NQ Mobile Inc. first Quarter 2013 Results

Conference Call Script

Operator: Good morning and thank you for standing by for the NQ Mobile Inc. first quarter 2013 earnings conference call. At this time, all participants are in listen-only mode. After management's prepared remarks, there will be a question-and-answer session. Today's conference is being recorded. If you have any objections you may disconnect at any time. I would now like to turn the call over to your host for today's conference, Ms. Michelle Ma, NQ Mobile's Director of Investor Relations and Corporate Development.

Michelle Ma – NQ Mobile, IR

Hello everyone and welcome to NQ Mobile's first quarter 2013 earnings conference call. The Company's earnings results were released earlier today and are available on the Company's IR website, ir.nq.com, as well as on news wire services.

Today, you will hear opening remarks from NQ Mobile's Co-CEOs, Dr. Henry Yu Lin and Omar Khan, followed by our chief financial officer, Suhai Ji, who will take you through the company's operational and financial results for the first quarter 2013, and give guidance for the second quarter and full year of 2013. After their prepared remarks, Dr. Lin, Mr. Khan, Mr. Ji, our Chief Strategy Officer, Will Jiang, and Chief Product Officer Gavin Kim will be available to answer your questions.

Before we continue, please note that the discussion today will contain certain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities 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 expectations. 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 includes non-GAAP financial measures as defined in Regulation G. The most directly comparable U.S. GAAP financial measures and information reconciling these non-GAAP financial measures to NQ Mobile's financial results prepared in accordance with U.S. GAAP are included in NQ Mobile's earnings release, which has been posted on the Company's IR website at ir.nq.com.

Finally, as a reminder, this conference is being recorded. In addition, a webcast of this conference call will be available on NQ Mobile's Investor Relations website.

I will now turn the call over to NQ Mobile's founder, chairman and Co-CEO, Dr. Lin.

Henry Lin – Founder, Chairman & Co-CEO

Thank you Michelle, and welcome to everyone on the call.

I am pleased to report that we achieved a strong first quarter with record revenues of $33.2 million achieving the high end of the previously issued guidance. This marks our 8 straight quarters of delivering upon our issued guidance. I am very proud of the track record we are building for executing on our commitments.

Our strategy to become a leading mobile Internet platform company has firmly taken hold. Our new user acquisition engine continues to perform as our registered user accounts in our consumer business now exceeds 403 million accounts including both security and gaming. What is even more impressive is that we have nearly 125 million monthly active users in our consumer business. Our goal to broaden the monetization opportunities applies squarely to this engaged user base of 125 million users. I am proud to announce that for our security applications, we have now started to commercially launch an integrated offer wall where we can monetize users through offering them advertising, 3rd party application referrals and mobile games in addition to the traditional premium security upgrade path.

We have also launched two new self developed games, which have become a great success on the iOS platform in China and both regularly ranked in the top 20 grossing iOS games in China.

Our enterprise mobility business continued its significant growth with an outstanding quarter and improved its margin significantly by growing its software and services business.

With a strong first quarter in the books, we are looking forward to an amazing 2013!

With that I'd like to hand the call over to my partner and NQ Mobile's co-CEO Omar Khan who will give you more details on some of the key developments in our business.

Omar Khan –Co-CEO

Thank you Henry and hello to everyone on the call.

As Henry mentioned, we are very pleased with our first quarter results. We have continued to globalize our business. The international markets outside of greater China now accounts for approximately 56% of the total Consumer Mobile Security revenues. In addition, as we committed, we continued to deliver scale from our investments in our international business. Our consumer business achieved 33.4% net operating margins on a non-GAAP basis up from 30.7% in the previous quarter.

Strategy Update

Consistent with what we unveiled in our Analyst and Investor day last November, our strategic transition to becoming a leading mobile internet platform provider has firmly taken shape and become a reality. This transition enables us to stay on track to deliver the 100M, 200M, 500M strategy.

Our consumer mobile internet platform business is driven through user acquisition, engagement and monetization. Our consumer user acquisition platform remains extremely efficient and productive. Across our consumer products focused on user acquisition which include mobile security, Vault, Android Booster, Call Blocker, Game Center, Download Center, we added over 52M new register user accounts and nearly 25M new active user accounts in the first quarter.

We are now monetizing these users through multiple methods, not just simply through premium security subscriptions. As Henry mentioned, in addition to allowing users to upgrade to a premium security subscription, we are now monetizing these users through application referrals, mobile advertising and mobile games.

According to market research firm SinoMR, NQ Mobile's security applications maintain 56% market share of the cumulative registered users and 36% market share of active users in the China market in the first quarter of 2013. According to the same report, we garnered 39% of new user acquisitions in China in the first quarter.

Feiliu operated and distributed a total of 14 games on iOS and 36 games on the Android platform as of March 31st. In the first quarter, Feiliu had 8 games ranked among the Top 100 grossing applications, of which 3 ranked among the Top 30 on Apple's iTunes app store in China. According to SinoMR, Feiliu was the #3 mobile game download platform across operating systems and the #1 game download platform on iOS in China.

Our product roadmap will continue to add applications and services to enable acquisition more of registered and active users globally. In addition, we will continue to add additional monetization methods including a continuously expanding mobile game library. We will be adding a minimum of 5 new titles in Q2 and another 10 in the second half. For example, we have recently broadened our relationship with Tencent by adding another Tencent developed game called the Legend of Kings.

In addition to our consumer business, our Enterprise Mobility Services business continues to grow at a record pace. As of the end of the first quarter, we now serve over 1250 enterprise customers in China. We acquired new customers such as China International Marine Container Limited, China Construction Bank and Bank of China. We have also broadened the services we offer to our enterprise customers to include NQSky, our proprietary secure Mobile Device Management platform. As part of our enterprise roadmap, we will continue to broaden the software and services to offer our enterprise customers.

