

Yalla Group (YALA):

A Fake Unicorn?

A series of troubling findings

May 17, 2021



We spent a few months researching Yalla
We very troubled by what we found

- Engagement: **Overstated by up to 80%**
- Monetization Strategy: **Makes no sense**
- Regional Analysis: **Contradictions + regulatory nightmare**
- Valuation: **\$3.50 per share fair value** (vs \$20 trading price); 80% downside

What is Yalla?

Yalla is the “Clubhouse of MENA”, founded and run by Chinese leadership and listed in the US (YALA). 81% of revenue comes from its live audio chat services - which enable virtual gifting (in-app purchases; not ad supported). The remaining 19% of revenue is Yalla Ludo - a simple gaming platform also focused on the Middle East.

Management indicates they are experiencing an ARPU of \$45 in Q1 or \$180/year...MUCH higher than not only FB in the US, but leaps and bounds higher than FB in Emerging Markets.

This social phenomenon caught our attention, so we started using the app...

Engagement

1. Yalla derives over 81% of its revenue from its voice chat applications. In Q1, they disclosed 7.3M MAUs and 1.2M paying users for Yalla chat.
2. Yalla claims active chat users spend an average 4.5 of hours per day on the app.

We have identified serious red flags with respect to MAUs/DAUs

- **80%+ of users in the busiest rooms on the English app appear to be fake accounts.** We have been in the “hottest” rooms many different times over the past few months and fake accounts seem to average 90%+ of the total room participants. What are some of the characteristics of these fake accounts?



- No profile pic or fake pics dominate the platform
- Zero visitors to profiles, zero followers, zero following, zero rooms joined
- Repeating names with different unique ID's as the majority of room
- Generic letters or numbers like “yy”, “pp”, “56”

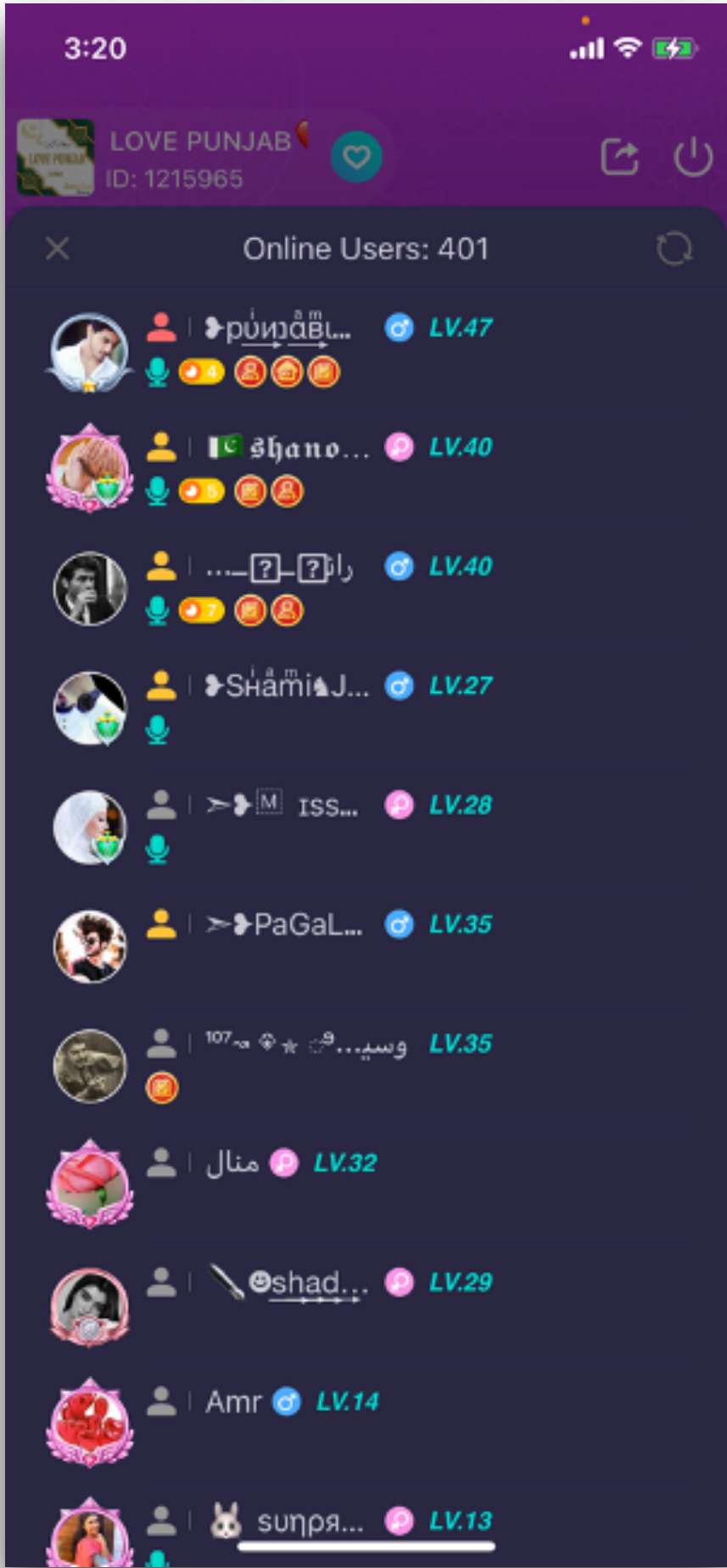
- **Unusual audio engagement behavior.** Participation of users is not consistent with what is typically observed on other live audio apps.



- Several people on the mic, but no audio activity for hours
- Rooms with plenty of “listeners”, and nobody on the mic for hours
- Active casual chat rooms, where half the mics are open despite “thousands” of participants

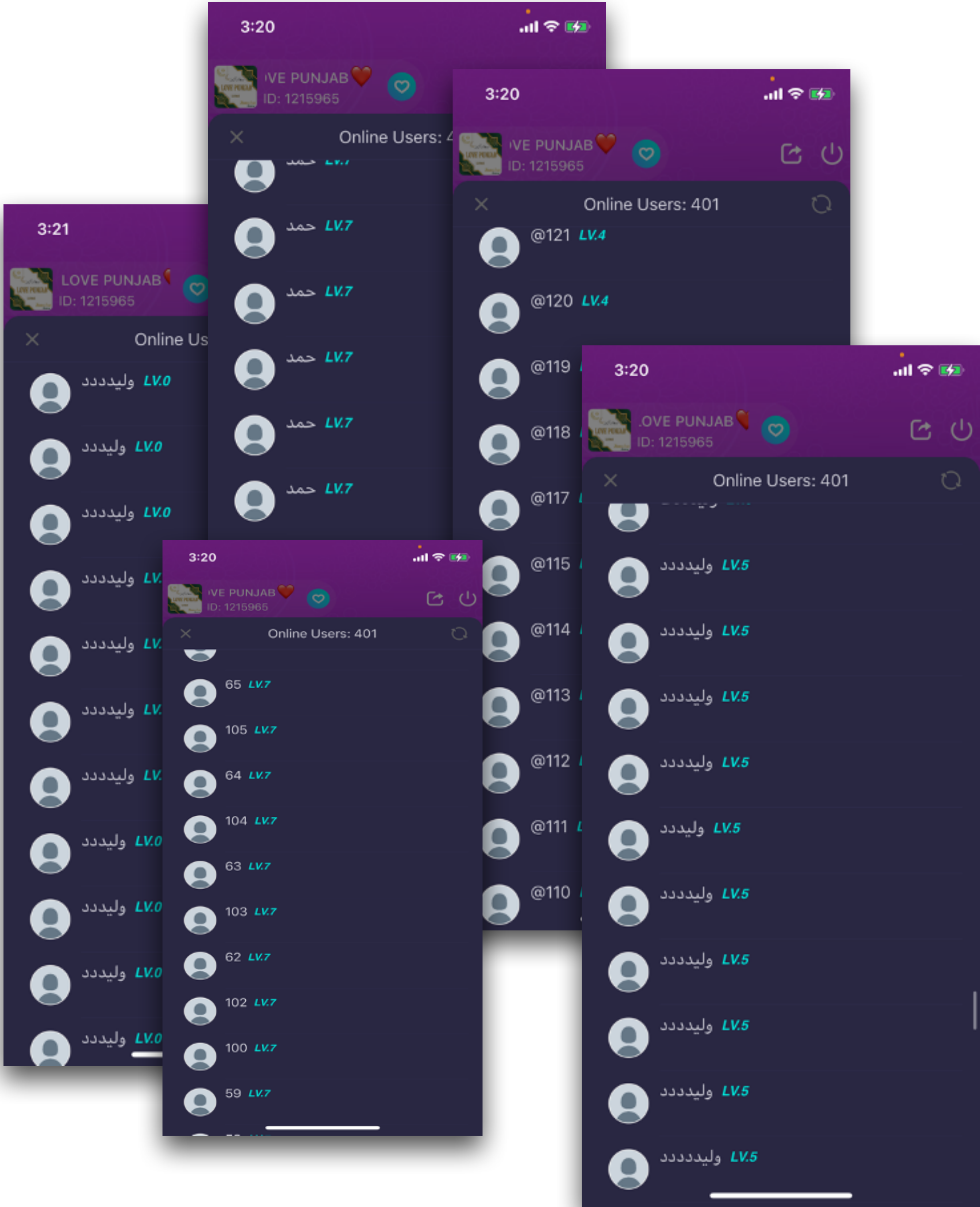
Engagement

All these profiles look identical - they never participate in the room in any way.



