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[CMCM] - Cheetah Mobile, Inc.
Fourth Quarter 2016 Earnings
Tuesday, March 21, 2016, 8:00 AM Eastern Time

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Mr. Fu Sheng; CEO, Director
Mr. Andy Yeung; CFO

Analysts
David Sun, Morgan Stanley
Joyce Ju, Citi
Wendy Huang, Macquarie
Thomas Chong, Bank of China International

Presentation

Helen Zhu: Thank you, operator. Welcome to Cheetah Mobile's fourth quarter and full year 2016 earnings conference call. With us today are Mr. Fu Sheng, our CEO, and Mr. Andy Yeung, our CFO. Following management's prepared remarks, we will conduct a Q&A session.

Before we begin, I refer you to the Safe Harbor statements in our earnings release, which also applies to our earnings conference call today as we will make forward-looking statements.

At this time, I would now like to turn the conference call over to our CEO, Mr. Fu Sheng. Please go ahead, Fu Sheng.

Fu Sheng: Thanks, Helen, and hi, everyone. In early 2016, our business faced some difficulties, which forced us to rethink our positioning and our growth strategies for the future. It is increasingly clear to us that content is the driver for future growth and A.I. is a core enabler to connect our user with highly personalized content.

With that, we are excited to see that two of our key content apps, Live.me and News Republic, grew strongly in Q4 2016 in the U.S., showing that Cheetah Mobile has the capability to develop not only popular utility apps, but also popular content-driving apps.

Financially, our total revenues and profits again grew Q-over-Q in the 4Q. In fact, our total revenue hit a record high in the quarter, and our quarterly mobile revenues exceeded RMB1 billion for the first time despite entering into a more mature growth phase.

Our utility apps grew steadily and sustained in the quarter. As the company's profit center, our utility apps continued to expand its profitability over the past couple of quarters, which in turn, supported our mobile content strategy.

Looking forward, we remain both focused in implementing our mobile content strategy, leveraging the big data generated by a massive user base and A.I. technology to connect our user with more personalized leisure content.

We have further enhanced our leading position as a global traffic platform. For our core utility apps, such as Clean Master, our user base remains relatively stable in key developed markets. In addition, we are pleased with good progress in our other utility apps. CM Launcher was ranked as the number one personalization app globally in January 2017 on Google Play.

It is also important to note that both its user base and its engagement grew significantly over the past few months without any marketing activities.

PhotoGrid expanded its popularity, now the second-largest photo app in Indonesia.

Moving on to our content-driving products, we are pleased to see continued strong growth of Live.me in user members, user engagement and the paying users. In less than a year, Live.me has become one of the top social apps for young people in the U.S. According to App Annie, Live.me has been the number one grossing social app in the U.S. on Google Play since August 2016 and one of the top five social apps on Apple App Store.

In the past quarter, we introduced the nearby function, which enabled users to discover people or things that they may find interesting around them. This feature helps to increase user stickiness with the app.

We remain amazed by how well the virtual gift function was received by our users and that is used by our users in interacting with each other in social settings. We will continue to refine Live.me, making it easy and more fun for users to share their daily lives on our live streaming social platform.

News Republic also delivered robust results in the fourth quarter of 2016. We upgraded News Republic to an A.I.-enabled personalized news content delivery model in the third quarter of 2016. Since then, both its user base and user engagement have grown rapidly.

Currently, our user on average reads 2 to 3 times more articles than before. According to App Annie, News Republic has been the number one news app in the U.S. on Google Play since December 2016.

The key element of our content strategy is A.I. For example, we have adjusted our personalized news content delivery engine several times since we acquired News Republic. When we changed the predictive model from GBDT to LR and updated to DNN, our CTR improved by 30%. Accordingly, we continued to expand our partnerships with global leading media in the past quarter.

Also, we recently launched Cheetah Open Feed platform, which also allows app developers and OEMs to place Cheetah personalized news delivery service into their apps and the mobile operating systems helping them to further attract and engage users. We made significant progress on our content strategy, but we know we still have lot of work ahead of us.

