YY Inc.
1Q14 Earnings Conference Call Script
May 5, 2014

- **MANAGEMENT DISCUSSION SECTION**

Operator:

Good day everyone and welcome to YY's first quarter 2014 earnings conference call.

At this time all participants are in listen-only mode. We will be facilitating a question and answer session towards the end of this conference call. At this point, I would like to turn the call to Charles Eveslage from ICR.

Charles Eveslage - Opening Remarks and Safe Harbor Statement

Thank you, operator. Welcome to YY's first quarter 2014 earnings conference call. With us today are Mr. David Xueling Li, CEO of YY, and Mr. Eric He, CFO. Following management's prepared remarks, we will conduct the Q&A session.

Before we begin, I refer you to the Safe Harbor Statement in our earnings release, which also applies to our conference call today as we will make forward-looking statements.

At this time, I would now like to turn the conference call over to our CEO Mr. David Li.

David Li –Overview and Strategic Highlights

Thank you. Good morning and good evening, everyone.

We are pleased to announce a strong first quarter to start 2014. We enjoyed robust growth during our seasonally slow first quarter, and aim to carry this momentum throughout 2014.

In particular, online music and entertainment again outperformed our expectations this quarter, with revenues growing by 228 percent and paying users increasing by 103 percent year-over-year. This robust growth was supported by our well-developed ecosystem and diverse live content, which help retain performers while encouraging user spending. As such, we continue to see increasingly dynamic and interactive online activities among our expanding base of 95.5 million average monthly active users.

Moreover, users continued to find new ways to socialize and interact with one another on our platform, which provides us new business opportunities and additional ways to monetize. An exciting moment on this front was our launch of our dedicated education platform, 100 Education, in late February. Leveraging our powerful audio and video communication technologies as well as our massive real-time hosting capabilities, our education services provide a real-time interactive setting for students and teachers. By expanding our footprint in a wide range of real-time online interactive services in China, we aim to further expand our diverse online communities and user base.

In addition, we made great strides on the mobile front, delivering solid growth in user traffic and spending on mobile devices. In particular, I'd like to point out that since we introduced virtual item sales into our mobile online entertainment services last October, revenues generated from our mobile platform surged 180% to 29 million from a quarter ago. Among all the paying users of our online entertainment services, 8 percent of users made payments exclusively through mobile devices, representing an impressive 88 percent increase in numbers from last quarter. These results demonstrate our initial success in cultivating users' paying habits on mobile by allowing users to remain active with us and access our highly demanded services through their mobile devices.

Building upon the momentum in our online music and entertainment business, we have officially kicked off a star-making campaign in an attempt to form our own pop idol band, 1931. Unlike other companies that only host concerts in their own theaters with very limited "handshake" interaction between fans and the band, our 1931 band will leverage YY's real-time interactive platform to enable live and innovative interactions between singers and users. Through this effort, we will also be able to extend our fast growing music and entertainment business to offline settings, potentially creating a new growth opportunity with the concept of "Idols you can not only meet but can also interact with."

With the solid foundation and strong market position we have established, we will continue to attract users and optimize our monetization efforts. Through online entertainment, live broadcasting, education, and other verticals, we believe we are well positioned to sustain robust growth and performance in the future.

With that, I will now hand over the call to our CFO, Eric.

Eric He – Financial Results

Thank you, David. Good morning everyone.

I would like to further elaborate on our increasing focus on our education and mobile endeavors.

First, with the launch of 100 Education in February, followed by the introduction of the branded client last month, we now have established a dedicated and branded platform for both PC and mobile access within China's fast-growing online education market. By enabling a revolutionary and real-time interactive education experience, we differentiate our education service offerings from traditional educational services that are usually passive, asynchronous, one way endeavors with minimal participation from students. With the offering of a variety of highly-popular live exam preparation classes and programs online free of charge to users, our near-term focus remains on the optimization of our product and services offering; through these efforts, we aim to improve user experience while attracting more teachers and students onto our platform with disciplined marketing spending. This strategy has already begun to bear fruit as we saw the number of active monthly teachers, paid courses and free courses all increase by more than 70% in March from its launch only a month before. With the expansion of our platform, we also want to empower teachers to benefit professionally and monetarily in tandem with us; we believe this win-win arrangement will create additional monetization avenues on our technology platform in the future.

