

[YALA] Yalla Group Ltd.
Q2 2022 Earnings Conference Call
August 8, 2022 8:00 PM ET.

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

Yulin Zhong, Haitong International
Edward Wang, Credit Suisse
Thomas Shen, Nomura
Xueqing Zhang, CICC
Chenghao Li, CICC
Kaifeng Jia, CITIC
Zemin Chen, Huafu Securities

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by for Yalla Group Limited's Second 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 hand the conference over to your speaker-host today, Ms. Kerry Gao, IR Director of the company. Please go ahead, ma'am.

Kerry Gao: Hello, everyone, and welcome to Yalla's second 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 these and other risks and uncertainties is included in our earnings release and our annual report 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 briefly review 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.

Operator: This is the conference operator. We have temporarily lost connection with the speaker line. Please continue to hold and the conference will resume shortly.

Tao Yang: Thank you, everyone, for joining our second quarter 2022 earnings conference call. We are pleased to have delivered another strong quarter with revenue of US\$76.1 million, exceeding the higher end of our guidance by 8.7%. This represents a second consecutive quarter of record high revenue for the company, despite the Ramadan holiday. Such robust quarterly results are a testament to our operational success in refining our processes, enhancing the communication of our flagship applications and optimizing user acquisition. Together, these actions have holistically elevated our user experience, further boosting Yalla's and Yalla Ludo's user engagement and users' willingness to pay on our platforms.

In short, our core strategy and operational improvements are effective, and their positive impact is growing. We recently celebrated the 6th anniversary of Yalla, our group's first product and a pioneering application designed to mirror, preserve and nurture MENA's unique social traditions in the digital era. Time has flown by, as we have deepened our commitment to MENA, its people and its culture, conceiving new products to meet MENA users' evolving needs and facilitating digitalization throughout the region over the past half-decade.

As a tech industry leader in MENA, we will continue to expand our services and stretch the boundaries of our business, while further deepening synergies among our different products and services to create brand loyalty among users.

Now let's take a closer look at our new product updates. Drawing on our industry-leading experience in social entertainment in MENA, Yalla is now exploring the mid-core and hard-core game distribution business to complement our casual games portfolio. We have already invested in two gaming studios through Yalla Game Limited, and are working with them on the mid-core and hard-core mobile games that we will distribute in MENA.

We are also open to additional good gaming content and potential new collaborators with whom we can further explore the MENA market. Beyond that, as an important part of our group's strategy, we are actively looking for opportunities to broaden Yalla's ecosystem flexibly and

efficiently. We look forward to sharing more updates on potential opportunities with our investors in the near future.

We are also very excited to share that we recently launched the YallaChat version 1.1 with a number of important new features. First, I'd like to highlight the Athan Feature, a unique innovation tailored to Arabic users' traditions and customs. Since praying plays a significant role in Arabic users' daily lives, we created the Athan feature to enable users to receive reminders for daily prayers. Instant message products are an integral, intimate part of users' daily lives. Thus, we believe targeted hyper-localization of an IM product is a necessity.

The Athan feature demonstrates our team's close attentiveness and insight into MENA users' needs, as well as their dedication to bringing MENA users a truly customized experience. Athan is just one of many localized features under development. We will roll out additional upgrades in future iterations based on our team's deep understanding of MENA users and this unique market.

Second, as we shared last quarter, we are building YallaChat with a unified login system, which will allow users to log into any products within the Yalla Group using their YallaChat account. We began upgrading Yalla Live last quarter to be compatible with this system and recently commenced Yalla Ludo's upgrade as well. We expect this enhancement to motivate more Yalla Ludo users to register for YallaChat accounts.

In addition, we have set up convenient links within these apps, empowering users to explore YallaChat functions with a single click. We see this as an important step to boost product synergies and increase users' loyalty and stickiness to Yalla Group's products.

As we reported last quarter, Waha, which represents a significant milestone in Yalla Group's metaverse application explorations, is the first-ever social metaverse designed for the MENA region. During the second quarter, our team upgraded the product system and the foundation of the app to better prepare the product for future opportunities, including merging with new technologies related to the metaverse, enabling more UGC interactions and supporting a larger user community.

As to metaverse, we are focused on analyzing the potential applications and services that the currently available technologies can support, while also closely monitoring industry trends. We firmly believe in the tremendous potential of the future metaverse, although it will take time for both hardware and software to develop and reach maturity as a fully-fledged metaverse. But participating in the initial development phase of the metaverse, we are building our capabilities and positioning ourselves to capture the metaverse's boundless future possibilities.

