

BILIBILI 2Q 2019 CONFERENCE CALL SCRIPT

Operator introduction

Good day and welcome to the Bilibili 2019 second quarter earnings conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Juliet Yang, senior director of investor relations. Please go ahead.

Juliet Yang

Thank you, operator. Please note the discussion today will contain forward-looking statements, relating to the Company's future performance, and are intended to qualify for the Safe Harbor from liability, as established by the US Private Securities Litigation Reform Act. Such statements are not guarantees of future performance and are subject to certain risks and uncertainties, assumptions and other factors. Some of these risks are beyond the Company's control, and could cause actual results to differ materially from those mentioned in today's press release and this discussion.

A general discussion of the risk factors that could affect Bilibili's business and financial results is included in certain filings of the Company with the Securities and Exchange Commission. The Company does not undertake any obligation to update this forward-looking information, except as required by law.

During today's call, management will also discuss certain non-GAAP financial measures, for comparison purposes only. For a definition of non-GAAP financial measures, and a reconciliation of GAAP to non-GAAP financial results, please see the 2019 second quarter financial results news release issued earlier today.

As a reminder, this conference is being recorded. In addition, an investor presentation and a webcast replay of this conference call will be available on the Bilibili investor relations website, at ir.bilibili.com.

Joining us today on the call from Bilibili's senior management are Mr. Rui Chen, Chairman of the Board and Chief Executive Officer, Ms. Carly Lee, Vice Chairwoman of the Board and Chief Operating Officer, and Mr. Sam Fan, Chief Financial Officer. And I'll now turn the call over to Mr. Fan, who will read prepared remarks on behalf of Mr. Chen.

Sam Fan

Thank you, Juliet. And thank you everyone for participating in today's earnings call. I'm pleased to deliver today's opening remarks on behalf of Mr. Chen.

I'm happy to report that on June 26, 2019, we celebrated Bilibili's 10-year anniversary. Over the past decade we have grown from a small personal site to a leading online entertainment platform where over 100 million active users come together to find and share their interests. We attribute our success to our constant focus on PUGV content ecosystem and community environment, which form the foundation for continued high quality growth. Looking at the next 10 years, we are charged with accelerating this growth. We plan to achieve this in two ways: 1) more proactive user growth, and 2) improved commercialization efforts.

We are proud to deliver another remarkable period of growth in both our user-base and top line. Importantly, our second quarter results demonstrate the type of high-quality user growth we are aiming to achieve. We added 9 million MAUs to our community on a sequential quarter basis. This is our highest net-add since 2017, bringing our total MAUs to 110.4 million, increasing 30% year-on-year. Within this group, our mobile MAUs once again grew faster than our total MAUs and were up 35% year-on-year reaching 96.2 million.

High-quality user growth has always been a key focus for Bilibili. Beyond the accelerated growth, we are continuously improving the activeness and engagement of our user community. In the second quarter, our total DAUs outpaced our MAU growth rate, and grew by 41% year-over-year, reaching a record 33.2 million. Our users are also spending more time on our platform, averaging 78 minutes per day, up 3 minutes compared to the same period last year. As we move into our peak summer season, we are seeing this healthy trend continue. Therefore, we raise our MAU target from the range of 110 to 120 million to the range of 120 to 130 million for this year, and set up a new target of reaching 220 million MAUs by 2021.

The fast pace of our user growth paired with the quality of these users is fueling our top-line expansion. We continue to convert more visitors to paying users by offering premium content and a unique community experience. In Q2 our average monthly paying users more than doubled compared with the same period last year, reaching over 6.3 million. Revenue per MAUs increased by 15%, non-game revenue per MAUs increased by 102%, year-over-year. As a result, our revenues reached RMB 1.54 billion, beating the high-end of our previous guidance previously set at 1.49 billion.

What's driving this remarkable growth of both user numbers and revenues comes back to the three pillars of our business: content, community and commercialization. I'd like to touch on each of these areas, provide some insight into our growth strategy and talk about the performance within these metrics for the second quarter.

First and foremost: Content. Content is paramount to attracting users at a rapid pace and keeping them engaged. We are strategically positioned on a less competitive track where we enjoy a growing roster of high-quality content through our PUGV ecosystem at a relatively low cost. Leveraging Bilibili's high-traffic platform and unique community environment, we continue to attract talented content creators and grow our content offering. During the second quarter, we had an average of 854 thousand active content creators, uploading 2.4 million videos monthly. This represents year-over-year increases of 144% and 107%, respectively.

To better support and motivate our content creators, we are continually improving our product, tools and services to make content creation easier. Our mobile content submission function allows our content creators to create content anytime, anywhere. Our newly launched "Interactive Video" tool creates a brand-new, fun way for storytelling and is very easy to use. We are also actively promoting *Video Blog-Vlog* as one of the new content formats to express creative ideas. So far, this is gaining great traction with both content creators and users. In addition, our cash incentive program continues to encourage over 160,000 content creators by providing a monetary reward for their original and high-quality creations.

