

**[TME] - Tencent Music Entertainment Group
Fourth Quarter and Full Year 2020 Earnings Conference Call
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Presentation

Operator: Ladies and gentlemen, good evening and good morning, and thank you for standing by. Welcome to the Tencent Music Entertainment Group 2020 Fourth Quarter and Full Year Earnings Conference Call. Today, you will hear discussions from the management team of Tencent Music Entertainment Group followed by a question-and-answer session. Please be advised that this conference is being recorded today.

Now I will turn the conference over to your speaker host today, Ms. Millicent T. Please go ahead.

Millicent T.: Thank you, operator. Hello, everyone, and thank you all for joining us on today's call. Tencent Music announced its quarterly financial results today after the market close. An earnings release is now available on our IR website at ir.tencentmusic.com as well as via newswire services. Today, you'll hear from Mr. Cussion Pang, our CEO, who will start the call with an overview of our recent achievements. He will be followed by Mr. Tony Yip, our CSO, who will offer more details on our operations and business developments. Lastly, Ms. Shirley Hu, our CFO, will address our financial results before we open the call for questions.

Please note that this call may contain forward-looking statements made pursuant to the safe harbor provisions of 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 these forward-looking statements.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements, risk factors and details of the company's filings with the SEC. The company does not assume any obligation to revise or update any forward-looking statements as a result of any new information, future events, changes in market conditions or otherwise, except as required by law.

Please also note that the company will discuss non-IFRS measures today, which are more thoroughly explained and reconciled to the most comparable measures reported under the International Financial Reporting Standards in the company's earnings release and filings with the SEC. You are reminded that such non-IFRS measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure, and other non-IFRS measures are not uniformly defined by all companies, including those in the same industry.

With that, I'm very now pleased to turn over the call to Cussion, CEO of Tencent Music. Cussion?

Cussion: Thank you, Millicent. Hello, everyone, and thank you for joining our call today.

2020 was an extraordinary year, with the pandemic impacting all walks of life and the macro economy. Yet, it also brought opportunities, expediting internet penetration, causing a paradigm shift in online content consumption and presenting potentials for online concerts.

The past year, we demonstrated strong resilience and agility, a commitment to investment in content, technologies and people, as well as innovation in new products and services, solidifying our position as China's leading music entertainment platform, and allowing us to build a strong foundation for our music content ecosystem. We closed 2020 on a very strong note and are excited about our next phase of growth, along our journey to evolve into an all-in-one online music and audio entertainment destination in China.

First and foremost, in the fourth quarter of 2020, both our financial and operational performance were solid. In particular, our online music services maintained its momentum, registering 29% year-over-year growth in revenues, up from 26% in the third quarter. Specifically, subscription revenues increased by 42% year-over-year. This outstanding performance was driven by 40% year-over-year growth of paying users, fueled by our effective paywall strategy, diversified bundled membership offering as well as continuously rising user retention rates. With 56 million online music paying users, a paying ratio of 9.0% up from 6.2% a year ago, we finished 2020 ahead of the curve and are confident that this success will continue in 2021 and years to follow.

For non-subscription revenues in the fourth quarter, we are pleased to report that we recorded triple-digit year-over-year growth from advertising for two consecutive quarters. This impressive growth was driven by increasing ad inventory and improving ecpm across our music application portfolio, in the form of splash screen ads and banner ads. We plan to continue developing our overall brand awareness to engage a broader array of advertisers, by initiating more creative advertising products such as immersive video ads, rewarded ads and audio ads. Looking into 2021, as we continue to leverage our in-house and Tencent's renowned advertising strengths and capabilities, we expect another year of strong growth from advertising.

Moving next to content. Our continued investment in procuring and developing content has provided our users with a rich, diverse and endless choice of entertainment which has been a key driving force behind our success.

Apart from comprehensive coverage through category expansion and deepening penetration, to further captivate the younger demographic, we continued promoting and pursuing trend-setting genres. From trend predictive models to content procurement and promotion, we have significantly increased our copyright coverage in new hit content which has contributed to the increasing engagement of our users. In the fourth quarter, our partnership with leading rap music labels, such as GOSH and 404 Rapper, resulted in more rap music streamed by younger users as compared to the beginning of 2020. We also made notable breakthroughs in Chinese ancient style music, total streams for which reached over 100 billion on our platform in 2020.

