

[YALA] Yalla Group Ltd.
Q4 and FY2020 Earnings Conference Call
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Executives

Kerry Gao, IR Director
Tao Yang, Chairman and Chief Executive Officer
Saifi Ismail, President
Karen Hu, Chief Financial Officer

Analysts

Faya Hou, Haitong International
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Bo Pei, Oppenheimer
Iris Guo, CICC
Vincent Yu, Needham & Company

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 2020 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 Director of the company. Please go ahead, ma'am.

Kerry Gao: Thank you. Hello, everyone, and welcome to Yalla's Fourth Quarter and Full Year 2020 Earnings Conference Call. We have released our earnings results earlier today, and it 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 earning release and our registration statements 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 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'll hear from Mr. Tao Yang, our Chairman and Chief Executive Officer, who will provide an overview of our recent achievements and growth strategies. Mr. Yang will be followed by Mr. Saifi Ismail, the company's President, who will give a brief review of our recent development. Finally, Ms. Karen Hu, our Chief Financial Officer, will provide additional details on the company's financial results and discuss its financial outlook. Following management's prepared remarks, we'll 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.

Tao Yang: Thank you, Kerry, and thank you, everyone, for joining our fourth quarter and full year 2020 earnings conference call.

2020 was a milestone year for Yalla. We became the first UAE technology unicorn to be listed on the New York Stock Exchange, an accomplishment we are very proud of and a testament to our business model, our fundamentals and our perseverance. Operationally, we also saw strong growth momentum across the board as we continued to expand our user community and advance our monetization capabilities.

We are pleased to report a very strong fourth quarter where Yalla Group's total revenue increased 42.9% Q-on-Q and reached USD48.3 million in Q4, exceeding the upper end of the guidance range. We also maintained our non-GAAP net margin at 48.3%.

While our successful IPO event in Dubai generated far-reaching brand awareness in the Middle East and North Africa region, also known as MENA, our highly experienced marketing team has been running innovative and resonating campaigns, tailored to the local culture.

Monthly active users for our Group increased 15% Q-on-Q and reached 16.4 million. In addition, our ability to monetize our user base also continued to improve, as our group's ARPPU grew rapidly by 38.5% quarter-over-quarter and reached 9.2 in 4Q. Yalla Group's paying users also increased to 5.2 million.

Let me provide an example of how we are approaching monetization. A great example is Yalla Ludo. It started as a casual game platform and has shown strong user growth since the beginning of 2020. To boost its monetization capabilities, in July 2020, we introduced chat room functionality into the platform, in an effort to strengthen the social connections amongst our casual game users. With improved user engagement and further monetization, Yalla Ludo accounted for more than half of our group's quarterly revenue in Q4.

Going forward, we are focused on 3 key priority areas in order to expand our business: First, growing our Yalla community and cultivating a friendly and engaging environment; second, providing users with a quality and localized product experience; and third, diversifying our platform's product offerings to create brand extension and deeper loyalty.

MENA society embraces a more balanced lifestyle, and having casual chats at a café or making phone calls for hours with friends is a common way for people to socialize and entertain during daily leisure time. Based on our deep understanding of MENA users' social needs and habits, we

designed both of our products to be voice-centric, bringing MENA's traditional offline social activity, called Majlis, to an online platform, and enabling MENA users to enjoy their social traditions anywhere and anytime.

Expanding our user base is one of our top priorities. With new products lined up for launch this year, we are increasing our marketing efforts and budget in order to pursue new users more heavily, while balancing growth and maintaining a healthy community culture and atmosphere.

Every community has its own characteristics, and Yalla is a platform for people to make new friends and have casual chats to enjoy each other's company. Users are having pure and relaxed social experiences on our platform. Since the very beginning, we have been growing Yalla's community gradually with care, and in a sustainable way, without harming the community's culture and intimate feel.

Our persistence and patience has paid off. Over the past 5 years, while the user base continues to grow, we were still able to maintain the healthy community culture. Every day, Yalla users spend on average more than 4 hours on our platform. And in 4Q, Yalla's maximum daily active rooms was over 500,000, making Yalla a unique destination among voice-chatting lovers. Our goal is to continue delivering sturdy and sustainable user growth with active user engagement in our community.

