
Tencent Music Entertainment Group
2023 First Quarter Earnings Webinar

Tony: Good evening and good morning, welcome to Tencent Music Entertainment Group's first quarter 2023 earnings webinar.

TME announced quarterly financial results today after 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. Next, Mr. Ross Liang, our CEO, and I, Tony Yip, as CSO, 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.

Before we continue, I refer you to our safe harbor statement in our earnings press release, which applies to this call, as we will make forward-looking statements.

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 IFRS in the company's earnings release and filings with the SEC.

At this time, all participants are muted. After management's presentation, there will be a Q&A session. For participants who have dialed in by phone, please press "5" to ask a question. If you are accessing the call from the Tencent Meeting or VooV Meeting application, please click the "raise hand" button at the bottom left. And please be advised that today's webinar is being recorded.

With that, I'm pleased to turn the call over to Cussion, Executive Chairman of TME. Cussion?

Cussion:

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

We are off to a great start in 2023. Our strategic emphasis on quality growth propelled strong growth of our online music revenues in the first quarter. As the revenue size of our online music services has now caught up with social entertainment services for the first time, it signifies that our long-term commitment to developing a sustainable online music business model is bearing fruit. In addition to a healthy increase in our total revenues, our focus on efficiency optimization also drove robust net profit growth.

Content is the bread and butter of our business. We continued to **deepen partnerships with top music labels and artists**, so as to enrich our iconic music catalogues and vertical content offerings, as well as to expand users' benefits. We established a strategic collaboration with Rock Records (滚石唱片), providing users with iconic Chinese songs and original soundtracks of popular TV dramas, such as the works of Chenyue Chang (张震岳), Emil Chau (周华健), Jonathan Lee (李宗盛), Wu Bai (伍佰) and Mayday (五月天). We also strengthened our strategic partnerships with Ronghao Li (李荣浩), and Fenghua Qiushi (风华秋实), whose managed artists include Lu Han (鹿晗) and Black Panthers (黑豹乐队), as well as with HYBE from South Korea, who has artists such as BTS and SEVENTEEN on its roster. Additionally, with the feature of a seven-day head-start period, our partnership with JJ Lin for his new digital album was well-received among users. This new album also broke his previous sales record in terms of GMV on our platform. On

top of that, we also reached collaborations with well-known artists including KUN (蔡徐坤) and Oaeen (鱼丁糸) for head-start benefits on their new song releases and other areas, such as merchandise sales, online and offline performances, and artist-fan interaction events.

As for music verticals, to satisfy the increasing demand for rap music among younger audiences, we enriched our rap offerings by adding a number of new songs from heavyweight rappers, such as Masiwei (马思唯). Meanwhile, we reinforced our competitiveness in different genre verticals such as electronic music, gaming and classical music, among others.

In parallel with our efforts to expand our content library, we have facilitated the production of high-quality original content, unlocking more opportunities in the growing music industry. We have taken it upon ourselves to foster creativity and nurture artists through a rich variety of support programs, stage performances and monetization opportunities, with dedication to amplifying the influence of musicians and their works. With this goal in mind:

We participated in and promoted artists' growth through our **Tencent Musician Platform**, which offers abundant resources and diverse monetization avenues. As a result, the number of active musicians and singers who release new songs kept growing sequentially on our platform during the quarter, adding to the vibrancy of our ecosystem.

For example, we unveiled a new initiative, the "Emerging Force Program (新势力计划)," to discover musicians with high potential and encourage the production of high-class music. The program offers a wide range of artist services, including traffic support, revenue sharing and on- and off-line performance opportunities. By increasing the exposure and popularity of quality songs, along with amplifying artists' influence, we enhanced the vitality of the musician ecosystem on our platform. As of the first quarter, we had assisted 260 up-and-coming musicians in reaching their first million streams, and helped multiple artists make their debut performances on stage. Notably, after joining our "Emerging Force Program," the singer-songwriter Leezi (张羽涵) and Slow-mo (欧阳名洋) both saw a surge in their followers and streams. Going forward, we will continue to discover musicians with great potential by bringing together top artists, producers and music programs, particularly in bands, rap and pop music verticals.

