

BILIBILI 2Q 2020 CONFERENCE CALL SCRIPT

Operator introduction

Good day and welcome to the Bilibili 2020 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 2020 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 our 2020 second quarter conference call. I'm pleased to deliver today's opening remarks on behalf of Mr. Chen.

The second quarter was another strong quarter of growth for Bilibili. Owing to our increasingly diverse content and wider awareness of our brand, we are reaching a much broader audience. For the second quarter, MAUs were 172 million, up 55%, and DAUs were up 52% to 51 million, both on a year-over-year basis. Mobile MAUs continued to be our fastest grower, reaching 153 million in the period, up 59% compared to the same period in 2019. Along with the expanded user base, user engagement continues to be strong. In the second quarter, our users spent an average of 79 minutes per day on our Bilibili app, making us one of the most popular platforms among our peers. As we move into our peak summer season, with solid execution of our initiatives, we're looking forward to further building on our user growth momentum.

We continue to roll out more premium content and services, strengthen our monetization capabilities, and we are increasingly converting traffic to paid users. Our MPUs were up 105% year-over-year, reaching 12.9 million in the second quarter, and our paying ratio improved to 7.5%, compared to 5.7% from the same period last year. These increases fueled our top line growth and we once again reached record high revenues of RMB2.6 billion, beating the high-end of our guidance. Our gross margin expanded to 23% from 16% in the second quarter of last year as we continued to realize more operating leverage.

We remain committed to our user growth focused strategy. After 11 years of cultivation, we believe our content pool is deep and diverse enough to accommodate a much larger user base, and our community is friendly and robust enough to retain those newcomers. Hence, we have made more proactive user growth plans. Our primary areas of focus are on creating additional brand awareness and targeted channel acquisition. In the second quarter, we launched a series of campaigns aimed at spreading the Bilibili brand name among a broader audience, in tandem with expanding our content appeal to a mass market. During our 11th anniversary, we introduced a new slogan *Bilibili-All the Videos You Like*, helping to define our brand proposition and appeal to a wider base. With this vision in mind, we launched a branding campaign series that started with our blockbuster *New Year's Eve gala* in the first quarter, followed by the "*Hou Lang*," "*Ru Hai*," "*Xi Xiang Feng*" trilogy videos, which all have been widely successful, and we are seeing a clear uptick in brand perception and brand awareness across different demographics. This strategy is working well for us and we are determined to carry on as we move into the summer peak season.

Looking ahead, a number of positive industry trends are working in our favor. The adaption of a faster network and smarter hardware is making content creation easier and more accessible to everyone. Particularly, the video industry is emerging as the biggest beneficiary. Video is rapidly becoming the most interactive and influential method to convey information. Building on a decade of experience and leadership in the video community, we are well positioned to capture the growth opportunity.

With that overview, I would like to walk through the latest updates of our content, community, commercialization and strategic growth plans.

First, our content.

Our PUGV ecosystem remains the cornerstone of our business. For the past decade, we have carefully cultivated our PUGV community, and risen as the clear industry leader. Our effective traffic distribution mechanism and friendly community environment make Bilibili an increasingly attractive platform for content creators. In addition to easy-to-use tools that make the content creation process simpler and more accessible, we launched our new ad platform to bring more commercial opportunities to our content creators. For the second quarter, we had approximately 1.9 million content creators uploading 6 million videos per month, representing increases of 123% and 148%, respectively, both year-over-year.

For the second quarter, our most heavily trafficked verticals were Lifestyle, Game, Entertainment, Animation and Tech & Knowledge. With rampant trends in video content, newcomers and key opinion leaders from other platforms are turning to Bilibili. In the first half of 2020, the number of content creators who submitted their first video creation trial grew by 139% year-over-year. These creative minds open Bilibili up to expanded content categories. For instance, we officially launched a “Knowledge Sector” to encourage content creators to share their insights such as business stories, how-to skills and professional experiences. With our effective operational campaigns and welcoming community atmosphere, ‘Knowledge’ has quickly become the fastest growing sector and we have seen excellent traction.