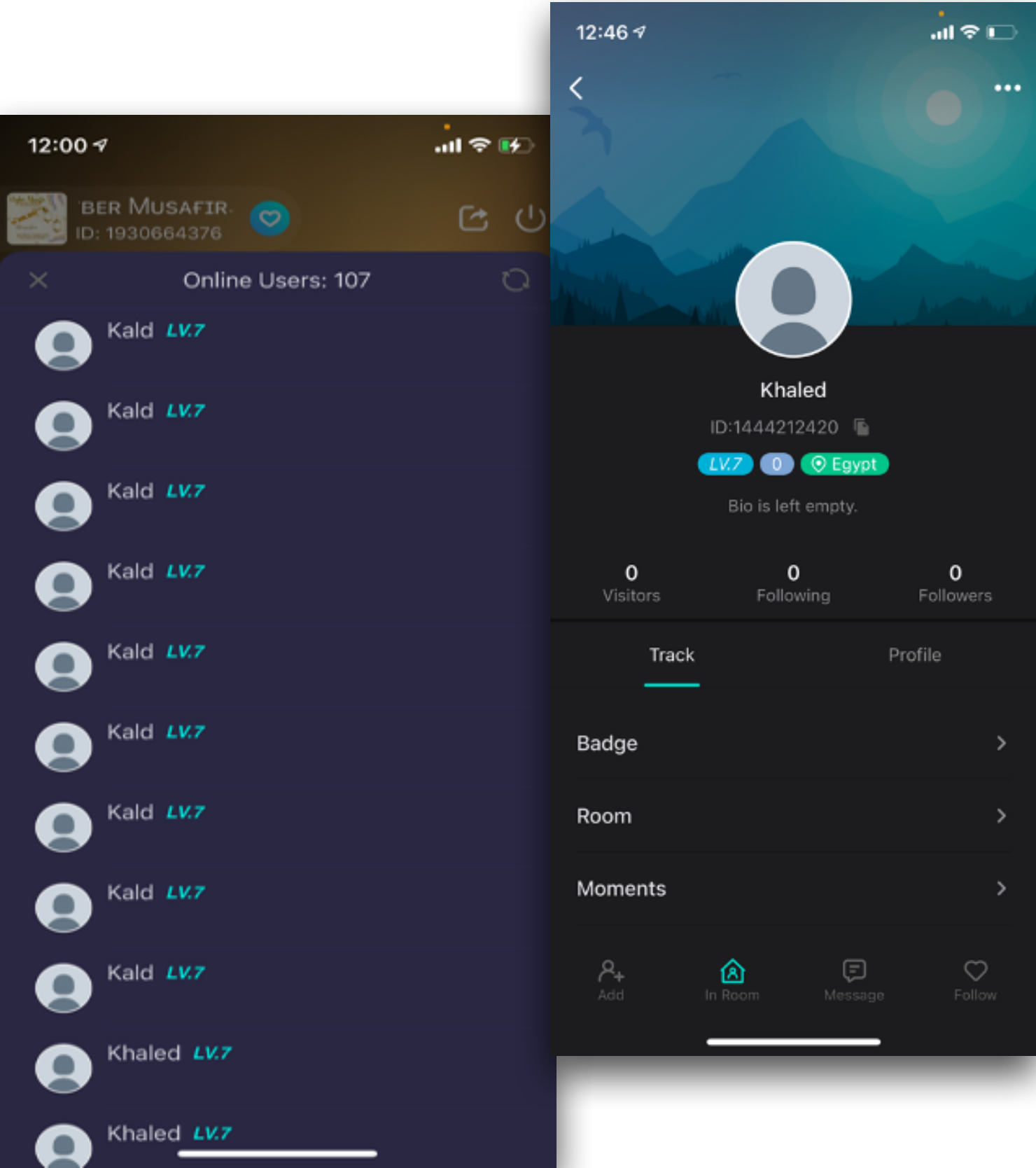
← The first 25 profiles (seemingly authentic)

Here is what the remaining 375+ users look like:



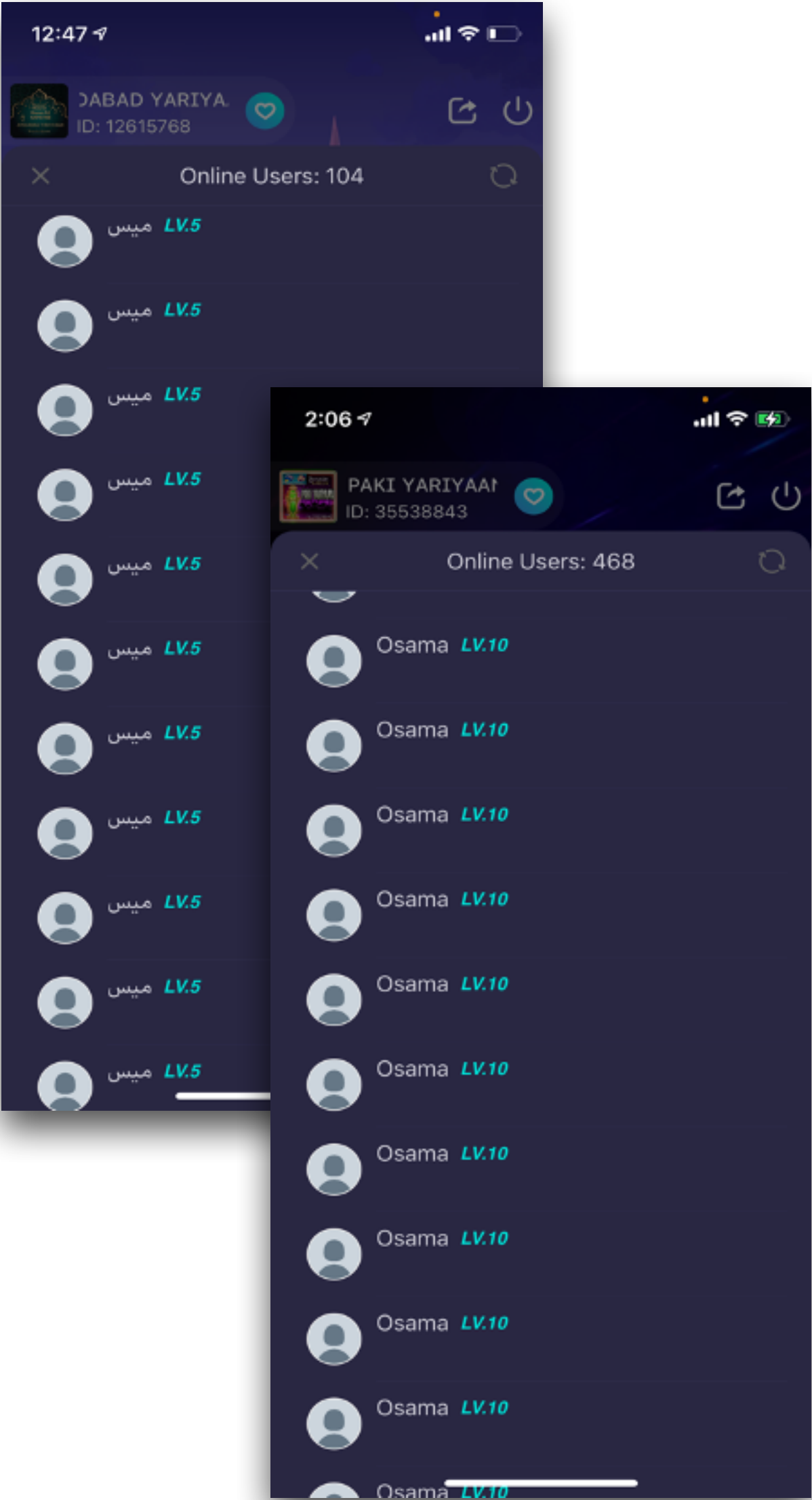
Example: This room “Love Punjab” is the hottest room on the English setting at the time these screen shots were taken with 401 active users.

Engagement



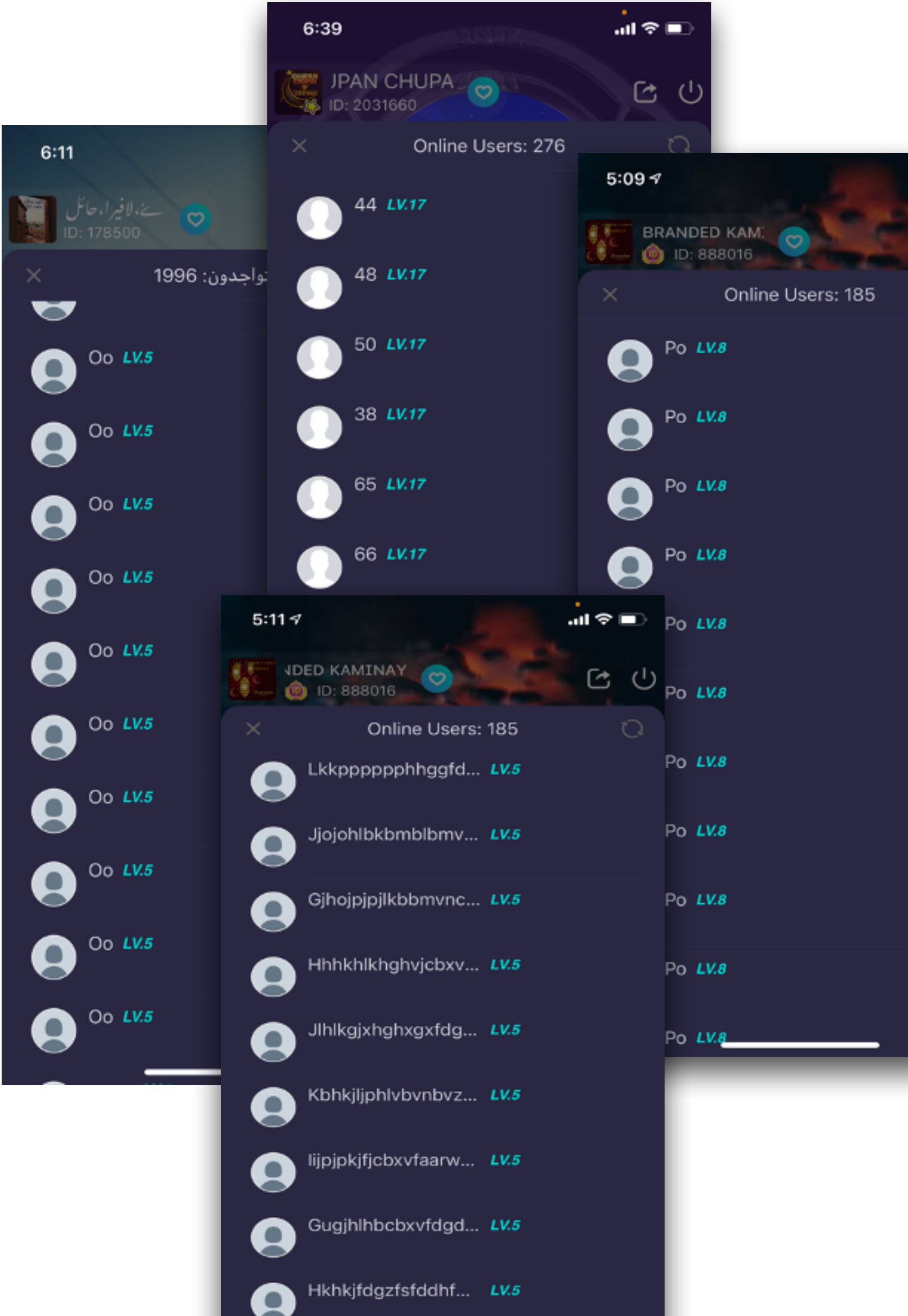
We were in one room with 107 people, where 105 of them were named Khaled or Kald. All had empty profiles

