

Operator

Good day, and welcome to Bilibili's 2024 Second 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 - Bilibili Inc. - Executive Director of IR

Thank you, operator. During this call, we'll 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 filing with the SEC and Hong Kong Stock Exchange.

The non-GAAP financial measures we provide are for comparison purposes only. The definition 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 senior management are Mr. Rui Chen, Chairman of the Board and Chief Executive Officer; Ms. Carly Li, Vice Chairwoman of the Board and Chief Operating Officer; and Mr. Sam Fan, Chief Financial Officer. I will now turn the call over to Mr. Fan, who will read the prepared remarks on behalf of Mr. Chen.

Sam Fan - Bilibili Inc. - CFO

Thank you, Juliet, and thank you, everyone, for participating in our second quarter 2024 conference call to discuss our financial and operating results. I'm pleased to deliver today's opening remarks on behalf of Mr. Chen.

We delivered solid second-quarter results with accelerated topline growth, improved margins and healthy community development.

In the second quarter, our total revenues increased by 16% year over year to RMB 6.13 billion. Our advertising business led this growth, with ad revenue growing by 30% year over year. Revenues from our Games and Value-added services also increased by 13% and 11% year over year, respectively. The momentum across our business lines is a strong testament to our execution in increasing our commercialization efficiency and unlocking the value of our community.

Increased revenues from our higher-margin advertising and games businesses boosted our gross profit by 49% year over year. Gross profit margin rose to 29.9% in the second quarter, up from 23.1% in the same period last year, marking the eighth consecutive quarter of margin improvement. Consequently, we significantly narrowed our adjusted operating loss and adjusted net loss by 69% and 72%, respectively, year over year. Moreover, we generated a record RMB1.75 billion in operating cash flow in the second quarter. Our deferred revenue balance at the end of Q2 also increased by RMB738 million from the end of Q1. With this progress, we are confident that we can achieve our non-GAAP breakeven target in the third quarter of this year and continue to improve our profitability thereafter.

While we have been accelerating our financial performance, our community continued to thrive. In the second quarter, our DAUs increased by 6% year over year, reaching 102 million, and MAUs grew to 336 million. Our community remains highly engaged, with users spending a daily average of 99 minutes on our platform. As we move into the summer season, we continue to see strong seasonality in terms of user engagement and retention.

On June 26th, we celebrated Bilibili's 15th anniversary. Over the past 15 years, our platform has become a regular destination for nearly 70% of China's Gen Z+ population. This journey has brought us tremendous opportunities as these users have become a major consumer force in society. We've seen it in our advertising growth as we enhance our infrastructure to facilitate their evolving consumption needs; we've seen it in our game business as we reinvent strategy game to resonate more deeply with the preferences of younger audiences. As we continue to unlock the value of our community, we remain committed to our founding mission: to build a welcoming home for talented creators and like-minded individuals to connect over shared interests, and to satisfy their evolving needs for good content and service.

With that overview, I would like to discuss our core pillars of content, community and commercialization in more detail.

Beginning with content and community. Our strategy to encourage more high-quality

creators to generate content continues to prove beneficial. In the second quarter, average daily video views increased by 18% year over year to over 4.8 billion. Our leading content categories, such as games, knowledge and technology, continued to show solid growth in video views, all increasing by over 20% year over year. Meanwhile, users' demand in consumption-related categories also continued to surge in the second quarter. Video views in home appliances & decoration, automotive and fashion & cosmetics all grew by more than 30% compared with the same period a year ago.

We continued to provide effective and diversified monetization channels to incentivize our content creators. In the first half of 2024, about 2.1 million content creators received income on Bilibili. Content creators' total income through our ads and VAS products increased by 30% year over year. Notably, our innovative content-based products, such as premium courses and fan charging programs, are being well received by our users. In the first half of 2024, Content creators' total income from these two products increased by over 40% and over 430%, respectively, year over year.

Looking at our community metrics. In the second quarter, our DAUs spend an average of 99 minutes with us, compared with 94 minutes in the same period last year, driving up users' total time spent by 11% year over year. Monthly interactions increased by 11% year over year, exceeding 16.5 billion in the second quarter. By the end of Q2, the number of our official members increased by 13% year over year to 243 million, and their 12-month retention rate remained strong at around 80%.

Moreover, this July, we held our signature offline events, *Bilibili World* and *Bilibili Macro Link*, once again bringing our community together in Shanghai. More than 250,000 people traveled across the country to participate in the events, leading to a surge in Shanghai's travel-related consumption. The growing enthusiasm at these events showed our unparalleled influence among the young generation.

Now, I'd like to talk about our commercialization progress in each of our business lines.

First on our Advertising business. As our users mature with more disposable income, their commercial value unfolds as they seek more consumption-related content on Bilibili. The

demand is there and all we need to do is match the right ads with the right user. In the second quarter, we further improved our ad products and infrastructure to increase our ad efficiency. Specifically, we upgraded our ad placement system, featuring user-friendly placement tools and enhanced conversion capabilities, attracting and retaining more advertisers on Bilibili. In the first half of the year, the number of advertisers on our platform increased by over 50% year over year. Moreover, we continued to invest and improve our ad modeling capabilities to better understand our users' consumption behaviors and preferences, which enabled us to further enhance our ad-matching efficiency. Meanwhile, we incorporated more native video-style ad content, allowing us to expand ad load while maintaining user experience. We plan to further advance these initiatives in the following quarters and help our advertisers create ad materials more easily and place advertisements more automatically.