We continue to see encouraging results with the growth of our mobile platform, as highlighted by the increased adoption and monetization of our mobile application. Monthly average users of our mobile application increased by 18% to approximately 20 million quarter-over-quarter. Furthermore, as David highlighted earlier, our monetization ability on our mobile platform continues to improve, with revenues generated from mobile online entertainment increasing 180% to 29 million quarter over quarter. This represents 8% of all revenue from online entertainment. In addition, 24% of all online entertainment paying users used mobile to pay for virtual items. Of these paying users, one in three used mobile exclusively to pay for music and entertainment. As consumer adoption of mobile payment solutions remains low in China, we're very delighted that our users have quickly established a habit of spending in our new mobile ecosystem and have built trust in our company to pay via our mobile payment channels. As China's wireless network infrastructure improves and 4G usage becomes more widespread, we believe that mobile adoption of YY will continue to increase and will provide ample opportunities for monetization.

One last item I wanted to point out was that our Board of Directors approved a share repurchase program. The authorized amount will be up to USD 100 million for a period of one year beginning this quarter.

Now moving on to our quarterly financial details:

Before I get started presenting our financial numbers, I'd also like to clarify that all the financial numbers we are presenting today are in Renminbi amounts and percentage changes are year-over-year comparisons, unless otherwise noted.

First of all, I'd like to highlight that in the first quarter, we were once again able to achieve results that exceeded our expectations on the top line. Moreover, we also saw net income attributable to YY almost triple year-over-year due to the expanding scale and leverage of YY's business operations.

Net revenues for the first quarter 2014 increased by 112% to 666 million. This increase was primarily driven by an increase in IVAS revenues

IVAS revenues increased by 127% to 642 million. The overall increase primarily reflected an increase in the number of paying users and an increase in ARPU. Let's look at each of our IVAS business lines more specifically.

- **Revenue from online music and entertainment** increased by 228% to 383 million. This increase primarily reflected a 103% increase in the number of paying users to just over 1 million and a 61% increase in ARPU to 381RMB during the first quarter 2014.
- **Revenue from online games** increased by 36% to 180 million. This increase primarily reflected an increase in ARPU of 24% to RMB391 and a 10% increase in the number of paying users to 461,000; Also, the number of online games increased to 139 as of March 31, 2014, from 92 last year.
- **Revenue from others,** increased by 134% to 79 million. Revenue from the membership program increased by 54% to 43 million. This increase primarily reflected a 56% increase in the members to 851,000 as of March 31, 2014. Revenues from live broadcasting of online games increased significantly to 24 million from 3 million in the prior year period.

Online advertising revenues were 24 million in the first quarter 2014, compared to 32 million in the corresponding period of 2013.

Cost of revenues increased to 317 million. This was primarily attributable to an increase in revenue sharing fees and content costs, which increased to 179 million this quarter from 56 million last year. This increase included revenue sharing fees and content costs to performers, channel owners, and content providers and was primarily due to higher levels of user engagement and spending. In addition, bandwidth costs increased to 63 million, representing 10% of revenues, down from 14% of revenues in the same period last year as we continued to manage our bandwidth cost through better allocation of bandwidth resources and infrastructure improvements.

Gross profit increased by 106% to 349 million. Gross margin was 52% compared with 54% in the corresponding period of 2013. The decrease in gross margin was mainly attributable to the higher portion of revenues resulting from online music and entertainment, and the corresponding higher cost of revenues from revenue-sharing fees and content costs.

Our non-GAAP operating income increased 177% to 229 million. Non-GAAP operating margin increased to 34%, from 26% in the same quarter last year. The increase in operating margin was primarily due to increased operating leverage associated with our expansion.

GAAP net income attributable to YY increased 187% to 184 million from 64 million in the same quarter last year. GAAP net margin increased to 28% from 20% in the same quarter last year.

Non-GAAP net income attributable to YY increased by 153% to 208 million, while non-GAAP net margin expanded to 31% from 26% in the same quarter last year.

Diluted net income per ADS increased to RMB3.06 or 49 US cents from RMB1.11 in the same quarter last year. Non-GAAP diluted net income per ADS increased to RMB3.46 or 56 US Cents from RMB1.42 in the corresponding period of 2013.

For the first quarter of 2014, we currently expect our net revenue to be between RMB745 million and RMB755 million, representing year-over-year growth of approximately 82% to 85%.