Arabic names, also all identical



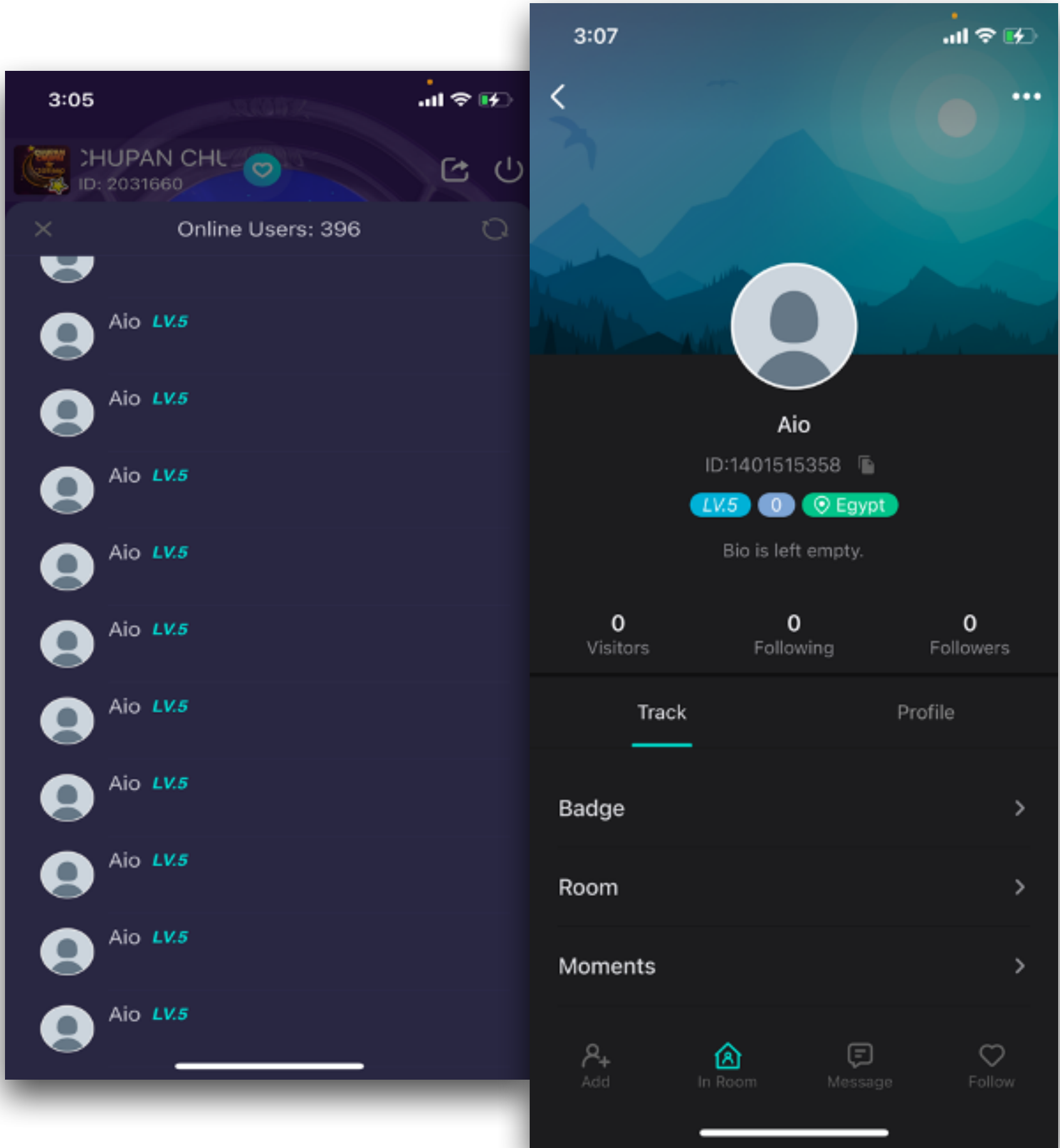
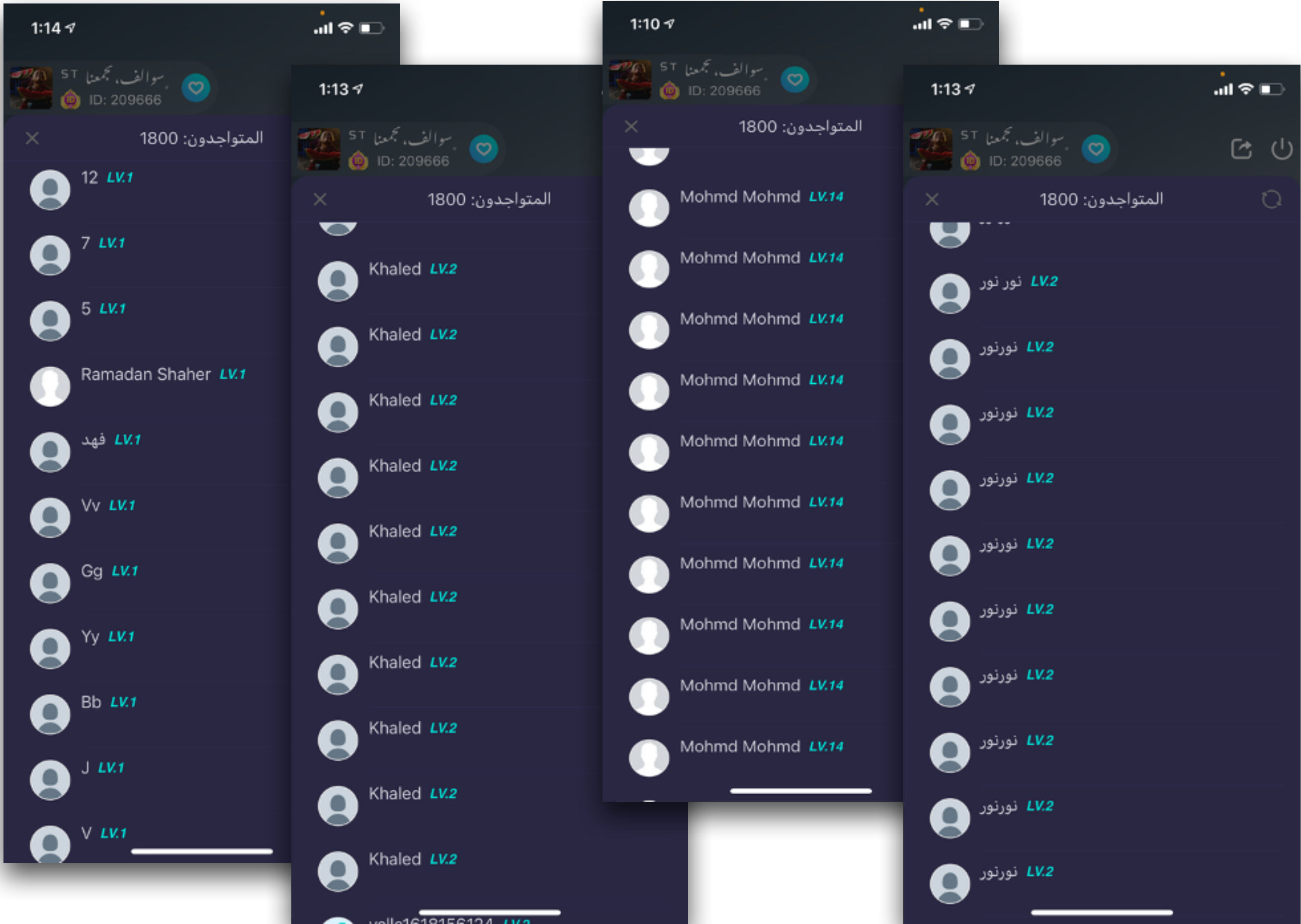
25% of this room is named Osama

Random numbers and letters also quite popular



Engagement

The Arabic version has the same issues, just at a larger scale. 1,800 people in this room, and once you look closely, approx. 70% of them have the same name.



The second hottest room on the English version at time of the screenshot was 396 people - the vast majority of them named AIO with empty profiles that have never joined a room, been opened, followed, or are following anyone.

Engagement

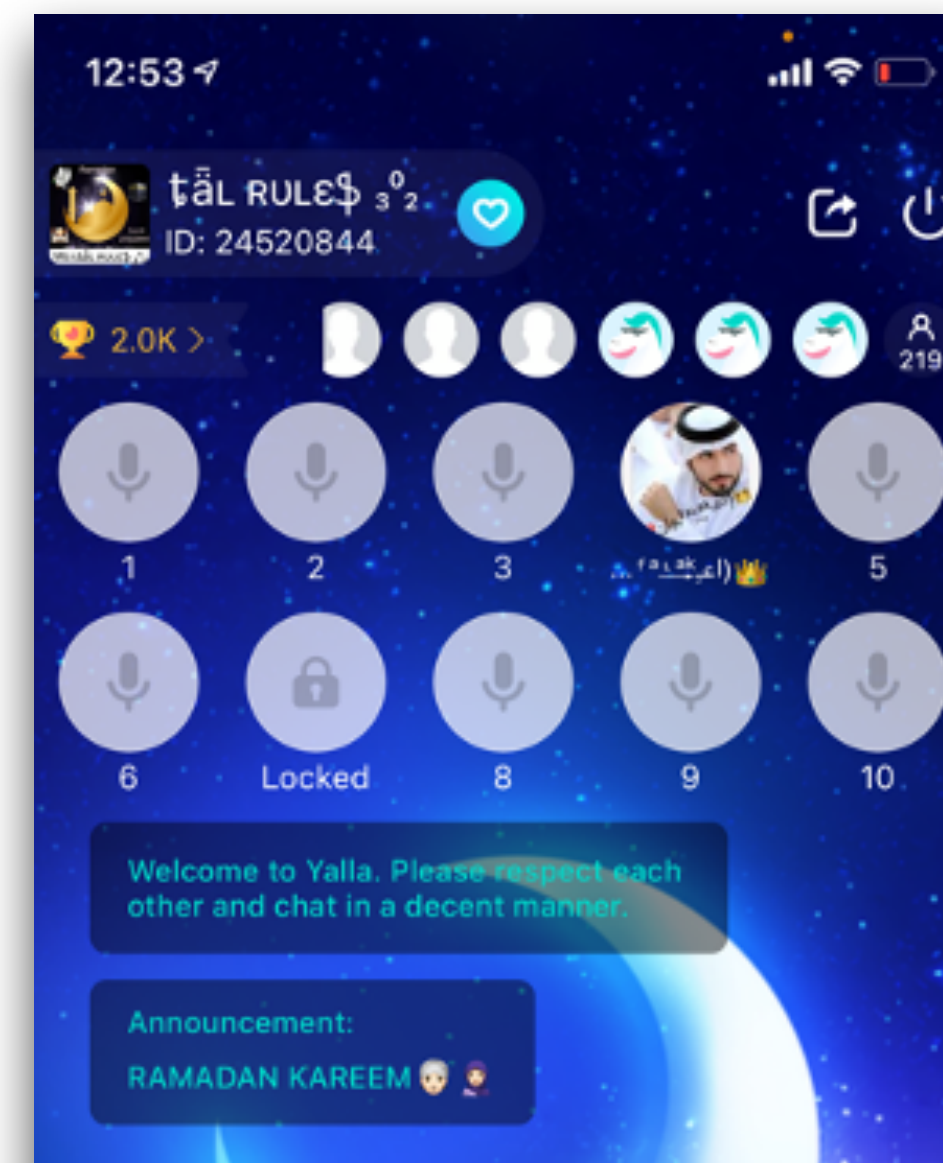
The number of users taking the mic, even in the busiest rooms, often doesn't reconcile.

