

BILIBILI 4Q 2019 CONFERENCE CALL SCRIPT

Operator introduction

Good day and welcome to the Bilibili 2019 fourth quarter and full year 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 fourth quarter and full year 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 our fourth quarter and full year 2019 earnings conference call. I'm pleased to deliver today's opening remarks on behalf of Mr. Chen.

2019 was a transformational year for Bilibili, with remarkable and diverse growth to our content and user base. We significantly enhanced our entertainment ecosystem and expanded our platform's offerings, beyond ACGs. While we remain the leader in online entertainment for Generation Z users, our platform is also beginning to be recognized as a mass market product with offerings that appeal to people across different generations. Meanwhile, we continue to foster a friendly, active and sticky community with high engagement levels and retention rates, making Bilibili an extremely unique and competitive player in China's fast-growing entertainment industry.

During 2019, we affirmed user growth as our key strategic focus, and raised our MAU target for the next two years — to 220 million by 2021. I'm pleased to say, we are on the right track to meet this exciting goal.

We closed the year on a high note, with our fourth quarter results forming a solid foundation for our two-year growth plan. MAUs grew by 40% year-over-year, reaching a record 130 million users, compared with 93 million in the fourth quarter 2018. Mobile MAUs grew at an even faster pace of 46% year-over-year, reaching 116 million users by the end of Q4. At the same time, community engagement is at an all-time high. Our DAUs increased by 41% year-over-year to 38 million, higher than our MAU growth rate, and users are spending an average of 77 minutes on our platform per day, excluding game play time. These statistics once again demonstrate the high-quality growth we always aim to deliver.

As part of our growth strategy and brand campaign, we rolled out our first ever New Year's Gala--*The Most Beautiful Night of 2019* to mark December 31, the turn of the decade. The 4-hour entertainment showcase celebrated the coming of age for China's Gen Z, who are entering their 20s and 30s, deeply influencing our society and mainstream ideals. The event was an immediate hit and quickly became the most talked about New Year's gala in China. The playbacks have been viewed over 90 million times, generating near 3 million bullet chats, as well as massive media coverage. The success of the gala not only exemplified our profound understanding of young people's interests, but also impressed older generations born in the 70s and 80s, opening Bilibili to a much wider audience group. With this far reaching brand awareness of our company, 2020 is off to an excellent start, especially as we work to grow our brand on a broader scale.

With our platform's increasing influences among multiple generations and mass media, we take our social responsibility very seriously, especially during the recent COVID-19 outbreak. Following the outbreak, we took immediate actions to support and defend against the pandemic, including a donation of RMB10 million and medical supplies to Wuhan, Hubei province. We also believe that disseminating timely and accurate information is crucial. As such, we partnered with official media outlet-CCTV news to provide 24/7 virus-related news and information. In addition, we have partnered with over 60 top universities and education groups including Peking University, Tsinghua University and TAL Group to launch live and recorded open courses to support continued education for students who are unable to leave their homes. We are also the designated live broadcasting channel appointed by Shanghai Municipal Education Commission for K-12 students to continue their schooling. As the event progresses, we will continue to evaluate ways we can support our users during this time.

With the extension of the Chinese New Year Holiday, hundreds of millions of people stayed at home, spending more time on the internet. Bilibili has become many people's first choice for online entertainment. At the same time, we are seeing an elevation in content supply as people now have more time to create content. Based on the increased time spent on our platform and user momentum we've seen so far, Q1 is shaping up to be one of the strongest first quarters in our corporate history.

We are also improving our ability to monetize our growing user traffic. In the fourth quarter, the number of paying users doubled year-over-year, reaching 8.8 million. Our paying ratio also increased to 6.8%, compared with 1.6% for the same quarter two years ago. Revenue per MAU was RMB15.4, and non-game revenue per MAU was RMB8.7, marking 24% and 83% increases from the same period in 2018, respectively. We continue to see considerable potential to convert more traffic to paying users, bringing them into the fold of our active, sticky community.

Total revenues for the fourth quarter were also strong, once again beating the top end of our guidance. Total net revenues for the fourth quarter were up 74% year-over-year reaching RMB2 billion, largely driven by our non-game business. Through our increased monetization and diversified revenue streams, our gross margin has also come a long way, from 13.8% in Q1 to 19.8% in Q4. As we move through 2020, we expect to continue expanding our top line and gross margin.