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

- **QUESTION AND ANSWER SECTION**

Operator: Ladies and gentleman, if you wish to ask a question today please press * followed by 1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the # key. During the Q&A session today, we request that analysts limit their questions to two per person and if you wish to ask further questions please press *1 again to reach you.

Your first question today comes from the line of Timothy Chan from Morgan Stanley. Timothy, please go ahead.

Timothy Chan: Hi, good morning. Thank you very much for taking my questions. I have two questions.

The first one is actually a follow-up on your education business which shows really a promising start. Could you maybe talk about your next step and target this year, for example the student volume that you are going to sign up or whether you have plans to expanding your offering to other categories? And I have another question. Thank you.

Eric He: Yes. Sorry, let me just translate the question a little bit to our CEO. I think this question will be answered by CEO, David.

David Xueling Li: [Mandarin, 19.42–20.41]

Eric He: Yes. We were – we are very pleased to announce our endeavour to education business. We use a new brand name, 100 Education. We use very different ways to enter into this market, which is different from previous traditional ways.

I think at this moment of time, our focus is not on the number of students or number of courses. We want to focus on delivering the best courses or best service to our students and to our teachers. We are very glad to see that the first course that we conducted a couple of weeks ago, we got a very good – satisfactory or good ratings of 97, which is very rare. We intend to maintain that kind of rating.

So we want to emphasise at this point of time number of students or number of courses is not the most important metrics. In fact, we want to actually deliver the best user experience and the satisfactory service to our students and teachers.

Timothy Chan: Thank you. Great. My second question is related to the change in government policy on online content recently. I want to ask, is there any impact on YY? And if there is any, what are you going to do to minimise the impact? Thank you.

Eric He: We will direct this question to the CEO, David to answer.

[Mandarin, 22.24–22.48]

David Xueling Li: [Mandarin, 22.49–24.12]

Eric He: Yes. I think, first of all, we would like to state very clearly, we are in – supportive of government's regulations and government's crackdown on inappropriate and pornography content on the internet. We believe the government's control and monitoring will bring a lot of the good side effects to the industry, especially which will actually make competition, make long-term development of the industry very good – in very good direction. So we actually support government's monitoring and regulations.

Number two, I think we want to emphasise that YY is a company actually has been long time try to crack down on pornography and inappropriate content. So, this government regulations or new monitoring policy actually is in consistence with our policy and strategy. So, at this point of time we will continue to our strategy to monitor and control inappropriate and pornography content as before.

Number three, I think because of our policy has been very much tried to eliminate all this pornography content, so you may actually have seen that in our first quarter and our second quarter forecast you don't see that much of the impact on our business levels. So, we don't think that this government crackdown will affect or impact our business line or operations too much.

Number four, we want to emphasise that we have been in constant communications with government relevant agencies and we actually would like to report and interact with the government and try to tell them that – what's going right, what's going wrong on our platform. If we find out any inappropriate cases, we usually will report to government voluntarily. So the dialogue and the communication between us and the government has been very good. So far, we have never been inquired or asked for any inappropriate content at this moment.

Timothy Chan: That's very helpful. Thank you, David and Eric.

David Xueling Li: Thank you.

Operator: Your next question comes from the line of Alex Yao from JP Morgan. Alex, please go ahead.

Alex Yao: Hi, good morning David and Eric. Congrats on a solid quarter. I have two questions. Number one is on the web game outlook for this year. It seems to me the overall web gaming market is slowing down. How do you guys drive this part of the business growth in this year? Would the recent games such as Feng Yu Wu Shuang etc., helping to further drive the business? I stop here, and I have a second question. Thank you.

Eric He: Okay, sure. Thank you, Alex. Let me answer your first question regarding this web game business outlook. As you can see that in 2013 our web game business has grown at a clip of 80%, which is roughly twice as fast as the industry average. The industry was estimated to grow at about 40%. As you can see the first quarter, our web game business has grown on a year-over-year basis to roughly 40%; to be exact is about 36%.

This is actually very much in line with what I had been expecting. You know, we had communicated with the investment community, telling people that A., the web game is growing but it's slowing down. The web game business as a whole perhaps is not growing at 40%; now perhaps it's 15% to 20%, as I told or communicated with the community. So if we can continue to grow two times as the industry, we should get somewhere around 30% to 40%. That's exactly what we are delivering in the first quarter.