Business Update

Next, I want to provide an update on our previously announced deals. Our teams have been diligently working with our customers to operationalize these new products and channels.

I am proud to report that we went live in Mexico last week with our Seguridad Movil service. There are 3 packages being offered currently and we will be working aggressively to use various marketing techniques such as multiple forms direct consumer messaging to acquire customers. Pricing ranges from 15 to 69 pesos per month with a one month free trial. The next market to launch will be Brasil this summer.

US Cellular also goes live this week with the Family Protector product. It is being offered with a 30-day free trial and then will be $9.99/mo thereafter for up to 5 devices.

Our retail business continues to blossom. In April, we started to launch what we term Retail 2.0 across our retail partners. Retail 2.0 includes new point-of-sale materials that make it easier for sales people to engage consumers in-store and market all three of our products using a new point-of-sale carousel. It also includes a new online activation system called activate.nq.com that makes it easier for consumers to download and activate their purchased products. It includes a new Mobile Security product that includes content backup with a new retail price of $24.99 for 12 months. Finally, we now have the ability to offer retail bundles. For instance, we are currently working with select retailers to offer a promotional bundle where a consumer buys an NQ product and can buy a second one for $15. These offers include Mobile Security and NQ Mobile Vault for $39.99, NQ Mobile Security and NQ Family Guardian for $49.99 and all three products for $64.99. These promotional bundles have been received very positively by our retail partners. We continue to achieve strong attach rates at retail. While attach rates vary on a month-to-month basis, during the first quarter, partners such as TCC, A-Wireless and Wireless continued to demonstrate the ability to achieve 20% attach rates. We are still using this as the internal benchmark for modeling retail attach rates. We are confident that, with the launch of Retail 2.0, we can enable retailers to achieve shorter ramp timelines and maintain consistent sales performance. Of our announced retail partnerships, we are now live in over 1000 locations in the US. Our plan is to be grow this number to nearly 3000 stores this summer in the US and to 5000 globally by the end of the year!

Finally, I want to provide an update on our MediaTek partnership. Our jointly developed Hissage product called iSMS has begun to be preloaded on chipset model 6589. The product features the integration of SMS and OTT messaging service into one application. iSMS allows users to send texts, multimedia files, contact information, and group messages on all preinstalled devices over data network and switch to standard text message when data network is not available.

International Business Development Pipeline

Our new business development pipeline remains extremely strong. In order to achieve the retail expansion I discussed earlier, you will continue to see a steady stream of new retail partnership announcements from us this year. While I cannot discuss the details of specific customers, our business development pipeline also now reflects a significant increase in tier 1 partners globally. These business development activities are not only a result of our award winning mobile security and privacy applications, but also a new set of products and services from our R&D product roadmap. I look forward to sharing additional details and updates with you over the next few quarters.

DSO’s and Accounts Receivables

I want to change gears a bit and discuss our Accounts Receivable and DSOs. In the first quarter, we increased our focus on collections and reduction of DSOs. While we saw a slight decrease in DSO in China, our DSO in international markets rose. The main reason for this is that the results of the increased focus and collections activities started to yield results in April. In April, we saw strong collections and DSO’s return to the levels from the end of 2012. Suhai will share more details regarding AR and DSO later in the call.

I want to share with you that, as a company, we are and will remain laser focused on DSO improvement. Despite the length of the DSO, the quality of our receivables is extremely high. Our receivables continuously go through a stringent and thorough analysis for contractual compliance and aging. You can see from our minimal bad debt expense, that the quality of the receivables is extremely high. In fact, these are partners we have done business with for several years and have had several cycles of billings and collections with over this time. In addition, our newer long-term commercial contracts with carriers and retailers have shorter payment terms which will reduce DSO over time.

Shareholder Value Creation

Finally, before I hand the call over to our CFO, I want to take a few minutes to discuss shareholder value creation. In the two years since our IPO, we have delivered eight straight quarters of delivering on our guidance. We have over quadrupled our revenues, generated strong cash flows and profitability, maintained an extremely healthy balance sheet, all while transforming our company from a mobile security company to a leading mobile internet platform provider. In addition, we became one of the first internet Companies founded in China to become a true multinational with significant revenues and customer base outside of greater China.

We have always believed that if we continue to deliver stellar results and growth, the market valuation of the company would appropriately reflect the fundamentals of the company. As both shareholders and executive management of NQ, we are not at all satisfied with the significant gap that exists between the market valuation and our business results. Frankly, it is unacceptable.

I want to be crystal clear, we are absolutely committed to creating shareholder value and will put in a relentless effort to closing the aforementioned gap.

Over the past several months, NQ has been approached by both strategic and financial investors for potential investment opportunities with us. While we appreciate this interest, we remain focused on delivering shareholder value through successful execution of our strategic plan and initiatives.

We will not fail on delivering shareholder value.

Now, I would like to hand the call over to our CFO, Suhai Ji.

Suhai Ji - CFO

Thanks Omar, and hello to everyone on the call. At the outset, please note that unless stated otherwise, all the numbers I will discuss today are in U.S. dollars.

We started 2013 with another solid quarter and again delivered record revenue towards the high end of our guidance. Our total net revenues came in at $33.2 million in the first quarter, up 108% year-over-year and 11% sequentially.

In term of revenue mix, our Consumer Mobile Security revenues increased 51% year-over-year and 7% sequentially to $21 million in the first quarter. Revenue contribution from overseas users accounted for almost 56% of the total Consumer Mobile Security revenues in the first quarter of 2013, compared with 51% in the same quarter a year ago and 54% in the previous quarter. The revenue growth in consumer mobile security is again driven by the growth in registered, active and paying user accounts.

