

[YALA] Yalla Group Ltd.
Q4 and Full Year 2021 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
Jeff Xu, Chief Operating Officer

Analysts

Yulin Zhong, Haitong International
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Zemin Chen, Southwest

Presentation

Kerry Gao: Hello, everyone, and welcome to Yalla's Fourth Quarter and Full Year 2021 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 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 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'll hear from Mr. Tao Yang, our Chairman and Chief Executive Officer, who will provide an overview of our recent achievements and growth strategies. He will be followed by Mr. Saifi Ismail, the company's President, who will give a brief review of our recent 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 up the call to questions. Our Chief Operating Officer, Mr. Jeff Xu, will join the call for our QA 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 2021 earnings conference call. 2021 marked an important year for Yalla. Dedicated to our vision of fulfilling the evolving online social networking and entertainment needs of MENA users, we increased the diversity of our business and services to new levels. We continued to expand with an array of development, investment and collaboration initiatives and build a thriving Yalla ecosystem of 7 products, as well as an exciting pipeline of new innovative products and features to provide our users with additional choices and a better experience while creating future revenue streams for our company.

Before we turn to our business updates, I would first like to provide an update on the voluntary dismissal of the securities class action lawsuit Yalla faced recently. This lawsuit was filed against Yalla in the U.S. in August 2021, based on assertions in short-seller reports, refuted by the company, claiming that Yalla had violated U.S. securities laws. The U.S. court ordered the plaintiffs and their attorneys to file an amended complaint including the factual basis, supporting their allegations.

However, after several months of preparation time, the lead plaintiffs and their attorneys failed to file an amended complaint by the deadline set by the court. Instead, they elected not to pursue this matter any further and voluntarily dismissed the lawsuit on January 12, 2022, agreeing to bear their own litigation costs.

Once Yalla agreed to the plaintiffs' dismissal, the following day, the court approved it and terminated the lawsuit. Voluntary dismissal of this kind is rare in the industry. Throughout the process, Yalla maintained that the lawsuit had no factual basis, and this has now been further validated by the plaintiffs' and their attorneys' decision to dismiss the lawsuit after several months of investigation.

Now let's take a closer look at some of our recent accomplishments. As a pioneer in MENA's online social networking and entertainment industry, we consistently seek to expand our ecosystem with investments that broaden our product range and meet our users' unique needs as we serve the MENA region.

Last quarter, we announced the establishment of our holding subsidiary, Yalla Game, and we are happy to share that we have already made 2 investments in mid-core to hard-core game projects. We have already identified 2 content providers with impressive teams, and we will assist in localizing and distributing their games within the MENA region, leveraging our local know-how to bring exciting new content to our users.

Empowered by our healthy cash flow and strong cash balance, we are also looking beyond gaming to find diverse investment opportunities to flexibly and efficiently broaden Yalla's ecosystem. Our efforts to lead MENA's online social networking and entertainment industry do

not stop at game distribution. We also strive to advance social networking products for the MENA market and have made good progress with our IM product, YallaChat.

We recently released YallaChat version 0.3, with new functions including group video-chatting and emojis designed specifically for Arabic users, with plans to roll out more localized functions in the near future. We strongly believe that in the digital era, a dedicated IM product with features tailored to MENA's local user preferences is a fundamental requirement, and we feel an overriding sense of responsibility to fulfill this critical need for MENA-based users. It's never easy to develop a successful IM product, but it plays a significant role in our vision to fulfill the evolving online social networking and entertainment needs of MENA users. We will continue to welcome user feedback and work on perfecting the details with upcoming iterations of YallaChat.

As we reported last quarter, beyond YallaChat, we have been expanding the boundaries of existing online social networking products with our work on WAHA, the first-ever social metaverse designed for the MENA region. WAHA, which means “oasis” in Arabic, is an important step forward in Yalla Group's metaverse application explorations, and we are thrilled to share that we brought our metaverse to life even earlier than expected with WAHA's successful launch in both the App Store and Google Play Store on March 10, 2022. WAHA's interactive features provide users with greater freedom online as well as immersive, online-merge-offline social experiences. In WAHA, users can interact virtually with their online friends in 3D social scenes while simultaneously enjoying real-life socialization through voice chatting and gifting. We see massive development potential in the metaverse and we remain keen to continue exploring its possibilities to create an exhilarating interactive experience for our WAHA users.

We also mentioned last quarter that we have officially kicked off our internal ESG program. As a responsible corporate citizen, Yalla is committed to advancing ESG initiatives in the MENA region, and we believe a sustainable growth target is essential for Yalla, our community and our shareholders. We have been communicating with internal and external stakeholders to gather feedback and refine our ESG guidelines, and we are happy to update you that we will release our first annual ESG report very soon.

