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NQ - Q1, Q2 and Q3 2014 NQ Mobile Inc Earnings Call

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CORPORATE PARTICIPANTS

Michelle Ma *NQ Mobile Inc - Director, IR and Corporate Development*

Matthew Mathison *NQ Mobile Inc - VP, Capital Markets*

Omar Khan *NQ Mobile Inc - co-CEO*

Zemin Xu *NQ Mobile Inc - co-CEO*

Vincent Shi *NQ Mobile Inc - co-Founder, Chairman, COO and Acting CFO*

CONFERENCE CALL PARTICIPANTS

Carson Block *Muddy Waters Research - Analyst*

Patrick Lin *BMO Capital Markets - Analyst*

Frederick Ziegel *Topeka Capital Markets - Analyst*

PRESENTATION

Operator

Thank you for standing by ladies and gentlemen and welcome to the NQ Mobile Inc. first-, second- and third-quarter 2014 results briefing. (Operator Instructions). Please also note that today's conference is being recorded. I would now like to hand the conference over to your host speaker, Director of Investor Relations, Michelle Ma. Thank you. Please go ahead.

Michelle Ma - NQ Mobile Inc - Director, IR and Corporate Development

Good evening and good morning in Asia. We welcome you to NQ Mobile's conference call to discuss our first-, second- and third-quarter 2014 financial results. On this call tonight are our co-CEOs, Omar Khan and Zemin Xu; our Chairman, co-Founder and Acting CFO, Vincent Shi; our Chief Commercial Officer, Gavin King; and Vice President, Matt Mathison. We thank you all for joining us.

Before we begin, here is our Safe Harbor Disclaimer. Please note that the discussion today will contain certain forward-looking statements made under the Safe Harbor provision of the US Private Security Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectation. NQ Mobile does not assume any obligation to update any forward-looking statements except as required under applicable law.

Also please note that some of the information to be discussed included non-GAAP financial measures as defined in Regulation G. The most direct comparable US GAAP financial measures and the information reconciling those non-GAAP financial measures to NQ Mobile's financial results, prepared in accordance with US GAAP, are included in our earning release and 6-K filing posted earlier today.

Finally, as a reminder, this conference call is being recorded. We are also offering investors a webcast of today's conference, call which includes a supporting slide presentation, and it can be found on the Investor Relations section of our website at ir.nq.com. We'll be following that webcast slide presentation on our call this evening and we encourage you to view that with that with that. I will now turn the call over to Matt.

Matthew Mathison - NQ Mobile Inc - VP, Capital Markets

Thanks Michelle. It's wonderful to be here with you this evening. In the words of T.S. Eliot -- what we call the beginning is often the end and to make an end is to make a beginning; the end is where we start from. We can finally begin to put the challenges of this last year behind us. As you'll see from our three quarters of 2014 financial results issued earlier today, we have a solid foundation and believe we're well-positioned to move forward into a more successful 2015.



First, let me note that we will close our fourth quarter and full year on December 31, 2014. We will also report in the normal timeframe for our yearend results and will provide you with our quarterly results along with corresponding conference calls on a timely basis.

As most of you are already aware, there was nothing normal about the past year, which was marked by many challenges. In spite of these difficulties we are determined to emerge from 2014 stronger and more focused on a successful future. We recognize that this has been a challenging period for our investors and we greatly appreciate your patience and support during this time. We also understand that words alone are not enough to help us achieve a more successful future. Rather, it will take consistent focused action and diligent execution.

I believe the entire NQ organization is up to the task. Today truly marks the beginning of a new era for our team and for our shareholders, and we look forward to discussing this in greater detail tonight. Now let's jump in.

This conference call will focus on three major areas. First, we will provide a summary of what we learned in 2014 and an overview of NQ's future and what will make us a new and better organization moving forward.

Second, we will discuss the results of the past three quarters and help bridge the gap between the last time we reported earnings and where we are today, including a review of various extraordinary one-time events, as well as business trends that occurred over this timeframe.

