

## **Kuke 3Q21 Earnings Call Script**

### **Operator**

Good morning and good evening, ladies and gentlemen. Welcome to Kuke Music Holding Limited Third Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. We will be hosting a question-and-answer session after management's prepared remarks. I will now turn the call over to the first speaker today, Ms. Jane Zuo, Investor Relations Director of Kuke Music Holding Limited. Please go ahead, ma'am.

### **Ms. Jane Zuo, Investor Relations Director of Kuke Music Holding Limited**

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Thank you, operator. Hello, everyone. Welcome to our third quarter 2021 earnings call. On the call with me today are Mr. He Yu, Founder, Chairman and CEO; Ms. Patricia Sun, President; and Mr. Tony Chan, CFO of Kuke. Mr. Yu will share our views on the business model and strategic focus, Ms. Sun will then review our business operations, and then Tony will discuss our financial details. Afterwards, we will take questions from the audience.

Before we start, please note that this call may contain forward-looking statements made pursuant to the Safe Harbor provision for the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and observations that involve known and unknown risks, uncertainties and other factors not under the company's control, which may cause actual results, performance or achievements of the company to be materially different from the results performance or expectations implied by those forward-looking statements. All forward-looking statements are expressly qualified in their entirety by the cautionary statement, risk factors and the health of the company's filing with the SEC. The company undertakes no duty to revise or update any forward-looking statements for selected events or circumstances after the date of this conference call.

As a reminder, this conference call is being recorded. In addition, a live and archived webcast of conference call will be available on Kuke Investor Relations website at [ir.kuke.com](http://ir.kuke.com). You can check out our full earnings release on our IR website as well. It's now my pleasure to introduce Mr. He Yu, Founder, Chairman and CEO of Kuke.

### **Mr. He Yu, Chief Executive Officer & Chairman of Kuke Music Holding Limited**

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Thank you, Jane. Good evening and good morning everyone. Thanks for joining us and welcome to our third quarter earnings call.

I would like to start by sharing our thoughts on the resilience in our business model and our core strengths. In addition, I will share how we can leverage our capabilities and core classical music assets to survive in any macro environment.

We founded Kuke in 2007 with the mission to deepen the impact of classical music and monetize our core music assets through digital innovation in China. With almost 15 years in operation, Kuke has become a leading provider of classical music content, licensing, subscription, and smart music learning solutions in China. With our ever-growing copyrighted classical music content library at the core, we keep exploring and expanding our operations and music content consuming services, supported by our three main businesses lines in licensing & subscription, smart music learning solutions services, and live music events. We generate licensing revenue by licensing our music copyrights to digital music service providers for digital streaming or downloads through their online platforms. Our subscription revenue is generated by providing customers access to music content databases through websites and mobile apps as well as from the sale of smart music devices. These two services deliver cash flows that perform well even during a downturn in the economy. More importantly, our licensing and subscription revenues contributed to nearly half of our total revenues, 49.6% of total revenues in the third quarter.

In terms of our core strengths, our ever-growing copyrighted classical music content library continues to serve as the foundation of our business development. Our classical music content has always been one of our most valued assets and maintaining and growing this classical music content library is at the core of our ability to drive growth and innovation. Knowing this, we established a deep-rooted cooperation with Naxos since 2006, making it our global strategic business partner and founding Naxos China together, the core business of which is to distribute and promote global classical music in China and build a broader international stage for a new generation of Chinese musicians. Leveraging Naxos's ever-growing classical music content library, Kuke has made great progress in music content operations and keeps improving the value and monetization efficiency of these core assets.

2021 was an eventful year with COVID and regulatory changes impacting certain industries. Based on our views of the potential regulatory impact on our business, we believe the regulatory guidelines are likely to be positive for art learning. As we continued checking the operational situation this quarter, it is safe to say that the guidelines have no significant impact on our business development. In addition to our business partnerships with private kindergartens, we have begun exploring ways to work with public kindergartens, primary and middle schools to further enlarge our customer base in light of the changing regulatory and macro environment. During the quarter, a portion of our sales team had already been allocated to target public kindergartens. It is worth noting that we have already had experience and a successful track record in working with public educational institutions, such as universities and libraries. We are convinced that these efforts will be helpful to our customer base, which will enhance our ability to promptly adapt to potential regulatory changes going forward.