Additionally, I'm delighted to share with you that our President, Mr. Saifi Ismail, was named MENA's Leading Personality of the Year in the Digital Entertainment category by Emirati Estesmarat Magazine's 2021 Middle East's Most Creative Business Leaders Awards. Saifi was honored along with an illustrious group of 22 Middle East business leaders for his outstanding contributions to the digitalization of entertainment and social networking in the region. Congratulations, Saifi.

In conclusion, I would like to reiterate that our vision, and one that we feel passionate about, is to build the most popular destination for online social networking and entertainment activities in MENA. We hope to realize this vision within the next 10 years. For the past 5 years, we have been committed to promoting a healthy and orderly sector environment and providing the people of MENA with better access to a digital life, and our devotion to these goals remains unchanged.

Looking ahead, we will continue to closely watch MENA's local cultural trends, and develop Yalla's ecosystem with a host of products and services tailored to the needs of local users. We are well-positioned to capitalize on potential growth opportunities in the MENA region and leverage our excellent localization capabilities to generate long-term sustainable returns for our shareholders.

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, and thank you very much, Tao, too, for mentioning the Emirati Estesmarat Magazine's Leading Personality of the Year award in the Digital Entertainment category. I am most grateful to have received this recognition, both for myself and on behalf of the entire Yalla Group. It reflects our passion for digital entertainment and its impact on the region.

The MENA entertainment and social networking market is undergoing a vast digital transformation, and Yalla is proud to be a driver of innovation and a source of creativity as we advance the development of the digital world in the region. We will continue to develop our immersive digital social and entertainment ecosystem and provide our users with even more memorable and cherished experiences.

Now let's take a look at our operations, as well as our products performances. Operationally, our growth momentum persisted throughout 2021 as we expanded our user community and advanced our monetization capabilities.

We are pleased to report a solid full-year 2021, with Yalla Group's total revenues increasing 102.4% year over year to reach US\$273.1 million. Furthermore, 2021 was an important year for Yalla from a product perspective, as we continued to roll out products tailored to MENA users' needs and diversify the services and businesses that Yalla covers.

Our experienced marketing team implemented innovative, customized campaigns to promote products that resonate deeply with the local culture. As a result, in the fourth quarter, our monthly active users increased 8.1% quarter over quarter, reaching 28.1 million. Yalla Group's paying users also increased to 8.4 million. As we have begun to launch more new products since the end of last year, we are proactively working to improve our product launch efficiency. To this end, while increasing the budget, we are also adjusting our sales and marketing strategies by focusing on key regions and groups, as well as exploring new customer acquisition channels such as offline advertising, among others.

We are also happy to share that our games, including Yalla Parchis, 101 Okey Yalla and the recently-launched Yalla Baloot, are making impressive progress. In Q4, Yalla Parchis was ranked within the top 5 in 10 countries in terms of the number of downloads under the board game category, and also ranked in the top 10 in terms of revenue under the board game category in Columbia, Spain and Mexico, to name just a few.

To advance our localization efforts, we rolled out the Chatroom function in Yalla Parchis' latest version, enabling not only voice-chatting but also video-chatting to better suit South American users' social habits and preferences. We also hosted events to celebrate local holidays to

encourage user engagement on the platform. Our Día de Muertos event was a notable success, attracting participation by more than 40% of our monthly active users.

101 Okey Yalla remained one of the most downloaded Apps in the board game category in Turkey, and was also ranked among the top 10 in terms of revenue in Turkey in the board game category for the first time in December 2021. 101 Okey Yalla receives excellent feedback from users and we have seen user stickiness improve consistently as both average daily time spent per active user and users' willingness to pay continue to grow.

Last but not least, in December, 2021, we officially launched Yalla Baloot, a card game designed for Saudi users. Since its launch, Yalla Baloot has been recommended 13 times on the first page within the games category in the AppStore, a powerful testament to our team's extensive experience and ability to develop highly desirable, enjoyable products well-liked by our target user base.

Next, another piece of good news – the Yalla Group was prominently featured in one of Time magazine's most popular issues: the Person of the Year issue, a unique annual edition featuring the person, group, idea, or object that has done the most to influence key events during the year. As the first UAE internet unicorn to be listed in the United States, Yalla's first year as a public company has been filled with many achievements as well as challenges, and we are proud to have caught the eye of this renowned publication.

We will continue to build our visibility while communicating transparently and sincerely with our users, investors, the public, and all of our stakeholders to better convey our story and progression, as well as further strengthen and elevate Yalla's brand across 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 – this vision never changes. We will remain faithful to our core values of prioritizing our users, embracing diversity, and operating with a simple, pragmatic, pioneering and enterprising approach as we work to achieve our goals.

