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YY - Q3 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 Third Quarter 2019 Earnings Call.

(Operator Instructions) Please note, this event is being recorded. I'd now like to hand the conference over to your 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 Third 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 third 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 call today. Our third quarter 2019 results are characterized with continued success in our group's globalization and AI technology-driven strategies. Our total revenues increased by 67.8% year-over-year to RMB 6.88 billion, demonstrating our solid progress in 3 key areas: First, globalization efforts resulting in significant growth in both users and revenues; second, technology advancement, leading to increase in our user loyalty and operation efficiency; third, content innovation, revitalizing domestic 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] On the globalization front, we achieved significant progress in expanding the market reach of all 4 key products, which are Likee, IMO, BIGO LIVE and HAGO. Notably, Likee, our leading short-form video platform with global footprint, hit the milestone of 100 million monthly active users in the third quarter of 2019, representing a year-over-year growth rate of 413.4%. Such rapid growth in user base is a result of our relentless drive for content localization, innovative features and AI technology enhancement.

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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, let me share more details on Likee. Short-form video has become the mainstream content format of choice for Generation Z users around the world, increasingly influencing their social values and lifestyles. As the second largest short-form video platform globally outside of China, Likee is well positioned to capitalize on a growing market demand.

To extend Likee's global footprint, during the third quarter, we continued to explore the best venues to localize short-form video content for diverse cultures, backgrounds and values. For example, in Russia, Likee hosted an offline event called Likee Party Moscow in August. This event marked Likee's second anniversary as an international short-form video brand. The onstage performance dazzles more than 10,000 audience in the capital city of Russia. Our success in organizing such local events in Russia demonstrates Likee's unique capability in establishing cultural connections among young users, inspiring their creativity and self-expression and boosting their enthusiasm towards original content production, all of which, in turn, help us expand our brand influence as well as strengthen our leadership in more global markets.

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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 to content localization, Likee also sought to attract and retain users through continuous introduction of new features and functions, including data visualization tools, collaborative travel vlog projects, AI-based image cropping, photo series and face-swapping features. These new features significantly lowered the short-form video production entry barrier to users, became smash hits upon launching, and attracted millions of users worldwide to create and share videos with their friends.

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

(foreign language)

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

[Interpreted] Besides expanding its own market reach, Likee was also successful in distributing its content in our instant messaging platform, IMO. By granting access to Likee short-form video feeds to IMO users in over 45 countries and regions, we were able to increase our IMO embedded short-form video monthly active users to 50.2 million during the third quarter of 2019. This is also a good example, demonstrating the great synergies across multiple products.

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

(foreign language)

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

[Interpreted] Now let me share more colors about our progress with IMO. In addition to video content, IMO is also injecting additional innovative social features to enhance user stickiness and promote social interactions. As a result, in the third quarter, IMO's communication services were utilized over 400 million times per day on average, while each user's average daily usage exceeded 38 minutes. As IMO's user stickiness continue to grow, we were able to unlock its monetization potential through advertisement. As a result, IMO's advertising revenues increased by 25% sequentially during the third quarter of 2019.

To further establish IMO as a world-class video-based instant messaging platform, we plan to continue cultivating a cross-platform operational model, diversifying content and services and refining monetization tactics through both live streaming tipping and video at high-end related advertisements.

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

(foreign language)

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

[Interpreted] Besides short-form video and instant messaging, our international live streaming platform, BIGO LIVE, also achieved solid progress, both operational and financially.

During the quarter, BIGO LIVE's monthly active user reached a record-breaking level of 21.9 million, representing a 9.7% year-over-year increase. As BIGO LIVE secures its foothold in emerging markets, it is able to further expand into developed markets and grab more opportunities. As a result, its revenue contribution from developed markets such as Europe, Americas, Japan and other regions increased further to 26% in the third quarter from 21% in the second quarter of 2019.

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

(foreign language)



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

[Interpreted] All our aforementioned business success is built on the foundation of our technology advancement. During the third quarter, we continue to incorporate AI-based recommendation technologies into our platform. Through our proprietary multi-target intelligent recommendation model and real-time exploration discovery model, we are able to characterize, manage and distribute global short-form video and licensing content more efficiently. Our multi-target intelligent recommendation model analyzes comprehensive user behaviors, such as viewing, commenting and interacting, et cetera, to improve the relevancy and accuracy of our overall recommendations. The real-time exploration discovery model compiles and analyzes a massive amount of content generated by users each day to timely discover short-form video clips of top quality that could potentially become smash hits. As a result, the number of high-quality videos discovered by AI machines in September has more than doubled compared with June.

