

BILIBILI 3Q 2020 CONFERENCE CALL SCRIPT

Operator introduction

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

We see a golden opportunity to expand our reach in today's market. To seize this window, we stepped up our approach to user growth, with a focus on further growing our content, expanding our brand awareness and targeted channel acquisition. This was especially fruitful in our third quarter peak season. As a result, our user base hit a record high. In August, our MAUs exceeded a 200 million milestone, marking a new monthly record. Total MAUs for the third quarter were up 54% to 197 million, and DAUs were up 42% to 53 million, both on a year-over-year basis. Mobile users also continued to grow at a faster pace. Mobile MAUs were up 61% year-over-year to 184 million in the third quarter. Our users are highly engaged, spending an average of 81 minutes per day on our platform, making Bilibili one of the stickiest video communities in China.

The quality growth of our users is not only reflected in the high engagement levels, but also in the paying user conversions. MPUs were up 89% year-over-year, reaching 15.0 million in the third quarter, and our paying ratio improved to 7.6% from 6.2% in the same period last year. These increases drove our top line expansion and in the third quarter, revenues reached another record high of RMB3.2 billion, up 74% year-over-year. While we grew our top line, we also improved our gross margin. Gross margin was 23.6% in the third quarter, up from 18.9% in 3Q last year, and we are gaining even more operating leverage.

While Bilibili has become a household name among young generations, there are large groups of potential users who are just beginning to learn about us. The Gen Z community acts as our anchor as we begin to cast an even wider net. Today we are gaining traction with more diverse demographics than ever before. Marketing campaigns such as our newly introduced slogan *Bilibili – All the Videos You Like* has helped us to define and promote our appeal to mass audiences. During the third quarter, we launched a series of online and offline campaigns to promote our brand proposition to an even broader audience across different demographics. This strategy is working, and we're carrying these efforts into the fourth quarter.

Our industry partnerships are also strengthening our content offerings and brand. In August, we entered into a five-year business cooperation agreement with Huanxi Media through a strategic equity investment, in which we gain exclusive broadcasting rights to Huanxi's existing and upcoming high quality movies and TV drama series.

We've also entered into a 3-year exclusive partnership with Riot Games for exclusive live broadcasting rights of the *League of Legends* World Championship. This has significantly enhanced our position and brand in the important e-sports genre, especially during the S10 this year. And, in October we deepened our partnership with Sony by signing a strategic agreement with its subsidiary Aniplex to bring more premium anime content and mobile games to our users. These expanding alliances not only enrich our content offering, but also demonstrate that both domestic and international industrial leaders have common recognition in our unique value in China's entertainment market.

While we are working to build our brand and attract more users, increasing demand for high quality video content bode us well to capitalize on the growth prospects. China represents the largest online video population in the world. According to the CNNIC report, by the end of the first half of 2020, near 890 million users in China consumed online content in video format. Faster networks and smarter hardware enable more accessible content creation and consumption. Our experience over the past decade has made us the pioneer of video-lization movement. We are committed to capturing this market opportunity by further executing our growth strategy, which we believe will yield considerable return in the long run.

With that overview, I would now like to provide some more color on our content, community and commercialization activities.

I will begin with a review of our content.

Our PUGV content ecosystem is the cornerstone of our business and the main engine that powers our growth vehicle. For the third quarter, we had approximately 1.7 million content creators uploading 5.6 million videos per month, representing increases of 51% and 79%, respectively, both year-over-year. We continue to cultivate a nourishing soil to allow content creators to grow and flourish. By promoting originality and ingenuity, our algorithm enables the highest quality of original content to quickly gain traction and expand its fan base. In the third quarter, the number of videos that achieved 1 million video views increased 73%, and the number of content creators with over 10,000 followers grew 75%, both year-over-year. Meanwhile, we continue to help our content creators earn better monetary rewards through our cash incentive program and our newly launched advertising platform, *Sparkle*. The match-making platform is designed to better connect advertisers and content creators and bring more commercial opportunities to our creators by providing a safe and scalable product for native-ads. Each of these components help us maintain and grow this important PUGV ecosystem.