The second priority is to continue providing users with quality product experiences. Our deep local insight and obsessive attention to product detail have been pivotal in creating a platform that provides customers with a superior and personalized user experience. This has resulted in robust organic growth driven by word-of-mouth among our users in the MENA region.

Aside from our experienced management, who have all been working and living on the ground throughout MENA for many years, our product team in Dubai also proactively conducts research and gathers firsthand data about local users, providing significant guidance and feedback for our R&D team as they look to optimize our products. The team's strong capability in product development is making Yalla a competitive player in MENA's fast growing online social networking and entertainment market.

We will continue to focus on perfecting the details and developing good products tailored to the local culture, delivering our users a best-in-class product experience. Yalla's mission is to build the most popular destination for online social networking and entertainment activities in MENA, by continually expanding our brand. And in order to achieve this goal, we have been dedicated to expanding our platform's offerings.

Saifi will share with you momentarily more details about our new products.

Looking back over the past year, we successfully launched and nurtured 2 highly popular products: Yalla and Yalla Ludo. Looking ahead, Yalla Group will continue to embrace leading-edge technologies, continue to analyze and study the trends of local culture, and continue to roll out new social networking and entertainment products accordingly, in order to capture more opportunities in this connected market.

In summary, we are tremendously encouraged with our momentum as we enter 2021. This is going to be another important year. 5 years ago, we started with a single product, Yalla, through which we identified the potential of voice-centric social networking in the MENA region. Since then, we dedicated ourselves to building and running a voice-centric social community. We are excited to see more and more people starting to recognize the advantages of voice-centric social networking.

And going forward, we will continue to explore and identify opportunities in MENA area's online social networking and entertainment, applying what we have learned into a comprehensive platform with a wide range of product offerings.

Now I will turn this call over to our President Mr. Saifi Ismail, to give you a closer look of our recent developments.

Saifi Ismail: Thanks, Tao. Hello, everyone. Thanks for joining us today. During our last earnings call, we introduced 2 new products to our pipeline: Yalla Baloot, which is a traditional card game favored by a lot of people in Saudi Arabia, and 101 Okey, which is also a popular traditional board game in Turkey. The Beta versions of both have been made available online, and we will launch these 2 products officially in quarter 2 with full-on promotional campaigns.

We also have more exciting new products lined up for this year. One important new product that we would love to share with you is Yalla Chat, an instant message or IM product, designed specifically for Arabic users. IM products are closely related to people's daily life, and it serves as an important part of the social infrastructure in modern society. Looking around the world, many countries or regions, like United States, China, Japan, Korea, Russia and Vietnam, to name just a few, have their own IM products that are designed based on local culture and catering to local users' needs.

Keeping Yalla's mission in mind, we believe it will be meaningful for Arabic users to have their own IM products, and thus, we aim to launch Yalla Chat this year. The plan is to start it off as a communication platform and continue to add additional functionalities that serve MENA users' particular needs over time. This new product will be an important strategic effort for Yalla Group, as it has the potential to significantly expand our scope of business. Leveraging our existing highly active user base, we look forward to cultivating another growth engine for our business.

Another product we would love to share here is Yalla Parchis. We found that Ludo game is not only popular around the MENA area, but also has a large fan base in South America. And Yalla Parchis is a casual game platform we designed for South American Ludo lovers. From a strategic standpoint, we will continue to monitor the South America market closely for future opportunities as we enter that territory with Parchis.

Let's turn to our 2 flagship applications, Yalla and Yalla Ludo. To better enrich the content offerings on our platform and further promote our platform's awareness among local users, in December 2020, we invited Fadia Al Tawil, the host of Saudi Arabia's live TV program The Kingdom this Morning, to launch her own chat room on Yalla. Ms. Al Tawil is well-known for

her resilient personality and passion for her career in media. She is also a role model who can encourage and inspire young people to live positive and healthy lives both online and offline.

