

Tencent Music Entertainment Group**Second Quarter 2021 Earnings Conference Call Script****Speaker Dial-in: 1-412-317-6011**

Operator: *Ladies and gentlemen, good evening and good morning, and thank you for standing by. Welcome to the Tencent Music Entertainment Group Second Quarter 2021 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 today's host, 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 Executive Chairman, who will start the call with an overview of our recent updates. He will be followed by Mr. Ross Liang, our CEO, and Mr. Tony Yip, our CSO, who will offer additional thoughts on our product strategies, operations, and business developments. Finally, 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 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 pleased to turn over the call to Cussion, Executive Chairman of Tencent Music. Cussion?

Cussion:

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

As we announced on July 26, Tencent recently received an Administrative Penalty Decision issued by the State Administration for Market Regulation of the People's Republic of China (the "SAMR"). We sincerely accept the decision and will continue to strengthen our operations in accordance with all regulatory requirements, drive innovation and fulfill our social responsibilities.

In compliance with the requirements of copyright license exclusivity, we will operationally focus on the dual flywheels of content and platform to deliver high quality products and services to users and foster innovation.

We have taken several important steps in this regard. Specifically, as Executive Chairman, I am responsible for enriching our content ecosystem, whether licensed or self-produced, as well as expanding our capability within the music industry to offer additional value services and solutions to artists and users. Our CEO Ross oversees our platform and product strategies and is responsible for further deepening TME's partnerships with Tencent's ecosystem. Ross will elaborate on this in a moment.

We will continue to deepen our partnerships with hundreds of music labels to expand our **licensed content coverage in alignment with the new requirements** and work to provide more and better content offering to over 600 million music users through our multi-faceted product portfolio. We are pleased to report that we have been consistently making breakthroughs in diverse music verticals, including new hits, Chinese ancient style, hip-hop, and music for gaming, movies, television programs and variety shows, demonstrated by a comprehensive coverage of songs and particularly full coverage for hip-hop variety shows. We are also raising our profile among the younger generation by expanding cooperation with leading content IPs through programs such as the Collection of Chinese Ancient Style (国风集) and the Rappers' Alliance (说唱者联盟). This in turn, has resulted in a sequential increase in user engagement from young users.

While broadening our offering of copyrighted music, we have also been working closely with our upstream value chain, artists and other partners to create and produce more differentiated content. For example, we began to work extensively with Tencent across multiple businesses. Over the past few quarters, we partnered with prominent artists such as G.E.M. (邓紫棋), Jackson Yee (易烊千玺) and Angela Zhang (张韶涵), and **co-produced** over two dozen chart-topping songs across gaming, film, literature and comic categories. We also recently played a role in **co-producing** the theme song of the popular movie "Cliff Walkers (悬崖之上)," directed by a highly regarded Chinese film director. From creating the theme song itself to leveraging our talent pool to bring a famous artist on board to perform the song, we were pleased to be able to contribute to this award-winning project.

I am also pleased to share our progress in cultivating and promoting indie musicians. During the second quarter of 2021, through the **Tencent Musician Program**, our roster of indie artists achieved triple-digit year-over-year growth, with their song streams showing consistent increase both year-over-year and quarter-over-quarter. Musicians view us as a reliable partner given our well-structured financial incentives, which for the first time include a revenue-sharing mechanism for lyricists and song writers. They are also attracted by our efforts to pioneer enhanced copyright

protection based on blockchain technology, helping indie musicians to uphold copyrights without imposing financial burdens on them.

On top of that, our aptitude for cultivating blockbusters on the Tencent Musician Platform has grown significantly. For example, within three months of its release, with collaborative, cross-platform efforts from QQ Music, Kuwo Music and Kugou Music, the song “Coming in Late (来迟)” by Dai Yutong (戴羽彤) accumulated more than one billion streams and inspired numerous cover versions. In the future, we will strive to build a closed-loop system from musician discovery and management through multi-dimensional supports including more financial rewards, copyright protection, and education and training for musicians, all of which reflect our desire and determination to help musicians grow and succeed.

We have also upgraded our platform’s **promotional capability** and further developed our artists and repertoire (A&R) capability. For example, we connected lyricists and musicians with entertainment program producers, and helped our musicians such as Sunny Lai (赖美云), Deng Yujun (等什么君), Lambert (凌杰) and Mira (梦然) enlist and perform on top variety shows such as “The Treasured Voice 2 (天赐的声音第二季)” and “Young Forever Season 2 (我们的歌第二季),” providing them new stages on which to shine.

