

BILIBILI 1Q 2020 CONFERENCE CALL SCRIPT

Operator introduction

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

2020 is off to a remarkable start. We are proud to deliver stellar results and set new records within our key operating and financial metrics. For the first quarter, our MAUs grew by 70% year-over-year, reaching 172 million, and our mobile MAUs grew even faster at 77% year-over-year to 156 million. Our user engagement level also reached a new height. Our DAUs achieved a major milestone, up 69% year-over-year to 51 million. Along with our large user numbers, we saw a striking increase in the amount of daily time spent on our platform, up 10 minutes from Q4 to an average of 87 minutes. This is the highest level we have seen in our corporate history. These statistics once again demonstrate our strong execution and high-quality growth we aim to deliver.

We attribute our success to our increasingly broad content, friendly and sticky community, as well as improved brand awareness. Building on the success of our New Year's Eve Gala event, we welcomed more new users, especially during the extended winter holiday. Bilibili is becoming many people's first choice when it comes to content creation and consumption. In 2019, we affirmed user growth as one of our key objectives, and raised our target MAUs for 2021 to 220 million. We are pleased to say with the solid execution on our initiatives, we are on a fast track to meet this target.

As we roll out more premium content and services, and strengthen our monetization capabilities, we are converting more traffic to paying users. Our MPUs grew by 134% year-over-year, to an impressive 13.4 million in the first quarter. The paying ratio also grew to 7.8%, more than doubled from two years ago. Our revenues reached an all-time high of RMB2.3 billion, surpassing the top end of our guidance by more than RMB100 million. As our top-line expands, we have seen increasing operating leverage. Gross margin jumped to 23% in the first quarter, up from 14% for the same period last year, marking the fourth consecutive quarter of margin improvement.

Our strategic partnerships are also expanding. On the heels of our agreements with Tencent and Alibaba, we were excited to bring our long-standing partnership with Sony to the next level with its \$400 million equity investment and business collaboration plans. Under the business collaboration agreement, we plan to bring even more world-class anime and mobile game content to the domestic market, further enhancing our advantage in these sectors. The equity investment will not only fuel our future growth, but also demonstrate Sony's confidence in our unique positioning and growth prospects.

With that overview, I'd now like to walk through some of our initiatives and the trends we are seeing in each of our core areas of content, community and commercialization, and how they fit into our long-term strategy.

I will begin with content. Bilibili has cultivated one of the most attractive and friendly environments for our creators. Creators can easily upload content, actively interact with users and gain broad fan base access. For these reasons, Bilibili has become many people's first choice for PUGV creation, especially during the extended winter holiday, when more people were looking for ways to express themselves. We saw a significant increase in the number of active content creators and video submissions during the first quarter. We had about 1.8 million content creators uploading 4.9 million videos per month, representing increases of 146% and 138%, respectively, both year-over-year.

With a growing number of creators and effective operational campaign, we are gaining even more diverse and innovative content submissions, and further increasing our mass market appeal. For the first quarter, our most heavily trafficked verticals were Lifestyle, Game, Entertainment, Animation, Tech & Knowledge. For Lifestyle, during the extended holiday, people were looking for ways to entertain themselves while staying at home. We actively promoted sub-categories such as Foodie, Online Fitness and Vlog, as many people looked for ways to cook, stay fit, and express themselves. Similarly, Games overtook Entertainment vertical as we fortified our game content library, becoming the host for more and more gamers. With our recent partnership with Tencent Music and Sony Music, our music content is also attracting a growing amount of traffic given its universal appeal. In addition, we expanded our technology and education categories in order to support those looking to catch up on their studies, learn a new skill or simply gain more general knowledge during the long holiday.

Turing to our Occupationally-Generated Videos, or OGV. Building on our years of investment and key leadership in the anime, documentary and other categories, we continue to turn our OGV library into valuable IP assets, attracting new users, as well as converting paying users. During the first quarter, we launched *The Daily Life of the Immortal King* *仙王的日常生活*, a Bilibili-produced Chinese anime series. This high-quality series quickly gained over 100 million video views in less than 30 days, setting a new record in our OGV history. It not only attracted many new anime fans to our platform, but also converted a considerable amount of premium members.

Similarly, we further expanded our documentary and variety show offerings to attract broader audiences. Our reality show *Animal Hospital Season 2* *小主安康-宠物医院2* and *First Man Out of China* *决胜荒野之华夏秘境*, a documentary that we co-produced with Discovery, were also welcomed by many pet and survival show lovers, respectively.

Turning to our community ... As I mentioned, we are seeing record highs across all of our primary user metrics. With this rapid influx to our community, the quality of our platform, our content and our users has gotten even stronger. In the first quarter, our daily video views reached a record high of 1.1 billion, up 113% year-over-year. Our users were more engaged with content and each other than ever before, and our overall community retention levels were improved. In the first quarter, our users generated nearly 4.9 billion monthly interactions through bullet chats, comments, likes and Bilibili moment posts, more than triple the amount from the same period in 2019.

Members of our official membership program also grew at an accelerated pace in the first quarter. By the end of Q1, we had 82 million official members who passed our 100-question exam, up 66% year-over-year. And the 12-month retention rate for these users remained high as well, well above 80%. The strong community engagement and retention level continue to be the excellent indicators of the quality of our user growth.