Our utility app has entered into a more mature growth phase and significant investments are still needed to drive the growth of our content-driving products, which are likely to still weigh on margins in 2017.

However, given our strategies, strength in product and the technology development and our massive 600 million user base, we are confident that our transformation into a mobile content platform will enable us to build a standard and profitable business model in the long run and create value to all of our shareholders.

Before I hand the call to Andy, I want to thank him for his significant contribution to the Company over the past 3 years, having helped Cheetah Mobile establish a solid financial operating team and a corporate governance platform. Andy will be missed.

On behalf of the Company's Board of Directors, I would like to thank you, Andy, for your dedication to the Company. We wish you best of luck going forward.

With that Andy, please go ahead.

Andy Yeung: Thank you, Sheng. Hello, everyone. As you read in the press release, I will be resigning from Cheetah Mobile effective March 31, 2017. A new CFO search is being conducted by our Board of Directors. Meanwhile, the Board has appointed Francis Ng, CFO of Kingsoft and a Board member of Cheetah Mobile, as the interim CFO until a replacement is on board.

On a personal note, I would like to thank Fu Zong, the Board and the rest of the management team for providing me with the confidence, trust and opportunity to work with one of the most dynamic global companies emerging out of China. It has been a pleasure to work with you all.

For all the investors and analysts who have covered our Company ever since we went IPO and subsequently, thank you for your interest in the Company and respect you have afforded me and the team. It has been a pleasure to work with you all as well.

Cheetah Mobile has been an amazing company with hundreds of millions of users globally. It will remain one of the most dynamic names in the mobile internet space and continue to rapidly evolve and lead in the mobile internet ongoing evolution. I wish you the best of luck and success going forward.

Moving on, we are delighted to have delivered solid financial results in the fourth quarter of 2016. In the second quarter of 2016, we set a clear goal to rejuvenate revenue growth and improve our financial conditions, and both of our revenues and portfolio continued to improve in the second half of 2016.

In fourth quarter 2016, our total revenues, mobile revenues and overseas revenues, all hit record highs, driven by the steady and sustained revenue growth generated by our utility apps.

Importantly, we also further expanded our portfolio in the past quarter. Our non-GAAP operating profits grew more than 200% as compared with the previous quarter.

In addition, we generated RMB419 million in free cash flow in the fourth quarter 2016.

Going forward, we will remain focused on the execution of our mobile content strategy, which will lay a strong foundation for another round of strong monetization, revenue growth and profitability improvement in the coming quarters.

Now, let me walk you through the details of our fourth quarter financials and full year 2016 financial performance. All financial numbers are in RMB unless otherwise noted.

In December 2016, the number of mobile MAUs was RMB623 million, an RMB11 million increase from quarter-over-quarter.

For the fourth quarter of 2016, total revenues increased by 11% year-over-year and 13% quarter-over-quarter to RMB1.27 billion, which was slightly above the high end of our guidance.

For the full year of 2016, total revenues increased by 21% year-over-year to RMB4.56 billion, primarily driven by the steady and sustained revenue growth from our user apps and the contribution from our new content-driven apps, Live.me and News Republic.

By platform, for the fourth quarter of 2016, mobile revenues increased by 28% year-over-year and 15% quarter-over-quarter to RMB1.03 billion. Mobile revenues accounted for 81% of our total revenues in the fourth quarter, up from 70% in the prior year period and 80% from the third quarter 2016.

For the full year of 2016, mobile revenues increased by 43% year-over-year to RMB3.53 billion. Mobile revenues accounted for 77% of our total revenues in 2016, up from 66% in 2015.

For the fourth quarter, PC revenues declined by 29% year-over-year, but increased by 5% quarter-over-quarter. The year-over-year decrease was mainly due to the migration of internet traffic from PC to mobile in China. And the quarter-over-quarter increase was mainly due to high PC game revenues in the fourth quarter 2016. For the full year of 2016, PC revenue declined by 20% year-over-year.