And your question is, moving forward, what's the outlook for this business? In fact, I think the outlook for the whole industry is not changing too much. I think it will continue to grow but at a slower pace, and we continue to believe that we should outperform the industry average. On top of that, we are somewhat optimistic or cautiously optimistic about our web game business, because in this business we not only actually have web game business behind us, we also are exploring some of the new markets. We believe it will bring in additional growth for us. So for overall this year, we still believe that we should be achieving quite a decent growth rate on a year-over-year basis.

Alex Yao: That's very helpful. And secondly, your online ads business declined by 25% on year-over-year basis this quarter. Can you help us understand why is the business underperformed in the quarter, and what's the outlook going forward? Thank you.

Eric He: Your question is about advertising?

Alex Yao: Yes.

Eric He: Okay. Yes, I think this online advertising business, they actually declined from the fourth quarter's level. First of all, I think it's seasonal, because as you know that the first quarter is the slowest season of the year. But on a year-over-year basis, we do actually – we did actually slow down. The reason was because we had changed our sales strategies. Last year, 2013, we have a strategy to concentrate to have a packaged deal with ad agency. Now, we are trying to diversify our usage of agency – ad agencies.

So, the first quarter of 2014, just last quarter, it's right in the midst of it. So, we are adjusting our strategy. So, when we adjust our strategies, we try to break down this very large so-called contracted number from last year to this year, so we will lose some momentum, we'll lose some revenue. From what we can see now, is that this online advertising revenue should come back. For the – on a whole-year basis – 2014, the whole-year basis – our estimation for our online advertising business will be flat with the number of 2014.

I believe in 2014 we delivered somewhere around RMB160 million in revenue for the whole year. I think this year we're going to, you know, deliver very similar numbers, despite the fact that the first quarter was a little below, at normal or average. I think the second quarter, third quarter, fourth quarter, this business will pick up, will come back. So the whole year, on an annual basis in 2014, we should look online advertising business should be very much in line –the total dollar amount or contribution will be very much in line with what we have in 2013.

Alex Yao: It's very helpful. Thank you very much.

Operator: Your next question today comes from the line of Vivian Hao from Deutsche Bank. Vivian, please go ahead.

Vivian Hao: Hi Eric. Thank you for taking my question. I have one question. Recently we noticed that some of the monetisation functions for particularly the high rollers in the chat rooms have been required to – I don't know if it's required or just to be removed. Trying to understand what's the expected impact from such changes?

Eric He: Thank you. Vivian, I will ask our CEO David to respond to the question.

[Mandarin, 34.03–34.14]

David Xueling Li: [Mandarin, 34.15–35.08]

Eric He: Yes. I think recently you mentioned that some game, like a kicking people game or a dancing channel has been closed. I think that is in the normal course of business operations. Because, you know – and in fact, in February and March of this year, we voluntarily, you know, banned a game called Slave Trading, because we think there are some problems in that game, so we actually stopped it.

So I think we want to emphasise again at this time we voluntarily again banned some of the features and the games in our channels. And I think what we are trying to do is we try to actually stipulate a better management regulations or methodology so that once we have it - once we have that installed or in place, we would, you know, again reinitiate that futures – or games or channels. I think what you just mentioned is exactly what happened to us.

Vivian Hao: Understood. May I just have one quick follow-up? Could you please remind us, what is roughly the contribution from high spenders in the music community?

Eric He: Well –

Vivian Hao: Revenue. Thank you.

Eric He: Yes. As I mentioned before that in our music, entertainment business, for example this year – sorry, this quarter we have over one million paying users, right? Usually in the item-based monetisations, smaller amount of paying user will account for large percentage of the revenue. For us, it's more in that general direction as well. Roughly 5% of our paying users account for roughly 70% of the total music revenue. That has been pretty consistent in recent quarters.

Vivian Hao: Thank you.

Operator: Your next question today comes from the line of Jialong Shi from Credit Suisse. Jialong, please go ahead.

Jialong Shi: Hi. Good morning David, Eric. Thanks for taking my question. I have a follow-up question on the education business. I understand that you guys might not be in a hurry to monetise this business, but just wonder if the management can share with us any potential monetisation models for this business in the future? I have one follow-up. Thank you.

Eric He: Okay. Let me translate this question a little bit.

