

## **Kuke 4Q21 Earnings Call Script**

### **Operator**

Good morning and good evening, ladies and gentlemen. Welcome to Kuke Music Holding Limited Fourth Quarter and Full Year 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 fourth quarter and full year 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 fourth quarter and full year 2021 earnings call.

We finished the year of 2021 with strong financial results. Our full year revenues reached RMB302.0 million, representing an increase of 85.4% year over year; especially, our copyrighted classical music licensing revenue reached an all-time high to RMB88.2 million. We continue to make good progress on multiple fronts, including the copyrighted classical music licensing segment, the smart music learning solutions segment, and our investment in NFT platform KOLO. With almost 15 years in operation, Kuke has become a leading classical music consumption and learning platform. Leveraging our rich copyrighted classical music content at the core, we continue to explore and expand our operations.

As we have mentioned in the third quarter's earnings call, our music learning solutions segment will place greater focus on working with public kindergartens, primary and middle schools to further diversify our customer mix in light of the current regulatory environment. Our smart music learning solutions segment continues to grow, contributing to over 50% of total revenue during Q4 and 40% of total revenue for fiscal year 2021. Looking ahead, we are confident in the growing demand for smart music education from public schools. Recently, we have expanded our sales and marketing force for smart music learning solutions focusing on primary and secondary schools, which will propel us to gain greater market share in this growing segment. As a leading classical music consumption and learning platform, we have full confidence in our growth outlook as China's budding classical music industry continues to thrive.

As we continue to strengthen our core businesses, we are also actively pioneering new paths to enhance our monetization capabilities and our position across the value chain in the classical music industry. Recently, we invested in KOLO, which is a leading NFT platform for classical music. In the future, we will continue to focus on driving innovation in the classical music industry through technology, and to create synergy with our ever-expanding classical music content library.

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 fourth quarter results were marked with effective strategy execution and continued efficiency improvements across our business segments.

With regard to our classical music licensing and subscription segment, we added nearly one thousand pieces of content through the long-term support of our international strategic partner Naxos. This brings our total number of music tracks to over 2.8 million, which includes 2 million tracks of traditional classical music and 354 thousand tracks of jazz, world, folk, and other genres of music.

These contents in aggregate covers approximately two thousand different types of musical instruments played by ninety-five thousand musicians from 266 countries and regions. In addition, our content library also contains over one thousand video titles, 427 thousand spoken content tracks and over five thousand volumes of sheet music. Naxos, as the largest independent classical music content provider in the world, provides our content library with a wide range of standard and specialty repertoires of classical, jazz, world, folk, and traditional Chinese music recordings that span from medieval to contemporary.

In the fourth quarter, with Kuke's strong and ever-growing classical music content, our institutional subscribers increased by 16 to 802 across China. Our licensing revenue in 2021 reached an all-time high of RMB88.2 million, representing a year over year growth of 52%, the increase is primarily attributable to increased customer portfolio and contract amount, which is driven by deeper penetration of classical music in China. For example, with the increasing adoption of large screen display in various commercial scenarios and at home, the demands for classical music and in particular long-form videos are getting stronger.

In addition to our core business development, we also want to share the development of Naxos China and Naxos.

By the end of 2021, Naxos China, a subsidiary of Kuke, has produced a double-digit number of local productions, featuring some of the best Chinese composers and influential performers in the world, such as Stradivari Quartett's live recording from Shanghai Symphony Hall and Jade-Chinese Contemporary Chamber Music by Beijing Contemporary Soloists. The release of these recordings exemplifies the widening path of bilateral communication of the classical music world from east to west.

In January 2022, Naxos and its affiliated labels was listed in a total of 5 award categories presented by the 2022 International Classical Music Awards, one of the most influential classical music awards worldwide. The awards Naxos won included: solo instrument, chamber music, symphonic music, contemporary and assorted programs.

In terms of our smart music learning solutions segment, the number of active students in private kindergartens totaled 32,424 during the fourth quarter, representing a year-over-year increase of 39.4%. Revenues for this segment in the fourth quarter reached RMB63.2 million, representing a year-over-year increase of 15.8%.

Since the fourth quarter, given the current regulatory environment, we slowed down the pace of private kindergarten partnership expansion and will prioritize establishing deep-rooted collaborations with high-quality kindergartens that maintain greater operating efficiency. We are also allocating more resources to establish collaboration with public kindergartens, primary and secondary schools. Earlier this year, the company entered into an equity transfer agreement to acquire a team of marketing and sales personnel experienced in promoting smart music learning solutions to primary

and secondary schools, aiming to meet the growing demand from public schools for smart music devices, teaching systems and copyrighted music content. With a more diversified customer mix, we are confident in growing our top-line performance as the overall market demand continues to thrive.

