

BILIBILI 4Q 2022 CONFERENCE CALL SCRIPT

Operator introduction

Good day and welcome to the Bilibili 2022 fourth quarter and fiscal year 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 2022 fourth quarter and fiscal year financial and operating results conference call. I'm pleased to deliver today's opening remarks on behalf of Mr. Chen.

In 2022, we proactively adjusted our strategies and reprioritized our goals to better align ourselves with the new industry paradigm. Specifically, we placed our focus on DAU growth and how to reach profitability. Digging into our progress on these two fronts...

First, our users and their engagement within our community remain the foundation of our business. By focusing on DAU growth, we are bringing higher quality users to our platform, which ties-in more closely to our monetization potential. In Q4, our DAUs increased to 93 million, up 29% year-on-year. This brought our DAU-to-MAU ratio to 28%, a meaningful improvement from 26% in the same period last year. The average daily time spent per user on our platform reached 96 minutes, driving the total time spent on our platform up by 51% year-on-year. We will continue to cultivate our DAUs with optimized product offerings and algorithms, and further support our commercial prospects with controlled sales and marketing spending.

Second, we improved our commercialization efficiency and elevated our cost reduction measures to bring us closer to our goal of profitability. Our total net revenues for 2022 were RMB 21.9 billion, and total net revenues for Q4 were RMB 6.1 billion, up 6% year-on-year. Our gross margin improved to 20% in Q4, compared with 18% in the previous quarter. We continued to take measures to control our expenses and improve our organizational efficiency. Specifically, in the fourth quarter, we cut S&M expenses by 28% year-on-year. S&M expense as percentage of total net revenues reduced from 30% in the same period last year to 21% in the fourth quarter. We have also streamlined our personnel, and trimmed our non-core and under-performing businesses. As a result, our non-GAAP net loss in the fourth quarter narrowed by 21% year-on-year and 26% quarter-on-quarter.

As we move through 2023, our operational goal is to become a more efficient company. We will centralize our resources to focus on less but more important tasks. Specifically, we plan to continue growing our DAUs, improving our gross margin and tightening our expenses. As we are executing on these actions, we believe we are on the right track to achieve our break-even target by 2024.

With that overview of our strategic approach and progress, I'd now like to provide a brief update on our three core pillars of content, community and commercialization.

Starting with **content**...

Our ever-growing content ecosystem is our most valuable asset. In the fourth quarter, our platform hosted 3.8 million content creators, 25% more than the same period a year ago. Creators submitted 17.6 million videos, up 62% year-on-year, both on a monthly basis. To encourage more users to turn their ideas into creations, we will provide them with more easy-to-use tools to get would-be creators started. At the same time, more traffic will be led toward mid- and long-tail creators. Our goal is to turn more users into creators, driving both our content offerings and user engagement.

Expanded content scenarios are also attracting more traffic to Bilibili. For the fourth quarter, total daily video views were up 77% year-on-year to 3.9 billion. In particular, Story Mode's daily video views increased by 175% year-on-year while PUGVs video views increased by 56% in the fourth quarter. Story Mode has allowed us to expand into the vertical video market, bolstering our DAUs, increasing users' time spent on our platform, and opening more commercial opportunities for us to pursue.

To unlock our commercial potential, in 2022, we further integrated our commercial channels within our content ecosystem. The combination has created more immersive advertising opportunities and various monetization channels for content creators. Over 1.3 million content creators earned income through multiple channels on Bilibili in Q4, up 64% year-over-year.

Looking at our **community**. Our inclusive community environment and rich interactive tools are creating tighter bonds between our users and our platform. In the fourth quarter, users' average daily time spent on Bilibili reached 96 minutes. Monthly interactions also increased by 35% year-on-year to 13.6 billion. As for the core members of our community, the number of official members reached 195 million in the fourth quarter, up 34% year-on-year. And their 12-month retention rate continued to exceed 80%.

Now, let's review our commercialization progress and how we think about it moving forward.

For the fourth quarter, our total revenues reached RMB 6.1 billion, up 6% year-over-

year, and our full year revenues grew by 13% to RMB 21.9 billion. We are now more focusing on improving our commercialization efficiency, and specifically on improving our gross margin at the company level. Now I'd like to share more color on each of our commercial business lines:

First on our VAS business.

Revenues from VAS were RMB2.3 billion for the fourth quarter and RMB8.7 billion for the year, up 24% and 26% year-on-year, respectively.

Live broadcasting, in particular, has shown solid growth. For 2022, revenues from live broadcasting increased by over 30%. Our strategy to integrate live broadcasting within our video ecosystem has prompted more creators to tap into the live broadcasting universe. This has helped to penetrate more video users, convert paying users and optimize our revenue sharing structure organically. In the fourth quarter, the number of monthly active live broadcasting hosts increased by over 70% and MPUs for live broadcasting grew by over 40%, both on a year-on-year basis. Looking ahead, live broadcasting will continue to be one of our primary revenue growth drivers. We expect to optimize our revenue-sharing ratio and further improve live broadcasting's gross margin.

By the end of the fourth quarter, we had added nearly one million premium members from the prior period, reaching a total of 21.4 million premium memberships. We launched multiple Chinese anime titles during the period, including the highly anticipated sci-fi thriller *The Three-Body Problem*. In January 2023, our co-produced traditional Chinese-style graphic anime *Yao-Chinese Folktale 中国奇谭* became a smash hit, generating over 200 million views on our platform.