With that overview of our improvement across our primary business metrics, I'd like to review some of our activities and upcoming initiatives designed to further grow our content, community and commercialization capabilities in 2020 and beyond.

First, we'll look at our content. PUGV is the root and foundation of our business. It's also the most effective way to generate high quality content at a relatively low cost. In the fourth quarter, PUGV continued to be our primary source for our growing content library, accounting for 91% of our total video views. Our increasing brand awareness, friendly community environment, and improved platform services continue to attract more content creators to Bilibili. In the fourth quarter, about 1 million active content creators uploaded 2.8 million videos monthly, up 80% and 66% year-over-year, respectively. With the development of mobile devices and adaption of 5G technology, we believe the video industry will be one of the biggest beneficiaries across all sectors. Bilibili in particular is poised to benefit with 5G's potential to revolutionize the various ways of how people produce and consume content.

In 2019, we saw very clear trends of more diversity among content and content creators, helping us to attract more mass audiences with varying tastes. While we remain the clear leader in games and anime-related content, we continue to grow our lifestyle and entertainment offerings. Along with this, we have witnessed many new star content creators rising in those verticals. Vlog, foodie and technology continue to gain popularity in the fourth quarter. We are also proactively expanding into other pan-entertainment verticals. Music is one of them. With its universal appeal, music is welcomed by all generations of all different backgrounds. To further inspire our content creators and enrich our music content offerings, we have partnered with Tencent Music and most recently with renowned record label Sony Music, to bring new experiences to our growing viewership of music lovers. We are also looking into other universally attractive categories such as celebrity, fashion, study and information to reach even broader audiences.

Our smart content distribution continues to play a vital role in our content ecosystem, helping discover high quality content and talented content creators in a speedy fashion. As our algorithm and operational capabilities improve, the number of videos that achieved 10 million views grew nearly 8-fold in 2019, compared to 2018. The motivation to showcase their work and attract loyal fans, makes Bilibili the ideal platform for content creators.

We continue to support and encourage our content creators on multiple levels. In January 2020, we hosted the *Bilibili Top 100 Content Creators Award Ceremony* in Shanghai, where we celebrated the outstanding achievements of leading content creators in various categories. Our cash incentive program continues to motivate our middle layer content creators. By the end of December 2019, over 220,000 content creators joined our program, where high quality and original content creations are rewarded with cash bonuses based on the positive feedbacks from our users. We also provide an increased number of online and offline tutoring sessions, as well as fair access to our traffic to help newer content creators grow and flourish.

Turning to our Occupationally Generated Videos (OGVs). Our OGV strategy has a dual-focus: first, to form IP assets and second, to convert visitors to paying users. In 2019, our MAUs for Chinese anime surpassed Japanese anime for the first time, making Chinese anime the largest OGV vertical on Bilibili. With a growing viewership and an audience group hungry for new content, we are excited to bring new titles and series to our community. In November, we hosted our annual *Made By Bilibili* event, highlighting our updates and new launch plans of 40 Chinese anime titles throughout 2020 and 2021. These include 13 project updates such as the world renowned sci-fi thriller *The Three Body Problem*, and 27 new titles including *Heaven Official's Blessing* 天官赐福, *Legend of Mortal Ascension* 凡人修仙传, and *The Daily Life of the Immortal King* 仙王的日常生活. In addition, we see considerable synergy between anime and our comic business. Many of the popular anime titles are also the top selling e-books on our comic platform.

In the documentary and variety show department, we are delighted to see our self-produced and IP-owned titles gaining traction. In the fourth quarter, we partnered with Shanghai Media Group and co-produced *Police Stories – Shanghai Guardians*. This documentary about local police in Shanghai quickly gained popularity among young people. *The Hidden Kingdoms of China*, a phenomenal documentary that we co-produced with National Geographic was also released in the fourth quarter and received positive reviews.

As we welcome more diversified OGV titles in our community, we are accumulating a library of valuable IP assets, while simultaneously helping us convert our growing traffic to paying members. Our premium memberships, which offer additional exclusive or advanced content to paid users, continued to flourish in the fourth quarter. By the end of December, we had 7.6 million valid premium members, up 111% year-over-year.