By region, for the fourth quarter, overseas revenues increased by 31% year-over-year and 16% quarter-over-quarter to RMB833 million. Overseas revenues accounted for 65% of our total revenues in the quarter. For the full year, overseas revenues increased by 42% year-over-year to RMB2.75 billion. Overseas revenues accounted for 60% of total revenue.

For the fourth quarter of 2016, China revenue declined by 14% year-over-year, but increased 8% quarter-over-quarter. The year-over-year decrease was mainly due to the decline in PC revenues, and the quarter-over-quarter increase was mainly due to higher mobile advertising revenues in the fourth quarter 2016. For the full year, China revenue declined by 1.2% year-over-year.

By segment, revenue from online marketing services for the fourth quarter were RMB1.03 billion, which remains stable year-over-year and increased by 5% quarter-over-quarter. For the full year, revenues from online marketing services increased by 20% to RMB3.95 billion, driven by higher demand from mobile advertiser and monetization of light causal games to in-game advertising.

Revenue from IVAS for the fourth quarter of 2016 were approximately RMB209 million, which increased by 134% year-over-year and 89% quarter-over-quarter. For the full year 2016, revenue from IVAS increased by 27% to RMB501 million, primarily driven by our initial monetization of Live.me in the overseas market.

Going forward, we will continue to experiment with innovative monetization models for Live.me, which includes the ones that are proven to be successful in China.

Revenue from internet security services and others for the fourth quarter were approximately RMB33 million, which increased by 36% year-over-year and 5% quarter-over-quarter. The year-over-year increase was primarily driven by higher mobile internet service, software and licensing revenue. For the full year, revenue from internet security services and others increased by 19% to RMB113 million.

Moving to our costs and expenses -- to help facilitate the discussion of the Company's operating performance in addition to financial information presented in accordance with U.S. GAAP, the following discussion will also provide financial information relating to non-GAAP basis, which excludes stock-based compensation expenses.

For detailed financial information presented in accordance with U.S. GAAP, please refer to our press release, which is available on our website.

Total SBC expenses for the quarter declined by 45% year-over-year and 25% quarter-over-quarter to RMB54 million. For the full year of 2016, SBC expenses decreased by 3% to RMB306 million, which was mainly due to changes in the estimated or future rate of our share-based compensation expenses.

Cost of revenues for the fourth quarter of 2016 increased by 57% year-over-year and 15% quarter-over-quarter to RMB464 million. Non-GAAP cost of revenues for the fourth quarter of 2016 increased by 56% year-over-year and 15% quarter-over-quarter to RMB463 million. For the full year, cost of revenue increased by 61% year-over-year to RMB1.54 billion.

Non-GAAP cost of revenue for the full year increased by 62% to RMB1.54 billion, which was primarily due to step-up investment in content for our content driven products and an increase in bandwidth, internet data center costs associated with increased user traffic and data analytics.

Gross profit for the fourth quarter decreased by 5% year-over-year, but increased by 12% quarter-over-quarter to RMB810 million. Non-GAAP gross profit for the quarter decreased by 5% year-over-year, but increased by 12% quarter-over-quarter to RMB811 million. For the full year 2016, gross profit increased by 7% year-over-year to RMB3.02 billion. Non-GAAP gross profit for the full year of 2016 increased by 7% to RMB3.02 billion.

Gross profit margin for the fourth quarter of 2016 was 63.6% as compared with 74.3% in the prior year period and 64.2% in the third quarter of 2016. Non-GAAP gross margin for the fourth quarter of 2016 was 63.6% as compared to 34.2% in the prior year period and 64.2% in the third quarter of 2016.

For the full year of 2016, gross margin was 66.2% as compared with 74.7% in the prior year. Non-GAAP gross margin for the full year of 2016 was 66.2% compared to 74.7% in the prior year period.

Now R&D expenses for the quarter increased by 12% year-over-year and flat quarter-over-quarter to RMB235 million. Non-GAAP R&D expenses for the quarter of 2016 increased by 32% year-over-year and 7% quarter-over-quarter to RMB213 million. For the full year, R&D expenses increased by 30% year-over-year to RMB906 million.