We also made significant progress in cultivating and promoting original music. Let me provide just a few examples: First, the scale of our Tencent Musician Platform expanded rapidly. In the fourth quarter, the number of participating indie musicians on the platform grew over 100% year-over-year, an outstanding rate in the industry. In particular, the number of exclusive indie musicians was 14 times of that in the same period a year ago, showcasing the recognition by indie musicians of our capabilities in promotion, platform support and well-designed incentive programs.

Second, the number of original songs uploaded reached over 1 million on Tencent Musician Platform by the end of 2020, doubling the number compared with a year ago. Numerous original blockbuster songs were incubated on the Tencent Musician Platform, such as "Story of the Wanderer" (浪子闲话) by Ruby Hua (花僮), with over 1 billion streams within three months of its launch. Our industry influence was significantly amplified when Wangqi (王琪) was enlisted by CCTV's Spring Festival Gala, one of the world's most-watched TV programs with more than 1 billion viewers for years, performing his signature song "The Shepherd of Koktokay" (可可托海的牧羊人), which has already gathered phenomenal popularity on our platform. These are great examples of what we can do, using our prestigious industry know-how, as well as in-depth insights and data mining abilities to foster and grow original music.

Third, we are proud to share that during the past year, we have dedicated even more

financially to this side of the business, which enabled over 60% of musicians to more than double their income. Such support will continue in 2021, contributing to a win-win situation for everyone.

Finally, on our Tencent Musician Platform, I am very proud to say that we deeply care about diversity and we are doing our part to promote gender equality. Our support of female artists and musicians, traditionally a minority in the music industry, has led to female indie musicians accounting for nearly 40% of total artists on Tencent Musician Platform as of the end of 2020. This is significantly higher than the industry average of around 20%, according to the 2020 China Musician Report.

Our music content leadership has been further cemented by strengthening partnerships with leading music labels and artists. For example, recently and ahead of the schedule, we extended a multi-year strategic licensing agreement with Warner Music, and expanded our in-depth cooperation through forming of a joint venture record label in China in future. We have confidence to continue to showcase 'new generation' artists to music lovers, unlock intrinsic value of music in China, and keep contributing to the prosperity and development of the music industry.

The next topic that I would like to discuss is the strategic importance of our long-form audio and our initial achievements during the first year of investment.

Before going into details, I would like to outline the exciting opportunities the audio services market presents us with, and how we can harness them to compete effectively and scale quickly.

- Firstly, this market has existed in China for a decade with no significant leader yet. Market penetration remains extremely low.
- Second, this fast-growing market has various potential natural synergies with online music entertainment, giving us a tremendous advantage over vertical players. According to third party research data, the audio market in China is projected to reach a massive user base similar to that of online music streaming over the next few years. With our massive user base and the complimentary nature of music and audio genres, we are able to seamlessly convert our music users to audio users, positioning us to emerge as a significant player while ultimately accelerating the penetration of online audio in China.
- Thirdly, our strategic alliances with prominent content partners, such as China Literature, and other content collaboration within Tencent online entertainment ecosystem will continue to empower us to offer a wide-range of content quickly. During the fourth quarter, our number of licensed titles was up by 370% year-over-year, covering a broad spectrum of audio categories such as audio drama, Chinese comedy, parenting and history, apart from well-loved literature.
- Fourth, our two-pronged approach to integrating with our music applications as well

as launching a standalone application is unique, and allows us to effectively acquire users at low costs and scale up quickly. For example, we significantly increased our long-form audio MAUs penetration in the fourth quarter of 2020 to 14.8% from 5.5% for the same period of 2019. Such a hybrid model differentiates us from other players at home and abroad.

- Fifth, our recent acquisition of Lazy Audio, which is expected to be consolidated in the first quarter of 2021, will become another driver that will help us forge ahead in the pursuit of growth in the years to come.

Our view on long-form audio is strategic and long-term. We believe that investment in content, whether licensed audio books or podcasting, PGC or UGC, will improve user time spent, user loyalty, and eventually revenue per user. This is evidenced by a 20% sequential increase in average daily user time spent in the fourth quarter. Its DAUs reached nearly 10 million at year end of 2020, and is on track to double by 2021. Over the past few quarters, we had a good start in monetizing our long-form audio business, through effective bundled offerings with our existing music streaming services and attractive pricing for stand-alone audio membership. With increasingly enriched content and growing users, we will tap into audio ads to unlock commercial value which will boost our revenue.

