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**Tencent Music Entertainment Group**  
**2023 Fourth Quarter and Full Year Earnings Webinar**

**IR:** Good evening and good morning, welcome to Tencent Music Entertainment Group's fourth quarter and full year 2023 earnings conference call. I am Millicent Tu, head of IR at TME.

We announced our quarterly financial results today before the U.S. market opened. An earnings release is now available on our IR website and via newswire services.

Today, you'll hear from Mr. Cussion Pang, our Executive Chairman, and Mr. Ross Liang, our CEO who will share an overview of our company strategies and business updates. And then, Ms. Shirley Hu, our CFO, will discuss our financial results before we open the call for questions.

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

Please 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 remarks, there will be a Q&A session. And please be advised that today's call is being recorded.

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

**Cussion:**

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

2023 marked a pivotal transition at TME, as we remained dedicated to driving growth and prosperity across our music ecosystem while propelling the development of the entire music industry.

Notably, our subscriber count surpassed the 100 million milestone in 2023. We added 18.2 million subscribers for the full year, up from 12.3 million in 2022, a compelling testament to our content leadership, platform value and high-quality user experience. These strengths drove consistent growth in music paying users and per-user spend, anchoring our subscription revenue's accelerating year-over-year growth throughout the year.

In particular, in the fourth quarter of 2023, online music recorded faster-than-expected revenue growth. Paying users and ARPPU rose by over 20% year-over-year to 107 million and RMB10.7, respectively. These results mitigated topline headwinds from the social entertainment business and visibly contributed to a lift in net profit for the quarter and the full year. Entering 2024, we're also seeing strong momentum in subscriber growth in the first quarter.

Such solid performance was driven by our powerful content and platform dual engines.

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Now I'd like to share three aspects of our content development efforts fueling this robust, sustainable growth.

First, by leveraging and deepening partnerships with domestic and international record labels, we consistently reinforced our competitive edge with an ever-growing selection of copyrighted music. As a result, by the end of 2023, we had over 200 million music and audio tracks on our platform. In addition, self and co-produced content further differentiated our offerings, increasing our popularity among users. Lastly, our rich foundation of content and relationships with label partners empowered us to capture diverse opportunities across the music industry, amplifying content's value.

Let me walk you through some concrete examples.

**On content coverage and appeal:**

1) We recently renewed our multi-year partnership with Universal Music Group ("UMG") to bring users ongoing access to its vast and growing music catalog, as well as a notable sound quality upgrade with music streaming in Dolby Atmos and high-definition formats. Taylor Swift's re-recorded album, 1989 (Taylor's Version), topped all charts in the first week of its release on our platform in October. We also capitalized on this success and further promoted fan engagement with a series of customized interactive song-guessing contests. In addition, we renewed collaboration with Peacock Records, the record label for renowned duo LEGEND OF PHOENIX ("凤凰传奇"), deepening cooperation across head-start song releases, physical albums and various other artist-related services.

2) We further enhanced our content appeal and leadership across pop, rock and Chinese Ancient Style music genres, allowing us to better attract and retain young users.

**Next, on differentiated content offerings through in-house and collaborative creation:**

1) For mid- to long-tail music content, we leveraged our wealth of multi-faceted resources to enrich our offering and promote its prosperity. As of the end of 2023, over 480,000 indie musicians had contributed over 3 million songs across multiple genres on Tencent Musician Platform. By providing comprehensive music training programs and other support, we effectively unlocked their creativity and nurtured their music careers.

2) To accumulate our music assets in different genres, we're broadening collaborations with our strategic partner artists. For these more mature artists, we boosted their popularity and advanced their careers through increasingly tailored support. For example, this quarter, we assisted jazz singer Liu Lian ("刘恋") with her EP production and release, greatly raising her profile and strengthening fan-artist relationships.

3) Our in-house and collaborative content continued to grow from strength to strength. As a case in point, we had 10 songs showcased during the China Media Group 2024 Spring Festival Gala. Our self-produced single She, Bathing in the Light (《枕着光的她》) was one standout. Such performances generated massive social buzz, boosting user engagement on our platform and greatly elevating our national influence. Another notable example is our self-produced hit song Xilou Ernv (《西楼儿女》). Performed by our strategic partner artist Hailai Amu ("海来阿木") and covered by a popular Chinese crosstalk performer, Yue Yunpeng ("岳云鹏"), this song went viral, totaling over 1 billion streams on our platform as of March this year.

