

**[YALA] Yalla Group Ltd.**  
**Q4 & FY2023 Earnings Conference Call**  
**March 11, 2022 8:00 PM ET.**

Executives

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

Analysts

Chenghao Li, CICC  
Xueqing Zhang, CICC  
Kaifang Jia, CITIC  
Xiaoyue Hu, Haitong International  
Lincoln Kong, Goldman Sachs  
Rachel Guo, Nomura

**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 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, Ms. Kerry Gao, IR Manager of the company. Please go ahead, ma'am.

Kerry Gao: Hello, everyone, and welcome to Yalla's fourth quarter and full year 2023 earnings conference call. We released our earnings press release earlier today, and the release is now available on our IR website as well as on newswire outlets.

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. Mr. Jeff Xu, our Chief Operating Officer, will join the 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. Thank you, everyone, for joining our fourth quarter and full year 2023 earnings conference call. 2023 was a year filled with changes and opportunities. As a global enterprise, Yalla faced a complex and dynamic international environment with many moving parts. Nevertheless, we forged ahead with our core business strategies and capped the year with robust results.

I'll begin with a brief overview of our pivotal achievements and financial performance in 2023. We continued to grow our two flagship applications, Yalla and Yalla Ludo. We also deepened our engagement in the mid-core and hard-core game business, building relationships with global players who are drawn to the surge of development in the MENA region.

Meanwhile, we continued to improve our operating efficiency by optimizing costs and expenses through more rigorous vendor selection and management, user acquisition strategy refinements and greater talent utilization. We sustained our robust financial momentum as a result of these efforts, ending the year with strong growth across our revenues from gaming services as well as net income.

Our fourth quarter revenues were USD80.9 million, exceeding the upper end of our guidance, while revenues from gaming services in the fourth quarter reached USD28.5 million, representing year-over-year growth of 35.2%. For full year 2023, our revenues were USD318.9 million, while our net income reached USD113.1 million, representing significant year-over-year growth of 43%.

Our strong financial performance reflects the excellent execution of our effective quality growth strategy. Supported by our solid business fundamentals and healthy cash position, 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 online.

I'm also proud to share that, thanks to our robust and consistent financial performance, Yalla Group was recognized by Fortune magazine as one of 2023's top 500 Arab companies according to the Fortune 500 Arabia list. The Fortune 500 is a distinguished list showcasing the 500 largest

companies in a specific region based on revenues. This year marked the inception of the Fortune 500 Arabia, highlighting companies in the MENA region. We'd like to extend our heartfelt gratitude to Fortune 500 Arabia for recognizing Yalla Group's contributions and achievements with inclusion in this esteemed list.

Next, let's turn to Yalla Game's development and future strategy. Yalla Game made several crucial moves this year, including the launch of our first two hard-core games. In the process of developing and operating these games, we gained vast experience across key aspects of MENA's gaming market, including product selection, product design and user acquisition, among others. Our comprehensive understanding of this market has proven invaluable, as we continue to organize and train our professional team for this specific region. In turn, our growing expertise and capabilities strengthen our determination to expand our footprint in the mid-core and hard-core games business in MENA.

Moving forward, we will continue investing in mid-core and hard-core games and enriching our game pipeline. Mid-core games will be a particular focus, as we believe they will optimally leverage our enormous pool of experience, talents and resources related to casual games in the region. Additionally, we are actively communicating with global top-tier gaming studios to explore potential joint monetization opportunities in the region. We will keep you posted on our progress.

Notably, we also plan to enhance our social networking products this year. Iterations, including innovative new functions and a host of creative design upgrades, will allow us to explore monetization while better serving MENA users' diverse and evolving needs.

In sum, we captured and capitalized array of growing opportunities in 2023, as MENA's role on the global stage and its digital transformation grew and advanced. We are pleased to see more and more visionary industry professionals and investors from around the world allocating more resources to MENA and participating in its surging development, propelling progress across the region. As the No. 1 MENA-based online social networking and gaming company, we are deeply committed to this market and thoroughly understand its unique advantages and specific user needs.