Before I conclude, I have one more important update to share. It is my honor to welcome Mr. Mohamed Al Ghanim to the board as an independent director and a member of our Nominating and Corporate Governance Committee. Mr. Al Ghanim is a renowned telecommunications expert with an extensive regulatory background. He is the founder and ex-director general of the UAE Telecommunications and Digital Government Regulatory Authority (the "TDRA"). I believe Mr. Al Ghanim will bring unique and valuable perspectives to Yalla. We are excited to have him join our board.

In conclusion, I am pleased that this quarter represented another solid stride toward our vision of building the most popular destination for online social networking and entertainment activities in MENA. We hope to realize this vision within the next 10 years. Our dedication to the MENA region and our adherence to Yalla's organizational values, "Multicultural Understanding," "User First," "Simple," and "Target," has driven our past achievements, and will continue to guide our future endeavors. 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. As Tao mentioned in his remarks, our experienced operation team further refined our content and user operations. In particular, during the quarter, they enhanced gamification in the Yalla App, which bolstered our paying ratio and average revenue per paying user, stimulated greater user engagement in our community, and further advanced our monetization capabilities.

As a result, we are pleased to report a solid quarter, with Yalla Group's total revenues of US\$76.1 million, beating the higher end of the company's guidance. In addition, our monthly active users increased 35.6% year-over-year, reaching 29.9 million. Yalla Group's paying users also increased to 10.6 million.

Our casual game portfolio, including Yalla Parchis, 101 Okey Yalla and Yalla Baloot, also performed well during the second quarter. Yalla Parchis ranked in the top 3 in terms of revenue in the board game category in 6 countries, including Columbia, the Dominican Republic and Spain. Thanks to the new VIP and gifting features we rolled out, user retention and average daily time spent continue to improve. We also hosted events to celebrate local holidays, such as Easter Day, attracting participation by more than 70% of our daily active users.

During Q2, 101 Okey Yalla remained one of the most downloaded apps in the board game category in Turkey, and ranked among the top 5 in terms of revenue in the board game category on both Google Play and IOS. Furthermore, user retention, engagement and willingness to pay on the platform all improved, benefiting from the new VIP subscription and battle pass we rolled out this quarter.

We also received excellent feedback from Yalla Baloot. We have observed steady user retention improvements, as we continue refining the game's experience for new users. The event we hosted to celebrate Ramadan also helped boost user engagement on the platform. We will continue to tailor the details of Baloot's product design while collecting user feedback.

Next, it is my privilege to update you on the progress of our participation in the Coders HQ program, a transformational initiative launched in January 2022 by the UAE government under the directives of Sheikh Mohammed bin Rashid Al Maktoum, Ruler of Dubai. As we reported previously, Yalla was invited to join the program last year, and is proud to be the only UAE internet company selected to participate. The Coders HQ program aims to consolidate the UAE's

position as a global hub for coders and an ecosystem for incubating innovative tech projects and ideas.

Yalla Group is honored to advance the program's goals alongside more than 40 companies in the UAE and worldwide, including a number of global tech giants. Throughout the program, our team has contributed its keen insights into MENA's culture and traditions to shed light on two key factors for the success of any product in the region: localization and quality assurance. We believe Yalla's role in the Coders HQ program not only demonstrates the company's commitment to facilitating the development of MENA's local digital economy, but also attests to the fact that Yalla is a reliable and trustworthy local partner and representative of the local internet industry.

We wish to sincerely thank the UAE government for their ongoing trust and belief in Yalla Group. We value their support as we remain committed to maintaining our leading position as one of the UAE's most prominent and thriving technology companies.

Another important achievement we would love to share this quarter is the successful expansion of Yalla gift cards, which are now available across the MENA region and worldwide, both online and offline. To better serve our users' account recharge needs, we continue to collaborate with our partners, and have launched a variety of recharge channels, including self-service kiosks, retail stores, mobile wallets, banks, and digital platforms with worldwide distribution across the MENA region.

For customers unable to use digital payment channels, our offline self-service kiosks such as MBME, UPay, and retail stores, including Cashplus in Morocco and Virgin Megastores across the MENA region, are a great convenience. Customers with easy access to e-payment systems can also reload their accounts with gift cards through their mobile banking apps and wallets.