Third, we will give additional details on the announcement related to the MOU with Tack Fiori International Group and FL Mobile, and why we believe this will be such a positive move for our FL Mobile division and shareholders alike.

Shortly you're going to hear from our co-CEO, Omar Khan, who will provide an update on our business, our strategy, our performance and our future. Following his remarks I will provide a financial overview. Following my remarks our Chairman, Dr. Vincent Shi, will walk us through the FL Mobile announcement. Omar, I turn the call over to you.

Omar Khan - *NQ Mobile Inc - co-CEO*

Thank you, Matt. I first had the privilege of meeting President Zemin Xu when I joined the Company almost three years ago. Everyone I know has always called Zemin President and I know that title fits perfectly. He is a true leader for all of us at NQ Mobile and he will continue to be a driving force in his position as co-CEO. I'm pleased to introduce him to you tonight. Zemin?

Zemin Xu - *NQ Mobile Inc - co-CEO*

Hello. I want to thank our investor on this call today. Today you will hear about our Company and the things we have learned during this difficult year. We will also update you on our future plans.

While this year has been hard, the changes we have made at NQ Mobile helped us start a great new chapter, a chapter that I believe will be our best yet. I first joined NQ in 2010 and I have worked with many talented people here. I believe this team is the strongest we ever had. The basics of our business are strong, and we are in a good place for continued growth. Finally, I'm honored and happy about my new role at NQ. Vincent and Omar are both true partners. I look forward to working with them to make this better company for our customers, employees and the investors. Thank you. Omar?

Omar Khan - *NQ Mobile Inc - co-CEO*

Thanks Zemin. Change is an important thing for any company. That is true for us as well. The past year has been marked by disappointment and difficulty for our shareholders and for our employees. My remarks today, on today's call will be different than in past quarters. And they should be. Let's face it, last year was far from ideal. But as I sit here today I am filled with optimism because I believe we will emerge a better and stronger company than ever before.

Now I realize this isn't a statement that is believed at face value. We're not going to simply become stronger by wishing it or saying it. We need to earn it and believe me when I tell you we are going to do exactly that. We're committed to restoring our Company's credibility, value and growth. These are our highest priorities and we will achieve them by performing and delivering results. The bottom line is that you'll be seeing a new and different NQ Mobile. So I want to tell you what you can expect from us going forward. Let's start at the top.

Our Board of Directors, governance and management team has changed over the past year. As I stated on last week's conference call, and in the words of Marshall Goldsmith -- what got us here isn't necessarily what's going to get us there. This is a process and we will continue to improve, adapt and ensure that our personnel fit with our needs as a company. Each of the changes made is directly matched to specific needs of our overall organization.

For instance, in the summer we added for Justin Chen and Max Yao as independent directors and audit committee members. At that time, the most important needs of the Company were to regain compliance status with the regulators and to file our annual report, while getting ourselves back on to reporting our financials on a timely basis. I commend them on the work they did with our auditors, our counsel and our finance teams to help us accomplish this. They have added tremendous value to our Board governance and organization. Our needs were met by those additions.

Likewise, today we added Roland Wu as our newest independent director at the same time that James Ding and Xiuming Tao moved on. Roland has tremendous expertise in the Hong Kong capital markets both as a director of other publicly listed companies and as a finance professional.

The personnel decisions we make, including our Board make-up and management team, will continue to meet our company needs. This is a process and we will continue to improve, adapt and ensure that our personnel fit our needs as a company. NQ's current Board of Directors, including Dr. Vincent Shi as our new Chairman, along with our executive management team, including Zemin Xu as our new co-CEO, is different, and we are poised to execute our strategy, deliver results and create shareholder value going forward. This begins with our Board of Directors and our management team.

The next thing that is going to be different and new with NQ is ensuring that there's better execution relative to expectations, not just with regards to revenue performance where we have historically always been strong and continue to perform this year in spite of all the challenges and distractions.

To be fair, this past year has been plagued with unexpected and surprising developments that no one could have anticipated. All of these surprises led to a loss of credibility and trust. There is no point in rehashing the past or to discuss various reasons, justified or not, for the surprises, other than to use this experience to learn lessons and make the changes necessary to avoid repeating it.