While our user base grows at a tremendously high rate, our community density has not been diluted. As a matter of fact, it continues to thrive with high engagement, high retention and tight bonds. In the fourth quarter, we had 710 million daily video views, up 63% year-over-year. In Q4, our users generated 2.4 billion monthly interactions through bullet chats, comments, likes and Bilibili moment posts, up 141% year-over-year. Each user, on average, followed 34 content creators, compared with 26 for the same period last year. The unparalleled level of engagement and connection among our users are making Bilibili the most unique and competitive video community in China.

Our official membership program is also on the rise. At the end of the fourth quarter, we had 68 million loyal official members who passed our 100-question exam, up 50% year-over-year. This group of users' 12th-month retention rate remains high as well, at above 80%. This continues to be an excellent indicator of the quality of our user growth.

Turning to our commercialization progress, let's first look at our games.

In the fourth quarter, revenues from our mobile games were up 22% year-over-year to RMB871 million, accounting for 43% of our total revenues. We continued to expand our reach in games, covering different genres and gameplays. On the exclusively licensed games, *Fate/Grand Order*, or *FGO*, continued its popularity during its fourth year of operation in China. In November, we also began operating the exclusively licensed title *Girl Café Gun II*, making a big splash in China’s mobile game market. The newly launched domestic ACG game the *Furious Yama* was also a hit among anime fans following its release in January.

As part of our game business strategy, our jointly-operated games also made meaningful progress in 2019. With increasing density of game lovers gathering on our platform, Bilibili has become a top channel to distribute ACG-themed or other high quality games. During 2019, we had multiple successes with our jointly-operated game projects, including *Arknights*, *Gray Raven*, *Fox Sprite Matchmaker* and *Onmyoji: The Card Game*. Revenues generated by our jointly-operated games now accounted for more than 25% of our total game revenues.

Looking at our game pipeline. We have over 30 exclusively licensed games lined up for releases, 8 of which have already gained regulatory approvals. These include two exciting Japanese role-playing games *Princess Connect* 公主连接 and *Animistic* 万灵启源, which we plan to roll out in the second quarter. On the jointly operated games front, we will continue to work with leading game developers to bring our users premium games such as Mihoyo’s *Genshin Impact* 原神, Youzu’s *Shan Hai Jing Hua* 山海镜花. Additionally, leveraging our expertise and understanding of the ACG culture, we plan to expand our game distribution outside of mainland China, further growing our revenue streams and increasing our global reach.

Turning to our live broadcasting and VAS business.

We’ve seen excellent growth from this segment, and we believe there is a great deal of potential to broaden our offerings and attract new users. Particularly in live broadcasting, where there is natural crossover with our video business platform and our user base. Revenues from live broadcasting and VAS increased by 183% year-over-year reaching RMB571 million in the fourth quarter. Our growth was driven by increased contribution from our live broadcasting, premium memberships, Maoer and Comic business.

We continue to build our games and entertainment content for live broadcasting where we see considerable room for growth in 2020. China is the world’s largest game market and e-sports is gaining more and more traction among young generations. Viewers’ demand for premium e-sports content is high and we are poised to deliver. Our three-year exclusive license for live broadcasting rights for the world-renowned *League of Legend World*

Championship places us in the center of the e-sports world's crown jewel. With the S10 game being hosted in our home base, Shanghai, we believe we can maximize the impact of the game even further. On the pan-entertainment front, we have secured a contract with one of China's top entertainment hosts Feng Timo, who has quickly won over Bilibili's users. With top-level content and our new host additions, we have now completed our live broadcasting pyramid and are working to grow this part of our business.

As for our advertising business, our community presents a considerably attractive audience for advertisers. Our brand awareness is on the rise and we continue to be the go-to platform for the golden Gen Z consumer cohort. With these significant advantages, we are confident Bilibili will remain a top choice as our advertising partners look to allocate their budgets for the year.

For the fourth quarter, we saw increased sales in advertising despite the challenged macro environment. Revenues from advertising increased by 81% year-over-year to RMB290 million, driven by our heightened brand awareness and efficient ad offerings. The top three industry verticals for brand advertising in the fourth quarter were Games, E-commerce and Food & Beverages. And the top three verticals for performance-based advertising were Games, Education and E-commerce.