As one of the first classical music licensing and subscription service providers in China, we benefit from a significant early-mover advantage in terms of our content offerings, brand reputation, and customer loyalty. We remain true to our mission and dedicate ourselves to the development of classical music in China. In early October, we held the very successful 24<sup>th</sup> Beijing Music Festival with the theme of "Masters and Celebrations", which served as a bridge for multi-dimensional dialogue between Chinese and foreign composers. Earlier this month, we also sponsored the 16<sup>th</sup> International Beethoven Piano Competition in Vienna Golden Hall to celebrate Beethoven's 251<sup>st</sup> birthday. Additionally, Naxos China, our subsidiary, recently launched the production and global release of the album of "Ding Shande: Essential Art Songs" in association with Naxos.

Leveraging our ever-expanding copyrighted music content library through our unmatched access to more than 900 top-tier record companies including Naxos, we are confident in our ability to continue cultivating interest in classical music and foster demand for our overall classical music entertainment and learning solution services.

Next, I will pass it over to our president of Kuke, Patricia to share more details in each business segment.

### **Ms. Patricia Sun, President of Kuke Music Holding Limited**

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Thank you, Mr. Yu. Good morning and good evening, everyone.

Our third quarter results were marked with strong demand recovery, meticulous strategy execution, and continued efficiency improvements in every area of our business.

We further grew our licensing and subscription revenue, which increased by 162.8% year over year to RMB41 million in the quarter, mainly driven by our improved business synergy with Naxos, ever-expanding content library, and growing brand awareness.

During the quarter, we continued to drive our progress by leveraging improved synergies with Naxos, a world-leading classical music label as measured by the number of new recordings it releases and the breadth of its catalogue. Founded in 1987 by Klaus Heymann, a German-born entrepreneur based in Hong Kong, Naxos has since transformed itself from a budget label into a global music powerhouse under the continued stewardship of Mr. Heymann. Today, Naxos boasts a range of downloading and streaming platforms, a significant catalogue of multimedia products, a vast international logistics network, a recording engineering arm, a publications division, and a licensing department. As our largest content provider and important global strategic business partner, Naxos recorded many impressive achievements this year. For example, in early 2021, Naxos and its partners landed 7 Grammy Awards including Best Choral Performance, Best Contemporary Classical Composition, Best Classical Solo Vocal Album, Best Engineered Album-Classical, Producer Of The Year – Classical, Best Chamber Music/Small Ensemble Performance, and Best Classical Instrumental Solo. In November, our

subsidiary Naxos China initiated the production and global release of the album of “Ding Shande: Essential Art Songs” in association with Naxos.

As we further developed and leveraged our global strategic partnership with Naxos, we also made progress in expanding our content library. In the third quarter, we added over 80 thousand pieces of content, bringing our total amount of content to over 2.8 million, which includes more than 2.38 million music tracks, 427 thousand audiobook tracks; In addition, the library also includes 4000 hours of long-form concert videos, operas, and more, and over 3,000 pieces of digital sheet music. As a result of our expanded music offerings, our brand awareness has been greatly enhanced and the number of our library subscribers increased accordingly. In the third quarter, we garnered interest from 5 new public libraries and had secured 11 different university and library customers by the end of the third quarter.

In terms of our smart music learning solutions business, revenues in the third quarter reached RMB27.5 million, representing a year-over-year increase of 8.4 times. As of September 30, 2021, we grew the number of our collaborating kindergartens to 5,161 from around 4,500 as of June 30, 2021. During the twelve months ended September 30, 2021, we added 3,861 collaborating kindergartens to our network, increasing the number of active students over five-fold from 5,852 a year ago to 32,608.

To better facilitate our services and improve our customer experience, we established an operation center in the city of Wuhan to provide training services to kindergartens during the quarter. Even as we continue our business expansion in private kindergartens, we are actively exploring new monetization channels in public kindergartens, primary schools, and middle schools to enhance our revenue streams and further diversify our customer base in light of the changing regulatory and macro environment. Considering the regulatory uncertainties and the global chip shortage, we proactively slowed our pace in launching services for new kindergartens during the quarter. This strategic shift may cause some near-term fluctuations in our top-line performance. As far as we can see, overall market demand remains strong. As we continued to unlock additional demand nationwide, we are confident that we can fulfill the backlog of orders in the quarters to come.

For our live music event segment, revenue in the third quarter reached RMB14.2 million, representing a year-over-year increase of 134 times. During the quarter, we provided planning and execution services for commercial performances to music groups.