Recently, QQ Music also launched a customized homepage for musicians (专属音乐人主页). Through this page, musicians can access data and insights in term of streaming, followers, and comments. This can empower better management of song distribution and promotion. In addition, this page also provides up-to-date support resources and policies of our platform.

Gen-Z musician Kirsty (刘瑾睿) was one of the many success cases that demonstrate our powerful ability to cultivate and promote artists. In the first quarter, we signed her to our Tencent Musician Platform, elevating her profile and promoting new songs through a variety of internal and external resources. As a result, the number of her followers more than doubled, growing from 50,000 to over 100,000 within just two weeks of her onboarding. With our diverse performance stages and all-around support in music production, we have been dedicated to elevating the influence of Kirsty and other aspiring indie musicians alike.

Furthermore, we teamed up with Billboard China to hold our first original music contest, "THE ONE." Our collaborative contest is designed to discover emerging artists with the ability to **produce quality original Chinese music**, as well as to help **expanding their global reach**. To that end, we invited excellent singer-songwriters and renowned singers in China and abroad, including Greyson Chance, Lenka, MIKA and TIA RAY (袁娅维), among others, to inspire contestants to produce original music and assess their performances. Through this cooperation, we will leverage Billboard's global

resources, influence and high international standards to provide talented musicians with end-to-end services, ranging from demo evaluation, song release, worldwide promotions, and all the way to customized performances.

Upon the solid foundation of our Tencent Musician Platform, we're well positioned to effectively facilitate the production and promotion of **original content**. We're also excited to see that we produced a number of **blockbuster songs**, creating many mega hits in the first quarter. For instance, "Rose of No Man's Land (无人区玫瑰)" by Lanxin Xu (许蓝心) has accumulated streams over 100 million, with its melody and lyrics paired and traded on our 5SING platform. Not only did this song make its way onto several music charts, but also it garnered additional market exposure via a writing relay of fiction stories inspired by its lyrics on short video platforms. Other hits in the first quarter included "Ok, go (勇气大爆发)," "Regret in the Wind (风中的遗憾)," "The Wind We Can't Hold (留不住的风)," "Baby I Love You," "Love on Fire (爱如火)," "Sea and Sky (海与天)" and "The Wanderer (漂泊的人)."

Excelling at producing prime original content, we have played an integral role in **expanding IP values across the entertainment industry**. As a case in point, we have created quite a few musical works for iconic films, games, animations, and other media. In the first quarter, we co-produced Zhou Shen's (周深) Chinese cover of the theme song for Makoto Shinkai's (新海诚) movie, Suzume (铃芽之旅). This song raked in over 100 million streams within only three weeks of its release. It also ranked first on the CMG Global Chinese Music Popularity Chart (CMG 全球华语音乐流行榜) and topped 12 other music charts. As you may notice, this song is also the hold music for today's earnings call.

Meanwhile, we continued to cooperate with the broader **Tencent ecosystem**, producing singles for 11 well-known games and four animations in the first quarter. Notable examples included "Praying for the Mountain and the Sea (祈愿山海)" for Honour of Kings (王者荣耀) and "Light of Dawn (黎明的光)" for Undawn (黎明觉醒: 生机), which simultaneously enhanced users' gaming and listening experience.

