

## **BILIBILI 3Q 2019 CONFERENCE CALL SCRIPT**

---

### **Operator introduction**

Good day and welcome to the Bilibili 2019 third 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 third 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](http://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.

Our third quarter was another strong quarter of growth. Our active user acquisition strategy and increased commercialization efforts are paying off. We secured another quarter of record high MAUs and paying users, while meaningfully improving our top line and gross margin. In the third quarter, we added 17.5 million MAUs to our platform sequentially. This is our highest quarterly net-add ever, bringing our total MAUs to 127.9 million, up 38% from the same period last year. The growth rate for our mobile MAUs is even more accelerated, reaching 114.2 million in the third quarter, up 43% year-on-year.

While growing our user base, we are also keeping our community engagement at high levels. Total DAUs were up 40% in the third quarter, reaching 37.6 million and on average they spent 83 minutes per day on our platform.

Our user stickiness and loyalty creates longevity and willingness to pay for premium content and services. In the third quarter, our average monthly paying users once again more than doubled compared to the same period in 2018, reaching 7.9 million. Revenue per MAU was RMB14.5, a 25% increase from the same period in 2018. This set of numbers demonstrates improving monetization of our growing traffic.

For the 6th consecutive quarter since our IPO, we exceeded our revenue guidance, beating the high-end of our expectations by nearly RMB100 million. Total net revenues came in at RMB1.86 billion for the third quarter, up 72% year-on-year. We think this means we're doing something very right. As our top line expands, we are realizing more leverage, and our gross margin has improved meaningfully each quarter this year: From 13.8% in Q1 to 18.9% in Q3.

To give a bit more insight into our strategy, I'd like to walk you through our third quarter performance and provide some updates on what we consider the backbone trilogy of our business: content, community and commercialization.

Our full spectrum entertainment ecosystem is strong and growing. We continue to improve our tools and services to better support and inspire our content creators. The mobile content submission tool has been widely adopted by our content creators, with around 50% of content now being uploaded through mobile devices. We believe the 5G network adaption will soon have a positive impact on video creation and consumption beyond our imagination. During the third quarter, we had an average of 1.1 million active content

creators, up 93%, uploading 3.1 million videos monthly, up 83%, both on a year-on-year basis.

The top 5 content categories in the third quarter were: Lifestyle, Entertainment, Game, Animation and Technology. For Lifestyle, our vlog campaign was a great success this summer. By the end of Q3, vlog had more than 11 billion cumulative views. Our interactive video feature continues to be a great outlet for our content creators to stretch their imaginations in various verticals, attracting a viewership of more than 300 million in just four months. In October, we launched a new joint creation program that encourages our content creators with matching talent, to work together to jointly co-produce titles. This initiative has been well-received by our community, particularly in the verticals that require more professional skills, such as Music, Dance and Animation. Looking ahead, we aim to further expand our content offerings in Entertainment, Fashion and Technology with more effective operations, which we believe will help attract mass audiences.

Notably, as our smart content distribution engine and operational capabilities improve, we are excited to see our content and content creators gain traction faster than ever. In the third quarter, the number of new videos that achieved 1 million views more than quadrupled compared to the same period last year. The ability to showcase their talent and gain real-time fans in our heavily populated community is making Bilibili the ideal platform for content creators.

In addition, we continue to expand our OGV library to supplement our ever-growing PUGV offerings. We remain the dominant leader in the animation field with one of China's largest anime libraries. We recently released updates on a dozen of Chinese anime projects including *The Three Body Problem* 三体 and over 20 new titles including *Heaven Official's Blessing* 天官赐福 and *Legend of Mortal Ascension* 凡人修仙传. In the documentary and variety shows departments, our signature food documentary series *The Story of Chuaner Season 2* and our self-produced animal reality show *Animal Hospital* have been hot topics all summer long. At the same time, we continue to work with leading overseas producers to bring our audience top-level titles. These include the Chinese version of Discovery's outdoor survival reality show *First Man Out* starring Ed Stafford, and *The Hidden Kingdoms of China*, a phenomenal documentary that we co-produced with National Geographic. These mass-appeal titles have not only helped attract broader audiences, but also yielded decent advertisement and premier membership revenue.