During the event on Yalla, hundreds of users grabbed mics to discuss numerous topics including life attitudes, social skills and personal development, to name just a few. More than 149,000 users joined Yalla Fadia program during both Season 1 and Season 2, spending a total of 20 million minutes in the chat room with Fadia on the mic, with 250,000 virtual gifts sent. In Season 2, each episode lasted for 90 minutes, and participants' average daily time spent reached 72 minutes, which demonstrates the impressive engagement level of our users at the event.

We also recently launched Yalla Riyadh, or Yalla Sports program, with one of the most famous sports broadcasters and experts in the region, Mr. Lutfi Al Zoabi. Mr. Al Zoabi discusses recent exciting games and sporting events with sports lovers on the Yalla platform. The program provides opportunities for our users from all age groups, specifically youth interested in sports, to discuss their views on football and other sports. More than 147,000 users have joined since Yalla Sports launched this February, with 270,000 virtual gifts sent.

Every episode is an hour long, and our users have been spending more than 40 minutes on average every day participating in the program. Yalla Sports drives more sports lovers to the Yalla platform, creating higher engagement by running operation activities that is tailored to hot topics in the region and local users' interests.

Looking ahead, we expect to see more operation activities on the Yalla platform with popular personalities and subject matter experts, as we continue to hone in on local popular culture and social trends in MENA, and provide our users with what they love.

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. Our leadership position as a voice-centric social networking and entertainment platform in MENA is clearly being demonstrated by our robust top line and bottom line growth that continued in the quarter.

Our fourth quarter revenues grew 150.9% year-over-year to USD48.3 million, while our non-GAAP net income reached USD23.3 million with growth of 181.6%. Our non-GAAP net margin remained elevated at 48.3%, reflecting our unique business strategy, market positioning and strong operating efficiency. With 2021 well underway, we are very confident we can deliver another year of strong growth and profitability as we continue to execute on our strategic roadmap.

Now I would like to walk through our financial details for the fourth quarter of 2020. Our revenues were USD48.3 million in the fourth quarter of 2020, a 150.9% increase from USD19.3 million in the same period last year. The increase was primarily driven by the widening of both Yalla's and Yalla Ludo's user base and the robust enhancement in chatting services' monetization capability.

Our average MAUs increased by 295.4% from 4.2 million in the fourth quarter of 2019 to 16.4 million in the fourth quarter of 2020. Yalla's MAUs increased by 94.8% to 6.4 million in the

fourth quarter of 2020 from 3.3 million in the same period of last year. And Yalla Ludo's MAUs increased by 1057.5% to 10 million in the fourth quarter of 2020 from 0.9 million in the same period of last year.

In addition, another primary contributor to our solid revenue growth was the significant increase in the number of paying users, which grew from 0.7 million in the fourth quarter of 2019 to 5.2 million in the fourth quarter of 2020.

Now let's look at our costs and expenses. Our cost of revenues was USD18.4 million in the fourth quarter of 2020. Excluding share-based compensation expenses, cost of revenues for the fourth quarter of 2020 were USD16.2 million, a 177.8% increase from USD5.8 million for the same quarter last year. The increase was in line with our revenue growth and primarily due to our expanding business scale.

Excluding share-based compensation expenses, cost of revenues as a percentage of our total revenues, increased from 30.3% in the fourth quarter of 2019 to 33.6% in the same period in 2020, primarily due to, number one reason, an increase in salaries and benefits for our staff related to the operations, which was in turn driven by an expansion of our staff related to the operations due to the increasing user base of our products; and number two, an increase in commission fee for third-party payment platforms.

Our selling and marketing expenses were USD7.6 million in the fourth quarter of 2020. Excluding share-based compensation expenses, selling and marketing expenses for the fourth quarter of 2020 were USD4.4 million, a 43.9% increase from USD3.1 million for the same quarter last year. The increase was primarily due to higher advertising and marketing promotional expenses as a result of our continued user acquisition efforts.

Excluding share-based compensation expenses, selling and marketing expenses as a percentage of our total revenues decreased from 16% in the fourth quarter of 2019 to 9.2% in the same period in 2020, primarily due to organic user acquisition through word-of-mouth referrals and economies of scale.

