

## **BILIBILI 2Q 2022 CONFERENCE CALL SCRIPT**

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### **Operator introduction**

Good day and welcome to the Bilibili second 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**

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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](http://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

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Thank you, Juliet. And thank you everyone for participating in our 2022 second quarter results conference call. I'm pleased to deliver today's opening remarks on behalf of Mr. Chen.

We confronted immense headwinds in the second quarter. During the period, we steadied our company by bringing users improved products, expanding our content and implementing further cost control measures. With lockdowns in Shanghai lifted in June, we believe the worst impact is behind us. Importantly, we expect to recover our operating margin in the second half of the year, while continuing to grow our users and narrowing our net loss.

Our total MAUs reached a new record of 306 million in the second quarter, up 29% year-over-year, representing another exciting milestone. While we remain committed to our MAU target, we are putting additional focus on the quality of users, looking at metrics such as DAUs and engagement levels. In Q2, our DAUs grew by 33% year-over-year to 84 million, outpacing the growth rate of our MAUs. This brought our DAU/MAU ratio to 27.3%, up from 26.4% in the same period last year. Daily average time spent was 89 minutes, a 9-minute increase compared with the same period last year. Longer user time spent and the high user activity increased our total user traffic, which grew by 48% year-over-year. We believe our growing matrix of products, expanding content library and quality-driven growth strategy will strategically position us to continue our growth momentum.

Impacted by the challenging macro environment, our total net revenues were RMB 4.9 billion, up 9% year-over-year in the second quarter. MPUs increased by 32% year-over-year to 27.5 million, and our paying ratio was 9.0%. Followed by a slower April and May, our advertising business rebounded nicely when the lockdowns lifted in June. With increasingly popular advertising products such as ads in Story Mode, we grew our ad revenues by 10% year-over-year. We expect to continue gaining market share in the second half of the year.

During the second quarter, we also put further cost control initiatives into effect. Specifically, we cut sales and marketing expenses by 16% year-over-year. Sales and marketing expenses as a total % of revenue decreased to 24% from 31% in the same period last year. Server and bandwidth costs per video views also declined by 37% year-over-year. Other adjustments we made to improve our organizational efficiency included cancelling underperforming projects and reallocate resources to core

business. We expect positive impact to our P&L will start to show in the second half of the year.

In July, we also made some pivotal adjustments to our organization. Our goal was to be more congruent with our long-term sustainable growth. We have integrated the operations of live broadcasting with our video platform, and made organizational changes that integrate our commercialization effort across our content ecosystem, create synergies and improve efficiency.

**With that overview, I'd like to go through some details of our second quarter operations across our content, community and commercialization.**

We've seen many iterations of the online video space. Ours is the one that has remained expansive and trend-setting. The introduction of our different formats such as Story Mode, PUGV, live broadcasting and smart TV, significantly boosts our signal of 'all the videos you like', anytime, anywhere.

Looking at **Story Mode** as an excellent example. Story Mode is one of our newest vehicles covering users' on-the-go entertainment needs. It is more efficient in distributing video in shorter length of time. While video views from PUGV grew 53% year-over-year, video views from Story Mode increased by over 400% year-on-year, bringing incremental traffic to our platform. This is an ongoing trend that we are seeing throughout the second half of the year. Moreover, Story Mode presents a parallel commercial prospect as the gateway to different monetization opportunities, such as advertising and live broadcasting.

MAU penetration in live broadcasting continues to grow across our user base. In July, we began to fully integrate our live broadcasting and PUGV ecosystems. Overtime, we expect the combination of these two ecosystems to result in more efficient traffic execution and allocation and inspire more content creators to become live broadcasting hosts.

During the second quarter, our users primarily gravitated to lifestyle, games, entertainment, ACG and knowledge categories. We continue to accumulate a massive amount of content through a growing pool of talented creators. In the second quarter we had 13.2 million total monthly average content submissions, up 56% year-over-year. Our growth stems from our 3.6 million monthly active content creators, an increase of 50% year-over year. In the second quarter, the number of creators with 10,000 followers grew by 46% year-over-year and creators with over 1 million followers grew even faster, at 58% year-over-year. Notably, over 60% of the content

creators who gained 1 million followers during Q2 was benefited from the fast-growing story-mode traffic.

We continue to expand avenues to unleash content creators' monetization potential. In the second quarter, over 1.1 million creators received monetary rewards through live broadcasting, advertising programs, or cash incentives program, etc, up 97% from same period last year.

Turning to our **community**, we continue to feature robust content that resonates with our users along with a welcoming community environment. We saw this across our user metrics in the second quarter with impressive year-over-year gains. Daily video views grew by 83% to 3.1 billion, and monthly interactions grew by 73% to 12.5 billion. As I previously mentioned, the average daily time spent also increased by 9 minutes year-over-year to 89 minutes.

**Now, let's take a look at our commercialization efforts.**

Advancing our commercial prospects is one of our leading goals this year. In the second quarter, we continued to convert paying users and improved our advertising efficiency to gain more market share, maximizing our high-quality user base.