Our cumulative registered user accounts reached approximately 327 million at the end of first quarter 2013, up 90 % year over year and 15% sequentially. Overseas users now account for 43% of total registered users, up from 39% at the end of first quarter 2012, and 42% at the end of the previous quarter. Our average monthly active user accounts were about 111 million for the first quarter of 2013, up 85% year over year and 14% sequentially. Active user accounts make up about 34% of the registered user base and the breakdown between China and overseas are similar to that of registered user accounts. Those ratios have been quite consistent for the past two years and only declined slightly this quarter from 35% in the previous quarter, as we expected with the continuous growth of our registered user base. Our average monthly paying user accounts were 9.2 million for the first quarter of 2013, up 42% year over year and 4% sequentially. Overseas paying users now account for about 34.4% of the total paying users, compared with 29.5% for the same period last year and 33.8% for the previous quarter.

In terms of average revenue per user, or ARPU as measured on a quarterly basis, our blended quarterly ARPU were $2.28 for the first quarter of 2013, compared with $2.14 for the same period a year ago and $2.22 for the previous quarter. ARPU for China users were $1.55 for the first quarter of 2013, compared with $1.49 for the same period a year ago and unchanged from the previous quarter. ARPU for overseas users were $3.68 for the first quarter of 2013, compared with $3.69 for the same period a year ago and $3.51 for the previous quarter.

As Omar explained earlier, beginning in the first quarter of 2013, we have started the process of diversifying our consumer revenues from mostly subscription-based premium mobile security to additional mobile Internet services on our platform such as mobile games, app referrals, and advertising, particularly in the China market. Essentially, we have more than just premium mobile security to monetize our active user base and consumer mobile security is just part of our overall consumer mobile service offerings. Our Q1 results validated our platform strategy. As a mobile Internet platform company, going forward, we will categorize both consumer mobile security and mobile games revenues under mobile value added services (or MVAS) revenue. Because of our shift to the platform strategy, among the most important metrics will be monthly active users and aggregate revenue generated through mobile security, mobile games, app referrals and advertising, as well any future monetization capabilities. While the company pays attention to the metrics in each individual category, our goal is to maximum revenue and profitability in aggregate and will adjust business tactics on the real time basis.

Mobile Games and Advertising revenues were $2.9 million for the first quarter of 2013, up 338% from $0.7 million recorded in December 2012. The robust growth was due to the launch of new mobile games in the first quarter of 2013, as well as the consolidation of the full three months results in the first quarter of 2013 instead of just one month in the previous quarter. As of March 31, 2013, Feiliu operated and distributed a total of 14 games on iOS and 36 games on Android platforms. Quarterly Daily Active Users (DAU) for Feiliu's games reached about 69,000 for the first quarter of 2013. Feiliu has 8 games ranked top 100 grossing apps of which 3 games ranked top 30 grossing apps on iTune store in the first quarter. We expect to continuously see strong growth momentum from Feiliu games. Please note that our mobile games revenues are recognized on the net basis using the most conservative approach, post the split with the game developers. On the entire Feiliu's platform that include its download applications and other interst-based community applications, Feiliu had total of 77 million registered user accounts and 14 million average monthly active user accounts. As stated earlier, we will include Feiliu's mobile games revenue in the mobile value added services and separate out the advertising revenues starting in Q2 2013. And we will continue to integrate our consumer mobile security and Feiliu's business to drive and maximize the overall revenue growth.

Other revenues in the first quarter of 2013 were $3.3 million, up 57% year-over-year and 7% sequentially, primarily due to the growth in revenues from secured download and delivery services for mobile applications produced by third parties. Going forward the revenue from secured download and delivery services, or the app referral revenues will also be categorized under advertising revenue.

Enterprise Mobility revenues decreased 8% sequentially to $6.1 million in the first quarter of 2013 due to the seasonality of the NationSky business as the majority of the enterprise procurement and revenues are expected in the second half of the year. Out of the total $6.1 million revenue from NationSky in the first quarter of 2013, $4.1 million, or 67% was from hardware sales, compared with $5.0 million, or 75% of the total $6.7 million in the previous quarter. The portion of the software and services revenues have increased significantly in the first quarter. As of March 31, 2013, NationSky had over 1,250 enterprise customers and as discussed before, given NationSky’s blue chip customer list, our goal is to keep penetrating into these accounts and up sell additional services such as NQ Sky, our MDM solution.

So in summary, starting in the second quarter, to further align with our platform strategy, we will categorize our revenues into MVAS, or mobile value added services which include the consumer-facing mobile security and mobile games business, advertising, which include the app referral and advertising revenues, enterprise mobility, and other.

Before moving on to the cost of revenues and operating expenses, I want to refer you to our disclosure on non-GAAP financial measures, which was included in our official press release. The only difference between our GAAP and non-GAAP numbers are share-based compensation, or SBC, expenses.

SBC expenses are included across cost of revenues and operating expenses on a GAAP basis, but are excluded to derive our non-GAAP numbers. Most of the SBC expenses are incurred in operating expense line items, and we have included a reconciliation table in our earnings release showing the detailed calculation.

Cost of revenues in the first quarter of 2013 was $10.5 million, up 206% year-over-year and 8% sequentially. The year-over-year increase was primarily due to the impact from NationSky and Feiliu acquisitions in 2012, increased customer acquisition cost to drive user growth, amortization of intangible assets resulted from Feiliu acquisition and higher staff cost from salary and headcount increases. The sequential increase was primarily due to increased customer acquisition costs, amortization of intangible assets resulted from Feiliu acquisition, and higher staff cost, partially offset by the decrease of hardware procurement cost for NationSky’s Enterprise Mobility business.

Gross profit in the first quarter of 2013 was $22.8 million, up 81% year-over-year and 12% sequentially. Gross margin, or gross profit as a percentage of net revenues, was 69% in the first quarter of 2013, compared with 79% in the same quarter a year ago and 68% in the previous quarter. Excluding the impact from NationSky, gross margin was 76.3% in the first quarter of 2013, compared with 79.5% in the previous quarter. The decline in gross margin was mostly due to the increased user acquisition cost. NationSky’s gross margin in the first quarter of 2013 was about 34%, compared with 27% in the previous quarter, and the cost of revenues for NationSky primarily consists of the hardware procurement cost. The increase in gross margin of NationSky was mainly because of the increasing % of the higher margin software and services revenue, which increased to 33% in the first quarter from 25% in the previous quarter.