With that, let me touch on a couple of points directly to ensure that we leave this conference call tonight with expectations aligned properly on a couple of key items.

First, we have talked about our desire to buy back stock and there's an expectation that we do that. We remain committed to buying back stock when we can.

We could have authorized a big buyback today and included that authorization in our announcement. However, given the developments announced earlier today regarding FL Mobile, the material information specific to the FL Mobile transaction that remains non-public, and the ongoing process associated with finalizing and ultimately closing this deal, the Board and the management team, with counsel from our legal representatives and auditors, has determined that the trading window for the Company, its executives and founders, will remain closed for purchases as well as sales until the FL Mobile deal is finalized.

Instead of authorizing and announcing a buyback plan that we cannot execute until the FL Mobile deal closes, we are transparently describing the situation and decision to you and will authorize and announce specifics when we are able to execute against it. Let me be clear, the commitment remains because it makes sense and we will do it as soon as we get the legal green light. The new and different NQ Mobile is focused on actions and not words.



In the same light, we know there's expectations that we introduce 2015 guidance today. We have not been rewarded for our projections in achieving long-term revenue in the past. So rather than provide a 2015 target for you today, we instead will earn our credibility and your respect by executing and delivering first against our fourth-quarter 2014 guidance. We must deliver against the expectations, and it begins with our fourth-quarter and year-end 2014 report. The 2-5-10 long-term strategy and plan to deliver our annualized revenue run-rate of \$200m, \$500m and \$1b remains unchanged. We will soon host an investor and analyst meeting and will provide more details at that time.

Finally, let me turn our attention to how NQ Mobile is new and different from a fundamental standpoint. 2012 was the year we initiated our platform strategy, bolstered by the acquisition of NationSky and FL Mobile. In 2013 we scaled our enterprise and gaming businesses, while also adding in a critical component to the platform and traffic strategy of advertising.

2014 has been the year in which we have significantly moved up the consumer engagement curve, by transitioning from primarily security and productivity applications, to bringing to market and scaling products such as music, image search, NQ Live and Showself. Active users are great, but highly engaged active users are the Holy Grail that every mobile internet company strives for. The significant traffic generation and scaling of our emerging consumer products has led to more engaged users, which positions us extremely well to begin to monetize that traffic going forward.

I want to show you the statistics that get us all very excited within the Company. This is the proof and evidence that our strategy is working and that our future remains bright. We are reporting today more than 159m monthly active users and for the first time more than 40% of our active users are coming from higher engagement technologies and emerging applications that in many ways are consumer passion points, like music search, social entertainment, gaming, messaging and the myriad of ways consumers can engage with compelling content on their home screens or mobile desktops using NQ Live.

Here are some of the specifics about the underlying trends within our overall Group's active users that make our future so bright. Let me start with NQ Live.

Last year I highlighted NQ Live as the most promising technology platform I have ever had the opportunity to work with. OEMs, carriers and content owners alike have all shared this same level of excitement. In approximately one year, at the end of Q3, we have shipped NQ Live or vLife on over 95m devices. We have achieved 32.9m monthly active users and 13.6m daily active users. This is up from our last update at the beginning of August of 75m devices shipped, 13m monthly active users and 4m daily active users. I have to say that I am simply floored by the performance of the NQ Live team and platform. This sets us up quite well to begin to monetize this traffic in 2015 and beyond.

Our social entertainment platform, which arguably sits near the top of the engagement curve, has reached over 2m monthly active users at the end of Q3, experiencing 5x growth from the close of our acquisition. Let me repeat that, Showself has reached over 2m monthly active users at the end of Q3, which is 5x growth from the close of when we announced the acquisition.

Music Radar. Our Music Radar application has achieved 8.8m monthly active users. Our users and users from our technology integration partners are generating 9.2m daily search queries at the end of the third quarter. Music is a passion point for consumers and our team remains at the cutting-edge and once again placed first in the query by singing and humming and the audio fingerprinting contest in MIREX this past year.