**Looking first at VAS business.** Net revenues for VAS were RMB 2.1 billion, an increase of 29% year-over-year. We converted more traffic to paying users in the second quarter, driven primarily by our live broadcasting, where we hold unique advantages given this natural extension of our video universe.

Despite the challenges of stricter regulations, our live broadcasting conversion rate remained strong in the second quarter. By integrating our PUGV ecosystem with live broadcasting, we've created a win-win solution. The number of active live broadcasters increased by 107% year-over-year in the second quarter. Our live broadcasting MAU penetration rate continued to grow and MPUs for live broadcasting increased by nearly 70% year-over-year. At the same time, we improved live broadcasting's gross margin by optimizing revenue-sharing plans.

Premium memberships for the second quarter reached 21 million, up 19% year-over-year. The majority of our users continue to be annual or auto-renewal subscribers.

**Looking at our advertising services,** revenues from this segment reached RMB 1.16 billion, an increase of 10% year-over-year, despite the macro headwinds. Our top five

verticals in the second quarter, were games, digital and 3C products, skincare and cosmetics, e-commerce and food & beverage.

Optimizing our product offerings and conversion efficiency remain our strategy for our ad business. In the second quarter, we continue to dedicate our resources to expand our advertising scenarios with diverse products and improved conversion modules. We also executed our integrated marketing campaigns ad-selling strategy to realize more cross-selling opportunities. The Story Mode ads we launched in April have also been welcomed by our advertisers.

**Lastly on games business,** net revenues were RMB 1.05 billion in the second quarter. The lack of supply for new game content in the domestic market was the main challenge in the first half of the year. As the domestic game approval process returned to normal, we look forward to seeing the approval for imported titles. Nevertheless, our game strategy remains focused on in-house development and bringing exciting, high-quality games to both domestic and international markets. In the second quarter, our self-developed games revenues contributed around 5% of the total game revenue, mainly thanks to our successful launch of Artery Gear in many countries and regions.

As for our pipeline, domestically, we are actively applying for game licenses and have four titles approved for release. Six games in our pipeline, including two self-developed titles, are ready to hit overseas markets in the second half of the year.

As a 13-year old company, our user numbers and revenue are still seeing robust growth and we foresee a long runway of growth in the future. Our attention and resources are focused on improving both our top and bottom line. With this in mind, we plan to further enhance our operational efficiency, tighten spending and strengthen our execution. We are committed to improving our gross margin and narrowing our operating loss in the second half of the year.

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

Total net revenue for the second quarter was RMB 4.91 billion, up 9% from the same period of 2021. Our total net revenue breakdown by revenue stream was approximately 21% mobile games; 43% VAS; 24% advertising; and 12% e-commerce and other business.

Cost of revenues increased by 19% year-over-year to RMB 4.2 billion. Revenue sharing cost, a key component of cost of revenues were RMB 2.1 billion, representing an 18% increase from the same period in 2021. Server and bandwidth cost, as part of a relatively fixed cost component, decreased 9% quarter-over-quarter. Server and bandwidth per video views decreased 37% year-over-year, demonstrating the impact our on-going efforts and progress in cost savings.

Our gross profit in the second quarter was RMB 738 million, and our gross margin was 15%. We are actively tightening our cost control measures and improving our operating efficiency. We expect our gross profit margin will start to recover beginning this quarter.

Total operating expenses were RMB 2.9 billion, up 17% from the same period in 2021.

Sales and marketing expenses were RMB 1.2 billion, representing a 16% decrease year-over-year. S&M expenses as a percentage of total revenue were 24%, down from 31% in the same period last year. The year-over-year decrease was primarily attributed to decreased promotional expenses for our mobile games, as well as lowered user acquisition costs.

G&A expenses were RMB 626 million, representing a 44% increase year-over-year. The increase was primarily due to increased headcount in G&A personnel, higher rental expenses and non-recurring expenses related to the optimization of our organizational structure.

R&D expenses were RMB 1.1 billion, representing a 68% increase year-over-year. The increase was primarily due to increased head count in research and development, increased share-based compensation expenses and non-recurring expenses related to adjustments of certain game projects.

Net loss and adjusted net loss was RMB 2.0 billion and RMB 1.96 billion for the second quarter of 2022, respectively.

Turning to our capital allocation and liability management. In aggregate, we repurchased a total 2.6 million ADSs for a total cost of US\$53.6 million as end of June 30, 2022.

In addition, we repurchased a total of US\$275 million 2026 notes for a total cost of US\$198 million with total future cash saving of US\$84 million as the end of June 30, 2022.

And as of June 30, 2022, we had cash and cash equivalents, time deposits and short-term investments of RMB 24.9 billion, compared with RMB 30.2 billion as of December 31, 2021.

As for our intent to convert to a dual-primary listing on the Main Board of the Hong Kong Stock Exchange, with respect to the proposed conversion, we successfully obtained all necessary shareholder approval at our company's annual general meeting, which was held on June 30, 2022. The HKEX has also acknowledged our application, setting October 3, 2022 as the proposed effective date. Our endeavor will expand our access to a wider investor base, and we expect to concurrently maintain our listing status on Nasdaq.

With that in mind, we are currently projecting net revenues for the third quarter of 2022 to be between RMB 5.6 billion and RMB 5.8 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.