Finally, **TME Live**, our **online-merge-offline** performance brand, continues to bring new opportunities to the Company with a strategic focus on omni-channel promotion and monetization.

On the online side, we host monthly concerts for top artists to include new interactive monetization features such as ticketing, VIP privileges, and merchandise to create a holistic and more immersive user experience for online live performances.

On the offline side, TME Live is expanding its footprint with a plan to launch offline initiatives including daily live performances in key cities such as Beijing and Shanghai, in collaboration with the Tencent Musician Platform and the local tourism industry. We are also working with playhouses to organize weekly indoor music festivals, merging the offline party experience with rich online features.

With our progress updates in content, I would like to pass the call to Ross, who will share more about our platform strategies. Ross, please go ahead.

Ross:

Thank you, Cussion. Hello, everyone. Since I became CEO in April, my focus has been on strengthening our platform’s competitiveness and finding new ways to serve users better, through **videolization, socialization and community building**. Over the past few months, we have made good progress on these fronts.

With respect to **videolization**, we are applying shared middleware and architecture, which is crucial to further enhance video content offering across our platforms. Kugou Music continued to enrich embedded MVs on its streaming page, and we are pleased to see that its DAU penetration is increasing quarter-over-quarter. QQ Music

just launched a new version featuring immersive feeds in August, with expanded user cases and more diverse content. We anticipate these efforts will increase video views and the amount of time spent by users on our platforms.

Our **socialization and community building efforts** include several new initiatives, all of which are still work-in-progress. 1) We are upgrading the synchronized listening feature in QQ Music to encourage interactions among friends; 2) we recently launched Putong Planet, which connects users with a common taste in music more efficiently through targeted matches to inspire connections among strangers; 3) we are upgrading WeSing's online karaoke room, to make online singing more fun and socially engaging. The new version will offer a broader suite of online singing experience, including different party sizes ranging from solo and duet to small and large groups, as well as catering to different needs, such as singing-on-demand, sing along on demand, singing practice, intra-room PK and cross-room activities; 4) we will soon launch WeSing virtual live streaming room to provide new entertainment experience combining metaverse and live streaming. In the future, we will expand metaverse live streaming to more use cases, provide richer interaction opportunities and more imaginative virtual reality experience.

We have also made progress in partnering more closely with the broader Tencent ecosystem, another strategic move supporting our long-term success.

During the second quarter, we deepened collaboration with **Weixin Video Account**. This is an important step for us to 1) enrich the music video content on both TME platforms and Weixin Video Account; 2) leverage Weixin to expand our promotional capability; and 3) with allocation of video traffic to TME platforms, enhance private domain traffic and interactions to increase room for monetization in the future. As the first step, recently QQ Music for the first time joined force with Weixin Video Account and presented Elegant Summer Live, an online event featuring well-known musicians and bands. Our next step will be strengthening the interactions between artists and users by cultivating private domains for musicians, which in turn will improve music content interconnections on each of our platforms.

We further harnessed **Weixin's powerful social network** to boost user engagement and music-focused collaboration. First, QQ Music launched a new feature which allows users to update their Weixin status with the songs they're listening to, making sharing more dynamic and fun. Second, users can now customize their Weixin ringtones with selected music from Tencent Music. Third, by leveraging Weixin Translation's AI technology, QQ Music now supports high-quality translations of English songs into Chinese. Last but not least, we worked with Tencent Video to enhance exposure of video content. For example, within two weeks' of release, a well-known Chinese singer Li Jian (李健)'s newly released album, Forget Yourself, Forget Time (无时无刻) received half a billion social buzz, and its title track topped the QQ Music chart. We look forward to sharing more examples in future quarters.

Long-form audio is an effective complement to our music product and content portfolio and value-added to user engagement. During the second quarter, we re-structured this business unit to further streamline our two-pronged product strategy. We continued to enrich our licensed titles and accelerated our pace in adding podcasts for content diversification. As NBA China's official strategic music partner, we have cultivated an NBA podcast ecosystem, attracting a broad range of sports fans looking for new and creative ways to enjoy sports content. With these improvements, long-form audio MAUs grew over 90% year-over-year in the second quarter.

As one of our industry's leading innovators, we launched an **NFT digital asset platform** based on blockchain

technology. We will seek to offer more tools for artists to activate users, broaden exposure and unlock monetization opportunities.

