

[YALA] Yalla Group Ltd.
Q1 2022 Earnings Conference Call
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Executives

Kerry Gao, IR Director
Tao Yang, Chairman and Chief Executive Officer
Saifi Ismail, President
Karen Hu, Chief Financial Officer
Jeff Xu, Chief Operating Officer

Analysts

Ming Kun, CICC
Shiqi Ge, CICC
Kaifang Jia, CITIC
Yulin Zhong, Haitong International
Thomas Shen, Nomura

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by for Yalla Group Limited's First Quarter 2022 Earnings Conference Call. (Operator Instructions). After management's prepared remarks, there will be a question-and-answer session. Today's conference call is being recorded.

Now I will turn the call over to your speaker host today, Ms. Kerry Gao, IR Director for the company. Please go ahead, ma'am.

Kerry Gao: Hello, everyone, and welcome to Yalla's first quarter 2022 earnings conference call. We released our earnings earlier today, and the release is now available on our IR website as well as on newswire services.

Before we continue, please note that the discussion today will contain forward-looking statements made under the safe harbor provision of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our future results may be materially different from the views expressed today.

Further information regarding this and other risks and uncertainties is included in our earnings release and our registration statements filed with the SEC. Yalla does not assume any obligation to update any forward-looking statements, except as required by law.

Please also note that Yalla's earnings press release and this conference call include a discussion of unaudited GAAP financial information, as well as unaudited non-GAAP financial measures.

Yalla's press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures.

Today, you will hear from Mr. Tao Yang, our Chairman and Chief Executive Officer, who will provide an overview of our recent achievements and growth strategies. He will be followed by Mr. Saifi Ismail, the company's President, who will give a brief review of our recent developments. Ms. Karen Hu, our Chief Financial Officer, will then provide additional details on the company's financial results and discuss our financial outlook. Following management's prepared remarks, we will open up the call to questions. Our Chief Operating Officer, Mr. Jeff Xu, will join the call for our Q&A session.

With that said, I would now like to turn the call over to our Chairman and Chief Executive Officer, Mr. Tao Yang. Please go ahead, sir.

Tao Yang: Thank you, Kerry, and thank you, everyone, for joining our first quarter 2022 earnings conference call. We are pleased to have started 2022 on a strong note, with our revenue reaching an all-time high of US\$72.3 million, exceeding the higher end of our guidance. This excellent performance notwithstanding, 2022 is still undoubtedly shaping up to be a year full of challenges.

Looking at the macro environment, variables such as geopolitical friction among countries, as well as pandemic resurgences in various regions, are creating fluctuations and ongoing turbulence. Yalla is closely monitoring the macro situation and will adjust our company strategy appropriately. For this year, instead of merely pursuing high user base growth, we will increase our focus on improving return on investment with respect to our user base expansion. To that end, we are currently testing and flexibly adjusting our sales and marketing strategy based on our observations of market dynamics.

During the first quarter, we were able to deliver solid top-line growth while optimizing the pace of user growth. Thus, sales and marketing expenses, as a percentage of our total revenues, have decreased compared with the previous quarter. We are encouraged by this progress and aim to further improve our sales and marketing efficiency going forward.

In 2022, we will continue to expand our services and stretch the boundaries of our business, launching innovative social networking and entertainment products to fulfill MENA users' evolving needs, and grow our immersive online ecosystem to deliver more memorable experiences to more users while creating future revenue streams for our company.

Now let's take a closer look at our new product updates. As a leading player in the online social networking and entertainment industry, Yalla strives to expand its ecosystem and broaden the scope of its product and service offerings to meet MENA users' unique needs. We are happy to share with you that, facilitated by Yalla Game Limited, we will soon launch the beta version of our first hard-core mobile game. This is a milestone for Yalla Group.

Beyond that, as an important part of our group's strategy, we are also actively looking for diverse investment opportunities to continue to flexibly and efficiently broaden Yalla's ecosystem. We look forward to sharing more updates with you, our investors, on potential opportunities in the near future.