Before I conclude, I'd also like to highlight the progress of **TME Live**, our comprehensive online-merge-offline performance brand. Amid the performance market recovery, we are exploring innovative ways to monetize and interact with users. TME Live is well positioned to capture these market opportunities via our online-merge-offline capabilities, allowing us to provide users with superior audio-visual experiences anytime and anywhere. In the first quarter, we hosted a total of 29 online and offline concerts, including online concerts for Justin Huang (黄明昊), KUN (蔡徐坤), Meng Meiqi (孟美岐), Richie Jen (任贤齐) and Zhu Zhengting (朱正廷). Notably, KUN's and Richie Jen's concerts received widespread user acclaim, generating a total of 1.4 billion social media views and attracting almost 70 million unique visitors in the Tencent ecosystem. We also provided fans with the option to purchase custom merchandise while enjoying the shows. TME Live's unique performance formats, coupled with its high profile in the industry and with users, appeal to many well-known advertisers for sponsoring, such as PepsiCo, YangYuanQing (养元青) and JD.com.

We also continuously increase our presence in the offline performance, particularly as the public shows a growing interest for offline activities. In the first quarter, we organized tours in cities such as Shenzhen, Changsha and Hangzhou for musicians including Coola (小酷), Kafe.Hu, Pharaoh (法老), Switch GodLes (刘思鉴) and the rock and roll band WhitePaper (白皮书乐队). To foster closer and more engaging connections between musicians and their followers, we encourage online audiences to share their thoughts and feelings through online bullet chats during performances.

Going forward, we will continue to explore the on- and off-line integrated performance formats, offer intriguing artist lineups and exciting music experiences, elevate our content ecosystem and user engagement, and thus capture incremental monetization opportunities.

That concludes the update on our growing content capabilities. Now I would like to turn the call over to Ross. He will share more about our platform strategies. Ross, please go ahead.

Ross:

Thank you, Cussion. Hello, everyone. Moving on to our platform innovations: in the first quarter, we further refined users' music consumption experience, while advancing our audio live streaming services. In addition, by further exploring large language models (LLMs), we energize our platform ecosystem with a broader range of AIGC applications, aimed at meeting users' diverse and nuanced music tastes in new and exciting ways.

On the front of user's music consumption experience, our efforts to enhance **sound quality and effects**, combined with our optimized operations in **different listening scenarios**, have been well recognized by users. This further boosts user stickiness and our monetization capabilities. As a result, higher user engagement brought us a year-over-year growth of average daily time spent per daily active user who listens to the music on our platform.

We have extended our premium sound quality and effects to cover a wider range of scenarios during the quarter. In addition to rolling out the auto mix sound effect, we also introduced a customized sound effect for Teens in Times (时代少年团)'s album, Utopia (乌托邦少年). This sound effect highlights vocal details and instrumental layers, creating an air of a live performance. A total of 2.3 million users have used this sound effect in 170 million streams. Moreover, we extended our premium sound quality to in-car use cases. For example, our QQ Music's Galaxy Sound Effect (银河音效) maximizes the performance of in-car audio systems, as it can fine-tune its sound effects to match many in-car audio systems of mainstream car models. This has further enhanced our users' listening experience.

In addition, we also offer a highly personalized and engaging music experience that caters to users' unique preferences and tastes. For instance, we launched a 3D music player interface and customized playlist with various design templates, where users may choose their favorite styles. Beyond that, we tailored playlists to specific holidays and festivals, such as the Chinese New Year and World Sleep Day, to offer a listening experience for this special occasion and users' current state of mind. Thanks to our ongoing algorithm upgrades and product optimizations, we are able to constantly advance our **recommendation efficiency**. This brings us deeper insights into content and user behavior, allowing us to create a more personalized listening experience. In the first quarter, QQ Music and Kugou Music's recommendation streaming volume, together with its time spent per user, increased both year-over-year and quarter-over-quarter, taking the proportion of recommended streaming to a new high on our platform.