**Last but not least, on maximizing content value through innovation:**

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1) We scaled up our live performance business through diverse event formats in 2023. Capitalizing on the resurgence of offline music events, we hosted a growing number of offline music tours, festivals and live-house performances to meet strong demand. In the fourth quarter, we hosted world-renowned DJ Alan Walker's six-city electronic music tour in China. During the tour, we facilitated unique offline-merge-online services, encompassing interactive fan activities, artist merchandise, ticket sales and performance management, which in turn boosted our industry influence.

2) In the fourth quarter, we collaborated with HYBE Entertainment to launch a line of artist merchandise for K-pop bands such as SEVENTEEN and NewJeans, diversifying our offerings of content-related peripherals in various formats. As a result, revenue from artist merchandise recorded robust year-over-year growth.

Moving on to our continued commitment to social responsibility.

In the fourth quarter, in collaboration with local government agencies, we conducted a series of music events to promote cultural and economic development in ethnic minority regions. For example, we partnered with Tencent Charity to organize the 2023 Shenzhen-Linzhi Music Festival, leveraging offline music performances to help rejuvenate the rural economy with increased tourism. These initiatives not only broaden music's reach geographically, but also expand its positive impact across industries, maximizing its societal value.

In conclusion, we are excited about the vibrant growth of the music industry for the years to come. Our powerful content-and-platform dual engines, underpinned by online music's relatively counter-cyclical nature, will enable us to capture more multi-faceted opportunities in 2024 and beyond.

Now, I'd like to turn the call over to Ross for more color on our platform development. Ross, please go ahead.

**Ross:**

Thank you, Cussion. Hello, everyone.

Our laser focus on execution resulted in a year of solid music growth and efficiency gains. Our platform's strength, our insights into users and content, and our dedication to innovation were crucial in achieving this success, all translating into enhanced music journeys for users.

Now I would like to elaborate on three areas we prioritized to enhance user experience:

**First, we expanded user privileges.** These included more industry-leading sound quality selections, rich sound effects, more individualized players, new skins, and additional interactive features. For example:

1) We amassed China's largest Dolby Atmos music library, offering users a more immersive listening experience. Currently, our Dolby Atmos music service is available on mobile, in-car, and PC platforms, enabling a higher-quality music experience across more comprehensive use cases.

2) Furthermore, we hosted a dedicated online MV premiere event for Jay Chou's new single, Christmas Star, promoting closer fan-artist bonding and a deeper sense of community. Millions of viewers signed up for the event within 24 hours of the registration opening. We also launched an AI-voice feature for this single to further boost user engagement. Thanks to these tailored activities and features, we have recorded a total of over 100 million streams from

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tens of millions of users.

**Second, we deepened connections with users through major upgrades across multi-device experiences.**

1) QQ Music launched a significant upgrade on mobile and PC in December last year, offering customized user interfaces and music players. As part of the Chinese Lunar New Year's offerings, we introduced an annual music report feature that captures each user's unique music journey. Tens of millions of QQ Music users joined this annual review activity. These comprehensive reports reflect the important, personalized mutual bonds that we have built with users on a massive scale. They highlight how and when a user connected with us emotionally, from special moments captured, artists favored, stories discovered, and songs streamed, to time spent.

2) We also enhanced in-car music entertainment services. For example, we recently upgraded QQ Music's in-car app for Tesla, bringing users a more intelligent interface with better recommendations. Kugou Music newly added the Viper 3D music library (“蝻蛇全景声”) to its in-car offerings, spatially optimizing audio performance in a closed cabin environment. Furthermore, we maintained our leadership in smart vehicle coverage, and recently renewed partnership with Li Auto.

**Last but not least, our technology infrastructure continued to play a vital role in content promotion, distribution and discovery.** More accurate recommendations drove greater content consumption, effectively improving our user conversion and retention. We are pleased to share that in the fourth quarter, both QQ Music and Kugou Music recorded another record-high share of music streams from recommendations.

**Finally, AI.** We continued to expand AIGC applications to enhance user experience and foster artists' music creation, while improving efficiency.