[Mandarin, 38.21–38.31]

David Xueling Li: [Mandarin, 38.32–39.58]

Eric He: Yes. We will emphasise that in the education market or business or industry, there are many aspects. Learning is one aspect. Interaction is one aspect. So, we want to emphasise that we are not going to, you know, let everybody get a free lunch on everything, meaning that it's not free-of-charge for everything. In fact, we – at this moment, we want to use a free of charge strategy on certain part of the business.

This certain part of the business is the part that is students care the most. What students care the most at this moment is what we believe is crash courses; those crash courses is students care the most and where the focus is. However, students do have other needs, do have other areas they care. So when student being attracted to our platform, we deliver very good services. Then we will let teachers to design very individualised courses or the point of sales for them to make money.

So our business model is to use this free of charge crash courses and attract large volumes of traffic onto our platform. We will let teachers to design their individualised courses and services so that they can charge people for money and for their services. So, that's our business model.

Jialong Shi: Thank you for that colour. My second question is about 1931. I just wonder what's your long-term goal for this business? Is it aimed to grow into a talent agency business like Huayi Brothers so that YY might make money from the paid performers both offline and online? Thank you.

Eric He: [Mandarin, 42.17–42.35]

I'm translating the questions to our CEO David. David is going to answer your question. Thank you.

David Xueling Li: [Mandarin, 42.42–44.11]

Eric He: Okay. We think that 1931 is very important for our online music and entertainment business, because it's very strategical, very important. The purpose to have this group is to cover from upstream to downstream of the music business. You know, we already have a very strong following on so-called grassroots people, grassroots singers. Now, 1931 is to help us to go up to the value chain. So we also want to be able to create a chain or channels to create superstars.

So, on YY platform, there are so many grassroots singers. But once upon a time or sometimes we will have a very talented, very reputable performer. We want to make 1931 become the exit of those believed performers, so that they will one day become a household name in the entertainment business in China.

I remember that before we mentioned AKB48's business model in Japan. I want to emphasise that from – as far as I understand, AKB48 actually is making tons of monies; if I'm not mistaken, it should be somewhere around US$300 million on an annual basis. So, this business will be a very good supplement to our current business, and also help us to broaden our user base and to make YY Entertainment become a mainstream entertainment in a long-term basis. That's our purpose and goal.

Jialong Shi: Thank you.

Operator: Your next question today comes from the line of Jiong Shao from Macquarie. Jiong, please go ahead.

Jiong Shao: Thank you for taking my questions. My first follow-up is on the government regulation on the sort of online UGC video content. I was just wondering sort of what licenses a company like yours typically will need to sort of broadcast UGC content online, and how many licenses does YY have right now to do this music business? That's my first follow-up. I have a second follow-up. Thank you.

Eric He: [Mandarin, 46.59–47.16]

David Xueling Li: [Mandarin, 47.17–47.55]

Eric He: You know, YY has been in business for so many years; it's actually, you know, since 2005, close to ten years. We have so many permits and license which allowed us to do all sorts of internet broadcasting. I think specifically, we have two licenses which is very relevant. One is called audio and video permit. I believe that is from GAPP or, you know – it's from SARFT, actually; the video and audio permit is from SARFT. And also we have internet performance permit, which is promulgated from Ministry of Culture. So, those are the most critical ones. And those two license enable us to do all this content broadcasting on internet.

Of course, I want to emphasise it's not just those two. We actually have, you know, many other licenses in our company. So, I think in terms of license, we are equipped with all necessary if not more than necessary license to do the business in China.

Jiong Shao: Okay, great. Thank you, David and Eric, for the answer. My second follow-up is on the mobile business. You have already shared some of the metrics for your mobile in terms of the MAUs and the revenue contribution. I was wondering, could you talk about, in terms of the user behavior, like the time spent on mobile, the monetisation, sort of the differences, what items mobile users buy or not buy? Any additional sort of colour you can share would be great. Thank you.

Eric He: Sure. I think, yes, we are very pleased to see our mobile initiative actually has – bear some fruit. I want to emphasise that we started the mobile monetisation in the fourth quarter of 2013. As we just reported, the mobile monetisation is doing much better than we expected in terms of number of users, in terms of dollar amounts. I think in terms of the behavior, this is what we look – if you look at the numbers, you can see clearly at this point of time the ARPU from mobile users or mobile spending is smaller.