On the front of audio live streaming, it has become an important growth driver for us, as we offer a unique engagement venue for our users and performers. With our differentiated content and interactive features that drive its growth, we keep enhancing user experience and attracting more vibrant audio anchors. In terms of content, we differentiated our **audio live streaming content** offerings with focus on audio categories of music, emotional healing and talk shows, highlighting our performers' exceptional talent. Meanwhile, our vibrant audio anchor ecosystem also benefits our musician community, as it provides them with a platform to showcase their skills and reach a wider audience. We have nurtured rising musicians on our QQ Music live streaming platform. For example, "Chikou Xiaoye (吃口宵夜)," "Poison (毒药)," "Su Mo (苏默)" and "Xu Changqing (徐长卿)," these four musicians contributed a total of 110 million song streams. Notably, upon the promotion in one of our audio live streaming programs, Xu Changqing's original single "Girl (姑娘)" quickly made it to QQ Music's new song recommendation chart. In the first quarter, the number of performers in audio live streaming continued to rise year-over-year and quarter-over-quarter. In terms of user interactions, we added new **social interactive features** to our platform. This has created additional user traffic and scenarios, while better serving users' entertainment needs. As important ice-breaking tools between performers and users, these interactive

features also drove year-over-year and quarter-over-quarter increases in its daily time spent per user. Going forward, we will keep upgrading and expanding our social interactive offerings for higher user retention and additional commercialization opportunities.

Turning to **AIGC**. LLMs have empowered us to produce content more efficiently, as well as to create an increasingly engaging user experience.

In the first quarter, we launched TME Studio (音乐创作助手), an AI-enabled smart tool for music production. We also introduced the “Vocal Producer” (音色制作人) feature, powered by our Lingyin Engine (凌音引擎). With these tools, **musicians can be more efficient** in lyrics writing, composing, music content analysis and editing. Such tools also help generate outstanding content by seamlessly blending users’ original voices into different songs.

On top of that, our first AI music companion, Xiaoqin (小琴), hosted a live streaming show. Her singing and dancing provided an immersive entertainment experience. Users were also able to interact with Xiaoqin through AI-generated virtual gifts and personalized gameplays. Furthermore, in fostering a more customized listening experience, QQ Music pioneered an AIGC-empowered music player. With various AI-generated visual styles, users can enjoy different themes of music players.

With that, I'd like to give the floor to Tony to review our business operations. Tony, please go ahead.

Tony:

Thank you, Ross. Hello, everyone.

During the first quarter, we have seen enhanced monetization in our online music services. We booked robust year-over-year growth in **online music services revenues**, driven by the advancements of both subscription and non-subscription businesses. On the **subscription** side, its strong performance was propelled by the growing number of paying users and its ARPPU, which comes to 94.4 million and RMB9.2, respectively. Notably, our online music paying ratio hit a record high at 15.9%, while our ARPPU expanded sequentially for the fourth consecutive quarter. All of these results reflect our refined content operations, users’ higher willingness to pay for premium sound and effect features, as well as more effective promotions. In addition, our IoT service has been growing over the past few quarters. Seeing its increasing importance to our overall business development, we began to include certain IoT devices in the disclosure of operating metrics for our online music services starting from the first quarter.

On the **non-subscription** side, it also delivered strong year-over-year growth. Advertising revenue grew notably year-over-year, mainly due to lower revenues last year caused by COVID-19 impact, increasing interest from advertisers in our innovative advertising formats, as well as improved macro environment. In particular, we have seen an increasing advertising spend from advertisers in the e-commerce, gaming, travel and food and beverage industries. Meanwhile, revenue from our ad-supported mode also grew well as more users adopted this model. In addition to TME Live’s advertiser sponsorship mentioned by Cussion earlier, we cooperated with Uni-President Soup Daren (统一汤达人) and Heineken in the first quarter to create customized brand zones, playlists and music festivals, helping advertisers increase brand visibility with our innovative ad formats.

On top of advertising, we also enhanced our ability to monetize through artist merchandise, long-form audio and music distribution. In terms of **artist merchandise**, in the first quarter, we worked with well-known artists such as Allen Ren

(任嘉伦), Lu Han (鹿晗) and Justin Huang (黄明昊) to introduce collection cards, action figures, T-shirts and more. As a highlight, sales of the album "Utopia (乌托邦少年)" by Teens In Times exceeded 1 million copies on our platform within two days of its release. In the future, we will keep expanding the offerings of artists' merchandise on our platform, and we also have a number of artist cooperation projects underway.

