

BILIBILI 3Q 2021 CONFERENCE CALL SCRIPT

Operator introduction

Good day and welcome to the Bilibili 2021 third quarter 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 the prepared remarks on behalf of Mr. Chen.

Sam Fan

Thank you, Juliet. And thank you everyone for participating in our 2021 third quarter results conference call. I'm pleased to deliver today's opening remarks on behalf of Mr. Chen.

Our strong third quarter results once again demonstrated our ability to execute and deliver on our growth strategy. In our peak summer season, we added over 30 million MAUs to our Bilibili community, bringing our total MAUs to 267 million, up 35% year-over-year. Mobile MAUs also rose to 250 million, and DAUs came in at 72 million, representing growth of 36% and 35%, respectively, both on a year-over-year basis. This solid growth makes us more confident than ever that we can reach our MAU growth target by 2023.

Importantly, our community is becoming more engaged and even stickier. Expanded video content across formats and scenarios drove an increase in users' daily time spent on Bilibili, which reached 88 minutes in Q3, the highest we have ever seen in our operating history. This is particularly impressive and really shows the quality of our old and new users, given how fast we have grown. Other key operating metrics also grew substantially. Daily video views were up 77% to 2.3 billion, monthly interactions were up 86% to 10 billion, and monthly video submissions were up 80% to 10 million. Each of these metrics represents all-time-highs and reflects the health of our community, as well as the strength of the engine that powers our growth.

Our effort to grow our user base while maintaining a strong and tight knit community, also had a very positive impact on our commercialization progress. Total revenues in Q3 reached 5.2 billion, up 61% year-over-year, beating the high-end of our previous guidance. By matching the right content to our growing number of Bilibili users, more traffic was converted to paying users. MPUs reached 24 million in the third quarter, up 59% year-on-year, and our paying ratio grew to 8.9%.

Another factor driving our topline is our increasing appeal to business partners. This is particularly true for advertisers, who are eager to gain visibility with the growing number of Gen Z+ users on our platform. To reach an even broader number of users, last year we redefined our brand proposition with the phrase "all the videos you like." Today, more users recognize and view Bilibili as the go-to destination for high quality

video content. In recent *BrandZ™ Report*, Bilibili was ranked as the No.2 most valuable brand name in China in terms of growth rate. With increasing recognition from advertisers across different industry verticals, our ad revenue grew by 110% year-on-year in the third quarter, even with macroeconomic challenges.

Looking ahead, videolization trends continue to surge, rapidly emerging as the preferred and new norm. As a premier video platform with broad content and community appeal, we expect to see continued benefit from the increasing videolization movement. Carrying out our solid strategy to expand our content, community and commercialization, we believe we are on the right path to becoming a valuable new gateway to the internet. We have also strengthened our commitment to social responsibility. Using our public influence, we are further developing an inclusive community, promoting positive content and enacting better ESG practice.

With that overview, I would now like to walk you through some details of our third quarter operations. I will begin with the first part of our 3C model, our content:

The key to our user growth lies with our broad, unmatched PUGVs. As the center of our video ecosystem, PUGVs continued to flourish, accounting for 93% of our video views in the third quarter. We have carefully created an extensive platform for high quality content creators to be recognized, appreciated and valued. We continue to improve our tool kits and services to lower barriers of creation, including our evolving video editing app *Bi Jian*, as well as various creator support programs. In the third quarter, monthly video submission hit a milestone of 10 million, up 80% year-on-year; the number of monthly active content creators also accelerated to 2.7 million, up 61% year-on-year.

With our continuous efforts to improve our traffic distribution mechanism, content creators can flourish and attract fans more easily. In the third quarter, content creators with more than 10,000 followers grew by 42% year-over-year. We continue to optimize and create new venues for them to realize their commercial value. These include our advertising matching platform *Sparkle* and live broadcasting platform, bringing more commercialization opportunities to content creators at all levels. Our ongoing cash incentive program is also motivating an increasing number of middle

layer creators, encouraging their continuous content creation. By the end of the third quarter, 481,000 creators had benefitted from this plan.

Bilibili is home to thousands of interest-based content categories, and we are excited about our roadmap to keep building great new content experiences for our users. In the third quarter, the top five populated PUGV categories of lifestyle, games, entertainment, ACG and knowledge continued to flourish. As we welcomed more users across various demographics, other emerging verticals, such as fitness, food and travel, are also gaining increased interest. In addition to expanding content categories, we are also expanding our content formats to meet users' different needs. For example, "story-mode," our short-form video content in our mobile app, offers quick "on-the-go" entertainment, which is designed to suit users' fragmented time. Conversely, our Bilibili app on smart TV is the perfect solution for users seeking a high quality, high resolution, immersive video experience on a larger screen. We are encouraged by the strong momentum in user growth and engagement and believe there is still a lot of room for growth ahead.

