tantan in the second half? And also, is there any timing on profitability?

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**Wang Yu** - Tantan Limited - Co-Founder & CEO

Okay. So I've spoken quite a lot about second half monetization strategies already. The growth will be driven by both optimization and existing premium features and the intro of new ones. Our quarter-on-quarter grossing increase is actually better than our expectations, it's around 30% to 40% as we can speak right now. But since there is a lagging effect between grossing and revenue that we talked about earlier, the revenue guidance assumes a sequential growth around 10%. Now this positive momentum, we expect it to extend into Q4.

In terms of profitability, we expect to reach a domestic breakeven on a monthly basis somewhere around mid-next year. If we managed to do it on a whole-company basis, including domestic and overseas market, depends on how aggressive will be in overseas expansion during this year.

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

(Operator Instructions)

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### Operator

The next question is from the line of Jialong Shi of Nomura.

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

(foreign language) So I will translate my question. And my question is about the industry outlook. From time-to-time, we were told by some of Momo's Chinese Internet peers that China's Internet population is already saturated and therefore, it is increasingly difficult to acquire new users. As a result, we saw some of your peers are turning their attention to lower-tier markets where the Internet penetration is relatively lower. So I just wonder what will be Momo's strategies to cope with these industry-wide challenges. And what will be your MAU target for Momo app by end of



this year? And where do you think it's a ceasing for Momo MAU in the long term? And also, I have a quick follow-up on Tantan. I just wonder what are the key overseas market for Tantan?

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**Wang Yu** - Tantan Limited - Co-Founder & CEO

Okay. So this is Yu Wang. I will first quickly answer the question on Tantan. So our primary user base overseas are in South East Asia, in India. And we are doing quite well in terms of all the markets we have tried out overseas. We meet the primary competitors in all these markets, but the dating market has an appetite for multiple apps. So we don't think that established players in new markets actually affect us that much in terms of our expansion potential.

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

Okay. Now are you ready to answer the question about the MAU outlook and the TAM 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

[Interpreted] Okay. After the homepage suspension on the core Momo was lifted. Up till now, all the users and engagement metrics have been showing a very positive kind of trajectories, and that gave us the confidence that the MAU for the Momo core should see continuous growth in the future. At the same time, we do see huge growth room in the open social space and the broader entertainment space. Right now, we're seeing many newly emerging growth opportunities in China and also in overseas market. Based on rough estimation, specifically in the open social space, China plus Asia should give us a total addressable market of somewhere around 600 million people for us to penetrate. And if you look at the MAU of Momo and Tantan combined together, we probably represent somewhere around 1/4 of that TAM. At this point, Tantan is going through a phase where its users and paying users are ascending very, very rapidly. We believe that such hyper-growth rate for Tantan is going to continue in the coming couple of years. On top of the core Momo app and Tantan, we also have other deployment, either through internal incubation or external cooperation to continue to penetrate into that addressable market. So that's kind of my basic view on how Momo, as a company, is going to continue to drive user growth in of the future.

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**Operator**

Our next question comes from the line of Li Yang of Bank of America Merrill Lynch.

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**Yang Li**

(foreign language) My question is mainly about Tantan. We saw that ARPU growth in the second quarter is very strong and the key feature to drive this, and how should we think about ARPU trend in the second half? And in second half, Tantan's revenue is mainly driven by paying user or ARPU, and any color on the new feature you will launch, such as timing, you can share with us.

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**Wang Yu** - Tantan Limited - Co-Founder & CEO

Okay, thank you. So the thing is that, we have increased ARPU somewhat with our optimizations. But the primary reason Q2's revenue was reasonably high was because there is lagging effect between grossing and revenues. So grossing actually decreased quite a lot while revenues did not. So revenues actually will be affected quite significantly in Q3, even though grossing increased by, like I said, 30% to 40%. And in terms of the total



bottom line, in Q2, we actually spent much less than we planned. So even though revenues decreased, we ended up with a much smaller net loss in Q2 than we projected. And because of this, we are making up for it by increasing marketing spending significantly in Q3. So the 3 factors of us spending less in Q2, us spending more in Q3 and also the negative impact on revenues, will make the net loss in Q3 widened significantly from Q2. But this is the short-term factor. So moving into Q4, app's revenues continue to increase and marketing cost domestically come down significantly, we expect net loss to decrease significantly from Q3.

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**Operator**

Our next question is from Tianxiao Hou of T.H. Capital.

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

(foreign language) So in the market this year, a buzzword is Tik Tok, Toutiao or all of its APPs, they have many APPs. So Bytedance Group has already caused a negative impact on some verticals, like advertising, short radio, et cetera, et cetera. But from Momo's second quarter results, we saw no impact whatsoever. So I wonder, can management give us an insight, what is exactly the uniqueness of Momo and enable you to avoid this kind of Titanic, how much it give you pressure. So going forward, if the Bytedance in your region is going to give you any negative impact. And what's your strategy to cope or the potential if there is any potential pressure?

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

(foreign language)

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

[Interpreted] Okay, let me quickly translate. That question, I remembered I had answered like thousand times in the past. Every single time, from the investor point of view, things may seem a little bit different. But actually, from our standpoint, we really haven't seen any substantial change in the competitive environment lately. Our observation is that the live broadcasting business from Kuaishou and whole Toutiao system has been growing very rapidly for quite some time. But we really haven't seen any serious threats by these 2 players.

With regards to what kind of uniqueness about the product or the ecosystem really help us to achieve that, I guess the simple answer is a lot of these mainly live streaming platforms, for this platform, live streaming is really just a monetization feature attached to their respective core use case. If you want to understand what makes us unique, what makes us different from those traffic platforms, you have to understand what's the difference between a core use case on Momo, which is social use case and the core use case on Kuaishou and Toutiao. I guess that's very crucial for investor to understand what makes the live streaming service on Momo different from the live streaming service from all these big traffic platforms.

And about my view that the bigger players have not posted any threats to our ecosystem, I think it's supported by hard data. If you look at our second quarter data from the paying users' side, we saw pretty good growth. And on the side of the broadcasters from the agencies during the past few quarters, Momo's content supply ecosystem has been strengthening. For example, if you look at the number of professional broadcasters and compare the second quarter of 2019 with toward end of 2017 before we rolled out the talent incentive program, the number of professional broadcasters during that period of time grew by 80%. And if you look at the number of quality agencies, who can bring in sizable monthly grossings, in the second quarter that number also grew somewhere around 50%. On the revenue side, in the second quarter, we also saw reacceleration in the live broadcasting worldwide growth rate, and we achieved that during a time where there was a homepage suspension on the core Momo platform. So I really don't think that investors need to worry much about the competitive environment that we are in at this point.

So given the time, we make this the last question of this earnings call. Thank you for joining us. We will see you next quarter.



## Operator

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

Portions of this transcript that are marked

[Interpreted] were spoken by an interpreter present on the live call.

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