In terms of our long-form audio, its revenues expanded year-over-year, as we increased our offerings of popular content in the first quarter. For example, we introduced a new format that combines leading IP and radio drama. During the quarter, we released "Reunion: The Sound Of the Providence (重启之极海听雷)," adapted from the original work of Nanpai Sanshu (南派三叔). Its streaming volume exceeded 340,000 in the first week after launch. These distinguished contents further complement our music offerings and increase overall user engagement.

Moving on to our **social entertainment services**. Facing a tough market environment, we focused on product innovation to differentiate ourselves and gain user mindshare.

For **WeSing**, based on our multi-person singing rooms in both video and audio settings, we upgraded our chorus feature to "Chorus for All," which can support a real-time chorus of 1,000 people, further enriching users' immersive experience. In addition, we released extra interactive features in our singing rooms, such as score competition and red envelope sharing. These features allow the singing rooms' penetration rate to grow year-over-year for the fifth quarter in a row. In the future, we will leverage these chorus and singing features to explore collaborations across different products on our platform, such as TME Live, artist-fan interaction events and sponsored advertising. In terms of WeSing membership, we expanded VIP privileges to include features such as customizable sound effects, recording interface themes, and name tags, all resulting in a year-over-year revenue growth in the first quarter. Meanwhile, WeSing's revenue grew steadily in the overseas markets. We will expand its presence further through both organic growth and M&A.

For **live streaming** services, although revenue from traditional live streaming remained adversely affected by the macro environment, our audio live streaming delivered double-digit year-over-year growth in the first quarter. Audio has become a growth engine for our live streaming services as we keep providing differentiated content and interactive features. We also strive to build a growth path for more live streaming performers, further tapping into their potential while strengthening their connection with users, which in turn cultivates users' willingness to consume and pay for content. In the first quarter, Kugou Music rolled out its singing room feature following QQ Music's successful validation, delivering year-over-year revenue growth as well.

Lastly, we remain committed to fulfilling our **social responsibilities** through music. For example, TME provided care for people with autism through music for the 7th consecutive year. We launched a caring program called "If Music Has a Shape (如果音乐有形状)." We invited over 50 groups of singers and musicians from China and abroad, including Joker Xue (薛之谦), Sean Xiao (肖战) and TIA RAY (袁娅维) and to perform in our program and share their love. Simultaneously, we debuted the caring through music theme song "Secrets Hidden in the Stars (藏在星里的秘密)," sung by LUCY, TME's first hyper-real virtual pop idol. This program's social media views have exceeded 500 million, raising awareness of autism among the public.

In conclusion, we started 2023 on a high note with innovations across content and platform. This establishes a clear pathway for our creative and sustainable development in the coming year and beyond. Our progress in monetization efficiency, cost optimization, commercialization and user experience has also positioned us for ongoing business growth. Going forward, we will continue to explore the intersection of music and technology, pioneering new forms of art and entertainment while upholding our commitment to society and fostering a healthier, more diverse music industry.

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. In the first quarter of 2023, our total revenues resumed year-over-year growth and reached RMB7.0 billion, up by 5% year-over-year. With the success of effective cost control and improved operating efficiency, our non-IFRS net profit margin reached 20.9% this quarter.

In Q1 2023, music subscription revenues continued its rapid growth and reached RMB2.6 billion, up by 30% year-over-year and by 11% sequentially, propelled by rapid expansion of both online music paying users and ARPPU. Specifically, monthly ARPPU in Q1 2023 was RMB 9.2, increased by RMB 0.9 from last year and RMB0.3 from last quarter, recording four consecutive quarter of expansion. Online music paying users grew to 94.4 million, up by 18% year-over-year, representing a 5.9 million net adds sequentially. The strong ARPPU and paying user growth resulted from high quality contents and services, attractive member privileges, and more effective promotions.