As for our **Advertising** arm, we continued to gain market share in 2022. Advertising revenues were up by 12% reaching RMB 5.1 billion in 2022, and RMB 1.5 billion in 4Q. Our top performing verticals in the fourth quarter were mobile games, e-commerce, digital products & home appliances, automotive and skincare & cosmetics.

In 2022, we further opened-up our ecosystem to embrace more advertising opportunities across various video viewing scenarios. The new ad scenario we introduced in Story Mode and improved sales conversion modules have proven a success in performance-based ads and carry higher ROIs. In the fourth quarter, our performance-based ad revenue grew by over 50% year-on-year. In addition, as our users getting mature and enter into new life stages, their new consumption needs,

such as automotive and home appliances, also attract more advertisers and larger ad budgets are being allocated to our platform. Moving into 2023, we will continue to invest in and improve our ad infrastructure and further integrate our ad capabilities within our content ecosystems.

Turning to Games, revenues for the year were RMB5 billion, and RMB 1.1 billion for the fourth quarter. We are committed to the strategy of “Develop In-house, Distribute Globally.” In Q4, we restructured our game department to effectively align with this goal. Specifically, we eliminated underperforming self-developed projects, and centralized our resources to focus on genres where we are already experts. In 2022, our self-developed games contributed 5% of our total game revenues. We expect this ratio will continue to expand in 2023 as we roll-out more self-developed games.

Looking at our pipeline: we are planning to launch two self-developed games, *Thrud 斯露德* and *Higan: Eruthyll 依露希尔:星晓* as well as six exclusively licensed titles in the second quarter of this year. As game license approvals have gradually resumed in China, we expect to engage in more opportunities in the domestic market.

In summary, the new industry dynamics call for more efficient operations. In 2023, we will continue to centralize our resources to grow our DAUs, increase our gross margin and narrow our losses. Throughout this process, we will continue to strengthen our execution and tighten our spending, while selectively invest in R&D where improves our commercialization efficiency. With these measures in place, we believe we are on the right track to reach our financial goals and become a stronger, more resilient and efficient organization.

This concludes Mr. Chen's remarks. I will now provide a brief overview of our financial results for the fourth quarter of 2022 and outlook for the fiscal year of 2023. For a review of our fiscal year 2022 results, please see our press release issued earlier today.

Total net revenue for the fourth quarter was RMB 6.1 billion, up 6% from the same period of 2021. Our total net revenues' breakdown by revenue streams were approximately 38% VAS, 25% advertising, 19% mobile games, and 18% from our e-commerce and other business.

Cost of revenues increased by 4% year-over-year to RMB 4.9 billion. Our gross profit in the fourth quarter was RMB 1.2 billion, and our gross margin was 20.3%, up 2.1

percentage points sequentially. With our tightly controlled cost structure, we expect to show continued margin improvement throughout 2023.

Total operating expenses were RMB 3.6 billion, up 15% from the same period in 2021. As we work on increasing our commercial prospects, we're also keeping a lean cost structure. We cut S&M expense in Q4 by 28% year-over-year to RMB 1.3 billion, while our DAUs grew by 29% year-over-year. S&M expenses as a percentage of total revenue were also down to 21%, compared with 30% in the same period last year. We will continue to control our S&M expense while delivering solid DAU growth in 2023.

G&A expenses were RMB 817 million, up 52% year-over-year. The increase was primarily due to the one-off severance pay of RMB252 million related to our organizational restructuring. R&D expenses were RMB 1.5 billion, representing an 87% increase year-over-year, which was primarily due to increased R&D personnel cost and a one-off cancellation cost of RMB417 million related to our certain game projects.

As we move through 2023, we will take additional actions to reduce our operating expenses. We think our overall operating expenses peaked in 2022, and will start to decline in 2023.

Net loss and adjusted net loss were RMB 1.5 billion and RMB 1.3 billion, narrowing by 29% and 21%, year-on-year, respectively. Our net loss ratio in the fourth quarter was 24%, a very notable improvement from 36% for the same period a year ago. We expect to continue to narrow our losses in 2023.

Turning to our capital allocation and liability management. We are keenly aware of our cash reserves and have taken steps to improve our balance sheet, which give us the flexibility we need to reach our break-even target by 2024. We are actively managing our liabilities to improve our balance sheet. In the fourth quarter, we repurchased and retired a total principal amount of US\$547 million notes for a total cash consideration of US\$420 million.

As a part of our liability management plan, in January 2023, we completed a US\$409 million equity offering and note exchange program. We retired a principal amount of US\$385 million of convertible notes for a consideration of US\$331 million cash funded by the offering. The remaining US\$69 million in proceeds were used to replenish our cash reserve.

After these transactions, we currently have three outstanding CBs that total US\$1.6 billion.

As of December 31, 2022, we had cash and cash equivalents, time deposits and short-term investments of RMB19.6 billion, or US\$2.8 billion. We believe this amount is sufficient to cover all of our remaining convertible bonds and fund our future operations, while we take further actions to narrow our losses and reach non-GAAP break-even by 2024.

With that in mind, we are currently projecting net revenues for the full year of 2023 to be between RMB 24.0 billion and RMB 26.0 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.

Operator (After the Q&A)

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 Piacente Financial Communications. Our contact information for IR in both China and the U.S. can be found on today's press release. Have a great day.