Our top 5 verticals in terms of video views in the third quarter were Lifestyle, Game, Entertainment, Anime and Tech & Knowledge. Among those, Tech & Knowledge is emerging as one of the fastest growing sectors. “Learning on Bilibili” is also trending, as many curious minds are attracted to our platform looking for informative and educational content. In the past 12 months, there were near 100 million users across different age groups watched knowledge-related videos on Bilibili, making us one of the top learning platforms in China.

While we enhance our content offerings in our leading verticals, we are actively expanding our content reach in new categories. The automotive sector was one of them. In Q3, video views in this genre grew rapidly at 177% year-over-year. This reflects our longevity and staying power with users as they mature. In this case, our core Gen Z users have come to a life-stage for auto consumption. This transition also helped us attract wide demographics and opened new advertising opportunities across broader industry groups.

Turning to our OGV, our investment in IP content is paying off. With our strong hold in this genre, Bilibili-produced Chinese anime not only attracted massive new users, but also became the most effective driver of premium memberships. This is especially true of our self-produced Chinese anime *Carp Reborn* 元龙, generating 260 million views in just three months since its launch. In September, we were excited to welcome the thrilling TV drama *Run for Young* 风犬少年的天空 to our platform, marking the first TV drama to fall under our collaboration with Huanxi Media. This show was an immediate hit after the release and trended No. 1 on Bilibili’s most searched list for weeks. This show has generated 380 million video views, setting a new record in this category.

We are also reaching new heights for our documentary and variety shows department. Our very first self-produced music variety show *Rap for Youth* 说唱新世代 received outstanding reviews beyond our typical community, generating approximately 410 million video views and 8.2 million bullet chats. The success not only enriched our music category, but also attracted and inspired a great number of musicians and music lovers. Looking at documentaries, we believe our recent agreement with BBC Studios is a strong endorsement of our documentary quality, and will further enhance our content library. Also, building on the success of last year’s gala, we’ll be airing another smashing New Year’s Eve Gala event. We expect this year will bring our community more excitement and joy.

Turning to our community...

While our user growth continued to rise, we set a number of new records across our key community metrics. In the third quarter, our daily video views reached 1.3 billion, up 77% year-over-year. Our users generated 5.5 billion monthly interactions through bullet chats, comments, likes and Bilibili moment posts, up 117% year-over year.

The number of our official memberships is also on the rise. At the end of the third quarter, we had 97 million official members who passed our 100-questions exam, up 56% year-over-year. Retention levels also remained strong, well above 80%. With a decade of experience under our belt, we believe our community remain one of our biggest competitive advantages and moats in the evolving online entertainment industry.

Turning to our commercialization progress...

The growing traffic on our platform fuels each of our business line as we roll out more premium content and services to meet our users' diverse entertainment needs.

On our games business:

Revenues from our mobile games business were RMB1.3 billion, up 37% year-over year, accounting for 40% of our total revenues. Building on our massive game lovers base, we continued to expand our game offering in diverse genres as we maintained the popularity of our existing titles. Our new blockbuster game *Princess Connect* 公主连结 continued to resonate with our fans and attract new users. It was another strong testament to our robust distributing and operating capabilities in the ACG genre. In October, we renewed our exclusive *FGO* license with Aniplex and celebrated the game's 4th anniversary. Additionally, we launched a few new titles during the third quarter, which included *Animistic* 万灵启源, *Zhan Yao Xing* 斩妖行, and *Ash Arms* 灰烬战线, all of which have been well received by our users.

As for our game pipeline, we have 10 titles in diverse genres that have acquired approvals and are ready to be released in the coming quarters. Next in queue is *Sword Art Online: Integral Factor* 刀剑神域黑衣剑士:王牌, an exciting MMORPG, planned for launch at the beginning of 2021.