On the product side, we integrated AIGC into music streaming and creation, as well as singing and socializing, creating an increasingly intelligent and personalized music experience for users and creators. For example:

1) By enhancing QQ Music's “AI-enabled Listening Together” feature with additional virtual DJs, each specializing in different music genres, we've made music discovery faster and more personalized.

2) Furthermore, we launched an AI composition tool in Venus, supporting artists' music creation using their original text prompts or rhythm clips.

3) Lastly, we integrated an AI singing function into Kugou and WeSing. Initial results suggest that users are increasingly willing to pay for this function as it enables easy creation of song covers in multiple styles and languages.

On the operations side:

1) We are using AIGC to make our advertising more efficient and effective, empowering us to better target and convert users.

2) We are also leveraging LLMs to better promote and distribute new songs. They help us analyze songs' audio characteristics and identify the content that resonates most with users.

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To sum up, we will continue to leverage technology to achieve more efficiency gains in the future. Our dedication and passion for serving hundreds of millions of music users will further inspire us to deliver more compelling music entertainment experiences, seamlessly, across a broader range of use cases.

With that, I'll turn the call over to Shirley, our CFO, for a deep dive into our financials.

**Shirley:**

Thank you, Ross, and greetings to everyone.

I will now turn to our financial results. Our strong financial results for year 2023 reflected success in effective monetization for our music services and operational efficiency management. With accelerating year-over-year growth in subscription revenues throughout the year, our online music services delivered faster-than-expected revenue growth, which largely mitigated the revenue decline in social entertainment services and others. IFRS net profit and non-IFRS net profit were RMB5.2 billion and RMB6.2 billion, respectively, up by 36% and 27% on a year-over-year basis, respectively.

In the fourth quarter of 2023, our total revenues were RMB 6.9 billion, down by 7% year-over-year, primarily due to a decline of revenues from social entertainment services and others. Our online music revenues in Q4 2023 increased by 41% to RMB 5.0 billion on a year-over-year basis. This surge was driven by the strong expansion of our music subscription and advertising businesses, supplemented by an increase in artist-related merchandise sales.

Delving deeper into our music subscription performance for Q4 2023, music subscription revenues reached RMB3.4 billion, which is a 45% increase year-over-year and a 7% rise sequentially. Our refined operation allowed us to expand our online music paying user base while enhancing monthly ARPPU. The number of online music paying users expanded to 106.7 million, representing a 21% increase year-over-year, with quarterly net adds of 3.7 million users. The monthly ARPPU rose to RMB10.7, up by 20% year-over-year and by 4% sequentially, marking the seventh successive quarter of growth and setting another record. The continued growth in our paying user base was largely attributable to our enriched content offerings, enhanced member privileges such as industry-leading sound quality selections, rich sound effects, more individualized players, new skins; and interactive product features such as in-car enhancement and interactive features for Jay Chou's new single, Christmas Star.

Our advertising revenues also had strong growth year-over-year and sequentially, supported by our diversified product suite and innovative advertising formats. Ad-supported advertising delivered strong performance this quarter as entrance rate improved significantly. Additionally, the annual double 11 e-commerce sales event generated higher demand for advertising and contributed to a sequential increase in advertising revenues.

Social entertainment services and other revenues were RMB 1.9 billion, down by 52% year-over-year. This was mainly due to adjustments in certain live-streaming interactive functions and more stringent compliance procedures as we implemented several service enhancement and risk control measures in the past couple of quarters. We continue to innovate for social entertainment services and have seen growth in advertising revenues and WeSing membership revenues this quarter.

Our gross margin for Q4 stood at 38.3%, marking an increase of 5.3 percentage points year-over-year and an increase of 2.6 percentage points sequentially. Increasing user base together with higher monthly ARPPU, growth in advertising

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revenues, as well as ramping up of our own content, have enabled us to move to a healthier margin model. Additionally, we have built win-win relationships with labels and artists and managed content costs more efficiently using ROC approach. These efforts have collectively resulted in the increase of our gross margin year-over-year.

Moving on to operating expenses, in the fourth quarter of 2023, they amounted to RMB 1.3 billion, representing 18.4% of our total revenues, compared with 18.3% in the same period of last year.

