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KZ - Q3 2016 KongZhong Corp Earnings Call

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## CORPORATE PARTICIPANTS

**Jay Chang** *KongZhong Corporation - CFO*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to KongZhong Corp.'s third quarter 2016 earnings conference.

I must advise you that this conference is being recorded today, Tuesday, the 6 of December, 2016. I would now like to hand the conference over to your speaker today, Jay Chang, Chief Financial Officer for KongZhong Corp. Thank you. Please, go ahead.

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**Jay Chang** - *KongZhong Corporation - CFO*

Thank you, operator. This conference call may contain forward-looking statements. Although such statements are based on our own information and information from other sources we believe to be reliable, you should not place undue reliance on them. For additional discussion of risks and uncertainties relating to forward-looking statements and other factors, please see the documents we file from time to time with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statements which apply only as of the date of this conference call.

Thank you for your interest in KongZhong.

Total revenues for the third quarter of 2016 were \$40.97 million, and 11.61% decrease from the second quarter of 2016, but a 6.2% increase from the same period last year. Total gross profit was \$18.97 million, a 16% decrease from the second quarter, but a 12.2% increase from the same period last year. Net income was \$5.34 million, with diluted net income per ADS of \$0.11. Non-GAAP net income was \$6.17 million, a 24.9% decrease from the second quarter, but a 35.9% increase from the same period last year, with non-GAAP diluted net income per ADS of \$0.13.

At the end of September 2016, the Company had \$147.08 million in cash and cash equivalents. The Company will continue to concentrate its efforts in internet games and mobile games around its War Saga game platform, China's leading military genre online game platform.

Internet game revenues were \$29.95 million in the third quarter of, a 9% decrease from the second quarter, but a 26.1% increase from the same period last year. Internet game revenues made up 73% of total revenues in the third quarter.

While in the third quarter of 2016, mainland China online game operations achieved average MAUs of 2.14 million users and aggregated monthly paying accounts of 340,000 users, with a monthly ARPU of RMB 192. Internet game gross profit was \$16.15 million; a 14.5% decrease in gross profits from the second quarter, but a 27% increase in gross profits from the same period last year. Internet game gross margin was 53.9% compared to 57.3% in the second quarter.

Total mobile game revenues were \$5.33 million, a 1.86% decrease from the second quarter, but a 98.92% increase from the same period last year. The increase in mobile game revenues was due to the newly launched mobile games - or, due to newly launched mobile games in the Chinese domestic markets, as well as overseas markets. Total mobile game revenues made up 13% of total revenues in the third quarter. While mobile game gross profit was \$1.76 million, a 23.3% decrease from the second quarter, but a 64.4% increase from the same period last year. Mobile games gross margin was 33.1% compared 42.3% in the second quarter.

WVAS revenues were \$6.9 million, a 29% decrease from the second quarter of 2016, and a 53% decrease from the same period last year. WVAS revenues made up 14% of total revenues than third quarter. While WVAS gross profits were \$1.06 million, a 29% decrease from the second quarter, and a 66% decrease from the same period last year. WVAS gross margins were 18.7% compared to 18.8% in the second quarter.

Total operating expenses in the third quarter was \$15.1 million, compared \$18.7 million in the second quarter. Product development expenses in the third quarter of were \$5.5 million compared to \$5.61 million in the second quarter, while sales and marketing expenses in the third quarter were \$6.63 million compared to \$9.12 million in the second quarter of 2016.

G&A expenses in the third quarter were \$3.00 million compared to \$2.23 million in the second quarter, and the Company's total headcount in the third quarter ended at 837 staff compared to 822 at the end of the second quarter.

Thank you for your continued interest in KongZhong, and we look forward to speaking to you in the near future.

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#### Operator

Ladies and gentlemen, that concludes our conference for today. We thank you all for your participation. You may now disconnect.

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