We constantly ask ourselves what else we can do better to improve user engagement. In 2020, we further expanded our coverage of a broader set of music usage scenarios, integrating with smart speakers, in-car audio systems, TV and making inroads in the public performance market. Although not yet included in our reported online music MAUs, during the fourth quarter of 2020, smart devices enjoyed a solid year-over-year growth in user scale, providing additional channels for users to consume more content and interact with us.

In summary, we achieved solid progress across our full business spectrum in 2020, in terms of scale, industry leadership, content diversification, monetization, and innovation. In particular, our online music services, with improving economies of scales and diversified revenue streams, achieved high quality revenue growth and margin expansion throughout the year. In 2021, we expect the strong momentum of our businesses to continue and anticipate a faster revenue growth across the board compared to 2020.

With that, now I would like to turn the call over to Tony who will discuss other highlights and important areas of focus for our businesses. Tony, please go ahead.

Tony: Thank you, Cussion. Hello, everyone.

Apart from the key developments discussed by Cussion just now, I will provide additional highlights for our online music services before I move on to the discussion of our social entertainment services.

During the fourth quarter, core users are increasingly engaged with our platform, despite the sequential decline in music MAUs, average daily time spent per user has increased. This is a result of our concerted efforts to enrich both music and audio content offering as well as the launch of innovative product features and services for Putong Community and TME Live. Next, I will elaborate more on these efforts.

First, as a pioneer in the music fan-based economy, our digital album performance continued to create new milestones, becoming a vital distribution channel for musicians, further distancing ourselves from peers in terms of promotional capabilities. In the fourth quarter, we released many digital albums such as "π-volume.4" by LUHAN (鹿晗), a well-known trend-setting male singer, "THE ALBUM" by BLACKPINK, a top Asian female band, and "In My Thoughts (牵挂)" by Zhang Yunlei (张云雷), a rising star as a singer and Chinese comedian. JJ Lin (林俊杰) made three digital releases on our platform, including his fourteenth album, "Drifter·Like You Do (幸存者·如你)", which topped multiple music charts on the first day of its release.

To explore new opportunities in the dynamic market, we will continue to transform and innovate the fan-based economy in China's music industry. In 2021, we will continue to push the boundaries of our fan-idol connections and lead industry innovation in areas such as digital albums, virtual benefits, fan meetings, offline events, and merchandise sales.

Second, in our relentless pursuit of enhancing the user experience, we continuously upgrade our products with music as our home ground to make online music services more social, visual and personalized.

In July 2020, we introduced Putong Community in QQ Music, through which we foster cultural communities with youthful and trend-setting content and interactions. We have continued to make it more interactive and appealing, which has led to consistent increases in DAUs penetration rate, and user retention in the fourth quarter. Our efforts also brought resounding endorsement from younger users, with users in their teens and early 20's accounting for a large portion of Putong Community users, higher than their presence in QQ Music.

In December 2020, QQ Music successfully held Boom Boom Award, a forum that encouraged young people to vote on what was popular in 2020 and offered a glimpse into their views on future trends. It attracted interactions from home and abroad, generating 2 billion instances of social media buzz, driving active users in the Putong Community to a record high.

Fans Club (粉丝说), a new community-focused channel introduced by Kugou Music in the second quarter of 2020, also received strong recognition particularly among young users. This is evidenced by more than half of Fans Club users being in their teens and mid 20's, with total user time spent increasing 15% sequentially during the fourth quarter.

When it comes to video enrichment, we continued to transform the conventional

experiences of music streaming. Kugou Music created a video-based music product by pioneering embedded MVs on music streaming page, further catering to the needs of users for consuming music videos and bringing in a more immersive audio-visual experience. As a result, on a sequential basis, DAUs for embedded MVs on streaming page grew over 70% and daily total time spent increased by 88%.

With tens of millions of songs available to be streamed, we continued to leverage our proprietary user insights and data analytics to provide users with more personalized experiences, which has led to a sequential increase in the proportion of streaming volume driven by recommendation.