Turning to our OGV. We remain as the dominant leader in the animation field with one of China’s largest anime libraries. Since beginning of this year, there were three new Chinese animes joined our *100 million video views club*, including *White Cat Legend* 大理寺日志, and our self-produced *The Daily Life of the Immortal King* 仙王的日常生活 and *Carp Reborn* 元龙. Additionally, we plan to roll out more Bilibili-produced Chinese animes, including *Ling Cage* 灵笼, *A Mortal's Journey* 凡人修仙传 and *Legend of Tang* 天宝伏妖

录。 We believe these new series will attract even more Chinese anime lovers to our platform in this summer.

As a supplement to our vast content library, our expanded variety shows and documentaries continued to resonate with fans and provide good advertising avenues to our business partners. In August, we were excited to introduce our very first self-produced music variety show *Rap for Youth 说唱新世代*, sponsored by Alibaba's Juhuasuan. We hope this rap-themed talent show will help further expand our content offerings, while inspiring our content creators and young generations alike. In the documentary department, we are pleased to have received wide recognition, not only from our users, but also professional institutions. Two of our Bilibili-produced documentaries were nominated by *Bai Yu Lan* for the Best Documentary Award, including *And Yet the Books 但是还有书籍* and *Police Stories 派出所的故事*. *The Hidden Kingdoms of China 未至之境*, a documentary that we co-produced with National Geographic, was nominated as the Best Limited Series - Long Form documentary by *Jackson Wild Media Award*.

Turning to our community ... Our community size and engagement have been accelerating rapidly. Our platform is more robust than ever, and we are seeing record highs across all of our primary engagement metrics. In the second quarter our daily video views reached 1.2 billion, up 97% year-over-year. And our users generated nearly 5.2 billion monthly interactions through bullet chats, comments, likes and Bilibili moment posts, nearly three times the amount from the same period in 2019.

Our official membership program is on a similar growth track. By the end of the second quarter we had 89 million official members who passed our 100-question exam, up 65% year-over-year. Retention for this group remains well above 80%, demonstrating the loyalty of our users.

Turning to our commercialization progress, I'll first review the status of our game business.

Revenues from our mobile games business were up 36% year-over-year to RMB1.2 billion, accounting for 48% of our total revenues. Building on our massive and expanding gamer community, our distribution power in the ACG sector is becoming even stronger. In the second quarter, we were excited to add the new blockbuster title *Princess Connect Re: Dive 公主连结* to our game portfolio. This exclusively licensed Japanese RPG was an instant hit after its release in April, and topped China's iOS download and grossing charts multiple times. Our legacy title *Fate Grand Order*, or *FGO*, continues to hold a considerable draw for its stable fan base. At the end of June, we were excited to celebrate *Azur Lane*'s three-year anniversary with a major content update and accompanying

offline activities. The long life cycles of these games continue to be a strong testimony to our ability to operate and sustain high quality games.

Looking at our game pipeline. Currently, we have 11 games that have acquired approvals and are scheduled to be released in the coming months. These include *Magia Record* 魔法纪录:魔法少女小圆外传, a highly-anticipated ACG title adapted by a popular Japanese anime, and *Sword Art Online: Integral Factor* 刀剑神域黑衣剑士:王牌, an exciting MMORPG.

Additionally, while strengthening our ACG game operation, we continue to expand offerings in high quality games. At the end of July, we hosted our first ever game release event *Enter Your Fantasy World*, where we introduced 11 exciting titles across different genres. These included an exciting simulation game *Dark Boom* 黑潮:深海觉醒; *Incarnation: Huo Zhong* 灵笼:火种, a highly anticipated title adapted from our self-owned Chinese anime IP; and, several high quality ACG titles, *Lapis Re:LiGHTs* 宝石幻想:光芒重现 and *Artery Gear* 机动战姬:聚变. In August, we are delighted to announce we are going to bring Chinese audiences the mobile version of *Fall Guys: Ultimate Knockout* 糖豆人, an exciting Battle Royale game.

As we solidify our game-related content offerings and welcome more game lovers to our platform, Bilibili has become the go-to place for joint operating partners. In the second half of the year, we will continue to work with leading game developers to bring our users premium games such as Mihoyo's *Genshin Impact* 原神 and NetEase's *Harry Potter: Magic Awakened* 哈利波特:魔法觉醒.

Turning to our VAS business ...