Robin Li, the CEO of Baidu, recently stated that he expects 50% of search to be speech and image-based within five years. We are well-positioned to participate in that revolution. YiPai, our image-based search platform, is already achieving 32m daily impressions, which has tripled since the close of the acquisition.

The total reach of our online and offline advertising business was more than 540m unique devices or users. The number of applications enabled on our platform was greater than 75,000 at the end of Q3. In addition to already being a leading mobile advertising platform on Android, we made the decision this year to become one of the leading -- one of the leaders in the iOS space as well. I am pleased to report that we achieved exactly that. Matt will cover some additional details on this topic in the financial section.

The tremendous growth of these emerging products and technology have experienced under the NQ umbrella, with the infusion of our resources and expertise, proves our capability to operate, grow and scale these businesses. This is exactly what we did with FL Mobile and NationSky. We see



both YiPai and Showself generating this type of growth that FL Mobile accomplished in its first full year after acquisition as we continue to integrate and harden technologies and scale those businesses within our portfolio.

Paraphrasing Mark Zuckerberg's -- Facebook's Mark Zuckerberg -- services with 1b users are incredibly valuable. It's a great goal for us. And while it may be somewhat distant in the future, regardless, we're amongst some great companies based on the active -- based on our active user base, and our goal is to engage and delight our users. It is these users that make our Company valuable. One way or another, we will get the value from this user base for our shareholders.

This is how we look at our current and future opportunity within our consumer business. This is the most exciting part of all of this, is that the traffic and users are scaling. We are prepared for eventual monetization and it is all in front of us. 2015 will be the year in which we begin to see the monetization of all this traffic.

Now let me shift my focus to the enterprise segment. There are two things I want to highlight about this business that we have seen over the first three quarters of 2014.

First, the enterprise mobility market in China is exploding. When we began the year we gave Charlie Hou and his team the green light go and not sacrifice growth for margin. We made this decision because NQ Mobile had the opportunity to become the go-to EMM or enterprise mobility management provider in China. We are pleased with our market leadership position and long-term growth prospects here. We want to provide you with some added color as to why this segment performed the way that it did from a margin and revenue mix standpoint.

As we moved into 2014, NationSky began to focus less on custom application development for verticals. Custom vertical application development generally leads to higher services revenue but is difficult to scale. This is because there are significant one-time fees, little recurring revenue, high resource utilization and minimal scalability of revenue or efficiency of learning. Essentially every new application is a new product.

So this year we shifted our focus back towards building a recurring revenue stream of users based on standardized products, NQSky. We also implemented a targeted strategy to implement channel sales and pursue bigger customers with more resources, and bigger brand names. The deals we have successfully secured have therefore been larger and the initial customization for NQSky has taken longer. While deployment takes longer, the branding impact is remarkable.

For instance, under this new delivery paradigm, our customers now include the National Information Center in the government sector, China National Offshore Oil Corporation, a state-owned enterprise, Bank of China in the financial services sector, SF Express in the logistics sector, and the carrier virtual platform solutions with China Mobile and China Telecom.

Even though delivery times are initially longer and cost-increased, we are the undisputed leader in this space and our product is extremely well-known. As a result we saw an initial drop in services revenue as the shift occurred at the beginning of the year and since then we have seen a steady recovery. We will continue to see this improvement in the fourth quarter and into next year.

To conclude my remarks and before Matt covers some of the financial highlights, I just want to reiterate my personal commitment to directing NQ Mobile's change and better position us for the future. We know what we have to do and we're going to do it, and I'm ready to do my part.

With that, I'll turn it over to Matt.

Matthew Mathison - NQ Mobile Inc - VP, Capital Markets

Thank you Omar. Now one of the other changes you will see us make in our conference calls is, rather than simply reviewing our financial performance, which was detailed already in our earnings release and 6-K filing, we are going to walk through some of the key items so that you can understand not only what we've accomplished since our last earnings report, but the underlying trends and performance. Before I get to that, let me just quickly highlight some of the key aspects of our financial performance in the first three quarters of this year and some of the key trends for the future.



