

[YALA] Yalla Group Ltd.
Q2 2024 Earnings Conference Call
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Executives

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

Analysts

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

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by for Yalla Group Limited Second Quarter 2024 Earnings Conference Call. (Operator Instructions). After management's prepared remarks, there will be a question-and-answer session. Today's conference is being recorded.

Now I would like to turn the call over to your speaker-host today, Mr. Logan Ye, IR Manager of the company. Please go ahead, sir.

Logan Ye: Hello, everyone, and welcome to Yalla's second quarter 2024 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 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 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, everyone, for joining our second quarter 2024 earnings conference call. We are pleased to report strong second quarter results. Even with the impact of Ramadan, which lasted from March 11 through April 9 this year, our second quarter revenues reached USD81.2 million, beating the upper end of our guidance. This outstanding performance underscores the remarkable popularity of our flagship applications, Yalla and Yalla Ludo, as well as our effective strategy for high-quality growth.

Our operating efficiency improvements are also yielding positive results, elevating our net margin to 38.6% in the second quarter.

Throughout the second quarter, we remained dedicated to enhancing our operational procedures, boosting user engagement, optimizing technology utilization to improve efficiency, and refining our user acquisition strategies. These efforts have empowered us to build a more engaged community of users who exhibit high willingness to spend on our content and services. Supported by our solid business fundamentals and dedicated teams, we remain primed to capture new business opportunities and fulfill MENA users' evolving online social networking needs.

The ongoing digital transformation in the Middle East continues to attract attention globally this year, with international tech companies keen to explore opportunities in the region. 2024 marks Yalla's eighth year in the Middle East and the eighth anniversary of our flagship product, Yalla. Over those years, Yalla has grown from our group's first voice chat product into the world's most downloaded voice chat app for 2023 based on data.ai's research, with a highly engaged and loyal user community.

Keeping our user first philosophy in mind, we have consistently created memorable experiences and forged deep connections with our users by iterating and upgrading our products to meet their evolving needs. Meanwhile, as an industry pioneer, we have helped propel the evolution and development of internet products and the broader internet sector in the MENA region. We will remain committed to driving the Middle East's digital transformation, seizing emerging opportunities and growing with our users and the industry as we lead the region's development trends.

Turning to Yalla Game's development and future strategy. The gaming sector continues to demonstrate immense growth potential amid MENA's thriving digital transformation. Yalla is capturing that potential with consistent investments in MENA's mid-core and hard-core game market, attracting MENA users with a wider range of game options tailored to their unique preferences.

This year, we have focused on the exploration and development of mid-core and hard-core games, where we can leverage the extensive expertise, talented workforce, and abundant resources we have accumulated in the casual gaming sector. Our product teams are currently developing and refining a strong pipeline of self-developed games set to debut throughout 2025.

On a related note, we are proactively exploring AI technology applications to optimize our team's productivity, particularly in UI design, which has high requirements for detailed, time-consuming artistic work. By harnessing the power of AI, our UI team has notably enhanced efficiency, leading to substantial improvements in the team's capacity and facilitating faster innovation in product features and gameplay. We are excited about AI's transformative potential and will continue to seek creative applications across our business to drive product iteration and operational upgrades.

As we mention on every call, our vision is for Yalla to become the largest online social networking and entertainment company in MENA. This quarter represented another solid stride toward our vision. I'm proud of the many firsts we have achieved in this region and its internet industry, creating a better digital life for our loyal users in the Yalla community. Our commitment to MENA, its people and its rich culture is unwavering, inspiring our team's ongoing generation of new ideas and new products to meet MENA users' evolving needs and facilitate digitalization throughout the region.

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 second quarter operations and our products' performance. We redoubled our efforts to enhance user experience and engagement this quarter, and we are pleased to see these efforts paying off across our vibrant Yalla community.

Our average monthly active users increased by 14.1% year-over-year to 39 million, reflecting our products' enduring appeal. For example, our eighth anniversary celebration provided us with an opportunity to engage new users and loyal fans alike with our Explore the World of Yalla event. This iconic online festival was featured on the Apple Store and Google Store, boosting average daily consumption of gold coin game currency to a record high for our anniversary events.

We are also leveraging offline events to strengthen our product and brand awareness, including our Ludo Champion Offline Tournaments series. The two tournaments we've held thus far, in Riyadh and Baghdad, were smash hits, attracting over 150,000 registered players and garnering overwhelmingly positive feedback from participants. In June, we celebrated their success with a magnificent light show on the Burj Khalifa in Dubai, the world's tallest structure, and for Yalla, a

symbol of MENA's endless possibilities. Offline events like these deepen gamers' engagement with our products and enhance our brand influence locally, further unlocking the MENA region's potential.