Now on to the operating expenses, for the first quarter of 2013, first quarter of 2012 and fourth quarter of 2012, we recorded total SBC expenses of $7.6 million, $4.3 million and $7.5 million, respectively, across the three operating expense line items. The significantly year-over-year increase in SBC in the first quarter was primarily due to the SBC impact of newly hired executives and employees and the acquisition of NationSky and Feiliu.

To make the quarterly comparison more consistent, I would like to address the following line items on a non-GAAP basis, which excludes SBC expenses.

Non-GAAP selling and marketing expenses were $4.2 million in the first quarter of 2013, up 51% year-over-year and down 0.3% sequentially. The year-over-year increase was mainly due to higher staff costs as a result of the increased headcounts from Feiliu and NationSky acquisitions, higher office related expenses and higher marketing and advertising spending while the sequential decrease was primarily due to lower marketing and advertising spending partially offset by higher office related expenses.

Non-GAAP general and administrative expenses were 5.8 million in the first quarter of 2013, up 97% year-over-year and 5% sequentially. The year-over-year increase was mainly due to higher share-based compensation expenses, higher legal and professional fees, and higher bad debt expenses. The sequential increase for non-GAAP general and administrative expenses was primarily due to higher legal and professional fees and higher bad debt expenses, partially offset by lower staff costs.

Non-GAAP research and development expenses were $2.9 million in the first quarter of 2013, up 129% year-over-year and 4% sequentially. The year-over-year increase was primarily due to higher staff costs, higher share-based compensation expenses and higher office related expenses. The sequential increase was primarily due to higher share-based compensation expenses and higher consulting service cost partially offset by lower staff costs.

Income from operations in the first quarter of 2013 was $2.3 million, up 75% year-over-year and 486% sequentially. Operating margin was 7.0% in the first quarter of 2013, compared with 8.4% in the same quarter a year ago and 1.3% in the previous quarter.

Non-GAAP operating income was $10.0 million in the first quarter of 2013, up 78% year-over-year and 27% sequentially. Non-GAAP operating margin was 29.9% in the first quarter of 2013, compared with 35.0% in the same quarter a year ago and 26.2% in the previous quarter. Excluding the impact from NationSky, non-GAAP operating margin was 33.4% in the first quarter of 2013, compared with 30.7% in the previous quarter. We continue to see margin stabilization in the first quarter and the rest of 2013. Operating margin for NationSky was about 14.8% in the first quarter of 2013, compared with 10.3% in the previous quarter. Nationsky margin improved significantly due to the increased revenue % of higher margin software and services business.

Income tax expenses were $0.3 million and the effective tax rate was 9.3% in the first quarter of 2013. The increase in effective tax rate was primarily due to expiration of the preferential tax treatment enjoyed by certain subsidiaries of the Company.

Net income attributable to NQ Mobile was $2.9 million in the first quarter of 2013, compared with $2.1 million in the same quarter a year ago and $4.9 million in the previous quarter. Non-GAAP net income attributable to NQ Mobile was $10.5 million in the first quarter of 2013, compared with $6.4 million in the first quarter of 2012 and $12.3 million in the fourth quarter of 2012. The sequential declines were due to the one-time gain of $2.9 million recorded in the fourth quarter of 2012 as a result of the step acquisition of Feiliu. On a fully diluted EPS basis, our first quarter 2013 GAAP earnings per ADS was about 5 cents and non-GAAP earnings per ADS was about 19 cents.

Lastly, I want to discuss the account receivables days as that's one financial metric that we are very focused on. In the third quarter, our China AR Days actually came down a little bit from 105 days to 104 days but international AR days increased as we did not receive some money from our overseas distributors before the end of quarter cut off line. However, by end of April, we already made collection of more than $7.8 million and our overseas AR days were line with the level for the fourth quarter last year. As Omar stated, AR collection remains a top priority for our company and while there will be fluctuations, we remained committed and expect AR days to continue to decrease over time.

Looking forward, we expect net revenues to be in the range of $38.5 million and $38.8 million for the second quarter of 2013 and raise the full year 2013 net revenue guidance from the previously issued range of $178 million to $183 million to a range of $179 million to $184 million.

This concludes my remarks and I will now hand the call over to the operator and open the line for questions.

Operator?

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Operator: (Operator Instructions) Mark Murphy, Piper Jaffray.

Mark Murphy: Yes, thank you. Suhai, you commented that the games revenue is being recognized net of the developer payments. I had thought that the guidance you provided after Q4, for the year, was based on gross revenue recognition, so I'm -- I guess I'm curious -- did something change there, in terms of the revenue recognition?

Suhai Ji: No, it was consistent with our Q4.

Mark Murphy: Okay. Can you help us understand, perhaps, how to model that -- the games revenue in Q2 -- what type of sequential growth you expect?

Operator: Ladies and gentlemen, due to some technical issues, the conference call will held back for a moment. Please continue to stay on the line, and we thank you for your patience.

Suhai Ji: Hello? Hi, Mark, are you still on? Hello? Yes. Hello. Hi, Mark, are you still on?

Operator: (Operator Instructions).

Suhai Ji: No, operator --

Operator: Mr. Mark Murphy, your line is open now. Please go ahead.

Suhai Ji: Hi, Mark.

Mark Murphy: Yes, hi. I'm not sure where you lost me there.

Suhai Ji: Yes, sorry, we -- our lines got dropped. I just want to clarify the question. So, our original guidance was given based on the gross revenue recognition.