First, we generated \$22m in cash flows from our operations so far this year and we will continue to generate cash flows from our operations in the future.

Second, in spite of everything, all of the excess costs and extraordinary items and investments in businesses that have yet to monetize, in spite of these all, we maintained a very strong balance sheet and ended the reporting period with more than \$278m in total cash, cash equivalents and term deposits. More importantly, this does not include the \$18.85m in cash we took in from Bison Mobile and others for the minority stake sale of our FL Mobile division. We will have an even stronger balance sheet exiting this year.

Number three, we were able to get through the worst of the financial impact from the transition of our business away from premium mobile security to more of a traffic-based advertising services model. In addition, we also were able to get through the worst of the margin impact associated with our enterprise and product sale mix. In other words, our margin performance will stabilize and start to improve next year.

Now I wish to provide you with more specific color on the key trends in our business. Let's start with the discussion of our revenues in the first nine months of 2014. There are three major trends we want to point out.

First, as we highlighted when we projected earlier this year, we have seen and continue to see accelerated growth in enterprise mobility. Omar already provided the details around where the growth came from and what led to the services decline at the beginning of the year, which was followed by a slight recovery. We do expect services to continue to improve on an absolute basis and the product growth will also continue to be strong.

It is important to note that in the third quarter there was a shift in timing related to enterprise mobility trends due to Apple's product cycle and the roll out of the new iPhone 6. This pushed some demand into the fourth quarter to go along with what is already shaping up to be a strong seasonal quarter. There will be no let up in the strength and growth of this business.

Second, the other major development within our revenue performance so far this year has been the move away from a focus on premium security revenues and a concurrent move up the engagement curve with other traffic and search-related products.

Finally, as we have said before, we have numerous consumer based products and services including NQ Live or vLife, our music and image-based search, and our messaging application, that we are not yet monetizing. We would expect this monetization to begin to occur next year.

To sum up our revenue performance, we are pleased with where we are for the year. Our enterprise mobility business is leading the way, with our FL Mobile businesses continuing to perform extremely well. We have already seen the majority of the impact from the transition away from the premium security business and we are poised to see further advancements within our advertising services segment, including the beginning of the monetization of our emerging products next year.

Next, let's spend a few minutes discussing our gross profitability and walk through some of the key elements within our cost of sales.

Obviously, the biggest impact to our gross margin performance is the revenue mix. More than 63% of the total increase of cost of revenues in the first nine months of 2014 compared to the same period last year came from the increase in product sales within our enterprise mobility segment. When you exclude the impact from our enterprise mobility segment on our cost of sales, there are two other impacts that we wish to discuss to help you understand the gross profitability declines year-over-year.

Number one, advertising inventory costs. We define this as the cost in our ad services segment, including the payments we make to developers and other partners for their advertising space, which we define as inventory. This accounted for just under 20% of the total increase in cost of revenues in the first nine months of the year compared with last year.

Now this is not only a result of higher revenues and therefore higher cost. It is also the result of increasing our share and position within the iOS platform. We have made strong market share advances in the iOS platform and the inventory cost are generally 2 times higher than on the Android platform in China. This is an important strategic advancement for advertising services as the revenues generated via advertising on the iOS platform

in China is also higher per unit. Our decision to grow our iOS advertising presence certainly impacted our gross margins, but the growth and revenue potential of this will bear fruit in the future.

The other meaningful increase in our cost of revenues, excluding the enterprise mobility mix, is in the revenue-sharing costs associated with app stores and other partners within our gaming business. This accounted for more than 10% of the total increase in our cost of revenues in the first nine months.

This primarily came from our FL Mobile and gaming business and also included the higher cost associated with promoting and growing our share and positioning on the iOS platform. Like the decision in our advertising business, the decision to increase our gaming presence and share on the iOS platform also impacted gross margins this year, but will prove out in future revenue growth going forward.