We are also thrilled to announce that Yalla partnered with the Dubai Department of Economy and Tourism, DET, for the third Dubai Esports and Games Festival, DEF, in April. As part of the collaboration, Yalla Ludo hosted an online tournament, Game Battle, with the DEF, attracting over 4 million participants. We incorporated iconic Dubai landmarks and symbols into Ludo's interface, including themed dice, board themes, and Avatar Frames, providing players with an immersive gaming experience celebrating Dubai's vibrant culture. This collaboration underscores our commitment to innovation and promoting the Middle East's rich heritage while delivering unparalleled user experiences.

Finally, we were extremely honored to receive the prestigious DUBAI GAMES STAR award at the MENA Games Industry Awards 2024. Held at the world-renowned Dubai GameExpo Summit, the awards celebrate the region's top talent in game development, publishing, and support services. Yalla Group was selected by a panel of 80 industry experts for the top spot in the Dubai Games Star category, a testament to our remarkable success, influence, and innovation in gaming as well as our commitment to fostering growth across MENA's gaming industry.

We are grateful to the MENA Games Industry Awards organization for their recognition, and look forward to further shaping the industry's future as the largest online social networking and gaming platform in the MENA region.

In conclusion, throughout the past 8 years, we have established a strong presence in the MENA by creating innovative products that align with local users' habits and preferences. We have also consistently fostered extensive collaborations with the local channels and engagement with communities, propelling the growth of the digital economy and the internet industry. As the region's leader in online social networking and gaming, we are proud to play a key role in MENA's digital transformation. As always, our vision is to become the No. 1 online social networking and entertainment platform in 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 today. Our financial performance remained robust through the second quarter of 2024. Our top line again exceeded our expectations and sustained our year-over-year revenue growth momentum as we strove for high-quality development and user growth.

Our consistent operating efficiency enhancements also continued to yield positive results. Our net margin rose by 2.9 percentage points year-over-year to 38.6%, while net income increased by 10.9% to USD31.4 million. By leveraging our solid business fundamentals, we will remain primed to capture new business opportunities and deliver sustainable value to all our stakeholders in the long run.

Let's move on to our detailed financials for the second quarter of 2024. Our revenues were USD81.2 million in the second quarter of 2024, a 2.5% increase from USD79.2 million in the

second 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 USD5.8 in the second quarter of 2023 to USD6.6 in the second quarter of 2024.

Now let's take a look at our costs and expenses. Our total costs and expenses were USD51.6 million in the second quarter of 2024, a 6.8% decrease from USD55.3 million in the same period of last year.

Our cost of revenues increased by 2.5% to USD29 million in the second quarter of 2024 from USD28.3 million in the same period of last year, primarily due to higher commission fees paid to third-party payment platforms as a result of increasing revenue generated. Cost of revenues as a percentage of our total revenues remained relative stable at 35.7% in the second quarter of 2024.

Our selling and marketing expenses were USD8.5 million in the second quarter of 2024, a 31.4% decrease from USD12.4 million in the same period of last year, primarily driven by our more disciplined advertising and promotion approach. Selling and marketing expenses as a percentage of our total revenues decreased from 15.6% in the second quarter of 2023 to 10.5 % in the second quarter of 2024.

Our general and administrative expenses were USD7.6 million in the second quarter of 2024, a 5.5% decrease from USD8 million in the same period of last year, primarily driven by lower share-based compensation expenses recognized in the second quarter of 2024. General and administrative expenses as a percentage of total revenues decreased from 10.1% in the second quarter of 2023 to 9.3% in the second quarter of 2024.

Our technology and product development expenses were USD6.5 million in the second quarter of 2024, a 1.6% decrease from USD6.6 million in the same period of last year, primarily driven by lower share-based compensation expenses recognized in the second quarter of this year. Technology and product development expenses as a percentage of our total revenues decreased from 8.3% in the second quarter of 2023 to 8% in the second quarter of 2024.

As such, our operating income was USD29.6 million in the second quarter of 2024, a 23.8% increase from USD23.9 million in the same period of last year. Excluding share-based compensation expenses, our non-GAAP operating income in the second quarter of 2024 was USD33.5 million, up 13.9% year-over-year.

Our interest income was USD7.1 million in the second quarter of 2024, compared with USD4.6 million in the same period of 2023, primarily due to an increase in interest rates applicable to the Company's bank deposits.

Our income tax expense was USD5.8 million in the second quarter of 2024, compared with USD821,000 in the same period of last year. The increase was primarily due to the introduction and implementation of the UAE Corporate Tax Law, which is effective for the financial years starting on or after June 1, 2023.

Moving to our bottom line, our net income increased by 10.9% to USD31.4 million in the second quarter of 2024, compared with USD28.3 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 June 30, 2024, we had cash and cash equivalents, restricted cash, term deposits and short-term investments of USD528.7 million, compared with USD535.7 million as of December 31, 2023.

Under our USD150 million Share Repurchase Program that began on May 21, 2021, and has since been extended by our Board through May 21, 2025, 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 June 30, 2024.

Moving to our outlook. For the third quarter of 2024, we expect our revenues to be between USD75 million and USD82 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.