Thanks to the undeniable value of our classical music assets, we benefited from growing brand recognition and launched the highly successful 24<sup>th</sup> Beijing Music Festival in early October, the revenue from which will be fully recognized in the fourth quarter. The Festival spanned across 16 days, celebrating this year's theme of "Masters and Celebrations." We hosted audiences at the festival for 18 sets of performances across 20 main concerts, encompassing a variety of genres including symphonic music, opera, vocal music, chamber music, percussion music, and orchestral film music. Beyond the exciting professional performances, the 24<sup>th</sup> BMF also featured children's

concerts, "Music at Noon" concerts, master classes, lectures, and other public events to appeal to a diverse array of audiences.

In addition, we co-sponsored the 16th International Beethoven Piano Competition with Naxos. The competition is Austria's oldest international piano competition and ranks among the most renowned music competitions today. Founded more than 50 years ago, it is hosted by the University of Music and Performing Arts Vienna. On November 6th and 7th, we completed the initial screening of the final round of the 16th International Beethoven Piano Competition in 5 cities across China and adapted the screenings into content for cinemas. This unique classical music content is sure to inspire future generations of Chinese pianists. By leveraging our strong position in classical music and our synergies with Naxos, we will continue to create and deliver innovative viewing and listening experiences through enriched content for our customers.

During the third quarter, we leveraged our core assets in copyrighted classical music content and our operating capabilities to drive growth for our three main business lines. We also proactively engaged various potential customers to further diversify our revenue to respond to potential changes in the regulatory and macroeconomic environment. We are convinced that these efforts will help us further solidify our market leadership going forward.

With that I will pass the call over to our CFO, Tony, who will walk you through our financial details for the quarter.

### **Mr. Tony Chan, Chief Financial Officer of Kuke Music Holding Limited**

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Thank you, Patricia, and hello everyone. Before we start our detailed financial discussion, please note that we will present non-IFRS measures today. Our non-IFRS results exclude certain non-cash expenses, which are not part of our core operations. Details for these expenses can be found in the reconciliation tables on our press release. Please note that, unless otherwise stated, all financial numbers we present today are for the third quarter of 2021 and are in RMB terms. All comparisons are on a year-over-year basis unless otherwise stated.

During the third quarter of 2021, our revenue increased by 343.6% to 82.7 million from 18.6 million in the prior year period. This increase was driven by revenue growth in all three of our business segments. Our licensing and subscription revenue in the third quarter was 41 million, compared to 15.6 million in the prior year period. The increase was mainly due to an increase in licensing agreements secured during the quarter. Revenue from our smart music learning solutions business increased by 8.38 times to 27.5 million from 2.9 million in the prior year period, mainly due to robust growth in both the enrollment of kindergarten students and sales of our smart music learning solutions. Revenue from our music event business also increased by 134 times to 14.2 million, as we began providing performance service to orchestras in China earlier this year.

Total cost of sales increased by 342.6% to 29.6 million, in line with the increase in our revenue.

Gross profit was 53.1 million, representing an increase of 344.1% from 12 million in the same period last year. Gross margin remained stable at 64.2% for both the third quarter and the prior year period.

Operating expenses were 72.4 million, compared to 19.9 million in the prior year period. Selling and distribution expenses were 15.7 million, compared to 7.4 million in the prior year period, mostly due to an increase in distribution expenses associated with increased sales of our smart music learning solutions. Meanwhile, administrative expenses were 32.7 million, compared to 11.8 million in the prior year period, mainly due to increases in share-based compensation expenses and research and development expenses.

Operating loss in the third quarter was 20.8 million, compared to 9.5 million in the prior year period. Our loss for the period was 24.4 million, compared to 12.3 million in the prior year period, and non-IFRS profit was 20.5 million, compared to non-IFRS loss of 8.9 million in the same period of 2020. Basic and diluted loss per ADS were both 0.83. Basic and diluted non-IFRS profit per ADS were both 0.7.

Moving on to our balance sheet and liquidity. As of September 30, 2021, we had a total of 105.3 million in cash and cash equivalents.

Full year 2021 revenue is expected to be between 300 million and 350 million. After analyzing and taking into account the impact of COVID and higher hardware costs due to the global chip shortage, we are taking preemptive actions to slow down the pace of our new kindergarten deployment to balance our business growth, decrease risk exposure, and improve cost control. Furthermore, we've also begun exploring ways to engage public kindergartens and schools to enhance our revenue streams and further diversify our customer base in light of the changing regulatory and macroeconomic environment. We are confident that doing so enhances our competitiveness and strengthens our resilience.

This concludes our prepared remarks for today. Operator, we are now ready to take questions.