On the heels of our successful integrated marketing program with Taobao and T-mall for the 2019 double 11 and double 12 shopping events, we continued to deepen our partnership with Alibaba. In the year end, Taobao *Juhuasuan* sponsored Bilibili's *New Year's Gala* event. The Gala's wild success far exceeded Taobao's expectations, highlighting our deep understanding of our users, and increasing awareness of the Bilibili brand as a primary platform for advertisers. We look forward to further collaborating with Alibaba, and other industry leaders that showcase the strengths of our far-reaching platform.

In summary, we have reached an exciting inflection point. We have moved into the realm of mass market appeal. For 2020, our strategy relies on key expansion initiatives that broaden our content offerings, grow our users base, and improve our commercialization capabilities. At the same time, we are dedicated to putting our community first, by respecting and valuing our users and content creators. We will continue on this trajectory with the goal of creating sustainable growth and long-term value for our community and our shareholders.

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

Our total net revenues increased by 74% year-over-year to RMB2 billion, exceeding the high end of our guidance. Our non-game revenues made up nearly 57% of total revenues

in the fourth quarter, up from 38% in the same period of 2018. With more than half of our revenues coming from multiple sources, we are pleased with our commercialization progress and the implications of this diversity. We are also converting more and more online traffic to paying users. The average number of monthly paying users increased by 100% year-over-year, reaching 8.8 million in the fourth quarter.

Cost of revenues increased by 68% year-over-year to RMB1.6 billion. Revenue-sharing cost, a key component of cost of revenues, was RMB705 million, a 63% increase from the same period in 2018.

Gross profit increased by 102% year-over-year to RMB398 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 co-operated games, as well as additional income from premium users, our gross profit margin steadily improved throughout 2019, reaching 19.8% in the fourth quarter.

Total operating expenses increased to RMB818 million, up 68% from the same period in 2018.

S&M expenses were RMB413 million, representing a 127% increase year-over-year. The increase was primarily attributable to the increased channel and marketing expenses associated with Bilibili's app and brand, including promotional activities for offline events, the *2020 New Year's Eve Gala* event for example, as well as promotional expenses for our mobile games. The increase was also attributed to the increase in headcount in sales and marketing personnel, and the increase in fulfillment costs associated with our e-commerce program.

G&A expenses were RMB160 million, representing a 6% increase year-over-year.

R&D expenses were RMB245 million, representing a 60% increase year-over-year. The increase was primarily due to increased headcount in R&D personnel, and increased share-based compensation expenses.

Net loss was RMB387 million for the fourth quarter of 2019, compared to RMB191 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 RMB337 million, compared to RMB152 million in the same period of 2018.

Basic and diluted net loss per share were RMB1.17.

Adjusted basic and diluted net loss per share were RMB1.01.

For the full year of 2019 ...

Total revenues increased by 64% to RMB6.8 billion.

- Revenues from mobile games increased 23% to RMB3.6 billion.
- Revenues from live broadcasting and VAS increased 180% to RMB1.6 billion.
- Revenues from advertising increased 76% to RMB817 million.
- Revenues from E-commerce and others increased 403% to RMB722 million.

Gross profit increased 39% to RMB1.2 billion.

Net loss for 2019 was RMB1.3 billion, compared to RMB565 million in 2018. Adjusted net loss for 2019 was RMB1.1 billion, compared to RMB377 million in 2018.

Basic and diluted net loss per share for 2019 were RMB3.99, or US\$0.57, compared to RMB2.64 in 2018. Adjusted basic and diluted net loss per share were RMB3.30, or US\$0.47, compared to RMB1.84 in 2018.

As of December 31, 2019, we had cash and cash equivalents, time deposits, as well as short-term investments of RMB8.1 billion, compared to RMB5.2 billion as of December 31, 2018.

To further grow our business, we plan to improve our monetization by leveraging our considerable and growing traffic. We also see benefit in further expanding our diverse revenue streams and continuing to improve revenue contribution per MAU. Longer term, we believe our monetization efforts, high paying user scale and conversion rates will yield an improved bottom line.

With that in mind, we are currently projecting net revenues for the first quarter of 2020 to be between RMB2.15 billion and RMB2.20 billion. The above outlook is based on the current market conditions and reflects the Company's preliminary estimates, which are all subject to change, particularly in light of the uncertainties related to how COVID-19 develops.

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.