The expansion of Yalla's account recharge channels not only substantially augments Yalla users' account recharge options, especially in areas with limited access to credit cards, but also demonstrates our team's capabilities in cultivating a local channel partner ecosystem across different countries in MENA. We spare no effort to improve our users' experience and ensure that our products and services are tailored to MENA's local needs and preferences.

To echo Tao once more, our vision is to build the most popular destination for online social networking and entertainment activities in MENA within the next 10 years. Over the past 6 years, we have put down deep roots in MENA, rolled out products tailored to local users' habits and preferences, expanded our partnerships with local channels, and collaborated with local communities to help facilitate the development of the digital economy and the internet industry. Keeping our Group vision in mind, we will remain faithful to our core values of prioritizing our users, embracing diversity, and operating with a simple, pragmatic, pioneering and enterprising approach as we work to achieve our goals.

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 delivered a strong financial performance in the second quarter of 2022, with group revenues reaching a record of US\$76.1 million dollars, up 14.2% year-over-year, accelerating from the first quarter. With the

implementation of our operational refinements, we saw robust growth in paying users, driving our group's paying ratio to 35.4%.

While we continued to invest in initiatives to expand our Yalla ecosystem, with a disciplined approach to managing expenses and an ROI-based sales and marketing strategy, we also maintained our healthy profitability level with a non-GAAP net margin of 37.6%.

Going forward, we will continue making efforts to expand our user base, improve operational efficiency, and optimize our resource allocation for quality investment to drive long-term growth while delivering sustainable returns to our partners.

Now I would like to walk you through our detailed financials for the second quarter of 2022. Our revenues were US\$76.1 million in the second quarter of 2022, a 14.2% increase from US\$66.6 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 35.6% from 22.1 million in the second quarter of 2021 to 29.9 million in the second quarter of 2022.

Now let's look at our costs and expenses. Our cost of revenues was US\$29.3 million in the second quarter of 2022, a 23% increase from US\$23.8 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 35.7% in the second quarter of 2021 to 38.5% in the second quarter of 2022.

Our selling and marketing expenses were US\$11.2 million in the second quarter of 2022, a 14.8% increase from US\$9.8 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 14.7% in the second quarter of 2022, increasing slightly from 14.6% in the second quarter of 2021. The ratio declined from 17.3% in the first quarter of 2022, driven by our more disciplined advertising and promotion approach.

Our general and administrative expenses were US\$6.9 million in the second quarter of 2022, a 37.4% decrease from US\$11.1 million in the same period last year, primarily due to lower share-based compensation expenses recognized during the second quarter of 2022. General and administrative expenses, as a percentage of our total revenues, decreased from 16.7% in the second quarter of 2021 to 9.1%.

Our technology and product development expenses were US\$7.7 million in the second quarter of 2022, a 144.0% increase from US\$3.2 million in the same period last year. This was primarily due to an increase in salaries and benefits for our technology and product development staff, driven by an increase in the headcount of our technology and product development staff to support the development of new businesses and expansion of our product portfolio. Technology and product development expenses, as a percentage of our total revenues, increased from 4.8% in the second quarter of 2021 to 10.2% in the second quarter of 2022.

As such, our operating income was US\$20.9 million in the second quarter of 2022, compared with operating income of US\$18.8 million in the same period last year. Excluding share-based compensation, non-GAAP operating income in the second quarter of 2022 was US\$29.2 million.

Our income tax expense was US\$0.78 million in the second quarter of 2022, compared with US\$0.38 million in the second quarter of last year.

Moving to the bottom line, our net income was US\$20.4 million in the second quarter of 2022, compared with net income of US\$18.4 million in the same period last year. Excluding share-based compensation expenses, non-GAAP net income for the second quarter of 2022 was US\$28.6 million.

Next, I would like to briefly go through our liquidity and capital resources. As of June 30, 2022, we had cash and cash equivalents of US\$384.9 million, as compared with cash and cash equivalents of US\$367.5 million as of March 31, 2022. This improvement demonstrates our ongoing commitment to streamlining and refining Yalla Group's operations.

On May 21, 2021, we announced the 2021 Share Repurchase Program. As of June 30, 2022, we have repurchased 1,903,205 American depositary shares, representing 1,903,205 Class A ordinary shares from the open market with cash for an aggregate amount of approximately US\$25.4 million.

In the third quarter of 2022, we expect our revenues to be between US\$70 million and US\$75 million US dollars.

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.