With a 10 mic limit in the typical room, it's quite odd to see 5+ mics open when the room supposedly has 1,900 people "actively" listening. Considering there is no celebrity speaking, one would expect at least .5% of listeners at any given time to want to speak if there was an open mic. In fact, it's very odd to see mics ever open in rooms with over 1,000 participants (which is the norm on the Arabic version). One would expect a long waitlist for the mic in such casual chat rooms with this many people in the room at all times.

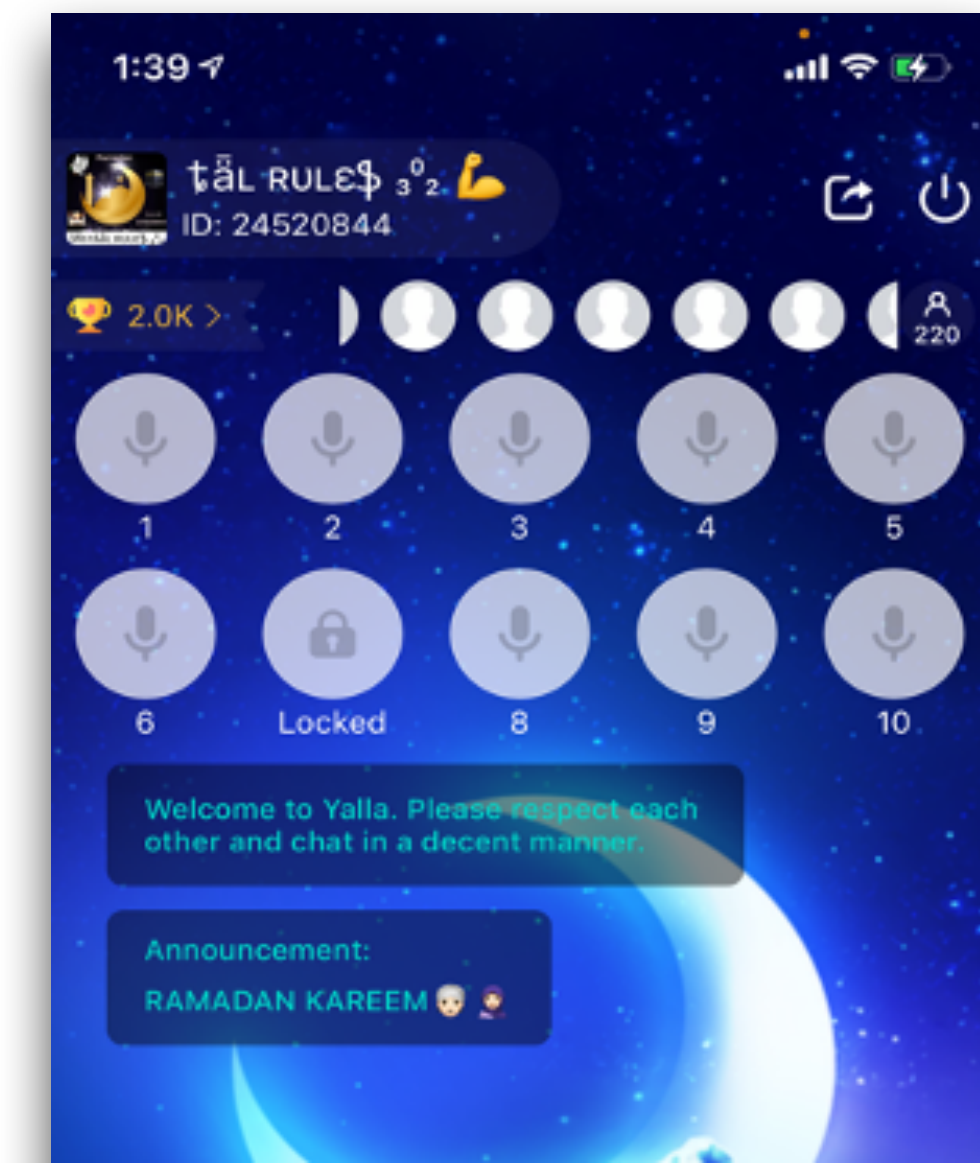
Room with 1919 users, and 6 open mics



Example of a room with 219 users, and 1 speaker for several hours



Example of an active room, 220 users with nobody on a mic for several hours



Engagement

Other Observations

Virtually every public room has at least one, often several, paid admins.

While management says they do not pay for user generated content, there is clearly an army of admins which Yalla appears to classify in their 20F as 3rd party contracted “customer service professionals”. They function as room hosts, working in shifts. They set topics, greet all users, steer conversations and moderate platform behavior.

The admins generally dominate the conversations taking place in any room. To the untrained eye (or ear), they will appear as a regular user. On closer inspection, you can see they have an orange badge in their bio, with an “Admin” tag. They are paid to engage, and encourage others to engage. They are clearly instructed not to refer to themselves as “hosts” or paid employees of Yalla, but effectively they serve that exact purpose. They do frequently acknowledge that they are “on the job”. After spending countless hours talking to and listening to these admins - they have indicated they receive roughly \$400/month for playing this role.

Most admins hail from the Arab world, Philippines, Pakistan or India. In our estimates, the number of admins on the platform exceeds 1,000 individuals. The admins seem to be driving most of the engagement on the platform, even as Yalla claims that they do not pay for any user generated content.

Engagement

Conclusions on Engagement

The only reasonable conclusion is that MAUs and overall engagement metrics disclosed by management are vastly overstated.

In our observations over the course of 10+ weeks of daily usage the English version, at any given time, has **no more than a few hundred seemingly genuine users**, and the Arabic version a **few thousand**.

Since the platform that claims to have 7M+ MAUs and 1M+ DAUs for audio chat, we can conservatively conclude that they are likely doing just a fraction of that. You don't need to be a detective to figure this out, as its quite blatant and **anyone who spends just a little time on the app would reach the same conclusion**.

Chinese-based live streaming and social apps have always had a bot problem, so in many respects, this is nothing new. There is no denying that going to a lobby and seeing a dozen rooms filled with 300+ participants is going to help engagement. Yet, unlike platforms where buying followers or viewers can be monetized (for a Twitch stream, e.g.), there is no economic incentive for users to do so on Yalla audio chat rooms. **In this case, only the platform itself benefits from the illusion of more users.**

We had a group of app developers have a closer look, and they concluded that Yalla is likely running scripts to maintain a minimum threshold of participants in a room and stay within a target range. Sampling a cross section of rooms at different time periods supports this conclusion.

Monetization

1. Yalla monetizes via virtual gifting through an “in-app” purchase. The gifts are purely altruistic from the giver. Once purchased, they cannot be redeemed for anything.
2. Yalla reported unaudited revenues of \$67M+ in Q1, 81% of which comes from the chat related services paying users.

From their annual report :

“While our users may receive virtual gifts and accumulate virtual currencies on our platform, none of the virtual gifts and virtual currencies are convertible into real money under any circumstance and our users are unable to sell such virtual items to other users through our platform. Instead, users send virtual gifts to express their appreciation of contributions by other users or gain recognition within the community.”

Monetization

Yalla's audio app monetization is an enigma

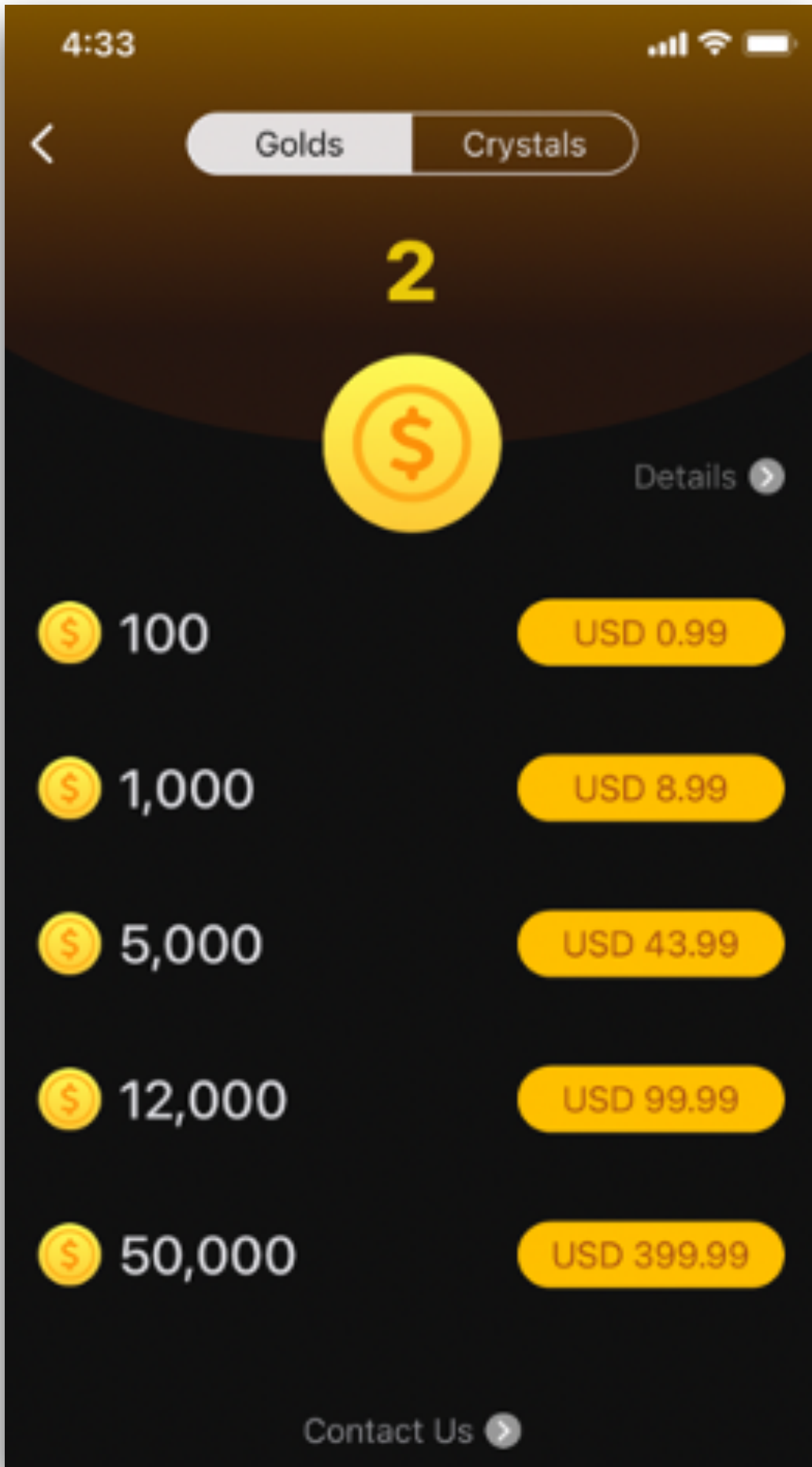
Overall gifting dynamics are not comparable to a typical live streaming application

- The long-tail of users in the target market **have very low disposable income**, and most are arguably laborers or blue collar workers.
- Unlike a creator platform like Twitch or OnlyFans that reward creators - **there are no creators** contributing anything of notable entertainment or value for users to support.
- The **typical user has little incentive to do any virtual gifting** - even if motivation is just climbing leaderboard, that has become completely unattainable (because of the "whales").

