

[YALA] Yalla Group Ltd.
Q1 2023 Earnings Conference Call
May 15, 2023 8:00 PM ET.

Executives

Logan Ye, Investor Relations Manager
Tao Yang, Chairman and Chief Executive Officer
Saifi Ismail, President
Karen Hu, Chief Financial Officer
Jeff Jianfeng, Chief Operating Officer

Analysts

Thomas Shen, Nomura
Xueqing Zhang, CICC
Chenghao Li from CICC
Xiaoyue Hu, Haitong
Kaifang Jia, CITIC
Edward Wang, Credit Suisse

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by for Yalla Group Limited's First Quarter 2023 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, Mr. Logan Ye, Investor Relations Manager of the company. Please go ahead.

Logan Ye: Hello, everyone, and welcome to Yalla's first quarter 2023 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, will then 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 first quarter 2023 earnings conference call. We kicked off 2023 with a solid set of operational and financial results in the first quarter. Even with the impact from Ramadan, which started a little earlier than usual this year on March 23, our Q1 revenue still reached USD73.5 million, falling into the upper end of our guidance, and once again, demonstrating the remarkable strength of our flagship applications, Yalla and Yalla Ludo.

Our businesses continue to exhibit formidable stability and vitality, thanks to our consistent efforts to build out our community and product portfolio over the past 7 years. With our solid fundamentals and robust cash position, Yalla is also able to continuously invest in new products and verticals to explore untapped digital opportunities across the MENA region.

2023 has ushered in a fresh economic start among societies around the globe, with new dynamics and goals influencing investment worldwide. As a region ripe for digitalization, the Middle East is receiving increasing attention from the global technology and investment communities. Meanwhile, countries throughout MENA are also working to showcase the region's vibrant energy and commitment to advancing this new era of development.

MENA has long been renowned for its copious natural resources. As a result, traditional industries have long been recognized as the economic backbone of the region. Recently, we have seen a significant shift in this dynamic as numerous countries across MENA have prioritized digital transformation as one of their most important national development strategies, allocating capital and resources to support digital fields including gaming and media, among others.

As MENA's largest online social networking and gaming company, Yalla has been proactively preparing to seize these emerging opportunities. To that end, we have identified two growth engines for Yalla Group's development in 2023. First, we will continue to invest in R&D and our self-developed products, building on our well-established user base and product popularity to amplify our value proposition among MENA markets.

Second, we will explore collaboration with global internet companies that are interested in MENA's emerging opportunities. By leveraging our deep local know-how and extensive operating capabilities, we are confident we can capitalize on global investment and achieve mutually beneficial collaborations.

Now, I'd like to share some important updates on Yalla Game's recent developments. As we have mentioned previously, we established Yalla Game as a subsidiary to explore the mid-core and hard-core game business in MENA. We are thrilled to announce that Yalla Game has officially launched its first hard-core mobile game, a massively multiplayer online role-playing game, or MMORPG, entitled Age of Legends. Age of Legends is a self-developed game, for which our team built a magic world and virtual characters rooted in Arabic culture and fairy tales. Its landscape features oases, snowfields, deserts and Gobi for users to explore.

Leveraging our extensive experience in the MENA market, we will also consistently roll out in-game activities tailored to local holidays and other special events to provide additional localized experiences to our users.

We launched Age of Legends at the beginning of May in Turkey, with downloads available via Google Play for the first stage. The game will also be distributed to additional regions, and be made available via the App Store in the near future. We will continue to monitor Age of Legends' operating and financial performance, and we look forward to sharing more details with you on our next earnings call.

Turning to our casual game portfolio, which includes Yalla Parchis, 101 Okey Yalla and Yalla Baloot. We continued to hone and upgrade our casual game products during the first quarter, rolling out new types of rankings and VIP privileges to improve gamification and provide more meaningful entertaining experiences. We also continuously create and introduce themed events tailored to MENA's local culture, which improve user engagement and retention. Thanks to these persistent endeavors, our casual games delivered outstanding performances in Q1.