Mark Murphy: Right. So, I guess, then, my comment -- is there something changed? The original guidance was based on gross, and yet, you elected to use net revenue recognition in Q1. Is that correct?

Suhai Ji: Yes, that's right. So, if it were recognized on a gross basis, we would have higher revenue for the game revenue.

Mark Murphy: Okay. And so -- do you -- can you quantify that -- how big of a difference that would have been?

Suhai Ji: I think it would be around additional 20% to 25% increase.

Mark Murphy: Okay. Okay. So, can you comment, Suhai, on -- I mean, it's -- obviously, it's still a strong number. It's still great growth -- the number of top 100 games there. All the metrics are good. I guess I'm just curious -- I'm curious what drove that change to a more conservative revenue recognition, and then, that -- I -- presumably, that was beneficial to the gross margins as well, but I'm just curious what the rationale was, and perhaps, can you help us understand, maybe, now that you're using the net revenue recognition, how that number should trend going into Q2?

Suhai Ji: Yes, I think in Q -- we adopted the net revenue as we preferred to use more conservative approach to the revenue recognition.

Mark Murphy: Okay. And would you expect strong sequential growth in Q2?

Suhai Ji: Oh, yes, absolutely. Yes.

Mark Murphy: Okay.

Suhai Ji: And it doesn't really affect our -- the other -- the net profit level, so --

Mark Murphy: Yes, okay. I wanted to ask you -- Omar, I wanted to ask you, in terms of new product releases that might be slated for release in 2013, is there anything you can talk about there, even if it's just at a high level? What are you most excited about, just in terms of what your own developers are working on these days?

Omar Khan: Yes. No, great, and, Mark, I apologize again on behalf of NQ for the technical difficulties we experienced on the call. But just a very quickly answer -- I gave you a little bit of a hint that some of the tier one customers we have in our business development pipeline are due to some of the R&D products that we haven't necessarily announced yet. They -- what I can say is we have a range of products, from an R&D perspective, that complement our mobile internet platform services.

So, they start to diversify beyond mobile security. We have products that help carriers and customers do data network management. We've got additional consumer services that help deliver experiences on the device, from both a brand and a developer perspective. So, it's -- really, what we're doing is we're using our experience on both the Android platform and other platforms to deliver a set of products and services that really broaden the consumer experience beyond security and privacy.

And, yes, I've given you one example around data network management on an application level, but there's a bunch of others coming that I'm pretty excited about. I don't want to telegraph it too much, just from a competitive standpoint, because the secrecy is very important from a -- just a time to market perspective.

Mark Murphy: Okay. And, Omar, as well, in your prepared comments, you made a statement that, in recent months, NQ has been approached by strategic investors. I was wondering if you could perhaps reiterate that commentary and perhaps shed a little light on what exactly you meant by that comment.

Omar Khan: Yes, I mean -- to the degree that we can, I will. During the last several months, we have been approached by multiple parties. They include financial investors as well as strategic investors that have discussed with us, as I said, the opportunities for investment. But, at this time, it's -- we are -- we're very committed, Mark, to building a very significant Company here, and we feel -- we know that the current market valuation doesn't reflect both what we know, in terms of the fundamentals of the Company, as well as what we know is coming, from a product and services and a roadmap, as well as customer perspective. And so, we remain committed -- now, we'll look at every opportunity and assess every opportunity for shareholder value creation, but we remain very, very committed to executing on the roadmap we laid out last November and what we've delivered and continue to deliver on this year.

Mark Murphy: Okay. Suhai, I wanted to go back to you, and is there any way -- based on what you're describing as a successful collections effort, I -- in the month of April, but not as much in the reported Q1. Could you just repeat the number? What was the dollar value of collections in the month of April? And then, maybe help us to understand what level of DSOs do you think we should be forecasting here for the next few quarters?

Suhai Ji: Yes. So, just for the month of April alone, we collected $7.8 million from the AR balance. So that means our AR balance dropped from end of March to end of April, right? And for the month -- from January to April, for the four months, our total AR days for overseas, okay, went back to the same level as what we had for Q4 last year. So that was at 209 days. As we continue to increase our collection effort -- because after April, just do May and June, the two more months, so we hope to get that AR days for overseas market will -- further down from the Q4 level from last year.

Mark Murphy: Okay.

Suhai Ji: Okay?

Mark Murphy: So, implicit in that is that your aggregate DSOs would then decline in -- for Q2?

Suhai Ji: Yes, because our -- last year's aggregate AR days -- for Q4 last year was 142 days, right.

Mark Murphy: Sure.

Suhai Ji: And that was mostly the -- because of the higher international AR days, and if we get those international AR days further down from that -- from Q4's level, we would expect the total AR days to decline further from the Q4. It's just unfortunate some of the money was not collected until April, and that's why it's not reflected in the Q1 this quarter.

Mark Murphy: Okay, great. And then, the last one for me -- Omar, I was wondering if you could give us any more color, in terms of your landmark relationship with America Movil. Are there any early data points coming out, with respect to the launch in Mexico? Obviously, it's incredibly early, but is there anything you can comment on? And then, perhaps, any comment on the timeframe for getting the launch in Brazil and Argentina?

Omar Khan: So, I mean, it is early. I mean, the comment that I made specifically was what we know today, which is the fact that we launched at the end of last week, and our expectations are very high. We're going to go in with a very aggressive set of marketing tactics that I discussed. We'll look for every opportunity, Mark, to share interim results, if we can, but we don't have a tally yet from this week.

And then, what I said about Brazil, which is the next market to launch -- it's right now scheduled for the summer. I don't -- I can't give you a specific date just yet, but -- because we're actively working on the implementation, but it is -- it's slated for the summer. And then, the other Latin American markets will follow thereafter. And then --

Mark Murphy: Okay, guys, thank you very much.

Omar Khan: Yes, Mark, I want to take the opportunity, because I know we got dropped, and the question on Feiliu got a little bit disjointed, so I just want to make sure we -- I take the opportunity to just give you a consolidated answer.