Selling and marketing expenses were RMB255 million, down by 4% year-over-year. Our marketing strategy is ROI focused, where we allocate budget towards areas with long-term growth prospects. We strategically curtailed expenses for promotion channel fees associated with live streaming, and increased expenses to promote our own content. As our music services continue to grow rapidly, we will continue to spend on channel promotions for these areas.

General and administrative expenses were RMB1.0 billion, down by 8% year-over-year, primarily driven by lower employee-related expenses, partially because we incurred expenses related to Lazy Audio acquisition in Q4 2022 but such expenses did not recur in Q4 2023.

Our effective tax rate for Q4 2023 was 17.3%, compared to 12.2% in the same period of 2022. This increase was primarily attributed to the accrual of withholding tax related to earnings to be remitted by our PRC subsidiaries to offshore entities.

For Q4 2023, our net profit and net profit attributable to equity holders of the Company were RMB1.4 billion and RMB1.3 billion, respectively. Non-IFRS net profit and non-IFRS net profit attributable to equity holders of the Company were RMB1.7 billion and RMB1.6 billion, respectively.

Our diluted earnings per ADS reached a record high this quarter at RMB0.83, up 15% year-over-year. Non-IFRS diluted earnings per ADS increased to RMB1.0, up 10% year-over-year. These results demonstrated our robust financial performance, enhanced operating efficiency, and the positive impact from our share repurchase program.

As of December 31, 2023, our combined balances of cash, cash equivalents and term deposits were RMB32.2 billion, as compared with RMB31 billion as of September 30, 2023. This combined balance was also affected by changes in the exchange rate of the RMB to USD at different balance sheet dates.

Under the Share Repurchase Program announced in March 2023, as of December 31, 2023, we had repurchased 25.3 million ADSs from the open market for a total cash consideration of US\$175 million, of which approximately US\$72 million were repurchased in the fourth quarter.

Next, I'll briefly discuss our performance for full year 2023. Total revenues were RMB 27.8 billion, down by 2% year-over-year.

Revenues from online music services were RMB17.3 billion, up by 39% year-over-year. The increase was driven by strong growth in music subscription revenues and revenues from advertising services, supplemented by growth in other music services. Our music subscription revenue were RMB12.1 billion, up by 39% year-over-year, driven by growth in both paying users and monthly ARPPU.

Revenues from social entertainment services declined by 34% year-over-year due to adjustments in certain live-

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streaming interactive functions and more stringent compliance procedures as we implemented several service enhancement and risk control measures in the past couple of quarters.

Gross margin in 2023 was 35.3%, up by 4.3% year-over-year due to the reasons discussed earlier.

Total operating expenses for 2023 were RMB5.0 billion, down by 10% year-over-year. Selling and marketing expenses in 2023 were RMB0.9 billion, down by 22% year-over-year, largely due to more efficient ROI-focused promotional strategies. General and administrative expenses were RMB4.1 billion, down by 7% year-over-year, primarily due to reduced employee-related expenses, including expenses related to Lazy Audio acquisition, and the expenses related to the Hong Kong secondary listing incurred in 2022.

In 2023, we achieved the highest level of profitability in our company's history. Net profit and net profit attributable to equity holders of the Company was RMB5.2 billion and RMB4.9 billion, respectively. Non-IFRS net profit and non-IFRS net profit attributable to equity holders of the Company was RMB6.2 billion and RMB5.9 billion, respectively.

Finally, I'll conclude with some remarks on our outlook for 2024.

We are excited about the growth of the music industry and remain dedicated to driving our growth across our music ecosystem. We will continue to focus on effective monetization and operational efficiency while exploring new growth opportunities and expanding our suite of monetization tools, such as customized artist merchandise, concerts, etc. Additionally, we will continue to invest in high quality contents and original content productions, as well as new products and technologies such as AIGC.

We are confident about the long-term healthy growth of the music industry and our company. We remain focused on providing high-quality investment returns for our shareholders.

This concludes our prepared remarks. We are ready to open the call for questions.

**Operator:**

With that, I will now turn the call over to our Executive Chairman, Cussion, for closing remarks.

**Cussion:**

Thank you again 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 the Company looks forward to speaking with you again next quarter. Thank you, and goodbye.