As a supplement to our vast PUGV content library, we continue to expand our OGV offerings by acquiring premium content and important IP that can be monetized across the entertainment spectrum. As an example of this, at the end of June, we acquired exclusive animation adaptation rights to the award-winning science trilogy *The Three Body Problem*, one of the most renowned science fiction IPs in China. We are thrilled to bring this exciting tale to life in a variety of entertainment forms including animation, mobile games, comics, and audio dramas. Through these adaptation plans, we aim to maximize the reach of the story and return on our investment.

In the self-producing and co-producing department, we are delighted to see our self-produced and IP-owned titles gaining traction. Our signature food documentary series '*The Story of Chuaner*' welcomed its second season in July and was a smash hit. Our co-produced talk show '*Informal Talks*' and self-produced animal reality show '*Animal Hospital*' were also well received by our users. Notably, the content verticals we choose enjoy a relatively lower production cost while attracting a broader population of users.

They can also yield considerable revenue through advertising and various commercial opportunities.

Secondly, let's look at our community. As we welcome more members in our community, we continue to see deep levels of engagement and interactions among our users. In the second quarter, we had 586 million daily views, up 84% year-on-year. On the engagement front, our users generated 1.8 billion interactions monthly through bullet chats, comments, likes and Bilibili moment posts, up 180% compared to the same period last year.

In addition to engagement levels, the number of official members and their retention rates are also important data points that represent the quality of our user growth. At the end of the second quarter, we had 54 million official members who passed our 100-question exam, up 40% year-over-year. Their 12-month retention rate remains at about 80%. These official members tend to be the most active and engaged with both our content and each other. They are also more willing to pay for premium content. We will continue to improve our product and content offering to convert more official members to paying users.

Last but not least, commercialization.

Our Gen Z concentrated user base has a much stronger willingness to pay for online entertainment services than any other generations. According to the latest *QuestMobile* report, around 60%-80% of the paying users who paid for mobile games, live-broadcasting and online videos in China are Gen Z. Our business model is designed to address the entertainment and interaction needs of this important population. Besides traffic, we can monetize our users' entertainment preferences through mobile games, live broadcasting, advertising, and other value added services. As we ramp our monetization efforts, we believe our users growth will fuel an even higher top-line growth.

Now, let's first take a look at our games business.

Building on our massive base of game lovers and highly engaged community, we have become one of the largest game communities in China covering PC, mobile, console and indie games. We continue to add more games to our portfolio and improve our distribution efficiency. In the second quarter of 2019, revenues from our mobile games grew 16% year-over-year to RMB920 million, led primarily by *Fate/Grand Order*, or *FGO*, and the blockbuster ACG-themed mobile game *Arknights*, which we released in May. Being the exclusive joint-operator of *Arknights* on Android channels in China, we helped attract over 3 million core ACG users to the game. The success of *Arknights* also showed the market's increasing demand for ACG games. More importantly, it is a strong testimony to Bilibili's robust distribution power for high quality games.

On the exclusively-licensed games front, we have released a number of new titles in recent months. These include Japanese music RPG *BanG Dream* in May, an exciting domestic RPG *Final Gear* in July, and a highly rated female romance RPG *Untouchable Palms* in August. All three titles have gained great traction among different groups of gamers. *Final Gear* and *Untouchable Palms* ranked No. 1 on the top free games and top paid download charts on China's iOS app store, shortly after their releases, respectively.

Looking at our content updates and new games pipeline, we are excited to be celebrating *FGO*'s three-year anniversary beginning at the end of August with a major content update and accompanying promotional activities. We also have several titles that have acquired approvals and are scheduled to be released in the coming months. These include exclusively-licensed *Alternative Girls*, and jointly-operated web game *The Legend of Heroes: Akatsuki no Kiseki*, and Tencent's highly anticipated ACG mobile game *Fox Sprite Matchmaker*. In addition, we look forward to expanding our game distribution outside of mainland China. We plan to release a series of ACG titles in select Asian markets, including the *Furious Yama*, *Final Gear*, *Girl Café Gun 2* and *Dark Boom*.

Looking at our live broadcasting and VAS line: revenues increased by 175% year-over-year to RMB326 million in the second quarter of 2019, with contribution from both our live broadcasting business and premium memberships.

Currently, Games, VTuber, audio, and ACG-related talent shows are the top categories gaining traffic and converting visitors to paying users. We are also actively expanding our E-sports-related live broadcasting content offerings by introducing top E-sports matches, including LPL, OWL, KPL and Ti. These premium E-sports content are attracting tens of millions of viewers and converting our deep pool of game lovers to live-broadcasting users.

Our premium membership program gives paying members access to advanced or exclusive content and continues to bring in new subscriptions. By the end of June, we had recorded 5.3 million valid premium members, up 148% year-on-year.

On the advertising business, we are beginning to see positive signs despite a challenging macro environment. Revenues from advertising increased 75% year-over-year to RMB168 million in the second quarter of 2019. We are also improving advertising efficiencies, which helps increase our unit price. The top three industry verticals for brand advertising in the second quarter were skincare and cosmetics, food and beverages, and e-commerce. And the top three verticals for performance-based advertising were games, education and e-commerce.