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 sustained our steady financial performance in the fourth quarter of 2021, reflecting the strong execution of our user growth strategy and the progress we achieved with our new initiatives. Our fourth quarter revenues grew by 39.7% year over year to US\$67.6 million, while our non-GAAP net income reached US\$27.6 million with a growth rate of 18.2% year over year.

Notably, we also maintained a non-GAAP net margin of more than 40% in the fourth quarter, at 40.8%, while simultaneously accelerating our new business initiatives. We are confident that enhancements to our product portfolio will create future growth opportunities by expanding our user base and revenues, providing a solid foundation for long-term profitability.

Now I would like to walk you through our detailed financials for the fourth quarter of 2021. Our revenues were US\$67.6 million in the fourth quarter of 2021, a 39.7% increase from US\$48.3

million in the same period last year. The increase was primarily driven by the broadening of Yalla Group's user base and enhancements to Yalla Group's monetization capabilities.

Our average MAUs increased by 71% from 16.4 million in the fourth quarter of 2020 to 28.1 million in the fourth quarter of 2021.

Now let's look at our costs and expenses. Our cost of revenues was US\$23.9 million in the fourth quarter of 2021, compared with US\$18.4 million in the fourth quarter of 2020. The increase was mainly driven by an increase in commission fees for third-party payment platforms resulting from our expanding business scale, partially offset by lower share-based compensation expenses of US\$1.6 million recognized during the fourth quarter of 2021, a 25.7% decrease from US\$2.2 million in the fourth quarter of 2020. Excluding share-based compensation expenses, cost of revenues as a percentage of our total revenues remained relatively stable at 33% in the fourth quarter of 2021, compared with 33.6% in the fourth quarter of 2020.

Our selling and marketing expenses were US\$13.3 million in the fourth quarter of 2021, compared with US\$7.6 million in the same period last year. The increase was mainly driven by higher advertising and market promotion expenses led by our continued user acquisition efforts and expanding product portfolio, partially offset by decreased share-based compensation expenses of US\$1.9 million during the fourth quarter of 2021, compared with US\$3.2 million in the fourth quarter of 2020.

Excluding share-based compensation expenses, selling and marketing expenses as a percentage of our total revenues increased from 9.2% in the fourth quarter of 2020 to 16.9% in the fourth quarter of 2021.

Our general and administrative expenses were US\$8.1 million in the fourth quarter of 2021, compared with US\$11.3 million in the same period last year. The decrease was mainly driven by lower share-based compensation expenses of US\$4.7 million recognized during the fourth quarter of 2021, a 46.4% decrease from US\$8.8 million in the fourth quarter of 2020, partially offset by an increase in salaries and other benefits for our general and administrative staff. This in turn was 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 remained relatively stable at 5.1% in the fourth quarter of 2021, compared with 5.4% in the fourth quarter of 2020.

Our technology and product development expenses were US\$3.9 million in the fourth quarter of 2021, compared with US\$1.6 million in the same period last year. The increase was mainly driven by an increase in salaries and benefits for our technology and product development staff. As a result, excluding share-based compensation expenses, technology and product development expenses as a percentage of our total revenues increased from 2.9% in the fourth quarter of 2020 to 5.3% in the same period of 2021.

As such, our operating income was US\$18.3 million in the fourth quarter of 2021 compared with operating income of US\$9.3 million in the same period last year. Excluding share-based compensation, non-GAAP operating income in the fourth quarter of 2021 was US\$26.8 million, a 13.2% improvement from the same quarter last year.

Our income tax expense was US\$0.79 million in the fourth quarter of 2021 compared with US\$0.33 million in the fourth quarter of 2020.

Moving to the bottom line, our net income was US\$19.1 million in the fourth quarter of 2021 compared with net income of US\$9 million in the same period last year. Excluding share-based compensation expenses, non-GAAP net income for the fourth quarter of 2021 was US\$27.6 million, an 18.2% improvement year over year.

Next, I would like to briefly go through our liquidity and capital resources. As of December 31, 2021, we had cash and cash equivalents of US\$351.5 million as compared to cash and cash equivalents of US\$326.3 million as of September 30, 2021. This improvement demonstrates our commitment to continuing streamlining and refining Yalla Group's operations.

On May 21, 2021, we announced the 2021 Share Repurchase Program. As an update, we have repurchased 418,289 American depositary shares, representing 418,289 Class A ordinary shares from the open market with cash for an aggregate amount of approximately US\$3.1 million in the fourth quarter of 2021.

For our 2021 full year financial results, please refer to our earnings press release for further details.

In the first quarter of 2022, we expect our revenues to be between US\$66 million and US\$69 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.