

BILIBILI 1Q 2022 CONFERENCE CALL SCRIPT

Operator introduction

Good day and welcome to the Bilibili 2022 first 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 prepared remarks on behalf of Mr. Chen.

Sam Fan

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

In the first quarter, the unexpected outbreak of Covid-19 struck China nationwide, impacting peoples' everyday lives. Shanghai, where our headquarters are based, was particularly impacted by the strict lockdowns. During this challenging time, our top priority is to the health and safety of our employees. Over 8,000 of our staff members have been working from home since mid-March. And we arranged essentials to be delivered to our employees in Shanghai when it was the most difficult to get supplies. In addition, we opened our documentary library to the public, free of charge, during the May holidays and donated 2 million premium Bilibili memberships to Shanghai citizens. We are glad to see that the lockdown just ended last week, and hope everyone's life and our daily business can return to normal order soon.

Confronting the challenges, our business foundation remains strong and resilient. In the first quarter, our vibrant community continued to grow at a fast pace. Total MAUs grew by 31% year-over-year to 294 million and DAUs grew even faster at 32% year-over-year, reaching 79 million. Total user traffic, which we calculate as DAUs multiplied by daily time spent per user, grew 52% year-over-year. During this period, each user spent an average of 95 minutes on Bilibili per day, the longest we've seen in our operating history. These strong user metrics represent our solid business fundamentals, and we are seeing the momentum continue as we move through the second quarter.

Despite the short-term impact from the COVID lockdowns, our total net revenue for the first quarter came in at RMB 5.05 billion, up 30% year-over-year. In the first quarter, both our paying ratio and MPUs reached record highs of 9.3% and 27.2 million, respectively. Live broadcasting was a major driver during the period with paying user numbers growing 60% year-over-year. Despite soft industry demands, we continue to gain market share in advertising, and grew our ad revenue by 46% year-on-year in Q1. Improving our ad efficiency and exploring new products, such as ads in story mode, are a few of the initiatives we expect to

leverage as we work our way through the challenging macro environment in the coming quarters.

User growth, effective spending control and improving our operating efficiency are our top goals. We have made some progresses on each of these fronts in Q1. Sales and marketing expenses decreased by 29% quarter-over-quarter, accounting for 25% of total revenue, down from 31% in the previous quarter. Server and bandwidth costs decreased by 2% quarter-over-quarter, which is no small feat given our daily video views increased by 36% sequentially. We continued to invest in R&D in Q1, which we believe is essential for our long term and sustainable growth. Regardless of the pandemic's impact to our short-term financial metrics, we remain committed to our mid- and long-term goal of narrowing our loss ratio and reaching breakeven. Moving forward, we will further strengthen our commercialization capabilities, control costs and improve human capital efficiency.

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

Bilibili's unique content and community offerings provide our users an irreplaceable experience in the online video space. Since 2021, we have successfully expanded to a multi-scenario video community, by launching our story mode and smart TV app. These have effectively brought our rich content to users in more formats that resonate with them across different viewing preferences.

User response to our short-form video story mode has been very inspiring. This short form video with Bilibili-features provides a unique watching experience to satisfy users' on-the-go entertainment needs. Story mode brought an incremental increase in total video consumption, contributing more than 20% of our total video views in the first quarter, and these numbers have continued to grow in Q2. In addition to more views and creating deeper community bonds, story mode has also opened up a new avenue for commercialization opportunities with advertisers, as well as our live broadcasting services.

During the period, users primarily engaged with content in the lifestyle, games, entertainment, ACG and knowledge categories. Across these top verticals and others, content creation remained robust. Monthly average content submissions were 12.6 million, increasing by 63% compared with the same period last year. Monthly active creators during the quarter were 3.8 million, up 75% year-over-year.

The deep value we place on our creators is one of the reasons we're able to maintain our robust content and healthy community. The key to motivating their continuous creation is to help them gain recognition and provide monetary rewards. We are providing them with both. Content creators with more than 10,000 followers increased by 44% in the first quarter. Beyond our cash incentive program, content creators are encouraged to realize their commercial value more fully through multiple avenues, including live broadcasting, our Sparkle ad platform, creator recommended ads and direct tips from users. In the first quarter, a total of 1.1 million content creators had received monetary compensation for their work, up 90% year-over-year.

As for our community, we continue to foster an active environment for our users to get closer to the content and interact with creators and each other. We can see this not only with the record average daily time spent on our platform of 95 minutes in the first quarter, but also in the increased average daily video views, which grew by an impressive 84% year-over-year to nearly 3 billion. The number of monthly interactions in Q1 reached 12.3 billion, up an impressive 87% year-over-year.

The bonds between our users and community have continued to grow. By the end of March, we had 158 million official members, up 41% with a stable 12-month retention rate of 83%. Both our story mode and smart TV have played positive roles in driving engagement levels.

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

Accelerating our commercialization efforts is our most important target this year. Despite macro-headwinds, our business is resilient. While advertising and e-commerce businesses have and will be particularly impacted in the near-term,

we are paying more attention to the quality of our revenue growth, particularly the margin contribution of each business segment.

For our game business, in the first quarter, net revenues from our game business increased 16% year-over-year to RMB 1.36 billion. We continued to invest in in-house game development by acquiring a new studio in the first quarter. At the same time, we're closely monitoring our existing projects and conducting agile testing to keep our pipeline ahead of the fast evolving industry. We are also working to improve our industrialized development capabilities, which is equally important in landing an idea that works.