Technologically, we continued to shine. In the world-renowned MIREX global song recognition technology competition in 2020, Kugou Music was the winner in the Audio Fingerprinting category, while QQ music's predictive model broke multiple world records in the area of Patterns for Prediction. Aided by these technologies, we are able to improve our predictive capabilities on the popularity potential of music before a wide scale promotion. And in the fourth quarter, we successfully discovered and promoted chart topping songs such as "Wrong Headed (执迷不悟)" and "Swallow Never Rests (燕无歇)".

Now let's turn to our social entertainment services, which in general, maintained a steady performance in the fourth quarter. While live streaming business continued to recover healthily post Covid-19, WeSing delivered faster growth thanks to product enhancements to improve its competitiveness and monetization efficiency.

First, let me discuss our online karaoke services. The year 2020 presented WeSing with challenges and opportunities. To take up and respond to competitive pressure, we refocused, and made effective adjustments to enhance WeSing's core and differentiated services that are music-centric and socially interactive, creating a fun and engaging platform that provides the best online karaoke experiences. We are pleased to see WeSing MAUs bottomed out during the fourth quarter, and user engagement has improved as active users increased in November/December compared to September/October and are turning increasingly loyal on WeSing platform, making a good start going into 2021.

Our fresh UI design and short-form video recommendation feed on the home page rolled out in September 2020 continued to gain traction. To lower the entry barrier and improve performance of recordings, we continuously enhanced audio and video recording tools, including multi-genre remix (多曲风 Remix) and auto-tune (自动修音), making it simpler and more fun to create and publish recordings. Both number of users published videos and penetration rate of publishing recordings improved sequentially in the fourth quarter. These efforts boosted content consumption as well as user engagement, which in turn enhanced the virtuous cycle of content generation and consumption.

Besides, our Friend Karaoke Room has brought the offline Karaoke experience online for families and friends to enjoy real-time interactions and facilitate tighter social connections. Leveraging the social power of music, Friend Karaoke Room maintained its

uprising momentum and led to a significant increase in user penetration and user time spent of online singing rooms in the fourth quarter.

As a result of this operational focus, WeSing has recorded improving average daily user time spent, the bottoming out of MAUs and improved monetization efficiency, setting a solid foundation for strong growth in advertising.

Our music-centric live streaming services delivered healthy operating metrics. Besides active performers, our robust content offering, effective and targeted operational initiatives, and personalized recommendations helped drive sequential improvement in user retention rate in the fourth quarter of 2020. We are also pleased with the increasing user engagement, as we rolled out diversified live-streaming content and attracted performers in categories such as ACG, Chinese ancient style and gaming.

In the fourth quarter, QQ Music live streaming continued to scale up, attracting popular musicians joining the platform and more interactive features added to facilitate social interactions. We are confident that such strong momentum will continue in 2021, and contribute more to our overall growth.

As user needs continue to evolve, we are constantly looking for new business opportunities, and actively pursuing new drivers for our next phase of growth through building an innovative online-merge-offline performance ecosystem.

For TME Live, there are a few exciting developments. As of the end of 2020, we successfully hosted more than 50 online live concerts of different styles and genres. In the fourth quarter, TME further expanded its brand's audience by holding 25 live performances for a wide-range of influential musicians from both home and abroad. In 2021, we will cultivate a comprehensive performance pipeline to enhance our support of musicians, and expand TME Live's coverage beyond top artists and provide a stage for a wider range of musicians to display their talents. As TME Live continues to increase its popularity and brand awareness, we are attracting rich pipelines of sponsorships to unfold long-term monetization potential.

In addition, we successfully hosted the second annual Tencent Music Entertainment Awards (TMEA) ceremony in Macao on January 23, 2021. Within short 48 hours, it generated 66 trending social media topics, attracting cumulative page views of 18.5 billion across the internet. The awards served to cultivate and promote high-quality music content to the public, as well as highlight the cultural virtues of the Chinese music market, benefiting the industry, artists, and users alike.

In conclusion, we are pleased with the well-rounded progress that we have achieved and 2020 was a year defined by our evolution into an all-in-one online music and audio entertainment destination in China. With a strong existing foundation, increasingly diversified growth engines, and our commitment to long-form audio investment and its future potential, we are confident and look forward to our next phase of exciting growth in 2021 and years to come.

With that, I would like to turn it over to, our CFO, Shirley Hu, for a closer review of our financials.

Shirley: Thank you, Tony. Hello everyone.