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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 to enhancing our recommendation capability, we are also leveraging software algorithms to improve our operational efficiency. For example, Bigo's encoder system, a technology we developed in-house recently, could automatically adapt and improve the live streaming video quality by over 10% without putting any extra strain on network or bandwidth.

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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, has not only maintained its rapid expansion on user base but also achieved meaningful progress in monetization.

During the third quarter, HAGO's MAUs increased to 32.3 million, representing a 92.4% year-over-year increase. Leveraging its past success in Indonesia, HAGO was able to further penetrate into other markets such as India. In addition, HAGO has paved a very clear path to monetization through its user group-based interaction model in its previously developed markets. We expect HAGO to make profits in its previously developed markets in the fourth quarter. Going forward, we seek to increase HAGO's user engagement and retention continuously on 3 fronts: Expanding its casual game variety and quantity; accelerating its content-centric community development; and introducing new social features, such as interest-based user groups.

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

(foreign language)

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

[Interpreted] While we are successfully implementing our growth strategy through globalization, we're also revitalizing our domestic live streaming business, YY Live, through continuous innovation and reinvention. As we keep close attention to the constantly involving user and entertainment demand, we have uncovered the growing user preference for variety shows. During the third quarter, we launched our partnership with Wowkie Zhang, a renowned Chinese singer and songwriter, to add more content of variety show style to our library. Our efforts has paid off handsomely.

Wowkie Zhang's initial live streaming session attracted 7.2 million cumulative users and viewers and 240,000 peak current viewers. Our partnership with Wowkie Zhang continue to render success in producing premium live streaming content, attracting viewers and fans, shaping a new live streaming plus artist business model and opening up another monetization trail for entertainment stars.

Since then, we have formed partnership with 13 additional celebrities specializing in variety shows.

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

(foreign language)

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

[Interpreted] Consistent with our efforts of incorporating variety shows into our live streaming content, we are also introducing new interaction features to provide all our live users and immersed variety show experience. Through the multi-person microphone relay feature and the multiparty PK function, YY Live can dynamically generate personalized variety show programs on a real-time basis. As a result, our YY variety show live streaming received stable and widespread viewership during the daily premiums time slots, thus, leading the industry charge in pan-entertainment innovation.

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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, we achieved substantial success in globalization, AI technology enhancement and revitalization of our domestic growth engine. Going forward, we envision vast market potential for our global video-based social media platform. We are confident that we can continue to deliver consistent and superior shareholder value through the synergies across our multiple product markets, continuous efforts in globalization through localization and the enhancement of our operation efficiency.

With that, I will turn the call to Bing Jing, our CFO, to go through the deals of our financial results.

Now as YY's CFO, I will talk about the financial results. We continue to deliver robust financial and operating results during the third quarter of 2019. Total net revenues for the third quarter increased by 67.8% year-over-year to RMB 6.88 billion, exceeding the high end of our previous guidance range and street expectations. Specifically, live streaming revenues for the third quarter increased by 66.2% year-over-year to RMB 6.47 billion, mainly driven by the continued growth in live streaming revenues from the YY and Huya segment as well as the consolidation of Bigo, which contributed RMB 1.42 billion in the quarter.

Other revenues in the third quarter increased by 98.3% to RMB 408.3 million, driven by higher advertising revenues from both Huya and Bigo.

Cost of revenues for the third quarter increased by 76.2% year-over-year to RMB 4.71 billion. Revenue-sharing fees and content costs increased to RMB 3.46 billion in the third quarter from RMB 2.21 billion in the same period of last year as a result of increase in live streaming revenues of the company.

Bandwidth costs increased to RMB 496.8 million from RMB 249.5 million in the same period last year, mainly reflecting the continuous expansion of our global user base and time spent following the Bigo consolidation.

Gross profit for the third quarter increased by 52.1% year-over-year to RMB 2.17 billion. Gross margin was 31.5 compared to 34.8% in the prior year period. The decrease in gross margin was caused by increases in both revenue sharing fees and content costs. In addition, both Huya and Bigo

have lower gross margins but contributed a significantly greater portion of the net revenue in the third quarter of 2019 compared to the prior year period, which also contributed to the gross margin contraction.