Our general and administrative expenses were USD11.3 million in the fourth quarter of 2020. Excluding share-based compensation expenses, general and administrative expenses for the fourth quarter of 2020 were USD2.6 million, a 66.6% increase from USD1.6 million for the same quarter last year. The increase was primarily due to an increase in salaries and other benefits for our general and administrative staff, which was in turn driven by an expansion of our general and administrative staff. Excluding share-based compensation expenses, general and administrative expenses as a percentage of our total revenues decreased to 5.4% in the fourth quarter of 2020 from 8.1% in the fourth quarter of 2019 due to economies of scale.

Our technology and product development expenses were USD1.6 million in the fourth quarter of 2020. Excluding share-based compensation expenses, technology and product development expenses for the fourth quarter of 2020 were USD1.4 million, a 223% increase from USD0.4 million for the same quarter last year. The increase was primarily due to an increase in salaries and benefits for our technology and product development staff, which was in turn driven by an expansion of our technology and product development, investment in new products and services.

As a result of these reasons, excluding share-based compensation expenses, technology and product development expenses also increased as a percentage of our total revenues from 2.3% in the fourth quarter of 2019 to 2.9% in the same period in 2020.

As such, our operating income was USD9.3 million in the fourth quarter of 2020, compared with operating income of USD8.3 million in the same period last year. Excluding share-based compensation, non-GAAP operating income for the fourth quarter of 2020 was USD23.7 million, a 183.4% increase from the same quarter last year.

Our income tax expense was USD331.4 thousand in the fourth quarter of 2020.

As a result of the foregoing, our net income was USD9 million in the fourth quarter of 2020, compared with USD8.3 million in the same period last year. Excluding share-based compensation expenses, non-GAAP net income for the fourth quarter of 2020 was USD23.3 million, a 181.6% increase from USD8.3 million for the same quarter last year.

Next, I would like to briefly look at our liquidity and capital resources. As of December 31, 2020, we had cash and cash equivalents of USD236.9 million, as compared to the cash and cash equivalents of USD75.7 million as of September 30, 2020.

For our 2020 full year financial results, please refer to our earnings press release for further details.

For the first quarter of 2021, we expect our revenues to be between USD60 million and USD63 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. Operator, we are now ready to take questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. [Operator Instructions]. For the benefit of all participants on today's call, if you wish to ask your question to management in Arabic or Chinese, please immediately repeat your question in English. [Operator Instructions]. The first question comes from [Feiya Hao] of Haitong International.

Feiya Hao: Congrats on a solid quarter. I have one question for you. What is the MAU also for Yalla and Yalla Ludo in 2021? And what are your key strategies to reach a new target?

Unidentified Company Representative: Thanks, [Feiya]. Actually, we expect both Yalla's and Yalla Ludo's MAUs to grow by 10% to 15% quarter-over-quarter this year. And that's around

50% to 70% growth (inaudible). But please note, this number is only for Yalla and Yalla Ludo. We haven't included potential contributions from our new products in this outlook.

In terms of growth of the new products, we will need to get more feedback from the markets to get a better sense of it. We will keep monitoring the performance of our new products after we officially launch them, and we will keep you posted of our progress. Thank you.

Feiya Hao: Thanks.

Operator: [Kai Fang from CITIC].

Kai Fang: Congratulations for a strong quarter. So I have a question about the competition. So we see some Chinese game companies had entered in the MENA market. How does management see the competition? And what's our strategy for this?

Tao Yang: Hi, Kai Fang, this is Tao Yang. I'd like to take this question. Actually, we were not the first company that launched mobile games in MENA market. There were more than 100 ludo games apps in the MENA market before we introduced the Yalla Ludo. In addition, Yalla Ludo is also competing with other ball games, so it has been facing competition since day one. Against the competition, Yalla Ludo is the number-one ball game in the MENA region in terms of revenue generation.

And the most important difference between Yalla Ludo and the other ludo platforms is that we have built very strong social features into it. And we run Yalla Ludo as not only a game platform, but also a social community. At this point, we haven't seen strong competitors in this vertical, but we will be alert to dynamic competitive landscape.

