

**[YALA] Yalla Group Ltd.**  
**Q4 and Full Year 2022 Earnings Conference Call**  
**March 13, 2023 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

Kaifang Jia, CITIC  
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Thomas Shen, Nomura  
Edward Wang, Credit Suisse  
Zemin Chen, Huafu Securities

**Presentation**

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by for Yalla Group Limited's Fourth Quarter and Full Year 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 call over to your speaker-host today, Ms. Kerry Gao, IR Director of the company. Please go ahead.

Kerry Gao: Hello, everyone, and welcome to Yalla's fourth quarter and full year 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 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 latest achievements and growth strategies. He will be followed by Mr. Saifi Ismail, the company's President, who will briefly review our recent business developments. Ms. Karen Hu, our Chief Financial Officer, then will provide additional details on the company's financial results and discuss our financial outlook. Following management's prepared remarks, we will open the call to questions.

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, everyone, for joining our conference call. 2022 was a challenging year. In light of the macroeconomic headwinds, Yalla firmly executed its core strategy while capably adjusting to the market dynamics, and made good progress overall. Encouragingly, we delivered year-over-year growth in revenue, underscoring the effectiveness of our quality growth strategy.

We also continued to improve efficiency while maintaining the stable development of our two flagship applications, Yalla and Yalla Ludo. At the same time, we continued to invest in new products to explore untapped opportunities in the MENA region's digital markets, setting the stage for even better performance in 2023.

In Q4, our revenue was USD75.1 million, reaching the upper end of the guidance we provided, although we did witness a slight downward impact on user activeness primarily due to the 2022 FIFA World Cup in Qatar, which diverted our users' attention to some degree. The event's influence on our results, which should prove to be a one-time effect, was consistent with our expectations. Nevertheless, the success of the FIFA World Cup in Qatar introduced a modern and open MENA with great energy and strength to a global audience. We are seeing increasing attention and interest in opportunities related to MENA's digital transformation from enterprises and investors worldwide.

Next, I'd like to share some new research from Frost and Sullivan. In their recent research report titled Online Social Networking and Gaming Industry Independent Market Research, Yalla has been recognized as the largest MENA-based online social networking and gaming company in terms of revenue in 2022. While our social networking products are already well-known throughout the region, we are thrilled to see our games rapidly gaining traction over the past few years.

This is yet another testament to our strong brand awareness and reputation, robust technical capabilities, and deep understanding of local culture. We believe that as the No.1 MENA-based online social networking and gaming company, we are uniquely positioned to capitalize on MENA's strong digitalization trend over the next 5 years, unleashing massive growth potential across Yalla Group's businesses.

Now, let's take a look at some recent developments of Yalla Game, our subsidiary formed to explore the mid-core and hard-core gaming business. Leveraging our industry-leading experience in online social networking and gaming in MENA, we recently launched our first internal game studio, marking an important step for Yalla Group to begin in-house development of hard-core games. Going forward, the game development and game distribution business will constitute key strategic pillars for Yalla Game.

In addition to collaborating with outstanding content providers on game distribution, in the future, it's also possible for us to gradually establish more internal game studios to build out our capabilities in the research and development of mid-core and hard-core games across a broad range of genres. More specifically, we have finished the first round of beta testing on both Merge Kingdom and our RPG game, the first two hard-core game titles we will distribute in MENA. And we have been working on product refinement to better address user feedback and improve user experience. We will soon start the second round of testing and will keep you posted on our plans for both games' official launch.

Turning now to YallaChat. We are happy to share with you that we launched official promotion on YallaChat for the first time in November 2022. In addition to acquiring traffic from general channels, we launched campaigns in our Yalla community to encourage users of our other apps to try out YallaChat.

After 2 months of testing, we are seeing encouraging results, meeting our expectations for YallaChat's first stage of development. Notably, certain localized functions, like the Athan feature, gained great traction among users. We believe this first-stage attempt clearly demonstrates the potential of our MENA-based IM product.

At the same time, we would like to reiterate that building an IM product is never easy, and we will continue to explore ways to better serve local users' needs in an IM product. We believe YallaChat will play an important role in our long-term growth roadmap, elevating our value proposition. We will continue to refine the product by catering to MENA users' preferences and conduct further promotional campaigns in an efficient way.