We are also excited to share with you that we recently launched YallaChat version 1.0, and have rolled out several important features with this iteration. First of all, as we have shared previously, a crucial step in building the Yalla ecosystem among our user communities is to build a unified login system with YallaChat, which will allow users to log in to any product within the Yalla Group using their YallaChat ID. We have already started marketing this upgrade with Yalla, including incentives such as free coins and special gifts to encourage users to log into Yalla Live with their YallaChat ID.

We expect this enhancement to motivate an increasing number of Yalla users to register for YallaChat accounts and take advantage of the united login system. We see this as an important step to boost product synergies and increase users' loyalty and stickiness to Yalla Group's products.

In addition, in order to encourage users to further engage with YallaChat, we have introduced a casual social game, "hop up," within YallaChat, bringing users a new opportunity to share exciting gaming moments and compete with their friends. We believe social games are a good catalyst to increase social interactions, while simultaneously promoting YallaChat to a broader range of users.

On top of that, we have also implemented our "moments" function, which will allow users to make a record of and share their memorable moments with their friends on YallaChat 1.0, and added more emoji packages designed for Arabic users. We will continue to welcome user feedback, roll out more localized functions and work on perfecting the details with upcoming iterations of YallaChat.

As we reported last quarter, Waha, the first-ever social metaverse designed for the MENA region, plays a critical role in Yalla's efforts to expand the boundaries of existing online social networking products, and represents an important step forward in Yalla Group's metaverse application explorations. After Waha's launch last quarter, our team focused intently on feedback collection and rolled out another iteration at the beginning of May.

In the latest iteration, we introduced a new 3D social scene with more interactive features for our users to enjoy in the virtual world, as well as additional options for users to build their Waha avatar. We firmly believe that the metaverse holds tremendous potential for our business. We are closely monitoring industry trends as we explore new possibilities and create unique and more interactive social experiences for our MENA users.

Before I conclude, I have one more important update. It is my pleasure to introduce Yalla Group's inaugural Environmental, Social and Governance Report, showcasing our performance across economic, social, governance, and environmental practices for 2021. We sought to identify initiatives that enable sustainable development not only for our company and our employees, but also for the community, society, and our environment. We are proud to share our progress and future goals with you via our first ESG report, which is now available for download on our IR and company websites.

We believe that our status as the leading voice-centric social networking and entertainment platform in MENA comes with the responsibility to create significant socio-economic value.

This is manifested not only by maintaining robust financial performance, but also by providing MENA's people with better access to a digital life while generating value by supporting the region's growth and development goals. As a company deeply rooted in MENA, we have witnessed exceptional achievements in the digital transformation of this region, and remain profoundly inspired by the UAE government's unwavering commitment to a sustainable economy.

Over the past year, we have continued to make considerable progress in our efforts to align with the UAE's visionary 50-year Economic Plan, and the country's economic strategy prioritizing digitalization and environmental responsibility. As we look back on another successful year, we are happy to take this opportunity to renew our invitation to all stakeholders to continue to engage with us in our open and ongoing sustainability conversation. We welcome all feedback.

In closing, I would like to reiterate that our vision is to build the most popular destination for online social networking and entertainment activities in MENA, a vision we hope to realize within the next 10 years. Yalla's organizational values, "Multicultural Understanding," "User First," "Simple," and "Target," have guided our team to prioritize our users, embrace diversity, and operate with a simple, pragmatic, pioneering, and enterprising approach as we collaborate. Adhering to these principles has been the driver of our past achievements, and will ensure that we remain dedicated as we work to achieve our vision.

Looking ahead, we will continue to closely observe MENA's local cultural trends and consistently expand Yalla's ecosystem with diverse products and services tailored to local users' evolving needs.

Now I will turn this call over to our President, Mr. Saifi Ismail, for a closer look at our recent developments.