Looking at our community, we are seeing accelerated user expansion. We are experiencing fast growth in user numbers as well as engagement levels. In the third quarter, we had 725 million daily video views, up 60% year-on-year. This large base is deeply engrossed in our platform, connecting with each other and our content. In Q3, our users generated 2.5 billion

monthly interactions through bullet chats, comments, likes and Bilibili moment posts. This is up 122% compared to the same period last year.

Our official membership program is also on the rise. At the end of the third quarter, we had 62 million official members who passed our 100-question exam, up 46% year-over-year. Our 12-month retention rate remains high as well, at above 80%. This is an excellent indicator of the high quality of our user growth.

Turning to commercialization ...

According to the latest *iResearch* report issued in November this year, by 2023, China's online entertainment market will achieve a market size of RMB1.1 trillion. As the driving force of this remarkable growth, Gen Z will contribute nearly 66% of the overall market. And more so than any other generations, paying for entertainment is the new norm in China. Drilling down a bit further, the ACG games market is forecasted to hit RMB62 billion by 2023. As China's leading online Gen Z entertainment platform and a leader in the ACG field, we are well positioned to capitalize on this market boom and grow our position.

First, let's take a look at our games business. Our games business is now accounting for 50% of our revenues. As we further diversify and expand our game offerings, we continue to grow our market share in the high quality and ACG game space. For the third quarter, revenues from our mobile games were up 25% year-over-year, at RMB933 million. The enduring *Fate/Grand Order*, or *FGO*, continued to lead our growth, with growing revenue contribution from our jointly-operated ACG-themed mobile game, *Arknights*, which was released in Q2. *FGO*'s fandom further grew in Q3. After the release of a major content update, *FGO* ranked No.1 on China's iOS top grossing chart 3 times in September. The game's enduring life cycle is an excellent showing of our ability to acquire premium content and our strong game distribution power.

Our games community continues to be one of the largest in China. We're excited to bring new titles to our massive audience. We released a series of ACG titles including an exciting domestic RPG called *Final Gear*, and two highly rated Japanese female-based RPGs titled *Untouchable Palms* and *A3!*. All have been well-received. On the jointly-operated games front, we launched a number of high quality domestic titles including Tencent's highly anticipated ACG mobile game *Fox Sprite Matchmaker* and Paper Game's *Shining Nikki*.

Looking at our content updates and new games pipeline, we are excited to release a major content update for *FGO* planned for New Year's Day 2020. With a total of 30 high-quality games in our pipeline, we have 8 titles that have acquired approvals and are scheduled to

be released in the coming months. These include today's release of *Girl Café Gun 2*, a highly anticipated domestic RPG that combines simulation and shooting game play. Over 1 million users have already pre-registered for this title. On top of that, *The Furious Yama* 大王不高兴, *Twelve Weapons of God* 十二神兵器, *Ayakashi Children* 桃源乡 and a couple of others have also been approved and will be released in the coming months. Our platform is also slated to bring audiences jointly-operated games such as NetEase's *Onmyoji: The Card Game*, *Re: Zero* and more. In addition, we are excited to expand our game distribution outside of mainland China, with dozens of highly rated titles to be released in Japan and Korea, as well as the greater China region. A few of the planned international releases at this time include titles such as *The Furious Yama*, *Final Gear*, *Girl Café Gun 2* and *Dark Boom*.

Turning to our live broadcasting and VAS business: revenues increased by 167% year-over-year reaching RMB453 million in the third quarter with improved revenue contribution from our live broadcasting, premium memberships, and Maoer and Comic business. We continue to enrich our game and entertainment content offerings in live broadcasting and are attracting new viewers, with increasing demand in areas such as premium e-sports content. During *League of Legend* S9 final, our peak concurrent users almost doubled compared with last year's S8 final. In addition, our featured Vtuber and audio-related content remain our top verticals.

With access to additional and often exclusive content, members are highly incentivized to join our premium membership program. Premium memberships continue to bring in new subscriptions, and by the end of September, we had 6.1 million valid premium members, up 129% year-on-year. During the third quarter, we initiated a joint membership program with Tencent Music, which has been a win-win collaboration for both parties.

As for our advertising business, we are seeing encouraging signs of a settling macro environment. Revenues from advertising increased by 80% year-over-year to RMB247 million. We continue to improve our performance ad efficiencies, yielding positive results with better click rates. The top three industry verticals for brand advertising in the third quarter were Food & Beverages, Games and E-commerce. And the top three verticals for performance-based advertising were Games, Education and E-commerce.