Non-GAAP R&D expenses for the full year of 2016 increased by 37% year-over-year to RMB758 million, primarily due to increased headcount associated with our step-up investments in big data analytics and new product development. At the end of 2016, we had approximately 1,700 R&D personnel.

Sales and marketing expenses for the fourth quarter of 2016 decreased by 21% year-over-year, but increased by 4% quarter-over-quarter to RMB408 million. Non-GAAP sales and marketing expenses for the fourth quarter decreased by 20% year-over-year, but increased by 6% quarter-over-quarter to RMB408 million.

The year-over-year increase was mainly due to lower expenses on promotional activities as a result of our strategy to implement cost control for our utility apps, which was partially offset by increased product promotional activities for our content-driven applications and an increase in direct sales personnel. The quarter-over-quarter increase was mainly due to increased mobile product promotional activities in the quarter.

For the full year 2016, sales and marketing expenses increased by 10% year-over-year to RMB1.65 billion. Non-GAAP sales and marketing expenses for the full year 2016 increased by 10% to RMB1.64 billion.

G&A expenses for the quarter increased by 29% year-over-year and decreased by 10% quarter-over-quarter to RMB127 million. Non-GAAP G&A expenses for the fourth quarter 2016 increased by 82% year-over-year and decreased by 14% quarter-over-quarter to RMB96 million.

The year-over-year increase was mainly due to higher professional services fee and increased headcount in G&A function. And the quarter-over-quarter decline was mainly due to a decrease in professional service fee. Now for the full year, G&A expenses increased by 25% year-over-year to RMB552 million. Non-GAAP G&A expenses for the full year increased by 42% to RMB419 million.

Operating profit for the quarter was RMB62 million as compared with operating profit of RMB80 million in prior year and an operating loss of RMB34 million in the previous quarter.

Non-GAAP operating profit for the fourth quarter of 2016 decreased by 35% year-over-year, but increased by 205% quarter-over-quarter to RMB116 million.

For the full year, operating losses was about RMB12 million as compared to an operating income of RMB217 million in 2015. Non-GAAP operating profit for the year decreased by 45% to RMB294 million.

Operating margin for the quarter was 4.9% as compared to 6.9% in the prior year period and operating loss margin of 3% in the previous quarter.

Non-GAAP operating profit margin for the fourth quarter was 9.1% as compared to 15.5% in the prior year period and 3.4% in the third quarter 2016. The year-over-year decrease was mainly attributable to increased investments in content-driven applications and the quarter-over-quarter increase was mainly due to total revenues increase and cost control measures.

For the full year 2016, operating loss margin was 0.3% as compared to operating margins of 5.7% in 2015. Non-GAAP operating margins was 6.4% in 2016 as compared to 14.4% in 2015.

Net income for the fourth quarter of 2016 increased by 4% year-over-year and 13 times quarter-over-quarter to RMB59 million.

Non-GAAP net income for the fourth quarter was RMB113 million, which decreased by 27% year-over-year, but increased by 56% quarter-over-quarter.

For the full year of 2016, net loss was RMB81 million as compared to net income of RMB176 million in 2015. Non-GAAP net income for the full year of 2016 decreased by 54% year-over-year to RMB226 million.

Diluted net income per ADS for the quarter was RMB0.41 or US$0.06 as compared to RMB0.40 in the prior year period and breakeven in the prior quarter. Non-GAAP diluted net income per ADS was RMB0.80 or US$0.12 as compared to RMB1.08 in the prior year period and RMB0.51 in the previous quarter.

For the full year of 2016, diluted loss per ADS was RMB0.58 or US$0.08 as compared to diluted income per ADS of RMB1.24 in 2015. Non-GAAP diluted net income for ADS for the full year was RMB1.59 as compared to RMB3.45 in the 2015 period.

Adjusted EBITDA for the fourth quarter was RMB159 million. For the full year 2016, adjusted EBITDA was RMB457 million.