And finally, our e-commerce and others revenue stream also continued to grow, reaching RMB124 million in the second quarter, an increase of 489% from the same period in 2018, largely due to our expanding e-commerce platform product sales.

We have made several investments to scale our business over time and expand our revenue streams. Our majority stake in Chaodian extends our reach in offline entertainment and adds a new revenue stream to our commercialization efforts. We can now capitalize on Chaodian's expertise in offline event planning, as well as talent acquisition and management. Similar to our investment in *NetEase Comic* and *Maoer App*, we believe these investments have great synergies with our existing business, and will further expand our commercialization capabilities.

Our partnerships with other market leaders such as Tencent and Alibaba are also progressing and aiding our growth. We continue to exchange domestic animation copyright and collaborate on some of the A-list titles including new seasons of *Quan Zhi Gao Shou*. On the games front, we now jointly operate a number of Tencent's highly rated mobile games, including *Game of Thrones*, *Sprite Hunter* and *Ace Force Warrior*, with more games in the pipeline. We are also working closely with Tencent on the E-sports front. We compete in and own the live-broadcasting rights to Tencent's premium E-sports leagues: LPL and KPL.

On the Alibaba partnership front, we have expanded our partnership with new collaboration plans with T-mall in addition to Taobao. We are testing a number of innovative functions to better adapt for e-commerce platforms. We expect this ingenuity to continue to help expand our advertising services and grow our paying user base.

As we move forward, we are focused on continued growth. User growth is at an all-time high and we want to build on this momentum. Our strategy calls for more proactive user acquisition, as well as improved commercialization capabilities. While we invest in the future, we will also focus on the quality of users by attending to retention rates and ROI of our marketing efforts. We are confident about our user growth plan and believe it will form the foundation for our sustainable growth and future success.

This concludes Mr. Chen's remarks. I will now provide a brief overview of our financial results for the second quarter of 2019.

Our total net revenues increased by 50% year-over-year to RMB1.5 billion. Our non-game revenues accounted for 40% of total revenues in the second quarter, up from 23% in the second quarter of 2018. We are pleased with the progress of our commercialization strategy,

and the average number of monthly paying users more than doubled year-over-year in the second quarter of 2019, reaching 6.3 million.

Cost of revenues increased by 66% to RMB1.3 billion, compared to RMB776 million in the same period of 2018. Revenue-sharing cost, a key component of cost of revenues, was RMB573 million, representing an increase of 37% from the same period in 2018.

Gross profit was relatively flat at RMB252 million for the 2019 second quarter and RMB 251 million for the comparable 2018 period. Our gross profit margin was 16.4%, compared with 24.4 % for the comparable 2018 period, and improved from 13.8% for the first quarter 2019. The sequential margin improvement was mainly thanks to the increased revenue contribution from our high margin game business.

Total operating expenses increased to RMB597 million, representing an increase of 67% from the same period of 2018.

S&M expenses were RMB240 million, representing an 88% increase year-over-year. The increase was primarily attributable to the increased channel and marketing expenses associated with our app and brand, as well as promotional expenses for our mobile games, and an increase in headcount in sales and marketing personnel as well as the fulfillment costs for our e-commerce-related products.

R&D expenses were RMB216 million, representing a 64% increase year-over-year. The increase was primarily due to increased headcount in R&D personnel and other increased research and development expenses for online games, app development and our virtual idol business.

G&A expenses were RMB141 million, representing a 44% increase year-over-year. The increase was primarily due to increased G&A personnel-related expenses and increased amortization expense related to intangible assets acquired through business acquisitions, partially offset by a decrease in share-based compensation expense.

Loss from operations was RMB345 million, compared to RMB107 million in the same period of 2018.

Net loss was RMB315 million for the second quarter of 2019, compared to RMB70 million in the same period of 2018.

Adjusted net loss, which is a non-GAAP measure that excludes share-based compensation expenses and amortization expense related to intangible assets acquired through business acquisitions, was RMB256 million, compared to RMB19 million in the same period of 2018.

Basic and diluted net loss per share were RMB0.96.

Adjusted basic and diluted net loss per share were RMB0.78.

As of June 30, 2019, the Company had cash and cash equivalents, time deposits, as well as short-term investments of RMB8.6 billion.

In April, we completed an offering of convertible senior notes due 2026 in aggregate principal amount of US\$500 million, and concurrent offerings of approximately 14.2 million ADSs and 6.5 million ADSs from certain selling shareholders. The Company received, in combination of the notes and share offerings, totaled approximately US\$733.9 million in net proceeds.

Looking ahead, our financial goals are to further grow our business and improve our operating efficiency. With that in mind, we are currently projecting net revenues for the third quarter of 2019 to be between RMB1.74 billion and RMB1.77 billion.

Operator

And that concludes today's call. I would like to turn the conference back over to management, for any additional or closing comments.

Juliet Yang

Thank you once again for joining us today. If you have any further questions, please contact myself, Juliet Yang, Bilibili's Senior IR Director or TPG Investor Relations. Our contact information for IR in both China and the U.S. can be found on today's press release. Have a great day.