Both Parchis' and 101 Okey Yalla's quarterly revenues were around USD1 million, exemplifying our casual game portfolio's monetization capabilities. We will continue to enhance these products and seek creative ways to increase their penetration in different countries across MENA.

To sum up, as the MENA region grows rapidly, countries throughout the region are showing their digital ambitions and striving to address opportunities and challenges on their digital transformation journey. As this transformation gathers momentum, we are pleased to see MENA attracting investor interest not only because of its abundant capital and natural resources, but also due to its unique local market and digital-era businesses with great potential.

With an increasing inflow of global talents, capital, technology and brilliant ideas into MENA, we anticipate an acceleration of the region's development over the next 5 years. As the number one MENA-based online social networking and gaming company, we are fully dedicated to this market, and possess a holistic understanding of its culture, people and distinctive advantages, which will empower us to seize opportunities arising from the region's digital transformation.

We will embrace the trend of development, deepening our investments in research and development to enhance our expertise in technology, and explore new products and verticals while working with partners around the globe to participate in the local digital transformation. Once again, our vision is to build the most popular destination for online social networking and entertainment in MENA, and we are determined 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, and thanks for joining us today. Let's take a closer look at our Quarter 1 operations, as well as our products' performances. We are pleased to deliver solid Q1 results, with our total revenues of USD73.5 million landing in the high end of the company's guidance. As Tao mentioned, Ramadan started earlier than usual this year and partly fell into Quarter 1. However, its impact is seasonal and limited to our products, and was in line with our expectations.

Our monthly active users increased by 12.9% year-over-year, reaching 33 million. Yalla Group's paying users also increased to 13.5 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.

Before we move on to financials, I'd like to mention that Yalla Group was extremely honored to receive the Golden Award for the Most Innovative Social App for our flagship voice-centric group chatting app, Yalla Live, at the prestigious Middle East & North Africa Stevie Awards 2023. The Stevie Awards organization was founded in 2002 and is considered one of the most prestigious global awards in the business world, with a participant base encompassing 70 countries and an adjudication team of more than 1,000 executives worldwide. This year's event received more than 800 nominations from organizations across 18 countries in the MENA region. We view this illustrious award as yet another testament to our teams' dedication to product excellence and their accomplishments throughout the past year.

Boasting detailed features and a localized appeal that deeply resonates with users, Yalla's mobile applications deliver an unparalleled user experience that fosters a loyal sense of belonging, creating a highly devoted and engaged user community. Yalla Group strives to exceed users' expectations with innovative features and services tailored to the MENA region, and this award is a powerful commendation of those efforts. We would like to sincerely thank the Stevie Awards organization for this esteemed international award. And we look forward to achieving greater success and cementing our position as the largest online social networking and gaming platform in the MENA region.

I'd also like to share with you that during the holy month of Ramadan, we hosted a Suhoor gathering in Dubai, bringing together more than 100 governmental officials, business partners, industry experts, and local media leaders for a festive celebration and discussion of the technology industry's latest trends. The event sparked a fascinating exchange of innovative ideas among our guests, building new relationships across the region and industry. We were privileged to host this distinguished group, and have an opportunity to express our sincere gratitude to our partners for their unwavering trust and support.

As the largest local online social networking and gaming company in the MENA region, we firmly believe that strong relationships and extensive cooperation among our stakeholders can accelerate our company's development and industry progress, bringing better experiences to users while boosting regional economic development. We will continue to build and maintain our friendships with local communities, business partners and media to jointly promote the

development of MENA's digital economy while preserving and enjoying our unique local cultural traditions.

In conclusion, 2023 is poised to be a year full of opportunities. The MENA region has been investing heavily in many sectors, including infrastructure, technology and innovation, which has led to a surge in economic development. The entire region is set to embark on a new era of growth. As the largest MENA-based online social networking and gaming company, Yalla will closely monitor trends, maintain open communication with global companies exploring the MENA market, and strive to embrace the changes and opportunities brought about by progress.