Kai Fang: Okay. A follow-up question about the platform -- so we have several games and social networking apps. So can you give us more details about your plan about in the platform and the Yalla Chat?

Tao Yang: Oh, yes, that is a very interesting question. Yes, building Yalla platform is important strategic move for us. We aim to build and strengthen the connections among our individual apps and create a synergistic ecosystem. We can draw our traffic from one of our apps to another through [as] or operating activities. At this stage, we think Yalla Chat can be a good starting point to facilitate our implementation of this strategy. As Saifi mentioned earlier, our plan is to start Yalla Chat off as a communication platform and continue to add additional functionalities, connecting all of our apps and services into one large platform. Thank you, Kai Fang, for your question.

Kai Fang: Okay. Very clear, thank you. Thank you.

Operator: [Operator Instructions]. Bo Pei of Oppenheimer.

Bo Pei: Congrats on the strong results. So I have two questions. First, can you talk about what percentage of Ludo users use the Chat feature in 4Q? And then I notice we've entered South American market. Can you briefly discuss the geographic expansion of [QT], for example, the total addressable market in South America? And also in terms of the competition, how does that

compare with the MENA market? And then is there any other market, for example, Southeast Asia, or any other regions, you plan to enter as well?

Tao Yang: Thank you, Bo Pei, and good morning. Currently, there's over 20% of the users from Yalla Ludo are using our matching function. And I think MENA -- and for the second question, I think MENA, for sure, it is our most important market and main focus for Yalla. One of the most important advantages we have is our team's deep understanding into the Arabic culture and our strong localization capabilities.

When we consider expanding into other regions, we usually begin with countries, having seen the culture background. For example, our first flagship app, Yalla, only supported Arabic in the beginning, and we gradually added Turkish, Hindi, Urdu and Indonesian, etc. And our app is also available for download in more than 100 countries around the world.

In addition, we also offer Spanish and Portuguese on Yalla. The culture of people who speak Spanish and Portuguese is very different from the cultures of other countries, and regions in which Yalla usually operates. Through operating products in Spanish-speaking countries and serving local users there, our team has gained valuable consumer insight and experiences from this market over the past 3 years. That's a good example.

We found that Parchis is a very popular traditional board game in the South American market, and it's similar to Ludo. And with Yalla Parchis launch this year, we expect to grow our presence in this market. We will continue to monitor the South American market closely for future opportunities. Thank you.

Bo Pei: Thank you.

Operator: Iris Guo of CICC.

Iris Guo: Congrats on your strong financial performance. My question is regarding your expense plan and the margins because historically, the non-GAAP net margins have been very high, almost 50%. I'm wondering can you please share more color on your investment and expense spend on sales, marketing, R&D and others? And how do you expect them to impact your margin level?

Tao Yang: Thank you. That's a really interesting question. Our net margin has been at a very good level by about around 45% in the past several quarters. But this year, we don't think retaining our margin is our top priority. With a new product line, app launch, we expect to increase our efforts to pursue new users, hence, our budget in the marketing. This is important for the company from a growth perspective and will benefit the company in the mid-to-long run. Thank you.

Iris Guo: Thank you. That's very helpful.

Operator: Vincent Yu of Needham & Company.

Vincent Yu: My question is about monetization, a very general question. So we're seeing products in our products in the beta testing version. Any other -- any monetization opportunity that the company is most excited about in the next few years?

Tao Yang: Thank you, Vincent. The current monetization capability is already very healthy and strong, I think. In the foreseeable future, social networking and entertainment will still be our main focus. And for apps, if we decide to give it a try, we will do it gradually and cautiously. For the other businesses, like e-commerce, it's not in our plan at this point. We will share with our investors if we have any OpEx on our company strategy or pipeline. Thank you, Vincent.

Vincent Yu: Thank you.

Operator: As there are no further questions now, I'd like to turn the call back over to management for closing remarks.

Kerry Gao: Thank you once again for joining us today. We look forward to speaking with you in the next quarter. If you have further questions, please feel free to contact Yalla's investor relations through the contact information provided on our website or The Piacente Group Investor Relations.

Operator: This concludes this conference call. You may now disconnect your line. Thank you.