

BILIBILI 3Q 2022 CONFERENCE CALL SCRIPT

Operator introduction

Good day, and welcome to the Bilibili third quarter 2022 financial results and business update conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Juliet Yang, executive director of investor relations. Please go ahead.

Juliet Yang

Thank you, operator.

During this call, we will discuss our business outlook and make forward-looking statements. These comments are based on our predictions and expectations as of today. Actual events or results could differ materially from those mentioned in today's news release and in this discussion, due to a number of risks and uncertainties, including those mentioned in our most recent filings with the SEC and Hong Kong Stock Exchange. The non-GAAP financial measures we provide are for comparison purposes only. Definitions of these measures and a reconciliation table are available in the news release we 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 IR website at ir.bilibili.com.

Joining us today 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 third quarter 2022 results conference call. I'm pleased to deliver today's opening remarks on behalf of Mr. Chen.

Our community, which is the foundation of our business and key to our long-term success, continues to expand. In the third quarter, DAUs reached more than 90 million, and MAUs were nearly 333 million, both up 25% year-over-year. Average daily time spent per user was 96 minutes in the third quarter, up 8 minutes from the same period last year. With that, the total time spent on Bilibili grew by 37% year-over-year.

Having said that, we still face macro headwinds and uncertainties that loom over the industry. To cope with the challenging environment, we have reprioritized our goals and pivoted to focus on two key tasks that will help us turn the corner.

First, our users. As our MAUs have reached a sizable base of nearly 333 million, we think it is time to shift our primary focus to DAU growth. DAUs not only represent the quality and sustainability of our community, but also directly link to our influential power as a platform, as well as various commercial prospects, particularly in terms of revenue generation from our advertising and VAS businesses. With our improving product offerings and refined algorithms, we can continue to grow our DAU base and improve our DAU to MAU ratio with reduced sales and marketing spend.

Second, we are committed to improving our financials by expanding our gross margin and narrowing our losses. After a challenging first half of the year, revenues in the third quarter grew to RMB5.8 billion, up 18% quarter-over-quarter and 11% year-over-year. In the third quarter, we continued to take various actions to tighten our spending. Gross margin improved to 18%, up 3 percentage points sequentially. Sales and marketing expenses as a percentage of total revenues were 21%, down 3 percentage points sequentially. Our non-GAAP net loss ratio also narrowed by 10 percentage points compared with the prior quarter.

Looking ahead, we will implement a number of additional cost control measures and further rationalize our marketing expenses and headcount planning. Specifically, we are streamlining our investments in R&D and cutting down on projects with lower chance of success, and being extra mindful when exploring new opportunities. At the same time, we are centralizing our resources in areas related to improving

commercialization efficiency and user experiences. These adjustments will be completed by the end of this year. Hence, we expect our S&M and R&D expenses to peak this year and start to decline in 2023, with net loss narrowing further accordingly.

With that, I'd like to provide a brief update on our core pillars of content, community and commercialization.

Starting with **content**...

Over the years, as young generations on Bilibili grow up and enter new stages of life, their interests evolve, driving creators' passions, as well as the expansion of our content categories. So, on top of our traditionally strong content verticals, we've seen emerging categories such as automotive, home décor and interior design, and baby and maternity. In the third quarter, 3.8 million monthly active content creators on Bilibili readily accommodated these varied needs, creating near 16 million new videos on a monthly basis, up 40% and 54% year-over-year, respectively.

The expanding content library drives the overall traffic growth on our platform. Total video views grew by 64% year-over-year, driven by both PUGV and Story mode content, which grew by 34% and over 470% year-over-year, respectively. Particularly, with improving content distribution capabilities of Story Mode, content creators can build their fan base more easily, sharing their content with other kindred spirits on Bilibili.

The various monetization paths we've cultivated for our content creators continue to offer more creators more opportunities to make money while doing things they love. In the third quarter, over 1.2 million content creators earned income through multiple channels on Bilibili, up 74% year-over-year.

Looking at our **community**, we consistently deepen our users' engagement in our community with our featured and diverse content. As I mentioned earlier, the average daily user time spent reached a record high of 96 minutes, up 8 minutes from the same period last year. Our monthly interactions also increased 41% year-over-year to 14.4 billion. Furthermore, the number of official members on our site was up by 37% year-over-year to 183 million, maintaining a stable 12-month retention rate above 80%.

Now, let's look at our commercialization and prospects for near-and long-term monetization.

First, our VAS business. Our VAS revenues were RMB2.2 billion, up 16% year-over-year in the third quarter. By further integrating live broadcasting with our PUGV ecosystem, we maintain our unique platform advantage. We had 67% more live broadcasting hosts in the third quarter this year than for the same period last year. The total number of live broadcasting paying users increased by 79% year-over-year in the third quarter.