Operating expenses for the third quarter were RMB 2.16 billion compared to RMB 864.7 million in the prior year period. This increase was primarily due to higher sales and marketing expenses, which reached RMB 1.08 billion in the third quarter. The increase in sales and marketing expenses was primarily attributable to our increased efforts in sales and marketing activities in overseas markets as well as the impact of depreciation and amortization related to the consolidation of Bigo.

R&D expenses for the third quarter rose to RMB 673.1 million from RMB 314.1 million in the prior year period, mainly due to the increase in staff-related expenses.

GAAP operating income for the third quarter was RMB 160.3 million compared to RMB 610.9 million in the prior year period. Operating margin for the third quarter was 2.3% compared to 14.9% in the prior year period, primarily due to the decrease in gross margin, the impact of depreciation and amortization related to Bigo consolidation and other overseas expansion initiatives.

Non-GAAP operating income, which excludes share-based compensation expense, impairment of goodwill and investments, amortization of intangible assets from business acquisitions, was RMB 611.4 million in the third quarter compared to RMB \$774.2 million in the prior year period. Non-GAAP operating margin for the third quarter was 8.9% compared to 18.9% in the prior year period.

GAAP net income attributable to controlling interest of YY for the third quarter of 2019 was RMB 109.9 million compared to RMB 650.7 million in the prior year period. Non-GAAP net income attributable to the controlling interest of YY was RMB 574.1 million compared to RMB 787 million in the prior period. Non-GAAP net margin in the third quarter of 2019 was 8.3% compared to 19.2% in the prior period.

Diluted net income per ADS in the third quarter of 2019 was RMB 1.11 compared to RMB 10.01 in the prior year period. Non-GAAP diluted net income per ADS was RMB 6.42 compared to RMB 12.07 in the prior period.

Looking forward to the fourth quarter of 2019. We expect our net revenues to be between RMB 7.32 billion and RMB 7.52 billion, representing a year-over-year increase of 57.7% to 62%. 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) Our 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) Congratulations on a solid set of results. I have 2 questions. The first question is about Bigo. Given that Bigo demonstrates very strong user growth as well as geographical coverage, can management talk about the KPI in terms of user and revenue across our different product offerings, BIGO LIVE, IMO and HAGO in 2020.

And my second question is about our AI capabilities. Given that our AI capabilities is getting so strong right now in getting the user traction, retention and providing where we personalize content, can management share about what other areas or how we can further strengthen our AI capabilities in 2020 to attract more user growth and retention in domestic and overseas market?



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

(foreign language)

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

[Interpreted] Thank you for the question. This is David. Firstly, in terms of our international strategy, we actually have been implemented our current international strategy about 2 years already. So if you look at our global product map, we actually had 3 major product, which is Likee, IMO and BIGO LIVE. So if you look at the third quarter results, which has already demonstrated the very strong synergies between the 3 -- 3 different platforms. So looking into next year, we were quite confident, firstly, in terms of the IMO's strong support in terms of the short-form video content from Likee distribution, within of the IMO's platform. And meanwhile, the social relationships within IMO also will significantly help our further content distributions within the different platforms.

And meanwhile, on the other side, the experienced -- monetization experience coming from BIGO LIVE also will continue to help both IMO and Likee to further explore of the monetization opportunities.

So in summary, we truly believe the synergies between -- among all the 3 platforms as well as we further exploring of the user's social relationship within of the 3 platforms, definitely, will continue to help us to grow our international business with a very prosperous future. Thank you.

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

(foreign language)

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

[Interpreted] I think the second question, in terms of the AI development. So the major reason why the companies are really focused on -- to develop the short-form video content is because if you look at the nature of the short-form video platform, it actually has been embedded all different types of the AI-related technologies here.

It could be divided by the 3 parts. The first one is relatively traditional, what we call the recommendation systems. So we use a -- continue to develop our personalized recommendation capability to further -- to recommend the more targeted content into the users.

And the second part is content engine. So it's majorly focused on to how to better recognize explore as well as re-editing of the different types of the content. And we truly believe that part of the technology will continue to develop, and we'll have more competitions within that sectors, especially all the peers will compete to each other in terms of how we -- how -- which peers can deliver the better content search engines in terms of how to have a deep understanding of the content as well as the relevancy and the logic within those kind of content. And we truly believe we are one of the best within of the industry as well.

Then the third part, and most importantly, is AI also will back to further develop and help of the evolution of the search engines. We truly believe in the next several years. Short-form video content will become the major content format in terms of to gather people education as well as informational. So in the future, a lot of the different types of the information and acknowledge will be reserved, produced as well as searched in the short-form video products. So we truly believe, after a decade, it will be a totally different world. So the Generation Z or the young people, they will majorly using short-form video as a major way to get access of the information as well as get educated. And we are still very excited about the future development. Thank you.