Turning to our pipeline. Three games have already been approved and some others are in the late approval stage. As for our game operation in the overseas market, we have three titles slated for launch in the second quarter, more for the second half of this year.

Turning to our VAS business. Net revenues for VAS were RMB 2.05 billion, an increase of 37% year-over-year. Beyond the pandemic, we see a lot of monetization opportunity in this segment, particularly in live broadcasting and other innovative community-related value-added services.

Our powerful PUGV video library and pool of talented creators, give us a unique advantage to leverage and reinforce our live broadcasting business. In the first quarter, the number of active live broadcasters on Bilibili increased by 88% year-over-year. We continue to roll out more tools and functions to let creators showcase their talent, and introduce new forms of interactive virtual gifting programs. Meanwhile, the popularity of story mode opened a new gateway for users to discover interesting live broadcasting content. With these initiatives, a seamless and natural conversion to a paid user arises. In the first quarter, MPUs in live broadcasting increased by 60% year-over-year.

As for our **Premium Memberships,** by the end of the first quarter, we had 20.1 million premium members, a 25% increase year-over-year. Nearly 80% of these were annual or auto-renew packages subscribers, representing their strong trust in us. In 2022, we will continue to add exciting content to attract members including a series of Bilibili produced Chinese anime, variety shows and documentaries.

Looking at our advertising services, revenues from this segment were RMB 1.0 billion, an increase of 46% year-over-year. In the first quarter, our top five advertising industry verticals were games, skincare and cosmetics, 3C products, automobiles, and food & beverage.

In March, the unexpected COVID lockdown caused travel restriction and logistics difficulties in major cities in China. Some advertising dollars were delayed or placed on hold. Confronting the headwinds, we are pressing forward to expand our advertising scenarios with more innovative ad products, and increase our ad efficiency with a better conversion toolkit. We launched our story mode ads in April and the initial feedback is encouraging. Compared with text or picture-based ads, ads in the story mode have higher ROI to ad customers, and bring an incremental increase to our ad inventory as well as our ECPM. We plan to allocate more resources to improve its performance including algorithms and product abilities.

E-commerce is another area deeply impacted by the logistic disruption caused by the pandemic. As we believe our customers' trust is our most valuable asset, we offered our customers a free delivery delay services and automatic refund option. As recovery begins, our May GMV sales were again on the rise. Going forward, we will continue to explore new innovative models to maximize our IP value and achieve synergy with our leading content verticals.

Confronting the macro challenges, our action plan is clear for rest of the year. First, we aim to take all necessary steps to resume normal business operations. Second, we will be focusing on the quality of our users and our revenue growth, particularly DAU metrics and our business segments' margins. Lastly, we will take essential action to further control our cost and expenses.

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

Total net revenue for the first quarter was RMB 5.05 billion, up 30% from the same period of 2021.

Cost of revenues increased by 43% year-over-year to RMB 4.2 billion. Server and bandwidth cost, as part of the relative fix cost component, decreased 2% quarter-over-quarter. Server and bandwidth cost per video views decreased 27% quarter-over-quarter, showing our on-going efforts and progress in cost saving.

Our gross profit in the first quarter was RMB 807.2 million, and gross margin was 16%.

Total operating expenses were RMB 2.8 billion, up 42% from the same period in 2021, which represents a 9% quarter-over quarter decrease from Q4 2021.

Sales and marketing expenses were RMB 1.3 billion, representing a 25% increase year-over-year, an RMB 507.7 million decrease quarter-over-quarter. S&M expense as percentage of total revenue were 25%, down from 30% in previous quarter.

G&A expenses were RMB 535.3 million, representing a 38% increase year-over-year and keep flattish quarter-over-quarter.

R&D expenses was RMB 1.0 billion, representing a 74% increase year-over-year. The increase was primarily due to increased head count in research and development and share-based compensation expenses. We will close monitor the progress and ROIs of our investments, and make on-going adjustment when necessary.

Net loss was RMB 2.3 billion for the first quarter of 2022 compared with a net loss of RMB 904.9 million in the same period of 2021. Adjusted net loss, which is a non-GAAP measure was RMB 1.65 billion, compared with RMB 891.0 million in the same period of 2021.

Basic and diluted net loss per share for the first quarter was RMB 5.80 compared with RMB 2.54 in same period of 2021. Adjusted basic diluted net loss per share was RMB 4.20 compared with RMB 2.50 in 1Q 2021.

Turning to our capital allocation and liability management. We announced our \$500 million share repurchase program in early March. As of March 31, 2022, approximately 1.4 million ADSs had been purchased under this program for a

total cost of US\$30.0 million. We are also optimizing our liability level, in Q1, the Company repurchased and cancelled an aggregate principal amount of US\$204.0 million of convertible senior notes with a total cash consideration of US\$147.9 million and recorded cash saving of RMB338.8 million. As of March 31, 2022, we had cash and cash equivalents, term deposits and short-term investments of RMB 24.7 billion.

As for our intent to convert to dual primary listing on the Main Board of Hong Kong Stock Exchange and the Nasdaq. The HKEX had acknowledged our application, setting October 3, 2022 as the proposed effective date for our conversion to primary listing. It will expand our access to a wider investor base while we expect to maintain our listing status on Nasdaq.

With that in mind, we are currently projecting net revenues for the second quarter of 2022 to be between RMB 4.85 billion and RMB 4.95 billion.

Thank you for your attention. We will 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.