Top 100 spenders (the supposed "whales") account for 20%+ of revenue

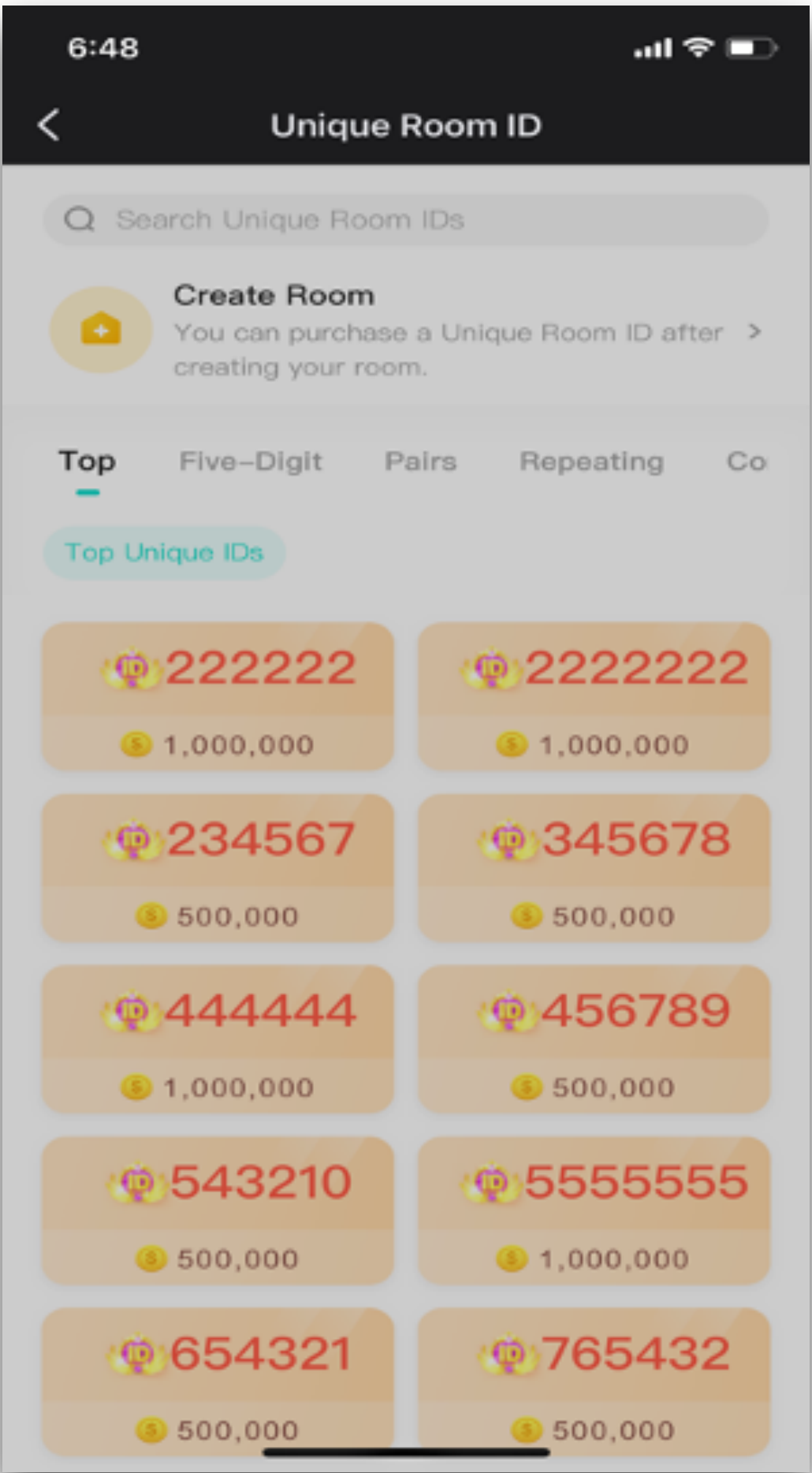
- Whales gift arbitrarily, not correlated to the entertainment or content generated from another user.
- The motivation of these whales is unknown and unclear.
- **The whales, like all other users, have anonymous profiles.** If it's status they seek, they won't be recognized outside of the veil of their avatar.
- The Leaderboard which tracks the top gifters/ gift receivers is filled with discrepancies.
- Whales often aren't following anybody else.
- The fact anonymity is pervasive amongst the gift givers raises obvious concerns around their authenticity.

Monetization

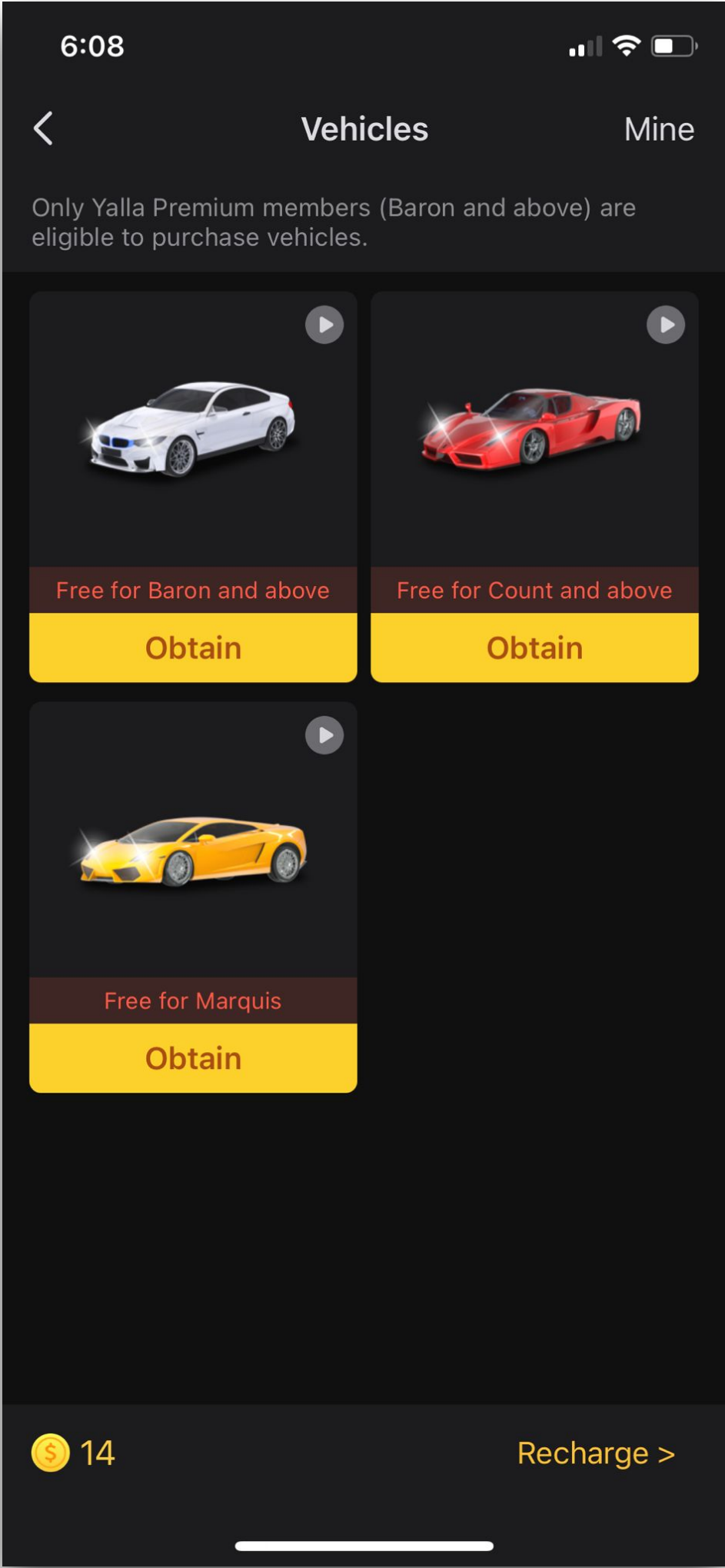


Standard “recharge” costs of gold coins - the currency on the platform. These coins must be purchased in order to buy gifts, or unlock certain privileges.

Having gold coins allows you to enjoy things like...



A “Unique Room ID” that goes for roughly \$8K



For only \$400 per month, become a Baron and get a “free” BMW. \$1800/month gets you Count status and a Ferrari. For the most daring, go for the Marquis - **\$3,600/month to get a Lambo.**

Monetization



The most visible prestige that you can earn is conquering the leaderboard.

According to management, the top gifter in 2019 contributed \$220K.

More recently, the leader of the monthly leaderboard was 12M gold coins - which equates to \$96K - \$120K (depending on exchange rates).

Even netting out gifts received for the leaders, just one account spent \$85K in the last 30 days giving away virtual gifts.

Monetization

Debunking the Whale Myth

Management disclosed (in IPO Roadshow) that 20% of revenue comes from the top 100 spenders, aka the “whales”

Yalla has kind of slid by since listing, ostensibly on the assumption that bored rich people in GCC countries, the “whales, are ready and willing to burn money on virtual gifts to humor themselves. The timing around Covid may have made this idea even more plausible.

What does this level of gifting imply?

Well, if the whale spending ratio at IPO were to hold, it means that in **Q1 the top 100 whales spent \$11M collectively on live chat services (or \$110K each)**. That equates to roughly \$36K/month - quite a sexy business model if accurate.

So why would anybody be skeptical of this? The easy answer is that **NOBODY CAN MAKE MONEY** on the platform. If it's the prestige of making it to the gifting leaderboard they seek - we remind you, it's nearly all anonymous profiles - **THERE IS NO PRESTIGE.**

While the narrative of bored Saudis blowing millions on casual chat might fit into a Western stereotype of oil rich Arabs, frankly, it's insulting.