So, the consolidated answer very much is that the initial forecast we gave for the year was based on a gross basis. We followed a more conservative revenue recognition policy in Q1 and for the time going forward. That -- and if it had been on a gross basis, we would have realized, probably, 20% to 25% more gross revenue in the quarter.

But I think what's most important to say is the fact that the Feiliu business remains incredibly strong, and the guidance that we gave for the year, Mark, of $25 million to $28 million -- we are still committed to that guidance. That still holds, and that just goes to show you the strength of the business, and if it were on a gross basis, it would be even higher.

So I think that goes to show you that the increased guidance that we gave, on a net revenue basis, for the year is quite strong, given the fact that we're still holding the $25 million to $28 million, even on a net basis.

Mark Murphy: Okay. So, essentially, Omar, coming out of Q1, then, you are materially raising that Feiliu revenue forecast by, perhaps, 20% to 25% on the year. It's just that we're -- with the net revenue recognition, you're going to reaffirm the prior numbers. Is that a fair way to look at it?

Omar Khan: Yes, we're reaffirming the prior numbers based on the current revenue recognition policy. So we're not --

Mark Murphy: Okay, got it.

Omar Khan: Yes, we have not come off of that at all. Actually, for us, that's actually quite good.

Mark Murphy: Okay. Thank you for taking my questions. I appreciate it.

Operator: Mike Walkley, Cannaccord.

Mike Walkley: Great. Thank you. Suhai, just wondering if you could help us on some modeling with the updated revenue guidance and understand the Feiliu change in revenue recognition. Can you just help us a little bit on how you see the mix within your guidance of your different revenue line items, now that you've changed the way you're reporting?

Suhai Ji: Yes. I think, as we stated before, on the -- we look at our business in two parts. One is the consumer side. That includes both Feiliu and NQ's consumer mobile security business. And this quarter, you can see that, excluding NationSky, our non-GAAP operating margin was about -- earned 33%, and, as we stated before, we are committed to our operating margin above 30% for the consumer side.

And then, for NationSky, this quarter, actually, we outperformed our regional guidance that was given, so -- and with -- in going forward, I mean, we want to leave more room for the upside, so we capped our operating margin for NationSky do between 10% to 12%-ish. And so, on a blended basis, it still going to be within 25% to 30% of net margin, as we gave previously.

Mike Walkley: Okay.

Omar Khan: And, Mike, was your question on revenue mix as well?

Mike Walkley: Yes, just on the revenue mix -- given some new revenue categories, just if you could give us any just color on the trajectory of the different businesses throughout the year. I know the enterprise business tends to have a much stronger second half of the year, so just trying to get a feel for kind of the cadence of the new revenue guidance.

Omar Khan: Yes, I mean -- and as I said, just earlier on the -- because we're holding the revenue guidance for the mobile games and advertising business, despite the revenue recognition delta, the mix really remains unchanged, if that makes sense, Mike.

Mike Walkley: Okay, that's helpful. And then, just -- Suhai, just another modeling question, and then, I'll jump over there -- more high level question for Omar, but just GAAP and pro forma tax rate and stock-based comp, we should be thinking about, going forward, in our models?

Suhai Ji: Yes. For the stock-based comp, because of the additional options issuance and small acquisition on Feiliu, we think is going to remain between $7 million to $7.5 million for the rest of the year.

Mike Walkley: Okay.

Suhai Ji: And then, for the tax rate, because a certain subsidiary of our Company -- their preferential tax treatment expired. That's why you saw the increase on the tax rate, but for the remainder of the year, again, to be conservative, we think it's somewhere between 10% to 15%.

Mike Walkley: Okay, great. And, Omar, can you just update us on the US retailers that you mentioned on the call -- in the -- how far are you in the -- I think it's about 2,000 stores you're engaged with. How far are we, in terms of rolling that out, and can you -- I think you're still saying around 20% attach rate, but how should we see that progressing over time?

Omar Khan: Yes. I mean, it -- so, a couple comments on that, Mike. So, we've launched -- of the announced relationships, we've launched just over 1,000. I want to say it's in the 1,100 range. We will go -- we'll be live in about 3,000 locations this summer, in the June/July timeframe, and -- which implies a couple of things. It implies that we have additional business development relationships and announcements yet to come on the retail side. So our plan is to get to about 3,000 live locations in the summertime, and then, globally, we'll be at 5,000 by the end of the year. That's the current plan.

From an attach rate perspective, it obviously varies. It goes up and down, and it also depends on the variability of the channels, but I think we're optimistic, and we're encouraged, because several retailers continue to show the ability to hit 20% attach rate on a monthly basis.

And so, what we did in Retail 2.0, which was the launch of our entire new retail initiative in April, was put new initiatives in place, both from a point of sale perspective, an activation system, a marketing perspective, as well as from a product bundling perspective, Mike, to enable us to more repeatedly hit that 20% attach rate, and, optimistically, we'd like to go higher. But, at this point, we'd rather remain conservative from a modeling perspective, in terms of what we're forecasting.

Mike Walkley: Okay, that's helpful. And then, just on a high level, with all the new initiatives to monetize your base, would you expect just to continue to grow the average monthly users and have a similar conversion rate to paying users, or do you think we'll see a increase in paying user accounts as some of these new initiatives kick in?

Omar Khan: Yes, I mean, our focus, really, becomes on a monthly active user perspective. Our goal -- it doesn't mean we're not -- especially in international markets, it doesn't mean we're not focusing on conversion to paid users from a security perspective. That has absolutely remained one of the monetization channels. But we are optimizing now between a set of monetization capabilities that are broader than just converting users from a nonpaying user to a paid user on security.

So, from an RI perspective, as we invest marketing dollars, Mike, we have more levers to play with, right. So we can use the offer wall to offer consumers advertising, app referrals, mobile games, etcetera, to further enhance the revenues that we get from the entire base.