Looking ahead, for the first quarter of 2017, we currently expect total revenues to be between RMB1.15 billion and RMB1.19 billion, representing a 3% to 7% year-over-year increase and a 7% to 10% quarter-over-quarter decrease. The estimated quarter-over-quarter revenue decrease is primarily due to our usual seasonality.

Please note that this forecast reflects the Company's current and preliminary view and is subject to change.

Before we start the Q&A session, I would like to remind everyone that on March 16, 2016, the Board of Directors authorized a 1-year share repurchase plan, which allows the Company to buy back up to $100 million in aggregate values of its ADS.

During the 1-year period, the Company has repurchased a total of 2.54 million ADS, representing 25.4 million Class A ordinary shares at an average price of $10.75 per ADS under the share repurchase program that expired on March 16, 2017.

This concludes our prepared remarks. Operator, we are now ready to take questions.

Question-and-Answer Session

Operator: David Sun of Morgan Stanley.

David Sun: So first of all, I am sorry to hear that Andy is leaving. I wish you all the best, Andy.

(Speaking foreign language). So I will translate my questions. So first one is on the core business. We have seen quite a few initiatives, changes in the past few months such as rebranding mobile app business, launching Cheetah Open Feed platform. So I'm just wondering what's the thinking or logic behind those changes? And can management share more color on the product positioning (inaudible) structure and the potential revenue opportunities from those new initiatives?

And the second question is on the content products. IVAS numbers was quite positive this quarter. And what's the revenue contribution and associated losses from the new business in this quarter; I mean in fourth quarter?

And also from the third-party data tracking, we found that Live.me first quarter numbers is also very strong. So what do we expect the contributions from content products in Q1? And also what's the major areas of development and the revenue expectation for 2017? Thanks.

Fu Sheng: (Speaking foreign language).

Andy Yeung: (Translated). Okay. So I will translate the answer for the question. First of all, David, thank you for your comments. So in terms of our utility applications, I think over the past couple of quarters, you've seen the utility applications remain pretty strong and grew steadily. It remained the top position in the utility application space despite increased competition. If you look at our business line overall, I think CM and other utility applications continue to have shown solid performance and steady growth.

I think if you look at not only growing in revenue contribution, but also contributing increasingly on the profitability front as well. So if you look at the overall two applications as a product matrix, I think over the past year, we'd admit that we have not been as focused. But you've seen increasingly more focus for us to develop the product matrix in the two utility applications side and I think that's shown (inaudible) in the past couple of quarters.

We also -- if you look about that, if you look at our recent data or you look at the publicly available data, you probably have seen that CM Launcher is a product, as produced by us, has become the number one launcher product globally, beating some of the more local competitors like APUS and others. And that product growth was mainly organic, without much or very little marketing activities to promote that application, mostly coming from users downloading the product themselves from the App Store.

Another product that we also have seen very strong user demand and organic download is PhotoGrid and that user number continues to grow very nicely. And so I think if you look at our product matrix or (inaudible) for the application is that we will continue to maintain our market leadership in that space and we will continue to explore other products to satisfy user demand as well.

So regarding the second question, I will answer the question about the contribution from our content products. I think if you look at the income contribution, it continues to grow very rapidly. If you look at the content product themselves, probably heading somewhere between RMB140 million to RMB150 million to our revenues in the quarter and however, because it's still subscale right now in our view, even though it's growing very nicely, Live.me, News Republic, both in terms of user, user number, user engagement level and also revenues are all growing very nicely for us, but it is still in investment phase.

So the combined operation probably added to about RMB190 million to RMB200 million losses to our bottom line. So again, we have delivered pretty strong earnings this quarter and that's despite investments in the content product.

Looking forward for the full year, I think we will continue to expect the content product to grow, because obviously, we're just beginning to launch a product for less than a year. So I think -- and then we also recently turned on that monetization. So we think it will continue to deliver, be a key driver for our growth in 2017.