**Operator**

Our next question comes from the line of Daniel Chen from JPMorgan.

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

(foreign language) I will translate myself. So my question is related to BIGO LIVE revenue, which grows very strongly this quarter, up by 25% quarter-over-quarter. And how much of that actually come from BIGO LIVE? And how much comes from other products like Likee and IMO? What's the drivers behind? Is it more from developed country or developing country? And how should we think about the revenue growth trajectory of the Bigo in the future quarters?

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

Thank you, Daniel. This is Bing. Let me address those questions. So for BIGO LIVE and IMO and Likee's monetization, the majority of revenue is coming from BIGO LIVE. IMO, as we mentioned, they have some revenue from advertisement, which increased by 25% quarter-by-quarter. But on an absolute dollar term, it's still much smaller than BIGO LIVE's live streaming revenue.

Likee is in very early stage of monetization. So Likee will continue to explore monetization, both from advertisement and live streaming. But in terms of absolute dollar, it's very small.

So to give you a picture, that majority of revenue from Bigo certainly is from live streaming of BIGO LIVE. That's the first question.

Second question, in terms of the country breakdown, we are seeing, obviously, more rapid growth from developed world. As we mentioned in the call, that 26% of revenue is coming from developed world, including U.S., Europe, Korea and Japan, et cetera, compared with 21% last quarter. So obviously, developed world will contribute more and more a portion of the revenue.

Meanwhile, Middle East and Southeast Asia market are still the mainstream monetization regions currently.

And then for the future forecast, I think that is consistent with what we discussed with -- all the analyst and investor report. So I wouldn't go into detail, but we are confident that Bigo will continue to maintain that revenue growth. And obviously, additional level will be coming from further synergies into IMO and Likee.

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**Operator**

Our next question comes from the line of Natalie Wu from CICC.

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

(foreign language) I will just say myself. So I have 2 questions here. First one is about Likee. Firstly, congratulations on the Likee of the -- of exceeding 100 million mobile MAU. Just wondering what's the highest penetration rate in your top 5 cities for Likee on top of the mobile Internet user population? And what do you see as a tipping point for the explosive growth in the same region for Likee?

And second question is for David. So David, just wondering what will be the resource or time allocation for you next year?

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

Thank you, Natalie. I'll answer the first question and then Xueling David will address the second one.

So in terms of the Likee MAU, you're right, we achieved over 100 million MAUs. In the top 5 countries, those, as we said before, are India, Indonesia, Russia and some of the other developed and emerging markets.

You asked about the penetration rate. What I can tell you, if we look at the industry landscape or the short-form video markets -- in global markets, except China, are very, I would say, relatively low penetrated. My take would be less than 10% penetration in terms of mobile Internet users. So from that perspective, we are seeing massive opportunities and potential across all those emerging market developed world.

As David mentioned in the last question that we truly believe short-form video is just starting to take off globally. So we're very excited in terms of the penetration of future market potential.

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

(foreign language)

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

[Interpreted] This is David. Let me address your second question. So we truly believe in the next year or even the longer period, our key focus as well as major energy allocation will be into the short-form video arena. Because based on our understanding, definitely the short-form videos will be further improve our comprehensive capabilities for the whole companies. That's also the major reason why we took the short-form video as one of the key strategies for the corporation.

If we look at the international development in terms of short-form video content, which we believe we will be -- in the future, it will be similar as China, which means every person will be used of the short-form video apps. So our estimated penetration rate for the short-form videos will very similar as the social media, even social network products.

And this trend has actually already happened in China. But we -- I'm afraid, actually, for the rest of the world, probably still a lot of people still questioning that in terms of the future of the short-form videos.

So based on our understanding, which we believe this is a historic opportunities for the company. So in the next 1 or 2 years, then we will continue to develop our short-form video apps in order to catch those massive market opportunities. That's the first part.

And second part, after we have a development of the short-form video content as well as it also will back train of our AI capabilities and train our teams, because as I mentioned previously, the AI technology actually has been -- the short-form video actually has been used most of the AI capabilities in the market. And if we look at the nature of the short-form video, it actually is already quite similar as a reality world. The only difference will be a camera, right? So understanding about the short-form videos will also represent understanding of the reality world through of the AR capabilities.