Saifi Ismail: Hello, everyone. Thanks for joining us today. Let's take a look at our operations, as well as our products' performances. Operationally, as we moved into 2022, our growth momentum carried on as we expanded our user community and further advanced our monetization capabilities. As Tao mentioned in his remarks, our experienced marketing team has been adjusting our sales and marketing strategy to boost the return efficiency on our user acquisition investments.

We are pleased to report a solid quarter, with Yalla Group's total revenues of US\$72.3 million, beating the higher end of the company's guidance. Our monthly active users increased 55.3% year-over-year, reaching 29.2 million. Yalla Group's paying users also increased to 9.4 million, while the sales and marketing expenses as a percentage of our total revenues decreased from last quarter, leaving us more flexibility and budgetary capacity to promote our new products later this year.

We are also happy to share that our casual game portfolio, including Yalla Parchis, 101 Okey Yalla and Yalla Baloot, is making good progress. In Q1, Yalla Parchis ranked in the top 10 in terms of revenue under the board game category in 9 countries. We have rolled out a new game mode and chatting features, which further increased user retention and user stickiness on the platform.

We also hosted events, including our Independence Day and Yalla Carnaval, to celebrate local holidays in various regions and encourage user engagement on the platform, attracting participation by more than 60% of our daily active users.

During the first quarter, 101 Okey Yalla, for the first time, was ranked among the top 5 in terms of revenue in Turkey in the board game category on Google Play, and was ranked among the top 10 in terms of revenue in Turkey in the board game category on IOS. We continue to expand 101 Okey Yalla's user base, and have seen user stickiness improve consistently as both the average daily time spent per active user and users' willingness to pay continue to grow.

Furthermore, we received excellent feedback after the official launch of Yalla Baloot last December, which has already been ranked among the top 5 in terms of downloads on Google Play in Saudi Arabia under the Card Game category, and we have already received an average rating of 4.7 on Apple Store. We are encouraged by this progress and will continue to expand Yalla Baloot's user base while collecting user feedback.

It is my privilege to share another piece of good news with our investors. We at Yalla Group are extremely honored to have been recognized as a gold winner in the third annual Middle East & North Africa Stevie Awards. Specifically, our Yalla Ludo game took gold in the "Innovation in Entertainment Apps" category. The Middle East & North Africa Stevie Awards are the only business awards program to recognize innovation in the workplace in 17 nations in the Middle East and North Africa.

The Stevie Awards are widely considered to be the world's premier business awards, conferring recognition for achievement in programs such as The International Business Awards for 20 years. With more than 12,000 entries each year from organizations in more than 70 nations, and more than 1,000 executive-level professional judges, this award further solidifies Yalla Group's position as one of the MENA region's top companies.

We view this illustrious international award as yet another testament to Yalla Group's teams' excellent work and many accomplishments throughout the past year and would like to deeply thank the Stevie Awards organization for this tremendous distinction. We hope that our ongoing efforts and achievements merit many more regional and global awards in the future.

2022 is a year full of promise and potential. In the new year, we remain fully committed to maintaining our position as the leading voice-centric social networking and entertainment platform in MENA, and further delivering on our commitment to serving MENA users' evolving needs in this field. To echo Tao once more, our vision is to build the most popular destination for online social networking and entertainment activities in MENA. And we will strive to exceed users' expectations with innovative features and services tailored to the MENA region.

With that, I will now turn the call over to our CFO, Karen, who will discuss our key financial and operational results.

Karen Hu: Thank you, Saifi. Hello, everyone. Thank you for joining us. We achieved strong top-line growth in the first quarter of 2022, recording an increase of 7.1% quarter-over-quarter to reaching US\$72.3 million. This strong performance once again illustrates our group's ability to deliver growth in a rapidly evolving environment. Notably, we also reduced selling and

marketing expenses by 5.9% quarter-over-quarter amid macro uncertainty, as a result of our ROI-based approach to promotions and advertising.