So, the -- really, the goal becomes how broadly and how significantly can you monetize the monthly active user base, and the metric over time will reflect how well we're doing that, and that's really -- becomes the goal. But, naturally, for retail markets, for carrier market, the conversion metric to paid users is still very much -- is still very important and still very significant.

So, given the fact that in the international markets outside of greater China, the security business is still the primary focus. In those markets, the conversion to paid users of security and privacy is still the primary driver of revenue.

Mike Walkley: That's helpful. Thanks, Omar. And just one last question from me -- I'll pass it on. I just noticed in the cash flow statement, Suhai, $10 million cash paid for equity investment. Is there something you could comment there? Is there any strategic investments that you can comment on for that line item?

Suhai Ji: Yes, as disclosed in the 20-F, I think we invest about that amount into a mobile internet fund that will invest in early stage mobile internet related companies.

Omar Khan: Yes, so what we're doing with those funds is investing in those early stage companies that give us access to technology from a mobile internet platform perspective, Mike, that help us continue to innovate on a roadmap perspective and next generation technologies.

Mike Walkley: Okay, great. That's helpful. Thanks for taking my questions.

Operator: Andy Yeung, Oppenheimer.

Andy Yeung: Oh, hi. Good morning. Thank you for taking my questions. Maybe the first question is a follow-up on the North American retail channels. Can you give us a little bit more idea -- maybe, perhaps, quantify how much revenues are you generating from the retail network right now, or, at least, like, what -- how many store have you implemented your sales charges there?

Omar Khan: Yes, so -- Andy, I'll answer that question. This is Omar. For us -- again, we don't disclose necessarily the revenues by channel, as an example, for retail. But from a modeling perspective, if that's what you're asking, today, as I mentioned, we're live in about just over 1,000 retail stores in the US. And the way we look at it, internally, from a modeling perspective, is we look at how many Smartphone Android devices they're selling.

And then, we model, based on a ramp, to achieve post ramp, approximately a 20% attach rate, and that's how we model it for each Android device or each set of Android devices that's sold in each retail location on a monthly basis.

Now, having said that, we have broadened, over the last couple of months, the set of products and services that we're offering at retail. So our goal is to actually enhance the sale at retail from a dollars' perspective, so now, we're offering both NQ Mobile Vault and NQ Mobile -- NQ Family Guardian, in addition to NQ Mobile Security.

On top of that, we've actually raised the price of security by $5.00 for a 12 month subscription, because we've added content backup. So we're trying to increase the RPU generated from the retail channels, and the bundling across products will also help us increase the attach rate. So we're using multiple levers, Andy, to increase, not only the attach rate, but the average revenue per sale, and that's something that is really not only imperative for us, but also for the retailer to actually make money on each sale. So that's -- I hope I answered your question related to the detail you were asking for.

And then, on a store basis, we'll go from the 1,000 plus right now to about 3,000 in the summertime -- in the mid summer timeframe, and then, 5,000 by the end of the year. So that should give you some range for your modeling.

Andy Yeung: I see. Thank you, Omar. My next question is actually about the margins. I think Suhai mentioned in his prepared remarks that, [from a] margin comparison was due to higher user [acquisition] cost and bad debt expenses. Then, perhaps, you can -- so I can address, like, what was the trend in user acquisition cost? Why is it going up? And also, for bad debt expenses, how much it went up, and also, was a trend there?

Suhai Ji: Yes, [so I] answer the easier one. So, bad debt expenses went up, actually, quite small, if you look at the financials that in our disclosed statement on the P&L. That gives you a bit more detail on the allowance. It went up by $300,000, compared to the end of last year. So, it went from $1.1 million to a little more than $1.3 million, so only, like, up $200,000. That’s a very minimal impact.

And for user acquisition cost, on average basis, our user acquisition cost about $0.07. That went up from last quarter, but still in line with overall user acquisition cost that we have in the past.

Andy Yeung: Okay, great. Thanks. And then, my final question is just about use of cash. Obviously, you still have additional margin -- $125 million [off of] all these investments and acquisitions. Just trying to get a better idea from you regarding your M&A strategies. What criteria you're making in the investments?

Also, perhaps, again, a little bit more about your recent acquisitions of Beijing fund use. What's the synergy there that you expect from integrating your products with a online -- or mobile advertising platform?

Will Jiang: Hi, Andy. This is Will. We've said on previous calls, and also at investor day, that our investment in M&A strategy are part of our overall growth strategy. So, we believe the strategies that we made would accelerate the overall growth of NQ, as the synergy picks up. Most recent quarter, we acquired majority stake of Feiliu. It's a very small acquisition. They're actually an offline user acquisition channel, focusing on preloading application at retail channels.

So, what we're doing is that we're merging the business fully into our operation, and it will further ramp up our user acquisition capability. So, basically, it's a build versus buy decision. We believe, by purchasing a stake in Feiliu would increase our feasibility in terms of user acquisition.

So, our overall plan is to involve into a global mobile internet platform, as emphasized by Omar earlier. The goal is to increase user acquisition engagement and monetization capabilities. So the acquisitions that we’ve made so far have definitely accelerated our execution of such strategy.

Andy Yeung: Okay, great. Thank you.

Operator: Jun Zhang, Wedge Partners.

Jun Zhang: Thanks for taking my question. I have two questions. [Tencent] actually announced last night, and they have been really aggressive on mobile games. Just wondering, is Feiliu one of the partners for Tencent? What kind of a partnership between the Feiliu and Tencent in the mobile game market? Thanks.

Will Jiang: Yes, hi, Jun. It's Will. Yes, so, basically, for the past few quarters Feiliu has offered a -- provided live operation to one of the most successful mobile games Tencent has ever produced called [QQ Swordsman], which we've seen tremendous success, and the game has constantly be ranking in the top 20, top 10 grossing apps in iOS in China. So, in the most recent -- most recently, we've also launched a new game developed by the QQ Studio called Legend of Kings, which is already available on the iOS store in China.