We found oddities with the VIP membership onboarding process

“Yalla Premium” touted as the platforms’ VIP membership subscription service, offers users enhanced functionality and status. This feature, which is common amongst the whales, **cannot be purchased in the Apple App Store.**

We found this to be quite odd as **we would expect the virtual status seeking whales in Saudi, Qatar, Kuwait to predominantly be iPhone users.** Also, after 5 years of operations, you would think they would have a very clear onboarding process in place to convert iOS power users, into paid subscribers. Based on our experience, that is clearly not the case. The WhatsApp channel they directed us to, proved useless and **after being slow to respond - had no idea what we were talking about.** After repeated attempts, we eventually gave up trying to become a whale. It remains a mystery as to how to become a paid subscriber outside of the Google Play Store. We suppose that 100% of the whales must be Android users, or have Yalla dedicated Android phones!

These are clear discrepancies that only management can answer.

We saw something, we weren't supposed to see!

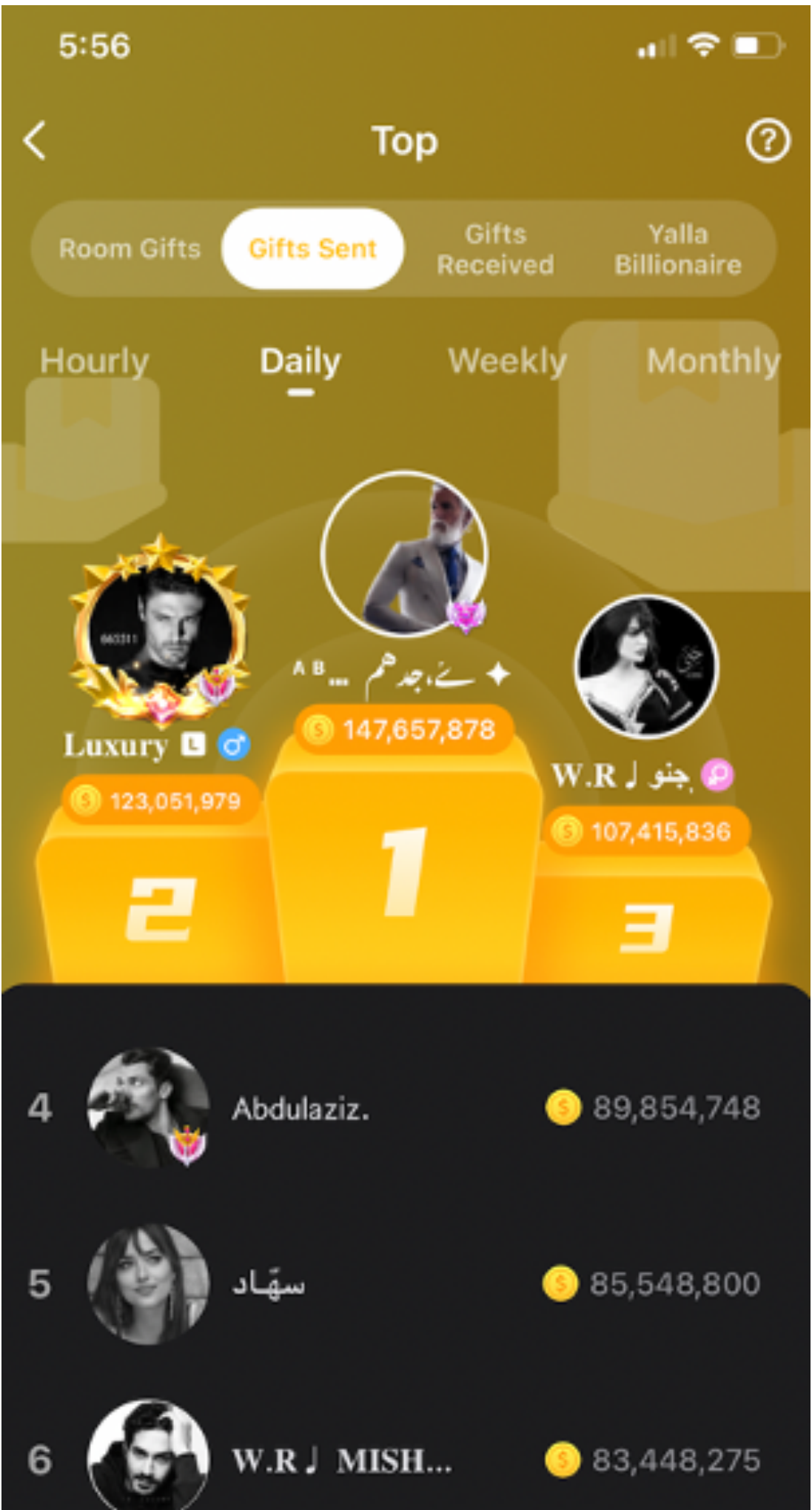
Admittedly, while the gifting behavior is difficult to comprehend, for most of the time we monitored it, things had been fairly consistent. For example, the average lifetime of the top gifters has aged in line with the platform since IPO. Also, the total amounts of gifts sent and received for the top 30 remained relatively consistent (in aggregate, between \$400K-\$1M per month worth of gifts sent).

But on April 28th, 2021, there was a sudden and strange explosion of gifting...

Monetization

A Glitch in the Matrix

The top 4 rooms did 3B in coins of gifting, within a couple of hours (roughly \$30M). That's 62% of last quarter revenue for the app in less than a few hours!?



The top gifters also changed to unusually high figures, with the top 3 spending the equivalent of \$3.7M in a day.