In conclusion, there is still a lot of work to be done, but we have made a good start and have a clear line of vision ahead. Now I would like to turn the call over to Tony to discuss business highlights and important areas of focus. Tony, please go ahead.

Tony:

Thank you, Ross. Hello, everyone.

Online music mobile MAUs were 623 million in the second quarter. Despite some churn of casual users resulting in a year-over-year decline, MAUs were up slightly on a sequential basis. In terms of user engagement, core music users have become more engaged with our platform, as total user time spent was up year-over-year and quarter-over-quarter. In addition, paying users become more active on our platforms after they have subscribed to our services comparing to before they subscribe, which means as our paying user base grows, not only does this improve monetization, the level of engagement on our platform coming from this group of core users also increase.

We continue to expand our scope of services to the **IoT** market. As a result, our IoT MAUs recorded a year-over-year growth of 43% during the second quarter. As a new music content consumption channel, IoT enhances our ability to effectively roll out and promote new music content to a wider audience in a broader set of use cases in users' daily lives, making our services more ubiquitous and more convenient to our users.

We are pleased to report that growth momentum in our online music services continued into the second quarter. As a result of effective marketing and continued progress in adding high quality music content into the subscription plan, the number of paying subscribers to our online music services grew to 66.2 million, with record-high net adds of 5.3 million paying subscribers during the quarter. Our paying subscriber ratio grew to 10.6% in the second quarter of 2021, up from 7.2% during the same period last year. On a year-over-year basis, user retention continued to improve and average revenue per paying user remained healthy, reflecting users' growing willingness to pay for high-quality music content.

Advertising revenues delivered robust year-over-year growth rate in the second quarter. Ad revenue benefitted from an expanding pool of advertisers from a variety of industries, increased ad inventories and eCPM on a year-over-year basis, as well as optimized ad display. However, growth in the second quarter was lower than our expectation as they were impacted by the regulatory guidance on app launch splash-screen ads to improve user experience. We will continue to improve the user experience of our ads to comply with the guidance, and will also invest in new ad formats to meet the needs of diverse advertisers.

Turning to our roster of **online music products**, we further refined product positioning within our multi-faceted portfolio. For example, we further bolstered QQ Music's image as a young and trendy brand. First, we continued to

add popular and trendy content to meet the younger generation's demand for Chinese ancient style music, hip-hop and ACG genres as well as music within variety shows. Second, we deepened our presence into schools and college campuses through online and offline activities such as on-campus competitions and graduation ceremonies. Notably, the 2021 QQ Music Graduation Concert spurred nearly half a billion social buzz. Third, our new functions such as synchronized listening and Putong Planet will further boost interactions among users. Finally, as our Putong Community has become a cultural hot spot for young users, we are attracting more artists such as KUN (蔡徐坤), a pop star who just released his new album, Unknown (迷) on our platform.

Switching gears to our **social entertainment services**, both MAUs and paying users declined quarter-over-quarter due to intensified competition with other pan-entertainment platforms. In response, Ross elaborated earlier regarding our areas of focus to strengthen our competitiveness and we look forward to sharing more progress in future quarters.

For WeSing, in addition to the new **WeSing** initiatives that Ross just laid out, during the second quarter, we adopted technology to include an immersive chorus accompaniment sound effect, to mimic a large-scale graduation ceremony, as well as a multi-dimensional scoring system to sharpen our recording tools. These improvements have led to a more enjoyable user experience while recording songs, which in turn spurs increased engagement among users.

For our **live streaming services, amidst increasing competition,** we will steadily embrace the latest industry guidelines, and remain firmly committed to promoting a healthy and sustainable ecosystem for our users and performers. In this regard, during the second quarter, we continued to make progress with contributions from QQ Music Live Streaming and category expansion adding thrust to our efforts. With a dedicated tab fueling additional traffic, QQ Music live Streaming recorded solid growth and is on track to further scale up in the second half of 2021. In terms of category expansion, Kugou Live continued expanding its exposure in the Chinese ancient style category, with 34 themed events launched in the second quarter of 2021 alone.

One highlight for our live streaming is that we introduced our first cross-platform, live streaming event to extract operational synergies across TME's platform. In June, Kugou Live and WeSing jointly hosted their first cross-platform competition, giving live stream performers broader exposure to both platforms and an effective way to tap into a new audience base, successfully increasing the vibrancy of both platforms. This resulted in significantly higher revenue for participating hosts during the event, attracted more paying users to participate as well as more first-time paying users to send virtual gifts for the first time. Moving forward, we plan to replicate this successful event into new cross-platform opportunities.