For our live music event segment, the revenue of music event segment in the fourth quarter reached RMB39.3 million, representing a year-over-year increase of 45.1%, mainly driven by our marketing, planning and execution services for live music events in China, and newly-launched smart music learning hardware product. In Q4, we have also successfully completed the 24<sup>th</sup> Beijing Music Festival in October, the revenue of which has been fully recognized in the quarter.

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 for the fourth quarter and full year of 2021 are in RMB terms. All comparisons are on a year-over-year basis unless otherwise stated.

During the fourth quarter of 2021, our revenue decreased by 3.2% to 123.8 million from 128.0 million in the prior year period. Our licensing and subscription revenue in the fourth quarter was 21.3 million, compared to 46.4 million in the prior year period, because certain contracts that were supposed to be renewed in the fourth quarter were renewed in the third quarter instead. Revenue from our smart music learning solutions business increased by 15.8% to 63.2 million from 54.5 million in the prior year period, mainly due to the increases in number of partnered kindergartens and subscribing students. Revenue from our music event business also increased by 45.1% to 39.3 million, driven by revenues from marketing, planning and execution services for live music events in China, and newly-launched smart music learning hardware product.

Gross profit was 66.8 million, decreased from 102.0 million in the same period last year. Gross margin was 53.9%, compared to 79.7% in the same period of 2020.

By segment, the gross margin of smart music learning solutions was 67.6%, compared to 76.5% in the same period of 2020, mainly due to the increased sales of lower gross margin of smart music learning hardware product. The gross margin of classical music licensing and subscription was 52.7%, compared to 108.5% in the same period of 2020, mainly due to change of profit-sharing policy with music content provider. The gross margin of live music event decreased to 32.8% from 36.8% in the same period of

2020, mainly due to the increased expenses in the performance and marketing services provided to music groups in China.

Operating expenses were 47.1 million, compared to 49.7 million in the prior year period. Selling and distribution expenses were 37.6 million, compared to 8.8 million in the prior year period. The increase was primarily attributable to increased spending to promote our brands and products. Meanwhile, administrative expenses were 21.6 million, compared to 23.3 million in the prior year period.

Impairment losses on financial assets in the fourth quarter of 2021 decreased to (13.9) million from 17.6 million in the same period of 2020, mainly due to the settlement of overdue accounts receivable.

Operating profit in the fourth quarter was 18.5 million, compared to 55.8 million in the prior year period. Our profit for the period was 16.8 million, compared to 44.2 million in the prior year period, and non-IFRS profit was 14.3 million, compared to non-IFRS profit of 84.5 million in the same period of 2020. In the fourth quarter of 2021, basic and diluted loss per ADS were both 0.54; basic and diluted non-IFRS profit per ADS were both 0.49.

Moving on to our balance sheet and liquidity. As of December 31, 2021, we had a total of 59.0 million in cash and cash equivalents. With solid cash position and improvement in financial results, we remain confident that we're on the right path for accelerating the growth.

For full year 2021, revenue increased by 85.4% to 302.0 million from 162.9 million in 2020. Among which, our licensing and subscription revenue increased by 39.1% to 106.5 million from 76.6 million in 2020. Smart music learning solutions revenue increased by 100.8% to 118.1 million from 58.8 million in 2020. Live music event revenue increased by 181.2% to 77.4 million.

Total cost of sales increased by 191.7% to 129.1 million.

Gross profit in 2021 was 172.8 million, compared to 118.6 million in 2020. Gross margin in 2021 was 57.2%, compared to 72.8% in 2020.

Total operating expenses in 2021 were 228.4 million, compared to 126.1 million in 2020. Selling and distribution expenses were 73.6 million, compared to 25.8 million in 2020. Administrative expenses were 132.2 million, compared to 65.0 million in 2020.

Operating loss in 2021 was 47.9 million, compared to 3.1 million in 2020. Our net loss in 2021 was 56.1 million, compared to 15.2 million in 2020, and non-IFRS profit was 37.5 million, compared to 49.5 million in 2020. In 2021, basic and diluted loss per ADS were (1.96) and (1.94); basic and diluted non-IFRS profit per ADS were 1.28 and 1.27.

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