So once we have the industry-leading of the AI technology -- capability has been established is that actually give us more opportunities to grab of the future opportunities within of the sector. So that's a major reason why we will keep on -- keep most of our energy focused on the short-form video development in the future.

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**Operator**

Our next question comes from Lei Zhang from Bank of America.

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**Lei Zhang** - *BofA Merrill Lynch, Research Division - Associate*

(foreign language) Congrats on the strong results. My first question is on the overseas competition, maybe with TikTok, our launch year management's updated view on the competitive dynamics and your recent user channel in lieu of the acquisition and last year, short-form videos spending overseas.

And second question about Likee's or short videos regulatory risks. You can see there what has happened, though, with TikTok.

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

(foreign language)

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

[Interpreted] This is David. Let me address your question. So in terms of the short-form video competition, we have to agree, year 2019 is most of the difficult year for us. The major reason behind that is, firstly, if you look at our short-form video platforms' history, we're actually much shorter than other of the major peers within this sector. We only developed Likee about 2 years compared with other -- compared with other peers already existing in the market last 5 years. And meanwhile, in terms of the recommendation capability behind of the short-form video platform, our peers even had the longer -- the experience, which is more than 8 years. But -- and meanwhile, in terms of the sales and marketing spend on the full year of '18, our major peers also has more or less 5x of the sales and marketing expenses compared with Likee in the last year. So put all those factors together, 2019 is most of the -- I would say, the most of the difficult year for our short-form video platform development.

But meanwhile, you will be -- we're facing those kind of difficulties, but our -- the Likee's market share continue to increase. In the third quarter of this year, as we mentioned before, our overall short-form video MAUs has been reached 250 million outside of China, which is already amazing scale for the short-form video user base already. And so we truly believe, especially followed by our -- the AI as well as other technology capability continue to improve, definitely looking into 2020, the competition pressure for us will be significantly eased.

And except for that, I also want to mention IMO, our IM products. So for the IM product, currently, we only allow the users to watch of the short-form videos, but in the future, once we start to allow and encourage the users to produce and upload to more short-form video content within IMO, we definitely can leverage IMO's very strong social relationship -- relationships to further boom of the activities as well as viewership of the short-form videos, we think of the IM products.

So all in all, this year, we actually focus on to continuously solidify our fundamental capabilities, especially AI capabilities. So next year, once we see more users growth, definitely, we will see those kind of capability will continue to help us to grow the short-form video platform. Thank you.

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

(foreign language)

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

[Interpreted] The second question related to the regulatory risk in overseas. The difference in terms of our short-form video platform compared with other peers is Likee starting from day 1, we were a global company. We really focus on to understand of the demand of the global users compared with most of our peers is there, short-form video business oriented from the China business. So it's very different. And since we're actually starting from a global company, so -- even starting from day 1, we really focus on the top line as well as a deep understanding about the local regulatory as well as the local government requirements. So that is behind that. So that can help Likee to build up more mature of the policies and the technical actions in terms to better protect the user privacy as well as the data, the overall data protection.



So all in all, we believe we -- in terms of the regulatory risk globally, we are better than most of our peers. Thank you.

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**Operator**

Our next question comes from Alex Liu from China Renaissance.

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**Alex Liu - China Renaissance Securities (US) Inc., Research Division - VP**

(foreign language) I'll translate myself. So first of all, we see some sort of easing side on the sales and marketing expense for people this quarter. Just wondering how should we think about this cost item shifting into the trend of the cost side into 2020 in the fourth quarter of 2019?

And then also, given the fact we have multiple different products within Bigo umbrella, namely IMO, Likee and also BIGO LIVE, would the management share a bit of color on the user acquisition cost across different products at the moment?

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

Thank you. Let me address those questions. So the first question regarding sales and marketing expense for Bigo. We did see that the third quarter, the sales and marketing expense is relatively lower compared with second quarter because we're seeing very healthy pattern for our user retention. And as David mentioned, that we start with small base. We are seeing more rapid progress in more converging markets and developed world. So we're continuing to monitor our user retention as well as the balance of the growth for the user base and the marketing spending.

In 2020, David did mention that our pressure will be less. But that doesn't necessarily mean that we're going to spend less money for sales and marketing. It just means that we are seeing more opportunities. And once we see the pattern, meaning user retention pattern continue to be healthy, we are confident to spend more dollar value to attract more users to build a bigger ecosystem. And meanwhile, we're also focused on monetization on the Likee. As I mentioned, we monetize through live streaming advertisement to really leverage synergies among different products. So that's, I would say, the trend that I can foresee for Bigo sales and marketing.