The number of premium memberships for the third quarter grew 12% year-over-year to 20.4 million. In December, we plan to launch our self-produced Chinese anime title *The Three Body Problems*. This highly anticipated title is expected to attract a wide range of Sci-fi lovers to our platform.

Looking at our **Advertising**, despite softness in the macro environment, net revenues were RMB1.4 billion, an increase of 16% year-over-year. We further strengthened our integrated marketing campaign offerings by combining diverse ad products and conversion modules across different video viewing scenarios. Story mode ads, as part of our ad offerings, continued to capture more performance-based ad dollars in the third quarter. Our top advertising verticals in the third quarter were games, digital products & home appliances, skincare & cosmetics, automotive and food & beverage.

As for Games, our game revenues grew 6% year-over-year to RMB1.5 billion, largely driven by the new titles we launched in the domestic and overseas markets in the third quarter. “Develop In-house, Distribute Globally” remains our core game strategy, which has started to bear fruit. Revenue generated from self-developed games contributed 9% of our total game revenue in the third quarter. Looking at our pipelines: we have two games approved for domestic release this year and earlier next year, including one self-developed title. Five titles are slated to launch in the overseas markets early next year.

Facing the market’s macro uncertainties, our primary goal is clear: improving our gross profit margin and narrowing our net loss. By expediting our commercialization, we believe our topline can catch up with our community’s scale. While we remain committed to our goal of reaching non-GAAP operating breakeven by 2024, we will also actively manage our cash position and liabilities. We believe we can weather through the macro uncertainties and emerge as a stronger, more efficient, and more resilient company.

This concludes Mr. Chen's remarks. I will now provide a brief overview of our financial results for the third quarter of 2022 and the outlook for the fourth quarter of 2022.

Total net revenues for the third quarter were RMB5.8 billion, up 11% from the same period of 2021. Our total net revenue breakdown by revenue stream was approximately 25% mobile games; 38% VAS; 23% advertising; and 14% from our e-commerce and others business.

Cost of revenues increased by 13% year-over-year to RMB4.7 billion. Our gross profit in the third quarter was RMB1.1 billion, and our gross margin was 18.2%. Gross margin recovered by 3.2 percentage points sequentially attributable to the topline growth. We expect to show continued sequential quarter improvements in the fourth quarter and the coming year.

Total operating expenses were RMB2.9 billion, flattish compared with the same period of 2021. We cut S&M expenses by 25% year-over-year to RMB1.2 billion. S&M expenses as a percentage of total revenues were also down to 21%, compared with 31% in the same period last year.

G&A expenses were RMB543.4 million, up 14% year-over-year. The increase was primarily due to increased headcount in G&A personnel and higher rental expenses.

R&D expenses were RMB1.1 billion, representing a 43% increase year-over-year. The increase was primarily due to increased headcount in R&D and increased share-based compensation expenses.

Net loss and adjusted net loss were RMB1.7 billion and RMB1.8 billion for the third quarter of 2022, respectively. We successfully narrowed our adjusted net loss ratio by 10 percentage points sequentially in Q3, and we expect the narrowing trend will continue in the fourth quarter and coming years.

Turning to our capital allocation and liability management, we currently have three outstanding convertible bonds totaling US\$2.5 billion, among which the put right of US\$746 million is exercisable in June 2023, US\$429 million is exercisable in April 2024 and US\$1.3 billion is exercisable in December 2024. As of September 30, 2022, we had cash and cash equivalents, time deposits and short-term investments of RMB23.9 billion, or US\$3.4 billion, and we believe this level of liquidity is sufficient to repay the aggregate balance of all outstanding convertible bonds by their respective maturity, without considering any external funding resources available to us.

Meanwhile, we are taking further actions to narrow our losses and reach breakeven. We will be prudent with our CAPEX and will closely monitor our cash outflow.

At the same time, these convertible bonds are currently traded at discounted prices, and we will continue to evaluate the option to repurchase and retire them at reasonable prices. As of October 31, 2022, we had repurchased and retired a total principal amount of US\$329 million of these notes for a total cash consideration of US\$247 million, generating US\$82 million net cash position. We will stay opportunistic while continuously evaluating options for the best use of our capital.

Finally, our conversion from a secondary to a primary listing on the Hong Kong Stock Exchange became effective on October 3, 2022. Bilibili is now a dual-primary listed company in Hong Kong and the United States. This conversion will further expand our investor base and provide more liquidity for our securities in the capital markets.

With that in mind, we are currently projecting net revenues for the fourth quarter of 2022 to be between RMB6.0 billion and RMB6.2 billion.

Thank you for your attention. We would now like to open the call to your questions. Operator, please go ahead.

[Operator provides instructions and hosts Q&A]

For the benefit of all participants on today's call, if you wish to ask your question to management in Chinese, please immediately repeat your question in English. Please limit your questions to one at a time, if you wish to have follow-up questions, please rejoin the queue.

After the Q&A ...

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 me, Juliet Yang, Bilibili's Executive 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.