I want to go back to the numbers again to you. Our mobile monetisation dollars is only 8% of our total entertainment revenue; however, in terms of people who use mobile devices to pay for their virtual items, it's 24%. If you interpreted that, you can clearly see the ARPU for the mobile purchase is smaller than the normal one from PC. So, that's one clear evidence.

Number two is that from what I can see, on a very consistent basis, that our users usually will interact long hours with our services on PC. As you know that most of the mobile users, they use this service in a much shorter time spent. So those are the two very clear differences in terms of the user behavior between the mobile users and the PC users.

Jiong Shao: Great. Thanks again, Eric. Thank you all.

Eric He: Yup.

Operator: Your next question today comes from the line of Chao Wang from Nomura. Chao, please go ahead.

Hello, Chao, your line is now open.

Chao Wang: Hello? Can you hear me?

Operator: Go ahead.

Chao Wang: Hi. My question is regarding deferred revenue. Could you roughly break it up between game and music? And also I noted that it's up 5% quarter-over-quarter again after 22% sequential increase in last quarter. So, how should we think about the seasonality of deferred revenue versus revenue? Thank you.

Eric He: I'm sorry, can you repeat your question? You said to break down the revenue between the game and music?

Chao Wang: I mean deferred revenue.

Eric He: Oh, deferred revenue.

Chao Wang: Yeah. And also want to understand the seasonality of deferred revenue versus revenue.

Eric He: Okay, good. Okay, for deferred revenue, as we all know that it's a balance sheet item. Deferred revenue is derived because that, according to US GAAP, some of the services is not being rendered completely as of the quarter-end, so we have to defer to next quarter. We actually do not actually disclose the details of deferred revenue, but I can give you some kind of guidance.

The largest part among our deferred revenue is on the music side that actually is a little more than one third of the total amount. The second largest one is the gaming deferred revenue that is also in the 30-some percentage. And the third one is membership; it's in the high 20s, close to 30s. So, those three items actually account for 95% or 96% of the deferred revenue. So, they are pretty much evenly spread over from, you know, 30% to 38% or 39%.

So in terms of the seasonality, I don't think there is too much seasonality other than that deferred revenue usually goes in tandem with the revenue of the particular line of business. Say, if the music business go up, revenue increase, if everything goes normal, deferred revenue will go up with it as well. So usually that is the case.

Chao Wang: Thank you very much. Very helpful.

Operator: Your next question today comes from the line of Tian Hou from T.H. Capital. Tian, please go ahead.

Tian Hou: Morning David and Eric. Thanks for taking my questions. A couple of questions; one is regarding your music business. I saw that in this quarter it went up a lot, and that's actually following the high growth in 2013. So I wonder, what's the outlook for this part of the business in 2014? And how do you drive this business continue to grow at high speed? So, that's on the musical side.

And on the education side – and I know you're investing heavily in this part of the business and aiming at recruit users and recruit sticky users, and I wonder what's the total investment are you planning to put in place, and how should we think about your gross margins going forward? That's the two questions.

Eric He: Okay. Well, first of all for the music business, as you have seen that our music business has grown very rapidly, very strongly. I think the way that we grow our music business are in many folds. We have a very strong music team. They don't actually just grow revenue, they also try to grow user base.

So for the short-term, you know, on a quarter-over-quarter basis, our music team has sponsor or has done a lot of the marketing campaigns surrounding all these holidays. I think this strategy has been proven very effectively. They will continue to use that. For example, in the first quarter, we have Valentine's Day, we have Chinese New Year, we have February – you know, there is a day called Once in a Life or something. Those kind of holidays or those kinds of days will be the special day for them to do their promotion. That's on a short-term basis.

On a long-term basis, we try to build a very solid user base. Not only that, we are looking at monetising in a short-term manner, but we also want to broaden our user base. I think 1931 is one of the long-term efforts or endeavour. So, we don't expect 1931 to create huge amount of traffic or user base in the short run, but in three quarters, a year or two, it actually can broaden our user base, you know, on a long-term basis. So, that's going to help us to allow our platforms to have a better or stronger capabilities to help our performers to monetise in a long-term basis. So that's our music strategy.

On the education side, yes, this year is a year of investment for our education business, because we already say – we already said that this year we don't pay attention to monetisation, we don't even pay attention to number of students. We want to make sure that the quality of service or the quality of the content are up to the satisfaction of our students and the teachers. That means, yes, we need to actually have a very strong team. I think our education team at this moment is doing very well. We will continue to support them, so we will add headcount in that team.