Looking at our jointly-operated games, we continue to work with leading game developers to bring our users premium titles. Our solid reputation, strong game

operation capabilities and high-density gamer demographic have made Bilibili the go-to platform for joint operating partners. In September, as its main Android partner in China, we began jointly operating the highly anticipated *Genshin Impact* 原神. The massive success of *Genshin Impact* under our operations is another feather in our cap. Other near-term joint titles include a plan to distribute NetEase's *Harry Potter: Magic Awakened* 哈利波特：魔法觉醒.

Turning to our VAS business ...

Revenues from VAS increased by 116% year-over-year reaching RMB980 million in the third quarter. Our growth was mainly driven by increased contribution from premium memberships, live broadcasting and other value-added services.

As our brand name continue to spread, we are attracting business partners and live-broadcasting hosts, and adding new and diverse content to our growing library. Esports is a prime example. Our *League of Legends* World Championship live broadcasting right has secured an important place for Bilibili in the thriving esports genre. As we showcase our capabilities, more esports hosts and lovers are turning to Bilibili's immersive live broadcasting experience. For the entire S10 Championship season, total live-broadcasting page views related to the game increased by over 300% compared with S9 last year.

We are pleased to see our users' growing willingness to pay for advance or exclusive access to our OGV content. By the end of the third quarter, we had 12.8 million premium members, up 110% year-over-year. As we roll out more exciting content, we are confident we can continue converting more paying subscribers.

Finally, our advertising business. Despite challenging macro environment, we delivered another accelerated growth in our advertising business. Revenues from the segment reached RMB558 million, up 126% year-over-year. Our efforts to spread our brand name not only attracted wider user groups but also impressed many new business partners. Advertisers across different industries are turning to Bilibili to tap into the coveted young demographic. Our top 5 leading verticals in the third quarter were **E-commerce, food & beverage, games, 3C products, and automotive.**

In summary, we are on an excellent growth trajectory. With solid execution of our user growth initiatives, we continue to improve our brand equity and reach new heights across key user metrics. The industry's trend toward video-lization is working strongly in our favor as we provide the most unique community experience

to both content creators and users. Capitalizing on this momentum, we aim to further grow our brand, enrich our content offerings and unleash the great potential of our expanding online entertainment ecosystem.

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

Our total net revenues increased by 74% year-over-year to RMB3.2 billion, exceeding the high end of our guidance. With our non-games accounting for 60% of 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 89% year-over-year, reaching 15 million in the third quarter.

Cost of revenues increased by 63% year-over-year to RMB2.5 billion. Revenue-sharing cost, a key component of cost of revenues, was RMB1.2 billion, a 77% increase from the same period in 2019.

Gross profit increased by 117% year-over-year to RMB762 million. We're seeing more 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 23.6% in the third quarter.

Total operating expenses increased to RMB1.8 billion, up 138% from the same period of 2019.

S&M expenses were RMB1.2 billion, representing a 227% increase year-over-year. The increase was primarily attributable to the increased channel and marketing expenses associated with our app and brand, as well as increased expenses for our mobile games and sales and marketing personnel. Building our brand and appeal among a broader audience is one of our key initiatives in 2020. This strategy is affording us far reaching market gains that we think will have long term effects. We plan to continue building on this momentum to further strengthen and expand our virtuous growth cycle.

G&A expenses were RMB253 million, representing a 55% 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 RMB401 million, representing a 62% increase year-over-year. The increase was primarily due to increased headcount in research and development personnel.

Net loss was RMB1.1 billion for the third quarter of 2020, compared to RMB406 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 RMB990 million, compared to RMB343 million in the same period of 2019.

Basic and diluted net loss per share were RMB3.08.

Adjusted basic and diluted net loss per share were RMB2.76.

As of September 30, 2020, we had cash and cash equivalents, time deposits, as well as short-term investments of RMB14.1 billion, or US\$2.1 billion, compared to RMB8.1 billion as of December 31, 2019.

Our monetization capabilities continue to improve as we leverage our growing traffic base of users across an increasingly broad spectrum of demographics. We'll also continue to roll out premium content and services to convert more paying users. We believe that over the longer term, these 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 fourth quarter of 2020 to be between RMB3.60 billion and RMB3.70 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.