For our OGV department ...

Our OGV content reinforces our leading PUGV verticals and introduces new ones to broaden our reach and our community's horizons. Leveraging both our platform and production capabilities, our OGVs are helping drive "Created in China" content. For example, Chinese anime can breathe new life into classic tales, helping Chinese culture resonate with young generations. In the second half of this year, we released multiple Bilibili-produced anime titles including the second seasons of mega-hits *Carp Reborn* 元龙 and *Hundred Monsters* 百妖谱, as well as *The Daily Life of the Immortal King* 仙王的日常生活, all of which were immediately revered by anime lovers.

Similarly, our documentaries and variety shows are echoing within areas of young Chinese interest. These have achieved great success in promoting the Bilibili brand and building influence within these content verticals. Our self-produced matchmaking hit *90 Hun Jie Suo* 90 婚介所 is a good example that deeply resonates with our Gen Z+ users, and has given legs to discussions beyond the Bilibili community, trending on social media platforms for weeks. We also released a music variety show *The Next Banger* 我的音乐你听吗 in Q3. The show supplements our newer music content creations and appeals to music lovers in our community. In

addition, we launched a series of self-produced, widely welcomed food-themed documentaries with more to come, including the upcoming third season of *The Story of Chuaner* 人生一串 3, which reflects the growing interest in Chinese cuisine, as well as lifestyle categories.

Turning to our community ...

Our thriving community shows the quality of our user growth. In the third quarter, daily video views increased by 77% year-over-year to 2.3 billion, and monthly interactions were up 86%, reaching over 10 billion. Both metrics grew much faster than expected and our users showed increasing engagement across our community. These interactions are the essential elements that make the Bilibili experience so unique.

At the same time, we are excited to see more casual users converting to official members by taking our unique community entrance exam. By the end of the third quarter, we grew the number of official members by 38% year-on-year to 133.6 million. For this core user cohort, the 12-month retention rate remained above 80% in the third quarter, once again showing the strength of our community.

Now let's look at our commercialization progress ...

Our diverse revenue streams have become more and more balanced. While revenue from each of our segments grew in the third quarter, our advertising services have become our largest growth engine, followed by our VAS and e-commerce offering.

Let's look at this in more detail, within our commercial segments, starting with our games:

We see game as an advanced format of entertainment and a representation of cultural soft power. Believing in the positive power of good games, our goal is to bring users more high-quality games both, domestically and internationally, with a heightened focus on internal development. Leveraging our deep understanding of user preferences and our rich game operating experience, we are devoted to building our development capabilities for the new generation of players. At the same time, we are adamant about promoting exciting Chinese culture to the large gaming world.

Looking specifically at our third quarter game performance, revenues from our mobile games increased by 9% year-over-year to RMB1.4 billion. We added 3 new titles domestically to our roster of exclusively licensed games. All have been well-received by their followers. We also celebrated the five-year anniversary of our legacy title *FGO* in September. Additionally, we successfully joint-published more premium games including Tencent's *League of Legends: Wild Rift* 英雄联盟手游 and NetEase's *Harry Potter* 哈利波特: 魔法觉醒, continuing to expand game offering in diverse genres. As for our domestic games pipeline, nine games have acquired approval and are ready for domestic release in the coming quarters.

In the meantime, we are rolling out more Chinese game masterpieces to the global game market. Following our success of *RE: Final Gear* 重装战姬, we continued to build our distribution capabilities with the successful launch of *Figure Story* 高能手办团 in South Korea in September. The game became an instant hit, and we plan to replicate this success with more games overseas by leveraging our deep understanding of ACG lovers' tastes, our game selection know-how, and our strong distribution power.

We are committed to operating responsibly to promote healthy game behaviors and protect teenager from gaming addiction. As early as 2019, we launched anti-addiction measures for teen players and have continued to strengthen control mechanisms. By the end of August, all Bilibili-operated games fully complied with the latest regulations on restricting minors' game time in China. We would also like to note that revenues from players under 18 accounted for less than 1% of the game revenues in September of 2021.

Turning to our VAS business ...

Our VAS business is the perfect illustration of our Business-to-Consumer (B2C) model. It represents our users' trust in our brand and willingness to pay for Bilibili's content and services. In the third quarter, our VAS business continued to be our largest earner, reaching RMB1.9 billion, up 95% year-over-year.