Industry-wise, our top 5 advertising verticals were **mobile games, e-commerce, digital products and home appliances, food and beverage, and automotive** in the second quarter. Our anchor verticals continued to deliver strong performances. During the 618 shopping festival, we not only secured more ad budgets from e-commerce platforms but also directly from online merchants in different verticals. Total GMV from video and live commerce increased by over 140% year over year during the period. Besides our leading verticals, we also saw incremental ad revenue from emerging verticals. In the second quarter, ad revenues from internet services, AI and education all increased meaningfully.

Turning to our Games business, game revenues resumed growth by 13% year over year in the second quarter to RMB1.01 billion, led by the excellent performance of our recently launched strategy game *San Guo: Mou Ding Tian Xia (San Mou)* and ACG game *Articrafter*. Our legacy titles also contributed steady game revenues and demonstrated remarkable longevity. As *FGO* celebrated its 8th anniversary, it returned to the top 10 on the iOS game grossing chart in July. As for *Azur Lane*, monthly active users reached a new peak in June with the celebration of its 7-year anniversary. These trends strengthened our commitment to the long-term operation of high-quality games.

We were delighted to see our first strategy game, *San Mou*, become an immediate blockbuster. On the first day of its launch, it ranked in the Top 3 on the iOS game-grossing chart, attracting millions of gamers to the three kingdoms' battlefields. *San Mou* also set a new record in our operating history, being the fastest title that hits RMB1 billion game grossing mark. With the launch of the second game season on Aug 3rd, *San Mou* returned to the Top 3 on the iOS game

grossing chart. The decent size of the SLG market, the early success of *San Mou* and the long-life cycle nature of SLG games give us confidence that it will become one of our flagship games with enduring longevity.

Over the years, our community has expanded exponentially and so has our gamer base. *San Mou*'s success marks a breakthrough in our genre diversification strategy and shows the vast potential of our games business. We will continue leveraging our leading role as a top gaming community and capitalizing on significant opportunities to reinvent games for the new generation of gamers.

Turning to our VAS business. Revenues from our VAS business increased by 11% year over year to RMB2.57 billion. We continued to add more live broadcasting content offerings, reinforcing the synergies between our live broadcasting and PUGV ecosystem to better cater to users' diverse interests.

We will also further explore opportunities in our other VAS businesses as our Gen Z+ users have demonstrated an increasing willingness to directly pay for the content they love. Our premium members continued to increase, reaching 22.3 million by the end of the second quarter, with over 80% of them subscribing annually or under auto-renewal packages, showing their continued loyalty and trust in our platform. User spending on our other VAS products also grew rapidly in the second quarter, particularly in premium courses, our fan charging program and avatar decoration. We expect these products to open more monetization potential across our massive PUGV content universe in the future.

We believe good content and community can bring people together, and the value of our users is just starting to show its potential. Our community is thriving, and our solid second-quarter results place us just one step away from profitability. We are excited to move forward and take Bilibili to the next level.

This concludes Mr. Chen's remarks. I will now provide a brief overview of our financial results for the second quarter of 2024.

For a closer look at our financial results, we encourage you to refer to our press release issued earlier today. As a reminder, all amounts are in RMB unless otherwise noted.

In the second quarter, we further advanced our commercialization capabilities, delivering accelerated year-over-year revenue growth across our core businesses. At the same time, we continued to expand our margins and considerably narrowed our losses. All of these financial improvements were founded on our topline growth with increased efficiency.

Total revenues for the second quarter were RMB6.13 billion, up 16% year over year. Our total revenues breakdown by revenue stream for Q2 was approximately 42% VAS, 33% advertising, 17% mobile games and 8% from our IP derivatives and other businesses.

Our cost of revenues increased by 5% year over year to RMB4.3 billion in the second quarter, while our gross profit rose 49% year over year to RMB1.8 billion. Our gross profit margin reached 29.9% in Q2, up from 23.1% in the same period last year.

Our total operating expenses were down 3% year over year to RMB2.4 billion in the second quarter. Sales and marketing expenses increased by 13% year over year to RMB1.0 billion, mainly due to increased marketing expenses for the new game launch. G&A expenses were RMB488 million, down 10% year over year. R&D expenses were RMB895 million, down 15% year over year, both related to reduced headcount expenses.

We narrowed our adjusted operating loss and adjusted net loss to RMB284 million and RMB271 million in the second quarter, reducing our losses by 69% and 72% year over year, respectively. Our adjusted net loss ratio in the second quarter came down to 4% from 18% in the same period a year ago.

Cash flow-wise, we generated a record RMB1.75 billion in positive operating cash flow in the second quarter, and a total of RMB2.4 billion in positive operating cash flow in the first half of the year. As I mentioned earlier, driven by the strong performances from our games and ads businesses, our deferred revenue balance at the end of Q2 also increased by RMB738 million from the end of Q1, paving a solid path to achieve our non-GAAP breakeven target next quarter, and sustainable profitability thereafter.

As of June 30, 2024, we had cash and cash equivalents, time deposits and short-term investments of RMB13.9 billion, or US\$1.9 billion.

Thank you for your attention. We would now like to open the call to your questions. Operator, please go ahead.