I will now briefly update you on our partnership with Alibaba.

During this year's double 11 event, we launched an integrated marketing program with T-mall and Taobao. The campaign included a number of e-commerce advertisement initiatives that combine Bilibili's vast content ecosystem with Alibaba's extensive e-commerce ecosystem. To be more specific, the campaign allows e-commerce advertisers to complete one-stop-shop marketing on Bilibili. They can: 1) raise brand awareness

through various display ads, 2) influence users purchasing decisions through native ads and 3) complete the transaction through performance-based ads that link to the merchandise. The initial results were very encouraging. We look forward to working closely with Alibaba and bringing our partnership to the next level.

Finally, I would like to touch on our e-commerce business. For the third quarter, our e-commerce and others business grew by 703% to RMB226 million, largely driven by an increased number of paying users spending more on our e-commerce platform. We are pleased to announce that by the end of October, our year-to-date e-commerce GMV had achieved an exciting milestone of RMB1 billion.

In summary, we are excited by the momentum we are seeing across our businesses. Our solid Q3 results are a strong testimony of our ability to grow our user base while maintaining a healthy and engaged community. The abundant traffic we generate along the way, quickly translates to top-line expansion as our monetization power improves. More importantly, as revenue expands, we see growing leverage with our gross margin, which gives us more confidence to invest in our future growth. Looking ahead, we plan to continue our active user growth strategy while enhancing our commercialization power. At the same time, we are committed to bringing our community more exceptional content that keeps young users engaged, connected and entertained.

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

Our total net revenues increased by 72% year-over-year to RMB1.86 billion, exceeding the high end of our guidance by 5%. Our non-game revenues made up nearly 50% of total revenues in the third quarter, up from 31% in the same period of 2018. With almost half of our revenues coming from multiple sources, we are pleased with our commercialization progress and the implications. We are also converting more and more online traffic to paying users. The average number of monthly paying users increased by 124% year-over-year, reaching 7.9 million in the third quarter.

Cost of revenues increased by 71% year-over-year to RMB1.5 billion. Revenue-sharing cost, a key component of cost of revenues, was RMB665 million, a 49% increase from the same period in 2018.

Gross profit increased by 80% year-over-year to RMB351 million. We're also starting to see operating leverage from our diversified revenue streams. With more revenue contribution from our higher margin businesses including advertising and cooperated games, as well as additional income from paying users, our gross profit margin improved to 18.9%, compared with 16.4% in the second quarter of 2019.

Total operating expenses increased to RMB774 million, up 71% from the same period in 2018.

S&M expenses were RMB364 million, representing an 85% increase year-over-year. The increase was primarily from increased channel and marketing expenses associated with our app and brand during the summer holidays. We also had additional promotional expenses for our mobile games, and an increase in headcount in sales and marketing personnel, as well higher fulfillment costs for our e-commerce-related products.

G&A expenses were RMB163 million, representing a 48% increase year-over-year. The increase was mainly resulted from additional G&A personnel-related expenses and increased amortization expense related to intangible assets acquired through business acquisitions and other increased general and administrative items.

R&D expenses were RMB247 million, representing a 69% increase year-over-year. The increase was primarily due to increased headcount in R&D personnel, increased share-based compensation expenses, and others.

Net loss was RMB406 million for the third quarter of 2019, compared to RMB246 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 RMB343 million, compared to RMB203 million in the same period of 2018.

Basic and diluted net loss per share were RMB1.24.

Adjusted basic and diluted net loss per share were RMB 1.05.

As of September 30, 2019, we had cash and cash equivalents, time deposits, and short-term investments of RMB8.4 billion.

To further grow our business, we plan to improve our monetization by leveraging our considerable and growing traffic. We are comfortable with a 50/50 split in revenues between games and non-games businesses, but see benefit in expanding our diverse revenue streams and improving revenue contribution per MAU even further. Creating additional operating efficiency also further improve our gross profit margins. Longer term, we believe our monetization efforts, high paying user conversion rates and scale will yield an improved bottom line.

With that in mind, we are currently projecting net revenues for the fourth quarter of 2019 to be between RMB1.93 billion and RMB1.98 billion.

**Operator**

And that concludes the question and answer session. 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.