Unlike any other live-broadcasting platform, Bilibili live broadcasting has been uniquely integrated in our content ecosystem from day one. As a natural extension of video content, it amplifies our leading content verticals as well as the influence of our content creators. We continued to enrich our live broadcasting content during the

period, providing more tools to facilitate our virtual hosts' growth. We are excited to see the increasing influence of various games' live content from our community, including *League of Legends*, *Honor of Kings* and *Genshin Impact*. For example, we saw a record-breaking level of popularity for this year's *League of Legends World Championship S11* on Bilibili. On the final game night, the peak concurrent viewers increased by over 160% compared with S10, and we achieved the highest DAUs ever in our operation history. We are also diversifying with more entertainment-related offerings, especially for virtual uploader-, or "V-up-," related content. In Q3, we had triple digit year-over-year growth in both the number of active V-ups and number of viewers in this category. We will continue to add and expand, and strengthen our position as the world's leading virtual live broadcasting community.

Thanks to our growing roster of high quality OGV, and users' tendency to pay for content, our premium members grew to 18.2 million by the end of the third quarter, an increase of 42% year-over-year. For ACG lovers, our comic and audio drama content continued to attract more paying users, again showing the high willingness of our users to pay for content they want, and the vast potential that offers as we add exciting new content.

As for our advertising services ...

Advertising represents our Business-to-Business (B2B) model and is also thriving. Despite macro-economic factors, our advertising revenue continued to be robust in the third quarter, reaching total advertising revenues of RMB1.2 billion, an increase of 110% year-over-year. Our enhanced brand influence and our growing number of quality users function as the building blocks of sustainable growth. As our integrated marketing campaign covers more industry customers, the creativity and commercial value of our content creators is gaining wider recognition. More native ad videos went viral in 3Q, making Bilibili the most sought-after platform in China for advertisers. We continue to promote our integrated marketing campaign and introduce more ad products to our inventory, helping our content creators monetize their talent. During the third quarter, our top five advertising verticals were mobile games, skincare & cosmetics, e-commerce, digital products and food & beverage.

As we move forward, we will continue to advance our growth strategy and create value for our stakeholders. At the same time, we are committed to shouldering our social responsibility to make the world a better place, including supporting rural

education, disaster relief, reducing our carbon footprint and furthering green initiatives. Moreover, as a proud Chinese corporate citizen with increasing reach, we dream that one day, using art forms such as games, anime and PUGVs, we will be able to spread Chinese culture across the world.

This concludes Mr. Chen's remarks. I will now provide a brief overview of our financial results for the third quarter of 2021 and outlook for the fourth quarter.

Total net revenues for the third quarter were RMB5.2 billion, up 61% from the same period of 2020. We continue to see a more balanced revenue mix driven by our diversified commercialization channels. Our total net revenues breakdown by revenue stream was approximately 27% mobile games, 37% VAS, 23% advertising, and 13% e-commerce & others business.

Cost of revenues increased by 70% year-over-year to RMB4.2 billion. Revenue-sharing cost, a key component of cost of revenues, was RMB2.2 billion, representing 83% increase from the same period in 2020.

Gross profit increased by 34% year-over-year to RMB1 billion, and our gross margin was 19.6% in the third quarter.

Total operating expenses were RMB2.9 billion, up 57% from the same period in 2020.

S&M expenses were RMB1.6 billion, representing a 37% increase year-over-year. The increase was primarily attributable to increased channel and marketing expenses to promote our app and brand, as well as promotional expenses for our mobile games and an increase in headcount in sales and marketing personnel. 3Q is our peak season in brand marketing and user acquisition efforts. We strategically allocated more resources, and are pleased with the strong momentum shown in both user base growth, as well as the quality of our users in terms of engagement levels.

G&A expenses were RMB474.9 million, representing an 87% increase year-over-year. The increase was primarily due to increased headcount in general and administrative personnel, increased share-based compensation expenses and higher rental expenses.

R&D expenses were RMB788.3 million, representing a 97% 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 RMB2.69 billion for the third quarter of 2021, compared with RMB1.10 billion in the same period of 2020.

Adjusted net loss, which is a non-GAAP measure that excludes share-based compensation expenses, amortization expense related to intangible assets acquired through business acquisitions, income tax related to intangible assets acquired through business acquisition and loss on fair value change in investment in publicly traded companies, was RMB1.62 billion, compared with RMB0.97 billion in the same period of 2020. Basic and diluted net loss per share were each RMB6.90.

Adjusted basic and diluted net loss per share were each RMB4.16.

As of September 30, 2021, we had cash and cash equivalents, time deposits, as well as short-term investments of RMB24.4 billion, compared with RMB12.8 billion as of December 31, 2020. Our sufficient cash reserve gives us great confidence in our ability to execute our growth strategy, which we believe will yield considerable return in the long run.

With that in mind, we are currently projecting net revenues for the fourth quarter of 2021 to be between RMB5.7 billion and RMB5.8 billion.

Thank you for your attention. We would like now 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.