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

Revenues from our games increased 32% year-over-year to RMB1.15 billion, accounting for 50% of our total first quarter revenues. *Fate/Grand Order*, or *FGO*, delivered a robust performance for the period, following a major content update. Other exclusively licensed titles such as *Azur Lane* and *Furious Yama* also continued their popularity during the first quarter. In April, we launched the highly-anticipated Japanese RPG *Princess Connect Re: Dive*. This exclusively licensed game was an immediate hit, attracting millions of players and topping China's iOS download and grossing charts within a week after release. The phenomenal success of the release once again proves our strong distribution power and deep understanding of the ACG games market.

Our jointly operated games also continued their growth momentum in the first quarter. Newly released updates of *Arknights* 明日方舟 and *HonKai Impact 3* 崩坏 3 were welcomed by many existing and new players. With an increasing number of gamers gathering and more efficient distribution operations, our platform is an inevitable channel for game developers who want to maximize their exposure to quality players and reach potential new fans.

Later this year, we'll be further expanding our game offerings. With 30 high-quality games in our upcoming game pipeline, we're looking forward to further diversifying our portfolio. We have 8 titles that have acquired approvals and are scheduled to be released in the coming months. This includes *Animistic* 万灵启源, a thrilling ACG title that we plan to roll out this summer. On the jointly operated games front, 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 172% year-over-year reaching RMB794 million in the first quarter. Our growth was mainly driven by increased contribution from premium memberships, live broadcasting and other value-added services.

As part of our video content ecosystem, we continued to enrich our live-broadcasting offerings and increase our live-broadcasting penetration among our growing user traffic. Our investment of top live broadcasting IP continues to fuel our user growth and attract more live broadcasting hosts to our platform. We are seeing more talent agencies and individuals turn to Bilibili to grow their influence on our fast developing platform.

With access to exclusive or advanced content, members have become accustomed to paying for high-quality content. By the end of the first quarter, our premium memberships reached an exciting milestone, exceeding 10 million, for a record 10.9 million subscribers. This represents an increase of 127% year-over-year, and further demonstrates that our users represent the golden cohort with a high willingness to pay for premium entertainment material.

As for our advertising business, our rapidly growing community and increasing brand equity, continues to make Bilibili a leading platform for advertisers. Despite macro headwinds, revenues from our advertising segment continued to increase year-over-year, up 90% to RMB214 million in the first quarter. In the first quarter, the leading three industry verticals for brand advertising were e-commerce, games and 3C products. And the top three verticals for performance-based ads were games, education and e-commerce.

Advertisers are seeking out new and innovative ways to increase their visibility, and online channels represent a popular, heavily trafficked avenue. Beginning from this year, we hosted multiple online new product launch conferences including Huawei, Vivo, Oppo and McDonalds. We expect this offline-to-online marketing transition will continue throughout the year. Advertisers in other industries such as online education and e-commerce are also seeking out our platform to increase their brand reach.

To summarize, we had an outstanding first quarter, marked by excellent growth across our primary operational and financial metrics. The success was attributed to years of devotion in building a healthy content ecosystem, friendly community, and improved commercialization capabilities. We are also pleased with our strong execution in raising

our brand awareness, growing our user base as well as forming high-level strategic partnerships. Building on this early 2020 momentum, we will continue our user growth strategy, improve our top line and drive value for all of our supporters, our growing community and our stakeholders.

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

Our total net revenues increased by 69% year-over-year to RMB2.3 billion, exceeding the high end of our guidance. With a 50/50 revenue split from our game and non-game businesses, we are pleased with our commercialization progress and the implications of this diversity. We are also converting more and more online traffic to paying users. The average number of monthly paying users increased by 134% year-over-year, reaching 13.4 million in the first quarter.

Cost of revenues increased by 51% year-over-year to RMB1.8 billion. Revenue-sharing cost, a key component of cost of revenues, was RMB889 million, a 61% increase from the same period in 2019.

Gross profit increased by 180% year-over-year to RMB530 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 first quarter.

Total operating expenses increased to RMB1.1 billion, up 117% from the same period in 2019.

S&M expenses were RMB606 million, representing a 234% 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. Building on the success of our New Year's Eve Gala, and strong user demands during the extended winter holiday, we made additional investment in branding and channels to further drive user growth and raising brand awareness, which we believe will yield considerable return in a long run.

G&A expenses were RMB171 million, representing a 33% 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 RMB297 million, representing a 60% increase year-over-year. The increase was primarily due to increased headcount in research and development personnel.

Net loss was RMB539 million for the first quarter of 2020, compared to RMB196 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 RMB475 million, compared to RMB145 million in the same period of 2019.

Basic and diluted net loss per share were RMB1.62.

Adjusted basic and diluted net loss per share were RMB1.43.

As of March 31, 2020, we had cash and cash equivalents, time deposits, as well as short-term investments of RMB7.9 billion, or US\$1.1 billion, compared to RMB8.1 billion as of December 31, 2019.

To further grow our business, we plan to improve our monetization by leveraging our considerable and growing traffic. We also see benefit in further expanding our diverse revenue streams and continuing to improve our paying ratio. Longer term, we believe our monetization efforts, high paying user conversion rates and scale will yield an improved bottom line.

With that in mind, we are currently projecting net revenues for the second quarter of 2020 to be between RMB2.50 billion and RMB2.55 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.