With our solid business fundamentals, our deep local know-how, the strong connections we have built over the past 7 years, and our diversified and evolving product portfolios across social networking and gaming, we are well-positioned to capitalize on potential growth opportunities. As always, we remain steadfast in our commitment to serving MENA users' evolving needs in online social networking and gaming.

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 were pleased to sustain our year-over-year revenue growth momentum in the first quarter as we continued to strive for high-quality development and user growth. During the quarter, we also actively refined our cost management, operations and processes to improve overall efficiency.

Our ROI-based marketing strategy remained effective, evidenced by decreased sales and marketing expenses and solid growth in both MAUs and paying users for the first quarter. As a result, we maintained healthy levels of profitability during this quarter, recording a net margin of 27.1%, and excluding share-based compensation, a non-GAAP net margin of 34.7%.

Looking ahead, we see our ample cash position and proven execution capabilities empowering us to capitalize on future opportunities, drive sustainable growth and create value for all our shareholders.

Now I would like to walk you through our detailed financials for the first quarter of 2023. Our revenues were USD73.5 million in the first quarter of 2023, a 1.6% increase from USD72.3 million in the same period last year. The increase was primarily driven by our broadening of our user base and our enhanced monetization capability.

Our average MAUs increased by 12.9%, from 29.2 million in the first quarter of 2022 to 33 million in the first quarter of 2023.

Now let's take a look at our costs and expenses. Our cost of revenues was USD27.9 million in the first quarter of 2023, a 1.2 % increase from USD27.5 million in the same period last year, primarily due to an increase in salaries and benefits resulting from the expansion of our operation and maintenance team, as well as an increase in technical service fees resulting from the expansion of our product portfolio.

Cost of revenues, as a percentage of total revenues, remained relatively stable at 37.9% in the first quarter of 2023, compared with 38.1% in the same period last year.

Our selling and marketing expenses were USD11.4 million in the first quarter of 2023, a 9.4% decrease from USD12.5 million in the same period last year, primarily due to our more disciplined advertising and promotion approach. Selling and marketing expenses, as a percentage of our total revenues, were 15.4% in the first quarter of 2023, decreasing from 17.3% in the same period last year.

Our general and administrative expenses were USD10.2 million in the first quarter of 2023, a 26.6% increase from USD8 million in the same period last year, primarily due to an increase in incentive compensation and an increase in professional service fees. G&A expenses, as a percentage of our total revenues, increased from 11.1% in the first quarter of 2022 to 13.8 % in the first quarter of 2023.

Our technology and product development expenses were USD7.4 million in the first quarter of 2023, a 23.8 % increase from USD6 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 an increase in the headcount 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 8.3% in the first quarter of 2022 to 10.1% in the first quarter of 2023.

As such, our operating income was USD16.7 million in the first quarter of 2023, compared with USD18.3 million in the same period last year.

Excluding share-based compensation, non-GAAP operating income in the first quarter of 2023 was USD22.3 million.

We strategically leveraged the high interest rates with a strong cash position, resulting in a substantial increase in interest income of USD3.1 million during the quarter.

Our income tax expense was USD0.62 million in the first quarter of 2023, compared with USD0.61 million in the same period last year.

Moving to the bottom line, our net income was USD19.9 million in the first quarter of 2023, compared with USD17.7 million in the same period last year. Excluding share-based compensation expenses, non-GAAP net income for the first quarter of 2023 was USD25.5 million.

Next, I would like to briefly go through our liquidity and capital resources. As of March 31, 2023, we had cash and cash equivalents of USD435.6 million, as compared with cash and cash equivalents of USD407.3 million as of December 31, 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 March 31, 2023, we have repurchased 2,302,141 ADSs or Class A ordinary shares, from the open market with cash, totaling approximately USD27 million. The total value of ADSs or Class A ordinary shares that may yet be purchased under the Share Repurchase Program was USD123 million as of

March 31, 2023. Our board of directors has approved an extension of the expiration date of the Share Repurchase Program to May 21, 2024.

Moving to our outlook for the second quarter of 2023, 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 the market and operating conditions and customer demand, which are all subject to change.

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