For the user acquisition cost, it is different across different product. But for IMO, our key focus right now is focus on enhancing the quality of the content into IMO, rather than expand sales and marketing to attract more users. So I think the near term, we'll focus on content quality enhancement for IMO.

For Likee, as I said, it differs from country to country. It differs according to different stage of development. So we cannot share a single number for Likee's user acquisition cost.

For BIGO LIVE, we've been doing BIGO LIVE for quite a long time, so I think it's a relatively stable business. We will continue to do sales and marketing for BIGO LIVE user, but it's not on a big scale compared with Likee. So that's, I think, the color I can share.

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**Operator**

Our final question will come 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) I have 2 questions. And first question is about YY Live, the live broadcasting business in China, as we are approaching year-end. So I just wonder if management, can you share any colors as to the potential growth rate YY Live could achieve next year?

And also, just wondering if there -- the management see any changes in the competition landscape in China's live broadcasting business that is caused by new entrants, such as DouYu and Kuaishou.

My second question is about the relationship -- YY's relationship with, again, live broadcasting subsidiary, Huya. As we are approaching the 2-year anniversary, upon which Tencent will likely become a majority shareholder of Huya. So I just wonder if we should expect to see any changes in YY's relationship with Huya before and post the divestment as Huya is also talking about expanding into a broad category of nongaming entertainment content, which could potentially make it a competitor to YY in China and overseas market as well. So I just wonder if YY currently has or will sign a noncompetition agreement with Huya post the divestment?

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**Ting Li** - YY Inc. - COO

(foreign language)

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

[Interpreted] This is COO, Ting. Let me address your question. So firstly, in terms of the competitive landscape with short-form videos in China, we all agree the short-form video products is a very comprehensive product, which can have an impact with the different types of the services or products at the same time. That's also the major reason why we developed the overseas short-form videos.

So for the China part, we already noted the trend, for example, in terms of the new music distributions, the short-form videos, such as Douyin has already become the mainstream platform, which is already impact of the traditional of the music distribution channels.

Another good example is, since the short-form video has occupy a lot of users time as well as interactive features, that is why it also has some of the impact for the stranger social network. But by comparison, since the live streaming business, our live streaming platform has a very stickiness of the user feature as well as the immersive user experience. So that is why if you look at this year's YY Live development, although we're facing the competition from the short-form videos, but we actually keep the very stable of the growth for the overall YY Live's revenue, and we expected next year also have the similar situation.

And meanwhile, I'll also mention is for this year the paying user number for YY Live also has been significantly improved, demonstrates a very healthy trend for the whole platforms.

So all in all, in the future, in terms of our live streaming business in China, especially since we continue focus on the -- to create a more diversified content as well as to create the different types of the interactive features, definitely, we are still very confident in terms of future YY Live's development. Thank you.

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

And Jialong, I'll address the second question regards our relationship with Huya. First of all, we're still very favorable look upon Huya's potential as China's leading game live streaming platform and also the enormous eSports market opportunities. So we will continue to support Huya and consolidate with Huya on to the point where Tencent can exercise the option, which is coming from March next year to March 2021.

If they exercise the option, we can obviously consider sell portion of Huya's shares to Tencent.

Regarding your second question for the competition of Huya's nongame live streaming -- entertainment live streaming business with YY, I don't think that's a big issue. As I explained before, both in China and overseas, entertainment live streaming is never a zero-sum game market. The market opportunity is enormous, both from the supply side and demand side. On the supply side, we have seen more and more ordinary people becoming popular online, live-streaming stars. So on supply side, we'll continue to drive more and more hosts coming into different entertainment live streaming platform.

On the demand side, even in China, with this huge competition, as you have asked the question, YY Live will continue to grow. And overseas, it's a very early stage for entertainment live streaming. So I don't think competition within entertainment live streaming is a big issue. Hopefully...

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

As a quick follow-up, so how are you going to use the cash proceeds to be received from the sale of Huya shares?

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

That -- we can have a range of options. Depending on the ROI of different alternatives. So I think our strategy right now is to remain flexible. Obviously, we also pay attention to the shareholder value. Meanwhile, we're also trying to find new ways of generating high-ROI project for ourselves.

**Operator**

Thank you. I'd now like to hand the conference back to management for closing remarks.

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

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

**Operator**

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you so much for your attendance. You may now disconnect.

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