So, we're definitely seeing an increase in collaboration along the line of the strategy that Tencent has put in place is by, essentially, expanding their mobile strategy in the mobile game area. And Feiliu, currently, is definitely the top partner that we see that many third party developers can work with. As indicated and validated by SINO-MR, we are already the number one publishing platform on iOS app store right now in China. So, this definitely -- that this achievement speaks for itself, and we're definitely seeing more and more developers signing up to be part of the Feiliu publishing platform right now.

Jun Zhang: Okay, thanks. My second question is about comment on the strategic and financial interest in NQ. Has NQ received interest from both strategic and financial buyer’s interest in buy 100% NQ at the significant premium on the current stock price?

Omar Khan: So -- I mean, I can't specifically comment, Jun, on the nature of the investments or acquisitions. I mean, what we can confirm is that we have been approached by multiple parties, both financial and strategic, and, at this point, we know, and we're confident, that the valuation in the public markets right now versus what the intrinsic value of the Company is, from a fundamentals perspective, from a growth trajectory perspective, has a significant gap.

And we -- we're committed to executing on our strategy to close that gap, and, in doing so, we'll evaluate every opportunity, but, for us, the gap is very significant, and we're going to -- basically, we're going to remain fully committed and -- to closing that gap. And that's -- from a shareholder value creation perspective, which is a significant part of our jobs as executives at NQ, we remain 100% committed to closing that gap and realizing that value.

Jun Zhang: Okay, thanks. Thanks a lot -- [my questions].

Operator: Fred Ziegel, Topeka Capital Markets.

Fred Ziegel: Hi, guys. A question -- one, on the equity investment that was in the press release, what -- what's embedded in the revenue numbers for the rest of the year for that?

Will Jiang: Hi, Fred. As I answered earlier, Faiyue is in the offline user acquisition channel, so, really, to us, we're not really disclosing sub-separate operating data for this particular acquisition. We're actually going to fully merge this business into our operations, so the combined result will be our further enhancement, in terms of user acquisition capability.

Fred Ziegel: Okay. Where are we, internationally -- I guess, maybe this is to Omar -- in terms of, I guess, catching up, in terms of payment processing infrastructure? Where do we stand there? I think we've talked in the past that you've had registered users in 150 countries, but you were -- you had a monetization presence in 50. So, what are those kinds of metrics looking like these days?

Omar Khan: Yes. So, Fred, we -- right now, we stand just over 60. I believe it’s 61, if I remember correctly, from a monetization perspective, and I think the other part of the monetization is now, even internationally -- so, if you take a look at our latest update, we've integrated trending apps and app referrals into our global NQ mobile security application.

So, we -- in addition to the monetization, in terms of local currency or billing, we now also have the additional capability of app referrals in the international market as well. So, you're seeing the beginnings, not just in China, but also, outside of China, of adding additional revenue sources to the monetization of our security and -- of our security customers, and, primarily, that's starting with active users in the mobile security application.

Fred Ziegel: Do you think a 20% attach rate is applicable to all international markets, or is that a number more unique to the US?

Omar Khan: That's a good question, actually. We model that primarily for independent retail, because it's very much a behavior driven by the assisted sale process that existed in the independent retail channel. So, can it be achieved internationally? It is possible for it to be achieved, but, from an international retail perspective, we're -- similar to what we did -- if you remember back last summer, Fred, we -- before we even talked about 20% attach rates, we waited for empirical data, after launch, for several months before we started talking about attach rate.

And that's the same thing we're doing in the international market, as well as, if and when we launch additional types of retail environments in the US, we'll also do the same thing of testing, over a several quarter period or several month period, the empirical attach rates before we both model it aggressively as well as share the attach rates from those channels. So, it's very specific, just to answer your question simply, right now, today, to the independent retail assisted channel.

Fred Ziegel: Should we expect to hear distribution through non-mobile carriers, so, more of a traditional retail kind of outlet?

Omar Khan: So, to date, we've only really announced mobile centric retail location. We -- what I'll say is in our business development pipeline, we have a broad set of retailers and a broad type of retail partners that are in our business development pipeline. We haven't -- to date -- all of our announcements to date have been both independent retail as well as mobile retailers, globally. So it is reasonable to assume we will have a broader set of retail partners beyond just mobile centric.

Fred Ziegel: Okay. Last question from me. I know it's early, but have you seen any cross sell between the Feiliu community and your traditional mobile security products?

Will Jiang: Yes, Fred, definitely. Since the launch of our [offer walls], we're seeing very good momentum, in terms of cross selling our products. So this actually really matches our strategy that we laid out last year, essentially, is by using referrals and live operation of games to increase our RPU per active user by maximizing the return on our investment to acquire each user. So, we'll continuously to do so for the coming quarters, and we'll continuously execute. And so, going forward, we'll see more and more ramp up in other services beside security.

Fred Ziegel: Okay, thanks. That's it for me.

Operator: Ladies and gentlemen, that concludes the end of the question and answer session. I would now like to hand the time back to Ms. Michelle Ma. Please go ahead.

Michelle Ma: Thank you, operator. If there's no further questions at present, we like to conclude by thanking everyone for joining us on the call today. We welcome you to reach out to us directly by emailing to us at investors.nq.com. This concludes NQ's earning call.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

Michelle Ma – NQ Mobile, IR

Thank you operator. If there are no further questions at present we'd like to conclude by thanking everyone for joining us on the call. We welcome you to reach out to us directly by emailing investors@nq.com should you have any questions or requests for additional information, and encourage you to visit our investor relations site at ir.nq.com where you can find numerous resources and materials, including a recording of this and previous earnings webcasts. This concludes NetQin's earnings call.