Let me reiterate what I said earlier. The worst is behind us with our gross margin declines and we are poised to stabilize and recover next year. This will be evident as our services within the enterprise mobility segment continues to improve and within our consumer businesses we will begin to monetize many emerging businesses and products, where traffic and user growth has been the priority so far. As this monetization begins we will see the consumer-based revenues and the leverage from that start to increase as part of the overall business mix again, even as the enterprise mobility segment continues to be strong.

Lastly, let me walk through our operating expenses. There are really three factors within our operating expenses that impacted our operating profitability.

The first is the extraordinary items associated with the independent investigation. The forensic accounting, the legal fees, the additional auditor fees, all associated with addressing the short-seller allegations, these totaled just under \$7m over the nine months ending in September of 2014.

Let me just pause for one moment and congratulate our Board of Directors and audit committee. This is obviously cash we didn't want to spend but it was necessary given the circumstances and I believe that they did an outstanding job managing and controlling our professional services vendors. We heard horror stories from many shareholders and experts about how these costs can be many multiples of what we ended up spending, but we were able to keep these costs contained due to a great job by the Board and audit committee. Most importantly, we do not expect these costs to impact our operating expenses going forward.

The second impact in our operating cost is share-based compensation expenses. Total share-based compensation expenses for the nine months ending September 2014 was \$64.5m compared to \$40.5m for the nine months ending over the period in 2013. 84% of our total share-based compensation expense increase year over year is the result of performance conditions being met in our investments and acquisitions. There certainly will still be fluctuations quarter to quarter based on performance targets and the price of equity, but we should see these trend down in aggregate and as a percentage of revenues over time.

Finally, the last impact within our operating expense ratio stems from our emerging products where we are incurring sales and marketing, research and development, and G&A, but not yet generating revenues. This impact totaled around \$9.5m over the three quarter reporting period from last year.

Let me just conclude by reiterating that we are excited about the future. We are financially strong and getting stronger, with healthy cash flow generation and growth. We are through the worst of the business model change and expect to see stability and improvement in our margin profile going forward, with continued positive cash flow generation from operations and a strong balance sheet.

I will now turn the call over to Vincent, who will take us through the FL Mobile announcement, but let me first just quickly recap what was detailed in the press release issued today.

We have signed an MOU with Tack Fiori International Group to sell FL Mobile to them at a total consideration range between \$570m and \$630m. In exchange, they will issue to us a certain number of shares at a 10% to 20% discount range to the average closing price for the last 30 days. We



will become the controlling shareholder of Tack Fiori following the completion of this transaction. One point to add is that we will continue to consolidate the FL Mobile financials after this is done.

Now let me turn this, let me turn the call over to our Chairman, Dr. Vincent Shi.

Vincent Shi - *NQ Mobile Inc - co-Founder, Chairman, COO and Acting CFO*

Thank you Matt. NQ is a purely mobile company, mobile-first, mobile-only. After the IPO we broadened our business from mobile security to including a full portfolio of both consumer and enterprise mobile services. We want to scale our mobile platform in the future.

Right now we are deeply undervalued. The biggest reason we are doing the FL Mobile transaction is because our business is undervalued. We want to unlock value for our shareholders. The second reason is like a huge opportunity for NQ Mobile to take advantage of its own public currency and proper valuation by fuller expansion and growth. Given there is a huge amount of opportunity for NQ Mobile now, we have built the structure and this deal with the Hong Kong vehicle ensure the greatest speed, certainty and most cost-effective approach to achieve these objectives.

Creating shareholder value is a priority for us. We appreciate your support and charm during the difficult period of the past, but the past is the past. We are now motivated and confident in the future operation plan, and I believe it, to make 2015 an (inaudible).

Thank you. I will turn the call back to Matt to conduct the call.

Matthew Mathison - *NQ Mobile Inc - VP, Capital Markets*

Thank you Dr. Shi. As we conclude our remarks tonight and turn the call over to the operator for Q&A, let me just summarize the following. Number one, we have learned from the challenges of the past and are emerging a different and stronger organization. Number two, despite the extraordinary operating environment combined with the significant business mix shifts and trends, we continue to generate cash flow from operations and maintained a strong balance sheet. The worst is behind is with the margin shifts and we will see improvements next year. Finally, we believe today's FL Mobile news demonstrates our priority of unlocking shareholder value.