Next, I'll discuss our results from financial perspective. In the fourth quarter of 2020, our online music services continued its outstanding growth trajectory, particularly in music subscriptions and advertising, while social entertainment businesses continued its healthy growth, despite economic uncertainty and a changing competitive environment. Our total revenues for Q4 2020 reached RMB8.3 billion, up 14.3% year-over-year.

In Q4 2020, our music subscription business continued to grow rapidly with revenues of RMB1.6 billion and year-over-year growth of 42%, as a result of user retention improvements and effective paywall strategy execution. Paying users grew 40% while monthly ARPPU remained relatively stable year-over-year as we are dedicated to high quality user growth and protect the value of music in the industry.

Advertising is our key strategy. During the quarter, we continued to increase ad availability on our platforms, enhance product quality for our advertisers, improve efficiency as algorithm improves, and expand our sales force. As a result, our advertising revenues were more than doubled year-over-year for the second consecutive quarter.

Consequently, our online music revenues reached RMB2.8 billion this quarter, up 29% year-over-year.

Social entertainment services and other revenues were RMB5.6 billion, up 8.2% year-over-year, primarily due to growth from online karaoke. Social entertainment monthly ARPPU increased 26%, while paying users dropped 14.3% on a year-over-year basis. Significant growth of our ad business and annual gala events both contributed to ARPPU increase this quarter.

As discussed last quarter, we have always been focusing on monetization improvement. In Q4 2020, our advertising revenues continued to grow while number of paying users increased sequentially, leading to overall monetization improvement on the platform.

Gross margin was 32.4% in Q4 2020, which was unchanged sequentially and down 1.7% compared to same period last year. The year-over-year decrease was primarily due to increased investments in new product and content offerings such as long-form audio that are still ramping up in terms of revenue generation, and increased revenue sharing fees to strengthen our platform's competitiveness. Online music services continue to positively impact our overall margin.

Now moving on to operating expenses. Total operating expenses for Q4 2020 were RMB1.7 billion and was 20% as a percentage of total revenues, as compared to 19% in

the same period last year. Selling and marketing expenses were RMB773 million, up 15% year-over-year. The increase was due to higher promotional spending and user acquisition expenses to strengthen our products' competitiveness and solidify our advantage in music-centric live streaming. Higher costs associated with annual gala events such as Putong Community event, WeSing gala, also contributed to the increase. General and administrative expenses were RMB906 million, up 21% year-over-year. The increase was driven by increased investment in R&D for product enhancement and technology innovations such as long-form audio, WeSing International version, Friend Karaoke Room, that all leading to higher employee related costs in R&D.

Our effective tax rate for Q4 2020 was 5.5%, decreased from 9.3% last quarter, as some of our operating entities in China became qualified for certain tax benefits this quarter and the cumulative impact was recorded in Q4 2020. Our effective tax rate for full year 2020 was 9.8%.

Our net profit attributable to equity holders of the Company was RMB1.2billion. Non-IFRS net profit attributable to equity holders of the Company was RMB1.3 billion and non-IFRS net profit margin was 16.4%.

For full year 2020, our total revenues were RMB 29.2 billion, up 14.6% year-over-year. Net profit attributable to equity holders of the Company under IFRS and non-IFRS were RMB4.2 billion and RMB5.0 billion, respectively.

As of December 31, 2020, our combined balances of cash, cash equivalents and term deposits were RMB28.9 billion, representing an increase of RMB1.2 billion from Q3 which was primarily driven by cash flows generated operations.

Looking forward, we continue to be optimistic about the future of the broader music and audio industry. We are confident in the overall ecosystem and product pipelines that we are building in the long run. We'll keep focusing on new products and features, as well as monetization improvements on our platforms, while maintaining core content investments. Advertising is always our key strategy and we will keep improving ad product quality effectiveness and efficiency. Additionally, we are investing proactively on long form audio and are excited that Lazy Audio joined us, which will further accelerate our long form audio business development.

This concludes our prepared remarks. Operator, we are ready to open the call for questions.

Operator: We are now approaching the end of the conference call. I will now turn the call over to your speaker host today, Ms. Millicent T., for closing remarks.

Millicent: Thank you, everyone, for joining us today. If you have any further questions, please feel free to contact TME's investor relations team. This concludes today's call, and we look forward to speaking with you again next quarter. Thank you, and goodbye.