Secondly, we did actually mention we want to invest RMB1 billion into the education business. So, a lot of people or investor will start to worry that RMB1 billion is a lot of money, but if you look at the history or the tradition of YY we don't usually will conduct a massive marketing campaign. I think most of that money will be used to invest or acquire meaningful education outfits or business model, meaning that all those money will be spent onto so-called balance sheet items, becoming investments.

So I think in the short run, I don't see that our spending in education business is going to impact our P&L or income statement that much.

Tian Hou: That's very helpful. Eric, I have a follow-up question. You mentioned about the sponsorship in the music performance. So, I wonder how important those sponsors are to the performer and to the music business?

Eric He: Tian, can you say that again? I don't understand that. Because I thought you've already asked two, so I didn't expect you ask another question. Can you repeat your question again?

Tian Hou: Yes. It's about the sponsor. So, you've mentioned about the sponsorship for the musical performers. So, I wonder how important those sponsors to the performance – to the performers and also how important those sponsorship to your revenue growth?

Eric He: Can you say sponsor in Chinese? Because I don't really understand what sponsor means.

Tian Hou: [Mandarin, 61.34–62.01]

Eric He: Okay. Now I understand. Again, I think you misunderstand our business. You know, our business, we don't have what you call sponsor. Our term is called channel owner; we have channel owner who is running a channel, and the channel owner will have contract with hundreds of singers. So, they would have relationship with a lot of singers. So, they don't actually sponsor it. You know, the business model you're talking about could be, you know, related to some other companies. It's not – it doesn't have anything to do with us. So, we have channel owners who will actually share the revenue, the music revenue, with the performers. So, the more performer they have, the more money they're going to make. The better their performers they can contract with, and then the better business will be in that specific contract. So, I don't think we call them sponsor.

Tian Hou: That's helpful. How important they are to your business?

Eric He: Can we go to the next question please? Next question please.

Operator: Your next question comes from the line of Yu-Heng Fan from China Renaissance. Yu-Heng, please go ahead.

Yu-Heng Fan: Hi, good morning. Thanks for taking my question. My first question is regarding the student acquisition. You mentioned that you'll stay disciplined on marketing for your education. I just wonder, so far, since the launch of 100.com, how much of your – how many of your students were acquired organically? What's your plan in the future? Then I have a follow-up for the next question.

Eric He: Yu-Heng, can you repeat question very, very quickly again, because I was a little preoccupied? Sorry about this.

Yu-Heng Fan: Sorry about it. You mentioned that you'll stay disciplined on your marketing spending for your education business. I just wonder, since the launch of 100.com, how many of your students that signed on so far were acquired organically? What's your plan in the future? And then I have a follow-up. Thank you.

Eric He: Yes. I can tell you, as of now it's all – they all come to 100 Education organically. We do not actually purchase any traffic or anything because that is just out of one press conference. So, I will say that, you know, the 20,000 students we signed up is just because of that press conference. And that press conference is what I mentioned as disciplined marketing strategy, because obviously the press conference will cost us some money, right? So, we haven't actually tried to use other means to attract other students.

Yu-Heng Fan: Thank you. And then for the – for lots of pay teacher you hired, I just wonder what's your compensation structure for those teachers, if that was based on fixed annual salary or is there any incentive title compensation? Thank you.

Eric He: You know, it's very interesting. Right now we do have six teachers conducting the courses at 100 Education. But you know what? All of them are volunteers. When we actually announced that we are trying to recruit some teachers to teach on their particular courses, there are hundreds of teachers – hundreds of teachers trying to apply for that position. And, you know, we just picked one of them to become the teacher who is teaching the course. So at this point of time, we have not spent money to hire teachers to conduct courses yet.

Yu-Heng Fan: Okay. Thank you. That's helpful. Congrats on strong progress. Thank you.

Operator: Ladies and gentlemen, this concludes the question and answer session for today. I would now like to hand the conference back to management for closing remarks.

Eric He: Thank you very much for – everyone. Now we conclude the conference call. Thank you.

David Xueling Li: Thank you.

Operator: Ladies and gentlemen, this concludes the call for today. Thank you all for participating. You may all now disconnect.

[END OF TRANSCRIPT]