We will continue to leverage our profound local insights to broaden our business horizons, as we build the most popular destination for online social networking and entertainment in MENA.

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 closer look at our fourth quarter operations and our products' performance. We delivered another solid quarter, with average monthly active users rising by 13.3% year-over-year to 36.2 million. Our average revenue per paying user also increased to USD6.5 in the fourth quarter from USD6.01 in the same period of last year.

Additionally, our ongoing adjustments to our game mechanism, aimed at boosting overall user engagement and delivering better user experiences, have proven effective. Paying users

increased by 6.2% quarter-over-quarter, demonstrating users' growing willingness to pay on our platform.

For our flagship application, Yalla, we continued to improve gaming features in the fourth quarter. We also rolled out a series of operational activities, including the Football Carnival event, which was recommended by the App Store.

With respect to Yalla Ludo, I'm pleased to announce the resounding success of our Yalla Ludo Champion Tournament. More than 150,000 players registered to participate in an intense series of over 1.8 million preliminary matches online, an overwhelming response that ultimately produced 32 exceptional finalists. These skilled players engaged in a highly-competitive offline finale at Saudi Arabia's Riyadh VOV Gaming Center on December 1, 2023, where three top winners emerged amid enthusiastic live audience participation.

The Yalla Ludo Champion Tournament was more than just a competition; it was a celebration of the Yalla Ludo community. Events like these not only enhance our brand impact, but also underscore our commitment to creating memorable, engaging experiences and fostering a sense of camaraderie and connection.

Next, two additional highlights. First, we launched the Yalla Festival event on the App Store across 13 countries in the MENA region this February, a milestone achievement in our development that further strengthened our brand awareness. This collaborative effort with the App Store, featuring five of our flagship products, not only underscores Apple's recognition of Yalla products' popularity in the region, but also validates our efforts to meet MENA users' growing entertainment demands.

Moving forward, we will remain dedicated to developing more social networking and gaming applications tailored specifically for MENA users. Moreover, we will keep nurturing strong relationships with global channels to ensure that we continue to reach users effectively and provide them with the best possible experience.

Last but not least, we are honored to announce that Yalla Group has been invited for an interview with Dubai's Department of Economy and Tourism, (DET). With the ultimate vision of making Dubai the world's leading destination for commerce, investment and tourism, DET supports the government in positioning the emirate as a major hub for global economic activity and tourism, as well as in boosting the city's economic and tourism competitiveness indicators. Notably, DET is committed to transforming Dubai into a regional gaming hub, as evidenced by the 2022 launch of the Dubai Esports & Games Festival. As the first Dubai-based technology unicorn listed on the NYSE, Yalla Group serves as a key contributor to Dubai's dynamic landscape and is poised to propel the government's vision for the area.

We are dedicated to leveraging Dubai's strategic location as a business hub and its exceptional infrastructure to further develop our Yalla Gaming products, facilitating the gaming sector's development while driving the city's growth. We are profoundly grateful for DET's invitation to this interview and for recognizing Yalla Group's leading role in the social networking and gaming industry in the MENA region.

As we reiterate every quarter, Yalla aspires to become the No. 1 online social networking and entertainment platform in the MENA region. We continue to build relationships locally and globally to broaden our business horizons and embrace the opportunities brought by MENA's digital transformation. With the entire region set to embark on a new era of growth, we are more committed than ever to providing the people of MENA with better access to a digital life. We believe we are well-positioned to capture the potential growth opportunities in the MENA region, 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 today. We delivered a robust financial performance in 2023 with full-year revenues rising to USD318.9 million, another testament to our ability to drive growth in a rapidly-evolving environment. In the past year, we continued to actively optimize costs and expenses and improve our overall efficiency. As a result, we greatly enhanced our profitability, recording significant growth for both the fourth quarter and the full year.