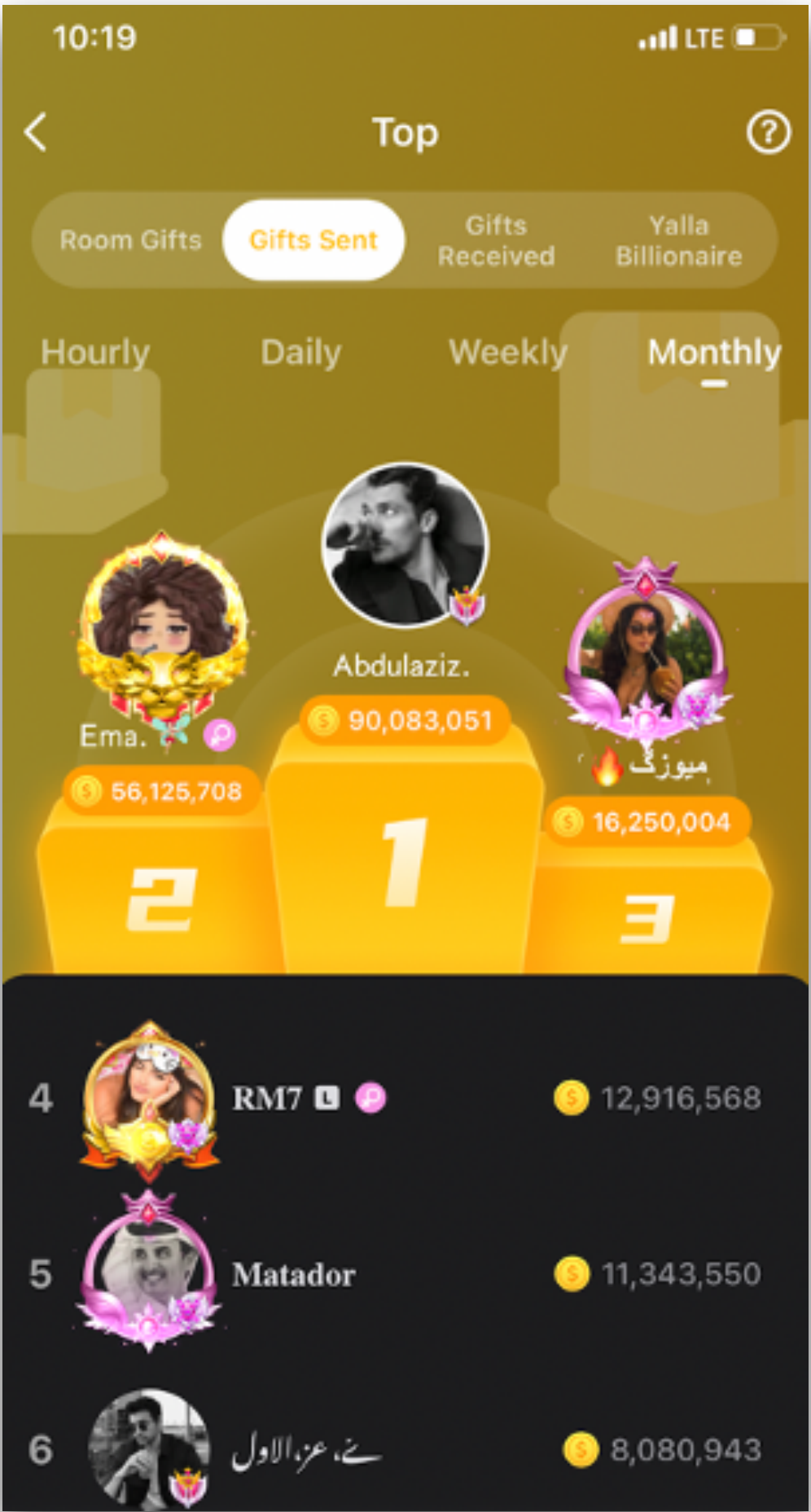
Monetization

A Glitch in the Matrix

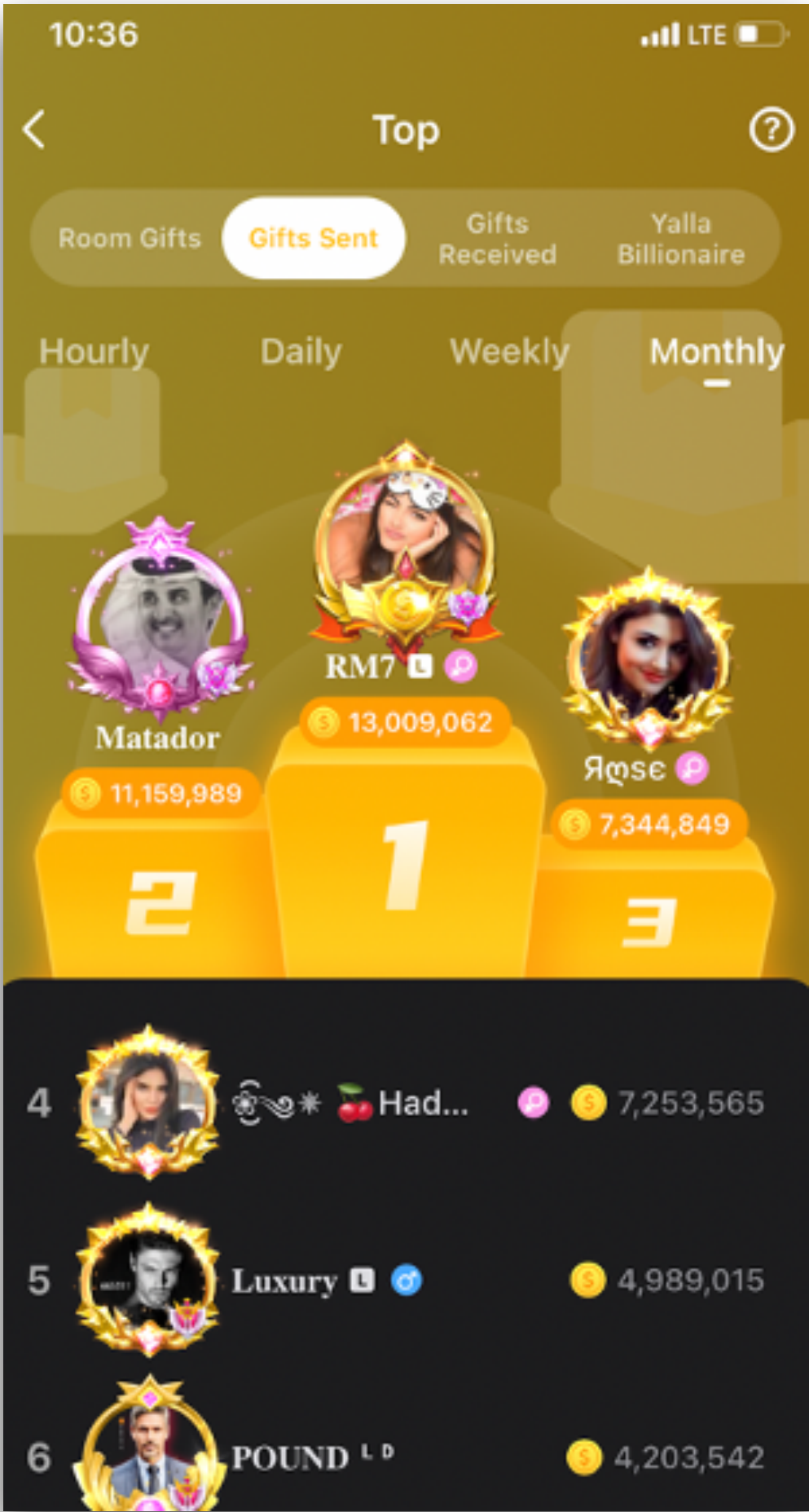
The monthly counter looked like this



Then a few hours later, it started to deflate...



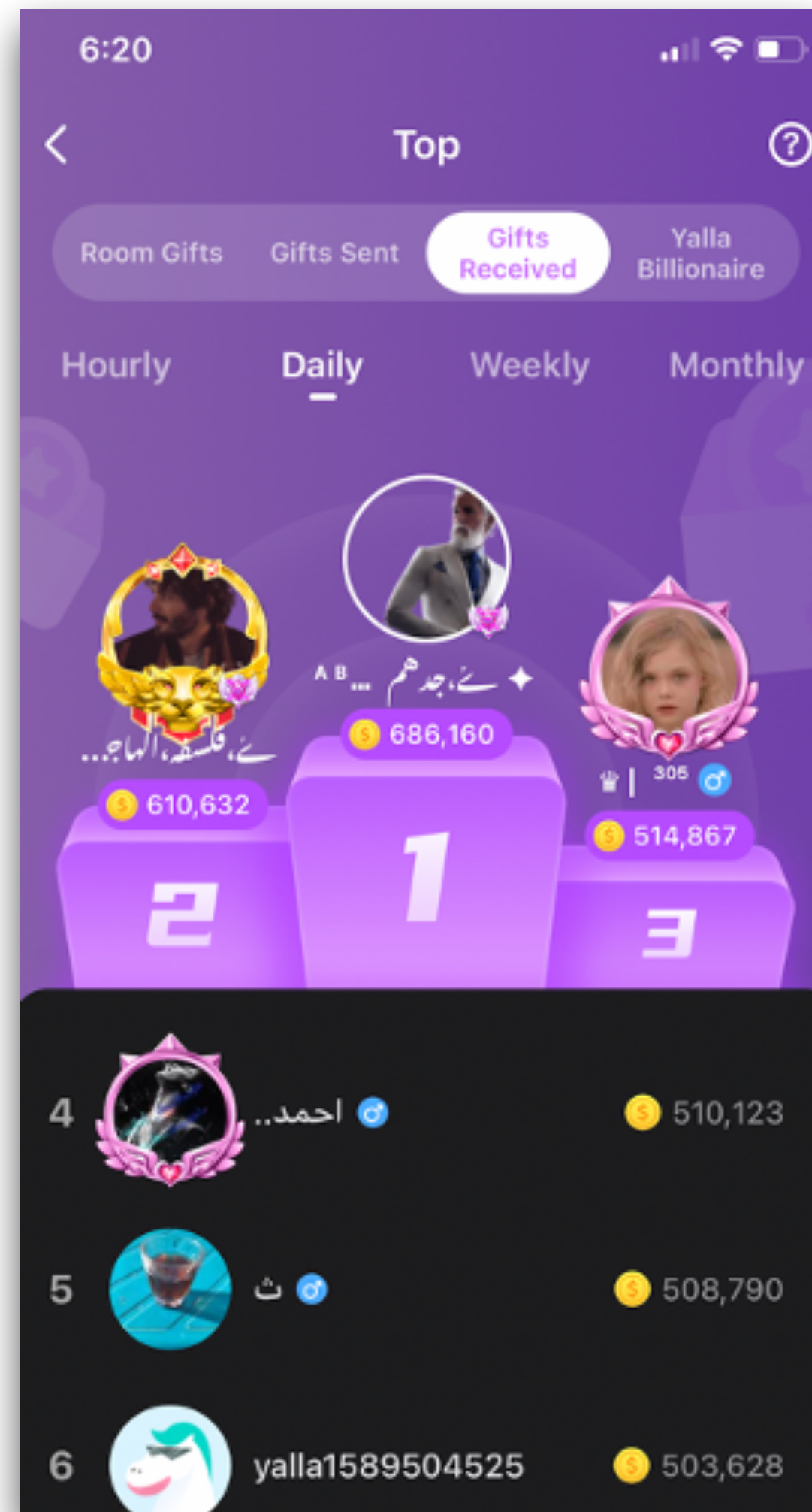
15 min later, back to a near photocopy of where it was in the morning...



Within another 2 hours, the room gift counter was back to normal



Monetization



Meanwhile, gifts received counter did not reflect the roller coaster of events.

A Glitch in the Matrix

With the total gifting “spiking”, we should expect to see gifts received also spike. But we don’t.

What does this all mean?

Contrary to what Yalla claims, leaderboards are neither real-time nor accurate

All we can presently say about this seemingly observed “glitch in the Yalla matrix” is it raises some serious concerns. It’s not like a few zeroes were added to all the names on the leaderboard and then were subsequently corrected. The “gifts received” board was as consistent as it’s been at any time we have observed it over past few months; it was the sent gifts and top room gift counters that went haywire across different rooms and users. When it was all over, the leaderboards reverted to the same names as before, gradually adjusting, with a whole random swath of new rooms running inconsistent counts.

Why might this be happening? If you are willing to go to the trouble of hiring admins for your rooms and scripting bots to sit in these rooms and appear to be a real audience, **you probably will go the extra mile to create whales in your app who are spending seemingly crazy money on virtual gifts**. In a region where the vast populace is poor, what better way to fabricate excitement than to have seemingly bored whales giving away money and chatting on the app with you.

But technically speaking what makes the most sense here is that the counters for the leaderboards are not actual updated counts of genuine gifting and are in fact scripts being run— this glitch in the matrix exposed that. It appears that someone must have manually corrected this glitch. Here are some notes from management on the topic...

Monetization

Interpreting the Glitch...

From the Yalla F-1, on Gifts:

“After Amir tells a good joke, he receives a virtual gift from another user. He feels delighted by the gift and wishes to send gifts as well. After he opens the list of available gifts, he is immediately impressed by the beautiful designs. As part of our localized appeal, the virtual gifts offered to Arabic-speaking users are based on local customs in MENA. Users send virtual gifts to express their appreciation of contributions by other users or gain recognition within the community. To incentivize gifting, we have created rankings to recognize users who have given the most gifts, as well as users who have received the most gifts, and **we refresh these rankings on a real-time basis.**”

Monetization

Observations on Monetization

So, either the whales (at least a good portion of them) are fabricated or they are in on it

But what is *it* exactly?

The observed platform behavior gave us plenty of reasons to doubt the leaderboard numbers but until this observed event there was really no way to conclusively prove something untoward. Now, this conclusion is inescapable. There is no way the the gifting leaderboard reflects a real-time counter. The fact that this is clear tells us something else...

If the gift counts are not accurate reflections of the actual gifting on the leaderboard, then those profiles can't be genuine whales or you'd have a serious scandal on your hands. Which means the anonymous voices behind these leaderboard profiles have someone else financing them. This could be as simple as a paid salary that's higher than what the admins are getting (*we caught one supposed top 5 gifter slip up in a chat and say things that would support such a conclusion*), thus they personally spend no REAL money on the platform.

Or it could be something far more ominous, that allows for certain money to enter the system - at an accelerated rate.

Monetization

Observations on Monetization

Management has stated that the driver for hosts and users to spend on the platform is the leaderboard and the desire to achieve 'fame' - but this is clearly being manipulated.

One can't say for sure, but with clear evidence of a manipulated leaderboard the whales can't exist at the level implied by the platforms metrics because real whales spending at that level and participating in audio chat daily would in fact notice these oddities. What enjoyment would these seemingly generous whales be getting if all of a sudden they suspected the rest of their "peers" are not actually spending these amounts? How suspect does the monetization model become if this becomes apparent to all users?

Any doubts around the accuracy of the leaderboard and the genuine nature of the whale gifting would thus be a very serious problem for the business model. If there are no whales seeking fame, thus insanely gamifying casual chat...then the entire incentive structure for virtual gifting totally collapses.

Also taking the leaderboard at face value doesn't reflect well on management. At IPO, the top 20 monthly gifters on the leaderboard had an average lifetime of 2.2 years. Up to mid-May, that number is 2.7 years. It's rather odd that users are spending \$40K+ several years later and Yalla's leaderboard only trails back one month. With the CEO clearly stating the leaderboard is the main driver of gifting and whale churn supposedly so low, **they are giving zero credence or acknowledgement to the whales that have historically spent the most money.**

Regional Analysis

1. Chinese DNA with a Dubai address
2. Like all social platforms, illicit content is a problem. But this being a GCC speech-centric app, they are playing with fire.
3. On stated metrics, it dwarfs the other regional success story (Anghami)

Yalla is a Chinese company, with a Dubai address

- *The technology infrastructure is purely Chinese.*
- *The Founder/CEO is Chinese.*
- *All its venture backers are Chinese.*
- *95% of their employees are based in China.*
- *Their sole Arab executive joined October 2019.*
- *Post IPO, they added their first Arab board member.*

Here's a recent statement from Tai Weng, the CEO...