In terms of the investments in content side, I think we continue to invest quite heavily on content. But again, as we mentioned before, we'd like to see that the content investment supported by the profit that we derive from our two applications as well as our PC operations, and that strategy has not changed at all. So that's how we look at it. Hopefully, that answers your question, David.

David Sun: Okay. Thank you. Fu Sheng and Andy.

Operator: Joyce Ju of Citi.

Joyce Ju: Congratulations on the strong set of results this quarter. I basically have one follow-up question on the content apps. As you mentioned, the content apps have already achieved quite good growth in the fourth quarter. And we have seen those App Annie ranking also performed pretty well in the first quarter as well.

So we're just trying to kind of get more color on what type of monetization methods Cheetah plans to explore for those apps, because I think you mentioned early that there were different ways, like you tried to monetize it probably not only for IVAS.

And my second question is a follow-up on the new utility app Mr. Fu just mentioned, like what -- for the new utility apps, do we expect like large investments or it cause further pressure on the margins?

(Speaking foreign language).

Fu Sheng: (Speaking foreign language).

Andy Yeung: (Translated). Okay. So Joyce, thank you for your question. So in terms of monetization for Live.me or News Republic, even for our user application, I think as we have previously mentioned, we'll continue to try out different innovative monetization methodology; and so including, for example, more advertising, looking at more precise targeting based on regions, based on other criteria. If you look at Live.me, we're also very happy to see that the virtual gift function was very well received by our global user and produced some very good results.

And then last, I think the overall Company remains mainly largely driven by advertising revenues, but certainly, we'll continue to try out different monetization models. For example, if you look at the gaming operating side, initially, we have these virtual item purchased (inaudible). Later on, we also switch and experiment with in-app advertising.

So I think for monetization right now, we're looking at trying out different things for sure and when we launch those monetization strategies, we'll definitely discuss more with you and other folks here.

Fu Sheng: (Speaking foreign language).

Andy Yeung: (Translated). Right. So regarding your second question, with the new product for user applications that increase expenses or put pressure on profit margins, I think the way we look at utility application, our PC product as well, is that they are a cash cow and we like to maintain that steady pace, and also we want to maintain that profitability.

So if you look at new application developments for utility applications, we [were] focusing on looking at what the user demand is and have a small team to develop those products and try it out. And only if they're successful, then we'll maybe utilize some of the marketing dollars to help promote these products. But again, the main focus for utility applications for us is to find what the users want and demand and we want to satisfy that demand.

And so as a result, we'll definitely control the expenses both in R&D as well as marketing dollars for the new user applications. And I think the way we do that is just that we'll definitely try to maintain a steady growth and profitability for those applications, and then look for incrementally adding more products that have demand, strong demand, from the user base. Okay?

Joyce Ju: Thank you.

Operator: Wendy Huang of Macquarie.

Wendy Huang: (Speaking foreign language). My first question is about the long-term margin outlook and where do you expect the 2017 margins to be?

And the second question is each (inaudible) country has robust agreements also under your operations. So do you have any change in asset to a listed company? We also want to clarify the RMB140 million to RMB150 million revenue you just mentioned from the content. So is that actually classified under the internet value-added services or under the other revenue? Thank you.

Fu Sheng: (Speaking foreign language).

Andy Yeung: Okay. So I will translate that. (Translated). So really I think when we look at the portfolio comparisons between in 2016 as a whole and versus 2015, certainly I think, as we mentioned in the second quarter 2016, we did face some difficulties and our growth rate was meaningfully, significantly less than what we have expected at the beginning of the year. And that had an impact on the first half 2016 profitability, but as we mentioned in the second quarter, at that time, we will initiate a number of initiatives to rejuvenate growth and also improve profitability. So I think if you look at our results in the third quarter and fourth quarter, we delivered on those promises.

You’ve seen two consecutive quarters of significant increase in our revenues and you’ve also seen our profitability expand in the third and fourth quarter consecutively. I think another thing that -- and that achievement was accomplished under the condition where we invest very heavily on our content product. As we mentioned, we invest very significantly on R&D, marketing and to a lesser extent, IDC service expenses for our content product. And we're very glad that those investments are beginning to pay off.