Furthermore, we maintained a healthy non-GAAP net margin of 35.9%, impressive by industry standards, as well as ample cash reserves to sustain the ongoing expansion of our Yalla ecosystem.

As we move through 2022, we will focus on growing the group's long-term profitability by further refining our resource allocation to propel product innovation and monetization, while boosting sales and marketing efficiency as well as optimizing capital utilization.

Now I would like to walk you through our detailed financials for the first quarter of 2022. Our revenues were US\$72.3 million in the first quarter of 2022, a 6.9% increase from US\$67.6 million in the same period last year. The increase was primarily driven by the broadening of Yalla Group's user base and enhancements to Yalla Group's monetization capabilities.

Our average MAUs increased by 55.3% from 18.8 million in the first quarter of 2021 to 29.2 million in the first quarter of 2022.

Now let's look at our costs and expenses. Our cost of revenues was US\$27.5 million in the first quarter of 2022, a 14.7% increase from US\$24 million in the same period last year, primarily due to an increase in technical service fees resulting from the expansion of our product portfolio and an increase in salaries and benefits resulting from the expansion of the operation and maintenance team. Cost of revenues, as a percentage of our total revenues, increased from 35.5% in the first quarter of 2021 to 38.1% in the first quarter of 2022.

Our selling and marketing expenses were US\$12.5 million in the first quarter of 2022, a 49.8% increase from US\$8.4 million in the same period last year, primarily due to higher advertising and market promotion expenses led by our continued user acquisition efforts and expanding product portfolio. Selling and marketing expenses as a percentage of our total revenues were 17.3% in the first quarter of 2022, increasing from 12.4% in the first quarter of 2021.

The ratio declined from 19.7% in the fourth quarter of 2021, driven by our more disciplined advertising and promotion approach.

Our general and administrative expenses were US\$8 million in the first quarter of 2022, a 31.5% decrease from US\$11.7 million in the same period last year, primarily due to lower share-based compensation expenses recognized during the first quarter of 2022. General and administrative expenses as a percentage of our total revenues decreased from 17.3% in the first quarter of 2021 to 11.1%.

Our technology and product development expenses were US\$6 million in the first quarter of 2022, a 79% increase from US\$3.3 million in the same period last year, primarily due to an increase in salaries and benefits for our technology and product development staff, driven by the development of our new businesses and expansion of our product portfolio. Technology and product development expenses as a percentage of our total revenues increased from 4.9% in the first quarter of 2021 to 8.3% in the first quarter of 2022.

As such, our operating income was US\$18.3 million in the first quarter of 2022, compared with the operating income of US\$20.2 million in the same period last year. Excluding share-based compensation, non-GAAP operating income in the first quarter of 2022 was US\$26.5 million.

Our income tax expense was US\$0.61 million in the first quarter of 2022, compared with US\$0.43 million in the first quarter of 2021.

Moving to the bottom line, our net income was US\$17.7 million in the first quarter of 2022, compared with net income of US\$19.8 million in the same period last year. Excluding share-based compensation expenses, non-GAAP net income for the first quarter of 2022 was US\$26 million.

Next, I would like to briefly go through our liquidity and capital resources. As of March 31, 2022, we had cash and cash equivalents of US\$367.5 million, as compared with cash and cash equivalents of US\$351.5 million as of December 31, 2021. This improvement demonstrates our commitment to continuing streamlining and refining Yalla Group's operations.

On May 21, 2021, we announced the 2021 Share Repurchase Program. As of March 31, 2022, we have repurchased 1,903,205 American depositary shares ("ADSs"), representing 1,903,205 Class A ordinary shares from the open market with cash for an aggregate amount of approximately US\$25.4 million. Furthermore, our board of directors has approved an extension of the repurchase program through May 21, 2023.

In the second quarter of 2022, we expect our revenues to be between US\$66 million and US\$70 million.

The above outlook is based on the current market conditions and reflects the Company management's current and preliminary estimates of market and operating conditions and customer demand, which are all subject to change.

This concludes our prepared remarks for today.