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

Shirley:

Thank you, Tony. Hello everyone.

Next, I'll discuss our results from financial perspective. Our total revenues for Q2 2021 were RMB8.0 billion, up 16% year-over-year, driven by strong growth in online music services, particularly in music subscriptions and advertising.

Our online music revenues were RMB3.0 billion this quarter, up 33% year-over-year. In the second quarter of 2021, our music subscription business continued to grow rapidly with revenues of RMB1.8 billion and year-over-year growth of 36%. Net adds of paying user numbers were 5.3 million in Q2 2021, up 41% year-over-year, which set a new record high for quarterly net adds of paying users. These were resulted from our continuous improvements in products and contents, expanded sales channels and effective marketing campaigns. Monthly ARPPU was RMB 9.0 this quarter, compared to RMB 9.3 in the same period last year, as we offered more effective promotions to drive rapid growth in paying users this quarter.

Our Q2 advertising revenues had strong growth year-over year, but it was lower than our expectation as they were negatively impacted by a new guidance on splash ads issued by regulators to protect user experience. The year-over-year growth was mainly because we partnered more closely with Tencent and provided better advertising solutions to serve our customers, leading to increased ad availability, enhanced efficiency and improved eCPM.

To comply with the new guidance and mitigate its impact on our revenues, we are directing more resources to explore new advertising formats such as streaming page pop-ups and flip page, and other innovative products to meet the needs of diverse advertisers, which may take time to bear fruits.

Social entertainment services and other revenues were RMB5.1 billion, up 7% year-over-year, primarily driven by growth in revenues from QQ live streaming. Facing the competition from other pan-entertainment platforms, we are making efforts in retaining existing and attracting new performers, and improving efficiencies in redirecting traffic from music platforms to live streaming platforms. We are also revamping product features and exploring more diversified initiatives to maintain steady revenue scale in social entertainment services.

Additionally, advertising revenues on WeSing platform contributed to the year-over-year growth. However, we observed the growth was slowing down, as the business was also negatively impacted by the new guidance issued by regulators as discussed above.

Gross margin was 30.4% in Q2 2021, down 0.9% year-over-year, due to increased revenue sharing ratios for WeSing to strengthen our platform's competitiveness, as well as increased investments in new product and content offerings such as long-form audio.

Now moving on to operating expenses. Total operating expenses for Q2 2021 were RMB1.7 billion and was 21% as a percentage of total revenues, as compared to 19% in the same period last year. Selling and marketing expenses were RMB669 million, up 15.5% year-over-year. The increase was due to higher user acquisition expenses and promotional spending on new products such as long form audio to enhance our products' long-term positioning. General and administrative expenses were RMB1 billion, up 39% year-over-year, driven by higher number of employees in R&D as we invest in product enhancement and technology innovations. For example, we are applying the shared middleware and architecture, and we recently launched Putong Planet and will soon launch WeSing virtual live room. Additionally, post-acquisition awards and share based compensation expenses for previous management team and amortization of intangible assets, arising from the acquisition of Lazy Audio of approximately RMB 66 million also contributed to higher general and administrative expenses this quarter. Taking out the impact from the acquisition

of Lazy audio, G&A would have increased 30.1% year over year.

Our effective tax rate for Q2 2021 was 11.5%.

Our net profit was RMB 871 million and net profit attributable to equity holders of the Company was RMB827 million. Non-IFRS net profit was RMB 1.16 billion and non-IFRS net profit attributable to equity holders of the Company was RMB1.12 billion. non-IFRS net profit margin was 14.5%.

As of June 30, 2021, our combined balances of cash, cash equivalents, term deposits and short-term investments were RMB26 billion, representing a decrease of RMB1 billion from Q1 2021, primarily driven by payment for stock repurchase. Cash generated from operating activities had a positive impact on the combined balances.

Looking forward, we'll expand our investment in self-produced contents and Tencent Musician program to foster innovation, promote development of the online music streaming industry along with other industry participants and better serve our music users. Furthermore, we will keep focusing on new products such as long form audio and revamping existing products' features for our long-term healthy growth.

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

Operator:

We are approaching the end of the conference call. I will now turn the call over to your host, 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.