Specifically, fourth quarter net income increased by 79% year-over-year to USD29.7 million, while full-year net income increased by 43% year-over-year to USD113.1 million with a net margin of 35.5%, compared with 26% last year.

As we head into 2024, we will continue to pursue quality growth, improve operational efficiency, and invest in our Yalla ecosystem. We believe our solid business fundamentals and healthy cash position will empower us to capitalize on future opportunities, driving sustainable and long-term growth.

Let's move on to our detailed financials for the fourth quarter of 2023. Our revenues were USD80.9 million in the fourth quarter of 2023, a 7.7% increase from USD75.1 million in the fourth quarter of last year. The increase was primarily driven by the broadening of our user base and our enhanced monetization capability.

Our solid revenue growth was also partially attributable to the significant increase in ARPPU, which grew from USD6.01 in the fourth quarter of 2022 to USD6.58 in the fourth quarter of 2023.

Now let's take a look at our costs and expenses. Our total costs and expenses were USD57.6 million in the fourth quarter of 2023, a 4.1% decrease from USD60.1 million in the same period of last year.

Our cost of revenues increased by 11.4% to USD30.6 million in the fourth quarter of 2023 from USD27.4 million in the same period of last year, primarily due to an increase in incentive compensation and a one-time game cost related to UI design fees. Cost of revenues as a percentage of our total revenues increased to 37.8% in the fourth quarter of 2023, compared with 36.5% in the same period of last year.

Our selling and marketing expenses were USD10.4 million in the fourth quarter of 2023, a 27.3% decrease from USD14.3 million in the same period of last year, primarily driven by our more disciplined advertising and promotion approach and lower share-based compensation expenses recognized in the fourth quarter of 2023. Selling and marketing expenses as a percentage of total revenues decreased from 19% in the fourth quarter of 2022 to 12.8% in the fourth quarter of 2023.

Our general and administrative expenses were USD11.3 million in the fourth quarter of 2023, a 13.3% decrease from USD13 million in the same period of last year, primarily driven by lower share-based compensation expenses recognized in the fourth quarter of 2023. General and administrative expenses as a percentage of total revenues decreased from 17.4% in the fourth quarter of 2022 to 14% in the fourth quarter of 2023.

Our technology and product development expenses remained stable at USD5.4 million in the fourth quarter of 2023 and in the same period of last year. Technology and product development expenses as a percentage of our total revenues decreased from 7.2% in the fourth quarter of 2022 to 6.7% in the fourth quarter of 2023.

As such, our operating income was USD23.3 million in the fourth quarter of 2023, a 55.2% increase from USD15 million in the same period of last year. Excluding share-based compensation expenses, our non-GAAP operating income in the fourth quarter of 2023 was USD27.1 million, up 34.1% year-over-year.

Our interest income was USD6.5 million in the fourth quarter of 2023, compared with USD2.3 million in the same period of 2022, primarily due to an increase in interest rates applicable to the Company's bank deposits and a continued increase in the Company's cash position.

Our income tax expense was USD539,000 in the fourth quarter of 2023, compared with USD416,000 in the same period of last year.

Moving to our bottom line, our net income increased by 79% to USD29.7 million in the fourth quarter of 2023, compared with USD16.6 million in the same period of last year.

Next, I would like to briefly review our liquidity and capital resources. Our cash position remains solid. As of December 31, 2023, we had cash and cash equivalents, restricted cash, term deposits and short-term investments of USD535.7 million, compared with USD453 million as of December 31, 2022.

Under our USD150 million Share Repurchase Program that began on May 21, 2021 and has since been extended by our Board through May 21, 2024, we have cumulatively repurchased 3,972,876 ADSs or Class A ordinary shares, in open market cash repurchases, totaling approximately USD35.5 million as of December 31, 2023.

Moving to our outlook. For the first quarter of 2024, we expect our revenues to be between USD72 million and USD79 million.

The above outlook is based on 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.

In the interest of time, please refer to our earnings press release for further details on our fourth quarter and full year 2023 financial results.

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