"...we are proud to say that we have affirmed our mission to build the most popular destination for online social networking and entertainment activities in MENA...we will keep enthusiastically monitoring trends in MENA's local culture, and building an integrated a synergistic ecosystem with diverse products and services tailored to local users' needs."

Regional Analysis

What's the deal with China?

This begs a few critical questions...

What exactly is the affinity of a largely Chinese player to build for the cultural needs of the MENA region?

If Yalla is so hyper-focused on its MENA social localization mission, why recently show an interest in venturing into South America and other geographies?

We have nothing against global expansion - but this messaging is very inconsistent right out of the IPO gates.

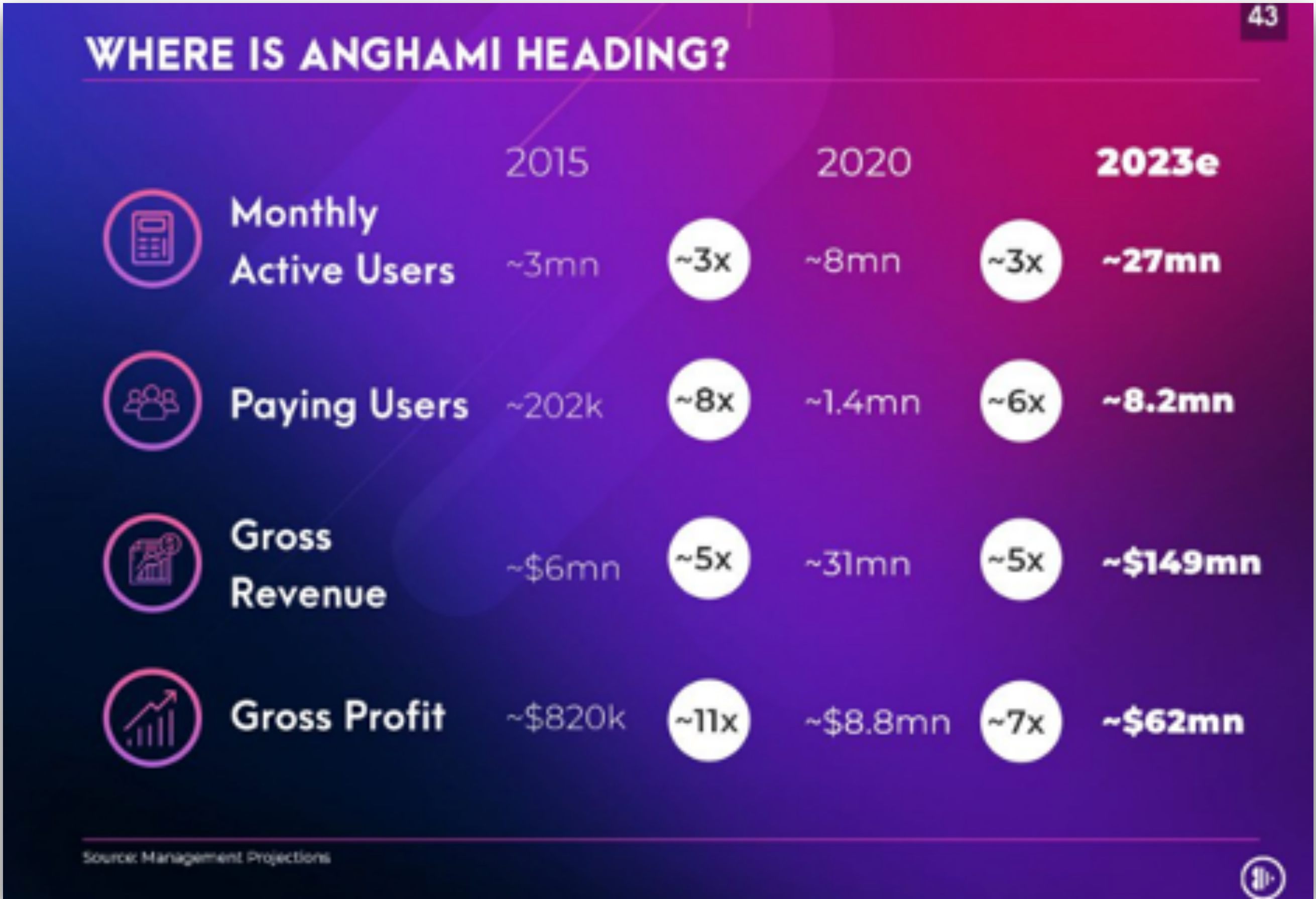
Regional Analysis

While Yalla is based in the UAE with regulatory approvals to operate, that domestic market is virtually meaningless to its business.

- 70% of MAUs and 40% of paying users (at IPO) come from Saudi Arabia - followed by Qatar, and Kuwait following suit (Morgan Stanley Report).
- Considering the platform is made of completely anonymous profiles, offers private password locked rooms, has a significant volume of conspicuous spend, and existential risks around politically/culturally sensitive content - **it operates in its most vital markets with no clear regulatory approvals.**
 - Over the course of our observation, we came across a variety of politically charged hate speech, which the admins failed to moderate.
 - In addition, there were handfuls of users observed sharing nude photos (genitalia) and other clear violations of local laws and customs.
- These red flags alone raise questions around the app's continuity of operating as there is no Section 230 in these countries or no diversified global markets to spread reg/rev risk across.
- If they are in fact the Saudi live social audio phenomenon they claim to be, then where are the explicit approvals from Saudi regulators?
 - Having UAE regulatory exemptions are essentially irrelevant to their business model, if almost all your revenue is coming from other Gulf Arab countries.

Regional Analysis

Anghami is an audio/music platform largely considered a major success (and recently SPACd). Coined the “Spotify of the Middle East” - it is the definition of a hyper-localized social audio platform.



Regional Analysis

How does Yalla compare to a regional comp? Let's get familiar with Anghami.

- Number 1 Music app in the MENA region - with a recognizable (household) brand
- 15M active users
- 58% market share (of subscribers in MENA)
- 73 minutes per day/per user
- Operating in 16 countries
- Generating 56M user data points per day
- \$220M Enterprise Value
- Operating since 2012
- Anghami has developed large scale distribution partnerships with leading media players.
- 109K unique chat users per month
- 488K unique users who joined live radio
- 116K average monthly broadcasters
- Has an ensemble of regional and international venture backers
 - Regional management team (senior team is all Arab origin)
 - Supports local creators

Regional Analysis

In Summary...

Anghami reflects the challenges of building out a hyper-localized leading MENA audio platform. It took 9 years and exceptional execution to achieve \$30M in gross revenue from 8M MAUs and 1.4M paying users.

Yalla's voice app did 4x that last year at a 50% operating margin, thanks to their amazing ability to get people in the region to hand massive amounts of money for non-redeemable virtual stickers - in casual chat.

If we were to believe in the whale theory, then consider...Anghami now allows for fans to "tip" famous artists and theoretically should also enjoy the benefits of a "whale segment" to contribute generously - but we have yet to see that type of behavior taking place.

This infers that users across the same geographies **aren't willing to spend close to that on actual entertainment or music on a widely available and far more publicized platform.**

Conclusion

It's challenging to value a business when it's unclear what information can be relied upon. Yalla is the definition of this type of business. It's full of contradictions:

- It's a hyper-local MENA mission oriented social platform, but launching a game in South America shortly.
- It's an open live-audio chat-centric platform, in a highly scrutinized regulatory environment.
- It supposedly leverages advanced tech to monitor private chats, yet makes no effort to conceal the bulk of fake profiles.
- It employs VIP customer service professionals, but has no "whale onboarding" process in place (after 5 years).
- They claim to have no paid user generated content, but are dependent on paid admins to drive engagement.

Conclusion

- It claims that the real-time gift counting leaderboard drives the bulk of motivation to spend, yet, we're not even sure it's measuring anything.
- Achieving fame by making it to leaderboard is (according to management) the driver of gifting on the platform, but only 30 people can ever make it on the board in any given month, and there is no tracking beyond the monthly count.
- The gifting of the top 30 is so astronomically high, making it impossible for the 99% to make it there. This doesn't exactly reconcile with a revenue model that centers around gifting engagement.
- The behavior of the whales implies almost a full-time dedication to platform gifting, which doesn't fit with the notion of casual chat enjoyment activity for an extremely wealthy individual.
- It's technology stack is entirely based upon 3rd party plug-and-play APIs, but, nobody has attempted to replicate their unprecedented model of extreme profitability.
- The Ludo gaming app has 50% paying users, this is 10x the ratio of well established Ludo King (the Indian incumbent).

Conclusion

By the way, if you have any doubts about these conclusions...
just download the app and go see for yourself!

Conclusion

What could this possibly be worth?

Yalla's engagement around audio is nowhere near what is being disclosed, and this business is reportedly generating over 80% of revenues. We can only speculate as to what this says about their gaming apps and the overall transparency of the financials of the business. But with this model already being high-risk, based on fleeting user behavior, the end of Covid, and every giant player in social entering audio; the stock trading at 25x+ 2020 sales and the equivalent of Clubhouse's current private market value is probably a recipe for disaster.

Let's do some math...

Chinese internet audio platform Lizhy trades at .8X EV to sales.

Chinese live streaming giant Joyy (YY) trades at 2X EV to sales.

Yalla is currently trading at 20x EV to TTM sales.

3rd party app trackers put Yalla (chat) gross app store revenue at roughly 30% of what is disclosed.

Conclusion

Yalla trailing 12-month chat revenue is roughly \$155M

A 2x multiple on that, implies a \$310M business.

A 2x multiple on 30% of that... implies a \$93M EV business.

Yalla trailing 12-month gaming revenue (Ludo) is roughly is \$23M.

A 2x multiple on that, implies a \$46M business.

Cash on the unaudited balance sheet (as of Q1) is \$261M

Based on this analysis, we think the business is worth **between \$400M to \$617M** or between \$2.75 and \$4.25 per share.

Giving us a fair value of \$3.50 per share

Those who would argue it deserves a higher multiple for its amazing profitability, and incredible growth rate should keep in mind that neither exist if 70% of reported revenue is removed at which point 99% downside immediately comes into play delisting standpoint. Consequently, we felt that using the Chinese peer average was the most sensible approach to apply here.

See you on the Clubhouse of Antarctica!