We appreciate you joining us on this call tonight. Operator, will you please open up the call for Q&A?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jim Oberweis Junior.

Carson Block - *Muddy Waters Research - Analyst*

Yes, hi. Actually this is Carson Block. Couple of things. You guys didn't talk about Henry Lin and Chinese media's reporting that he has been unreachable for a few weeks. There is speculation in the media that due to his links with former CCTV anchor Rui Chenggang, he might be in jail. Given there was no resignation letter in the 6-K, this is pretty concerning. So, Omar, did you speak --

Operator

My apologies, it seems we have lost that line. We'll go to the next question. Patrick Lin.



Patrick Lin - *BMO Capital Markets - Analyst*

Hi gentlemen. Thanks for taking my call. You guys sound very confident and I was wondering if you could give me a little bit more commentary in terms of your visibility and why you are confident about the outlook looking into 2015 in terms of the data points and the dashboard you're looking at.

And then the second follow-up is, in terms of where you are trying to go we see a recent IPO, Momo, with minimal revenue and \$3b in market cap, and I'm wondering if that's the type of goals that you are striving for with this FL Mobile spin-out. Thank you.

Omar Khan - *NQ Mobile Inc - co-CEO*

Thanks Patrick. Before I answer your question I want to actually answer Carson's question and I think Vincent also probably has a couple of words. We did last week disclose Henry's departure from the Company. It was for personal reasons and we are respecting Henry's request for privacy. What I can confirm for you is that it is not related to anything related to the Company. And I think you had also raised another question about certain rumors in the Chinese media and we are not aware of any such links to the rumors in the Chinese media.

So Patrick, I want to -- if you don't mind repeating those questions, I wanted to make sure first I answered Carson's question because I wanted to do that. And if you don't mind, Matt and I and Vincent would like to answer your questions if you don't mind repeating them.

Patrick Lin - *BMO Capital Markets - Analyst*

Sure. My comment was that everyone in the conference call sounded very confident and excited about the future. And I'm wondering if you could give us a little more clarity in terms of the dashboard that you are looking at and the metrics which make you more -- well, which maybe help us get more excited about your confidence level. In other words, why are you so confident looking to 2015?

And then the second question was regarding the FL Mobile and monetizing it, if that was along the line of seeing the recent IPO of Momo, which got close to \$3b in market cap with minimal revenue, and how you guys are trying to use that vehicle to help monetize the value of what you have with FL Mobile.

Omar Khan - *NQ Mobile Inc - co-CEO*

Okay. Patrick, so the answer to your first question -- first, thank you for asking. Yes, the metrics that we're looking at I actually went through in quite some detail and I think it's worth going back over because I think it is one of the most exciting things related to our business.

As we look at the operating metrics of the Company, what we've got is we've been moving over the past two years up the user engagement curve. So we've always had very high active user engagement, but the products that we have launched over the last two years, starting with gaming, then moving into social entertainment, to messaging and as well as others that we have launched over the last 18 months to 24 months, had actually allowed us to increase both the traffic as well as the quality of the user engagement that we have experienced.

So if you look at the last year we've gone from very little percentage of our active user base coming from those higher engagement products to almost -- to over 40% of our active user base coming from higher engagement products. And that's what gets us really excited about the monetization capabilities of those users. So as we move forward into 2015 the advertising has already kicked in. And as we start to turn on advertising and other monetization methods for the users in the traffic that we are bringing in from the higher engagement products, that's something that gets us really excited.

Let me share one statistic with you that I think is -- that's really exciting with regards to engagement. So, if you remember, we talked about monthly average users and daily average users. So on the vLife platform, the NQ Live or the mobile desktop platform, we've got at the end of Q3 nearly 33m



monthly active users. Of those, 13.6m of them are daily active users. So the level of engagement that we're getting on a daily basis gives us a very high-value user and that's what gives us the ability to monetize probably as we go forward at a much higher rate.