In short, the MENA region is developing rapidly. We are pleased to see more and more industry professionals and investors from around the world beginning to show interest in MENA, making an acceleration of the region's development possible. Meanwhile, MENA is also embracing opportunities for collaboration from all the world. As the number one MENA-based online social networking and gaming company, we are strongly committed to this market, and have developed a deep understanding of its unique advantages and user needs.

We continue to steadily expand our investments in research and development to explore new products and verticals, while also preparing to seize opportunities arising from the region's digital transformation. We will closely monitor market trends and upcoming prospects, and continue to leverage our deep local insights and broaden our business horizons. Once again, our vision is to build the most popular destination for online social networking and entertainment in MENA, and we remain steadfast in our pursuit of this goal.

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. I'd like to start with a closer look at our fourth quarter operations, as well as our products' performances. We are pleased to have concluded fiscal year 2022 on a high note, with fourth quarter total revenues of USD75.1 million, landing at the high end of the company's guidance. As Tao mentioned, we saw a slight impact on our performance from the FIFA World Cup, but we believe this to be a one-time impact and it was in line with our expectations.

Our monthly active users increased 14% year-over-year, reaching 32 million. Yalla Group's paying users also increased to 12.5 million, demonstrating users' increasing willingness to pay on our platform. Our team will continue to refine our user acquisition and operational strategies to further improve operating efficiency.

Next, a brief update on our casual game portfolio, which remains an important component of our overall gaming business. Notably, Yalla Parchis recorded an outstanding performance this quarter. We boosted Parchis' monetization capabilities by rolling out new features, including more premium rights for VIP users and hosting operating events, propelling the game's revenue to USD1 million for the fourth quarter. For the rest of our casual game portfolio, including Yalla Baloot and 101 Okey Yalla, we will continue to refine these products and seek creative ways to increase market penetration.

Before we move on to financials, I'd like to mention that we at Yalla Group were extremely honored to win a 2022 Middle East Technology Excellence Award for the second year in a row, in the Internet-Media & Entertainment category for Yalla Live. Hosted by the Asian Business Review, these awards honor outstanding companies that have made exceptional contributions in pursuit of technological innovation and revolutionary products and solutions in their respective industries in the Middle East region. We view this illustrious award as further proof of our innovation capabilities and a powerful commendation of the leading online social networking and gaming ecosystem we have created. As a company deeply rooted in MENA, we are proud to contribute to the advancement of the digital world within the region.

We are also pleased to announce that Yalla was recently named Best Voice-Based Social Network UAE 2022 and Best Entertainment Platform UAE 2022 by International Business Magazine. We are extremely proud to receive these two prestigious awards. These accolades further inspire us to realize our vision of building the most popular destination for online social networking and entertainment activities in MENA.

In conclusion, while 2022 was a year full of challenges, we successfully maintained the stable development of the company while continuing to explore new products and business. As we introduced earlier, Yalla has been recognized as the largest MENA-based online social networking and gaming company, and as always, we remain dedicated to leading the industry in serving MENA users' evolving needs in this field. As we witness more and more conversations taking place between global stakeholders and this region every day, we are firmly convinced that the next 5 years will be crucial in MENA's digital transformation.

With our strong business fundamentals and outstanding product portfolio across social networking and gaming, we are well-positioned to capitalize on potential growth opportunities. And we look forward to delivering value to all of our stakeholders as we strive to achieve our mission.

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 continued to focus on our quality growth strategy in 2022. For the fourth quarter, our revenues increased solidly by 11.2% year-over-year to USD75.1 million amid external challenges. Thanks to our constant efforts to enhance the gamification of our products and user engagement, our MAUs maintained double-digit growth during the quarter. Meanwhile, our paying-user ratio further increased to 38.9%, up 8.9 percentage points year-over-year. Each of these metrics highlights the effectiveness of our growth strategy. Also, as we firmly executed our refined operations process, we achieved healthy profitability with a GAAP net margin of 22.1%.

For full year 2022, we maintained solid growth momentum with revenues up 11.2% to USD303.6 million. We were able to maintain our operating efficiency at an outstanding level.