As we expand use cases and service offerings, we are seeing growing demands in IoT services and expect more opportunities to monetize in this area in the future. Therefore, starting from this quarter, we have updated the definition of online music MAUs and included certain IoT device users in our online music MAUs.

Additionally, revenues from advertising achieved strong growth year-over-year due to strong performance from our ad-based free-listening mode, as well as lower advertising revenues for comparison in Q1 2022 due to the impact from COVID-19. We are pleased with such results and remain confident about the long-term growth potentials in advertising business.

Social entertainment services and other revenues were RMB 3.5 billion, down by 13% year-over-year due to the evolving macro headwinds and competition from other platforms. To adapt to the changing environment, we focused on cultivating talented performers and differentiating our contents to stabilize the revenue scale of the traditional live streaming, and making efforts in increasing our competitiveness through ongoing product innovation and new initiatives in social entertainment services, such as audio live streaming, real-time interactive experiences and international expansion.

Gross margin in Q1 was 33.1%, up 5.1 percentage points year-over-year, primarily due to strong growth of the online music revenues, our effective control of content costs as well as improved operational cost efficiencies.

Now moving on to operating expenses, total operating expenses for Q1 2023 were RMB1.2 billion or 17.5% as a percentage of total revenues, down by 2.7% from 20.2% as a percentage of total revenues in the same period last year.

Selling and marketing expenses were RMB212 million, down by 36% year-over-year. Although the reduced spending on user acquisition had impacted on our MAUs, our core music subscription services delivered strong growth. We continued to take measures to improve efficiency, closely monitor the ROI of each promotion channel, better utilize external promotion channels, and leverage our internal traffic to attract users and promote our brands. When evaluating the healthiness of business and assessing ROI, we focused more on measures such as level of engagement, user retention rate, etc.

General and administrative expenses were RMB1.0 billion, which was relatively stable comparing to the same period of 2022. We continued to closely manage employee related expenses by improving headcount efficiency and invest in research and development to further empower music-related content creation, enhance production efficiency and improve sound quality and effects.

Our effective tax rate for Q1 2023 was 12.2%.

For Q1 2023, our net profit and net profit attributable to equity holders of the Company were RMB1.2 billion and RMB 1.1 billion respectively. Non-IFRS net profit and non-IFRS net profit attributable to equity holders of the Company were RMB1.5 billion and RMB1.4 billion respectively.

Diluted earnings per ADS was RMB0.73, up 97% on a year over year basis. Non-IFRS diluted earnings per ADS was RMB0.89, up 65% on a year over year basis. Such results demonstrated our commitment and continued success on operating efficiency improvement, as well as the impact from share repurchase program. We are endeavoring to provide high-quality investment returns for our investors and shareholders and remain confident about our financial performance, the development of our business, and the overall industry.

As of March 31, 2023, our combined balances of cash, cash equivalents and term deposits were RMB28.5 billion, as compared with RMB27.4 billion as of December 31, 2022. The increase was primarily due to our healthy operating cash inflow of RMB1.9 billion for the first quarter of 2023. Such combined balance was also affected by the change in the exchange rate of RMB to USD at different balance sheet dates.

In conclusion, we started 2023 with strong revenue growth momentum and revenue size of our online music services caught up with social entertainment services for the first time. Going forward, we continue to expect balanced growth of both ARPPU and paying users, and remain confident in the growth potential of our advertising business. Social entertainment services continue to face evolving micro headwinds and competition from other platforms, and we will continue to differentiate our content and entertainment experiences and create more high quality contents to gradually stabilize revenue scale for social entertainment services. Meanwhile, we continue to invest in new products and services, high-quality contents and technologies, especially in areas such as IOT, game, singing room, original contents and AIGC to build up a solid foundation for our healthy long term 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 our host, Mr. Tony Yip, for closing remarks.

Tony:

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.