As you’ve seen the results in the recent quarter, Live.me and News Republic are both performing, as we mentioned in our prepared remarks, quite well in term of user number, user engagement level and also revenue contribution. And for us, content is our core strategy and we are pretty steadfast in investing in the content product and underlying content is the A.I. technology, for example. That’s a very core technology that I think will have opportunity for us to become a market leader, to really break through in our current product side as well. So we're pretty stepped up investing in content and also in A.I. technology.

And but of course, we will do it as we mentioned before, within reasonable parameter. And so if you’ve seen what we've done in the prior two quarters, it’s pretty clear that we'll continue to invest in content, but we'll continue to maintain steady and solid growth and profitability from our existing PC products as well as our user application to support that investment. And so hopefully, that answers your question.

Fu Sheng: (Speaking foreign language).

Andy Yeung: (Translated). Okay. Regarding the robotics, so Mr. Fu actually has invested in a robotic company himself last year. And as you probably have seen our prior press release, we're in the process of looking into a potential agreement to acquire some stake in the robotic company. I think the detail of that would be announced once we have that detailed information, so we won’t discuss much about that.

But if you look at the reason why Cheetah Mobile may be interested in robotics is that there's a lot of commonality between robotics, especially in deep learning and A.I., that may have common applications for what we want to do on the internet space.

And so in the long run, I think as a Company, we definitely would like to invest in this very important emerging technology that we think is going to be a game-changer in the internet industry. And so that’s why we are interested in potential investment in this company, but again, we'll provide further details once we have them in the form of a press release. Nothing more we would like to add other than that. Thank you.

Wendy Huang; (Speaking foreign language).

Andy Yeung: Okay. So if you look at the content revenues for Live.me, it’s fully in IVAS because it’s virtual gift. And so you look at virtual gift, it increased -- sorry, the IVAS increased quarter-on-quarter mainly coming from the increase in Live.me’s revenue increase. And News Republic is mainly advertising, so it’s placed in the online marketing services category of revenues.

Wendy Huang: Thank you. Thanks, Fu Sheng and Andy.

Operator: Thomas Chong of Bank of China International.

Thomas Chong: (Speaking foreign language). My first question is about our relationship with Facebook. Can management give us some color about whether we will deepen our cooperation with Facebook this year? And on top of that, may I also ask about the Facebook revenue contribution to mobile advertising revenue this quarter?

And my second question is about the recent online video initiative. Is there any color about the monetization potential and management expectation on this revenue contribution? Thanks.

Fu Sheng: (Speaking foreign language).

Andy Yeung: Okay. So let me translate that. (Translated). So Thomas, thank you for your questions. First of all, I think we continue to work very closely and very amicably with Facebook. Obviously, Facebook is a very large company and work with many, many other partners as well. So as we mentioned in our -- and obviously, Facebook remains one of our very important partners and we definitely would like to continue to work well with them and expand partnership as much as we can.

But as we mentioned since the second quarter, we have taken some initiatives to diversify our revenue stream from different partners, different channel partners. And we're very happy to say that today, our channel diversification has been moving quite nicely.

And so the contribution from Facebook, as a percentage of our overall revenues, probably would've been declining, be smaller compared to last year, and also because our revenue also has grown as well. So we'll provide that more information, more detailed information, on our 20-F, but I think it's fair to say that even though our Company has seen 21% year-over-year increase in our own revenues, the contribution from Facebook will likely be smaller compared to 2015.

The second question that you have is on video advertising. So as a company, we see video advertising as a very important format for mobile advertising. But to be honest with you, if you look at our video content right now, besides live streaming, we have still limited video content, so we'd like to increase that, but we do not anticipate that as a key driver, at least not in 2017 at this time.

Thomas Chong: Thank you.

Helen Zhu: Thank you all for joining us today. If you have any further questions, please do not hesitate to contact us. Thank you. Bye.