Revenues from VAS increased by 153% year-over-year reaching RMB825 million in the second quarter. Our growth was mainly driven by increased contribution from premium memberships, live broadcasting and other value-added services.

We continued to enrich our live-broadcasting content and increase the penetration among our growing traffic. As our platform becomes more influential in China's online entertainment industry, we have seen more hosts and talent agencies turning to Bilibili to grow their fan base and maximize their commercial potential. On the e-sports front, our three-year strategic partnership with Riot Games will significantly enhance our position in this area. We will join forces with Riot Games and local government to host diversified online and offline activities to promote world-renowned *League of Legends* events, while bringing more e-sports lovers to Bilibili.

Our premium memberships, which offer additional exclusive or advanced content to paid users, continued to flourish in the second quarter. By the end of the second quarter, we had 10.5 million premium members, up 100% year-over-year. These members represent the golden cohort of our most loyal users, who are also the most primed for future cross-selling opportunities.

Notably, our comic business is also on the rise. Within two years, Bilibili Comic has grown from scratch to top 3 comic platforms in China, with over 1 million paid subscribers. As a natural extension from our core ACG content offering, we see great synergy between our main app and Bilibili Comic with significant room to grow.

As for our advertising business, our growing user base and increased brand awareness make Bilibili a go-to platform for advertisers. Despite the volatile macro environment, we grew our advertising business to RMB349 million, up 108% year-over-year in the second quarter and continued to broaden our customer base. The leading industry verticals in the period were games, e-commerce, 3C products, food & beverage and education.

In summary, we had another strong quarter of growth and we are well poised to continue on this trajectory. Building on the positive momentum in the first half of this year, we plan to make additional investments in branding and channels in the coming quarters to further drive user growth and raise brand awareness. We believe these investments will boost our self-fulfilling growth cycle and yield considerable return in the long run. As we reach new heights, our focus will remain on the quality of growth and we will continue to closely monitor the ROI of our marketing expenses. We are confident that our effective strategic initiatives will further fuel our user growth and support our top line expansion as we continue to build value for our company, investors and growing community of users.

This concludes Mr. Chen's remarks. I will now provide a brief overview of our financial results for the second quarter of 2020.

Our total net revenues increased by 70% year-over-year to RMB2.6 billion, exceeding the high end of our guidance. With our games accounting for just under half of our total revenues, we are pleased with the commercialization progress of our non-game offerings and our ability to convert our online traffic into paying users. The average number of monthly paying users increased by 105% year-over-year, reaching 12.9 million in the second quarter.

Cost of revenues increased by 57% year-over-year to RMB2.0 billion. Revenue-sharing cost, a key component of cost of revenues, was RMB1.0 billion, a 79% increase from the same period in 2019.

Gross profit increased by 140% year-over year to RMB604 million. We're also starting to see operating leverage from our diversified revenue streams. With more revenue contribution from our higher margin businesses, as well as additional income from paying users, our gross profit margin continued to improve, reaching 23% in the second quarter.

Total operating expenses increased to RMB1.2 billion, up 103% from the same period in 2019.

S&M expenses were RMB675 million, representing a 181% increase year-over-year. The increase was primarily attributable to the increased channel and marketing expenses associated with Bilibili's app and brand, as well as expenses for the Company's mobile games and sales and marketing personnel.

G&A expenses were RMB208 million, representing a 48% increase year-over-year. The increase was primarily due to increased headcount in general and administrative personnel and increased share-based compensation expenses.

R&D expenses were RMB331 million, representing a 53% increase year-over-year. The increase was primarily due to increased headcount in research and development personnel and increased share-based compensation expenses.

Net loss was RMB571 million for the second quarter of 2020, compared to RMB315 million in the same period of 2019.

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 RMB476 million, compared to RMB256 million in the same period of 2019.

Basic and diluted net loss per share were RMB1.63.

Adjusted basic and diluted net loss per share were RMB1.35.

As of June 30, 2020, we had cash and cash equivalents, time deposits, as well as short-term investments of RMB15.6 billion, or US\$2.2 billion, compared to RMB8.1 billion as of December 31, 2019.

For the third quarter of 2020, we are currently projecting net revenues to be between RMB3.05 billion and RMB3.10 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.