And I think that the next question and I'm going to let Matt answer with regards to other public comps related to Momo and how we can unlock value.

Matthew Mathison - *NQ Mobile Inc - VP, Capital Markets*

Sure. Thanks for your question Patrick. Let me -- what I want to do is I want to reiterate and repeat what Dr. Shi said about FL Mobile and I think it will answer and address your questions specifically about unlocking value.

First of all, as Vincent said, right now we are deeply undervalued and the biggest reason we are doing the FL Mobile transaction is because our business is undervalued and we want to unlock that value for our shareholders. The second reason, which I think is important and he very clearly stated, there is a huge opportunity for FL Mobile to take advantage of its own public currency and proper valuation. And we see the opportunity for FL Mobile to expand and grow and we believe that their expansion and growth will benefit greatly by having their own public currency.

So given that there is a huge amount of opportunity for FL Mobile now, we believe that the structure and this deal ensures the greatest speed, certainty, and most cost-effective approach to achieving these two objectives. Look, we have a great operating business and a strong future and we are going to focus on unlocking the value for FL Mobile on this transaction while continuing to operate our platform vision strategy for the future.

Patrick Lin - *BMO Capital Markets - Analyst*

Terrific. Thank you.

Operator

Frederick Ziegel, Topeka Capital Markets.

Frederick Ziegel - *Topeka Capital Markets - Analyst*

Hi guys. A couple of questions. One, we've acquired or invested in FL Mobile and NationSky. We've bought the rest of both of those. Now we're going to turn around and sell FL Mobile and I guess we're still in transaction mode on NationSky. So my question really is should we think about NQ as more of an incubator as opposed to a line of businesses. Are you investing and acquiring in businesses that the intention is to monetize, either through IPOs or sale of businesses?

And secondly, in looking at their website, it looks like the company to whom FL Mobile is ultimately presumably going to be sold is in the retail and apparel business. So I'm curious, you being the controlling shareholder, what's the logic of that transaction and what happens going forward?

Omar Khan - *NQ Mobile Inc - co-CEO*

Okay. So I'm going to break your question into multiple pieces and then we'll answer it from different folks. First, thanks for joining the call, Fred, and thanks for asking the question.

So our intent with these business, as you've seen over the last probably two and a half years, starting with both NationSky and FL Mobile, we have bought or invested in nascent or early technologies. So if you go back and think about where FL Mobile was when we first bought it, in the first



quarter that we acquired it we consolidated about \$700,000 in revenue. Same thing, I remember NationSky was just over \$1m in revenue the first quarter that we acquired it. They both are doing an order of magnitude or greater more than that now at the end of last quarter.

And what we have done is very similar to what we expect to do with the other acquisitions or investments. So it's really acquiring them, scaling them -- so investing in both their technology platforms and their user acquisition funnels -- and then combining them from a synergy perspective with our mobile, either consumer side or on the enterprise side our platform business, and then continue to grow those businesses and scale those businesses within the Company.

When we think about the FL Mobile business, the transaction with FL Mobile really allows us, one, to unlock value, but also to allow them to grow by continuing to invest in the business by having their own public currency. But we're going to continue to operate them and integrate with them, and consolidate the revenues.

And I'm going to let Matt jump in for the second part of your question.

Matthew Mathison - *NQ Mobile Inc - VP, Capital Markets*

Yes. No, the structure and process of this deal really has nothing to do with the list company's operating businesses. This has to do with FL Mobile, and their retail or education online services is something that really doesn't matter to this deal structure. This is, let me just reiterate, this is the greatest way for us for expediency, certainty and the most cost-effective approach to achieve our objectives of, one, unlocking value and, two, enabling FL Mobile to continue to expand and grow, and benefit from having their own public currency.

Omar Khan - *NQ Mobile Inc - co-CEO*

All right. Fred, if that was your last question, operator, I think our queue is clear and we can conclude the conference call.

Operator

That's correct. So ladies and gentlemen, that does conclude our conference for today. Thank you for your attendance. You may all now disconnect.

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