Over the past year, the key field in which we increased our investment was R&D. In an effort to build out our product portfolio, we continuously increased our R&D spending, bringing R&D expenses up to 8.1% of total revenues for 2022, compared with 5.2% last year.

Sales and marketing expenses as a percentage of total revenue remained relatively stable at 16.4% throughout the year, while G&A's percentage of total revenue declined to 12%. As a result, our GAAP net margin for the year was 26% in 2022 compared with 30.2% last year.

Looking ahead, in 2023, we will continue to pursue quality development, improve operational efficiency, and build the Yalla ecosystem through innovation and technology advancement. We believe our deep local insights and solid fundamentals will position us well to navigate the market dynamics and seize future growth opportunities. As always, we are committed to creating sustainable, long-term value for our stakeholders.

Now I would like to walk you through our detailed financials for the fourth quarter of 2022. Our revenues were USD75.1 million in the fourth quarter of 2022, an 11.2% increase from USD67.6 million in the same period last year. The increase was primarily driven by the broadening of our user base and enhanced monetization capability.

Our average MAUs increased by 14%, from 28.1 million in the fourth quarter of 2021 to 32 million in the fourth quarter of 2022.

Now let's take a look at our costs and expenses. Our cost of revenues was USD27.4 million in the fourth quarter of 2022, a 14.7% increase from USD23.9 million in the same period last year, primarily due to an increase in technical service fees resulting from the expansion of our product portfolio, as well as an increase in salaries and benefits resulting from the expansion of our operation and maintenance team.

Cost of revenues as a percentage of our total revenues increased from 35.4% in the fourth quarter of 2021 to 36.5% in the fourth quarter of 2022.

Our selling and marketing expenses were USD14.3 million in the fourth quarter of 2022, a 7% increase from USD13.3 million in the same period last year, primarily due to higher advertising and marketing 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 19% in the fourth quarter of 2022, decreasing from 19.7% in the same period last year.

Our general and administrative expenses were USD13 million in the fourth quarter of 2022, a 60.4% increase from USD8.1 million in the same period last year, primarily due to an increase in incentive compensation. G&A expenses as a percentage of our total revenues increased from 12% in the fourth quarter of 2021 to 17.4% in the fourth quarter of 2022.

Our technology and product development expenses were USD5.4 million in the fourth quarter of 2022, a 37.3% increase from USD3.9 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 for our technology and product staff to support for the development of new businesses and the expansion of our product portfolio. Technology and product development expenses as a percentage of our total revenues increased from 5.8% in the fourth quarter of 2021 to 7.2% in the fourth quarter of 2022.

As such, our operating income was USD15 million in the fourth quarter of 2022, compared with USD18.3 million in the same period last year. Excluding share-based compensation, non-GAAP operating income in the fourth quarter of 2022 was USD20.2 million.

Our income tax expense was USD0.42 million in the fourth quarter of 2022, compared with USD0.79 million in the same period last year.

Moving to the bottom line, our net income was USD16.6 million in the fourth quarter of 2022, compared with USD19.1 million in the same period last year. Excluding share-based compensation expenses, non-GAAP net income for the fourth quarter of 2022 was USD21.7 million.

Next, I would like to briefly go through our liquidity and capital resources. As of December 31, 2022, we had cash and cash equivalents of USD407.3 million, as compared with cash and cash equivalents of USD391.2 million as of September 30, 2022. This improvement demonstrates our ongoing commitment to refining Yalla Group's operations.

On May 21, 2021, we announced the 2021 Share Repurchase Program. As of December 31, 2022, we have repurchased 2,302,141 American depositary shares (“ADSs”) representing 2,302,141 Class A ordinary shares from the open market with cash for an aggregate amount of approximately USD27 million. The aggregate value of ADSs or Class A ordinary shares that may yet be repurchased under the share repurchase program was USD123 million as of December 31, 2022.

For the interest of time, please refer to our earnings press release for the further details of our 2022 full year financial results.

Moving to our outlook for the first quarter of 2023, taking the seasonal impact of Ramadan fasting period into consideration, which will take place across MENA between March 22 and April 20 this year, we expect our revenues to be between USD68 million and USD75 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.