
Tencent Music Entertainment Group
2024 First Quarter Earnings Webinar

IR: Good evening and good morning, welcome to Tencent Music Entertainment Group's first quarter 2024 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.

2024 is off to a great start. Strong execution of our dual-engine content and platform strategy is yielding impressive results and boosting vitality industry-wide.

In the first quarter, the number of music-paying users increased to 113.5 million, propelling 43% year-over-year growth in online music revenues. Our high-quality growth strategy also drove a robust net profit margin expansion.

Subscriber growth in this quarter significantly exceeded our expectations, reaching a quarterly historic high of 6.8 million net adds. What's more, we maintained ARPPU at a healthy level. Both achievements demonstrate our keen understanding of users' needs and our knack for anticipating and meeting their demands operationally.

As you have seen in our earnings release, supported by our strong fundamentals, we're very pleased to announce an annual cash dividend policy and 210 million US dollars in cash dividends for 2023, on top of our ongoing buyback program. This reflects our confidence in future growth and commitment to sharing our success with shareholders.

Next, I would like to share an overview of this quarter's content development efforts. Through a balanced combination

of copyrighted music and original content, we enable users to discover the latest and trendiest content and enjoy a superior experience on our platform.

Let me go over a few highlights:

First, we **renewed and reinforced partnerships with record labels** to broaden our music library's comprehensiveness and popularity. Our innovative value-added privileges, features, and promotion services extend far beyond mere licensing, further unlocking the value of music content industry-wide:

- 1) We renewed our cooperation with Time Fengjun Entertainment (“时代峰峻”), featuring 30-day head-start benefits on new songs and adding Dolby Atmos upgrades for popular groups like TFBOYS and Teens in Times (“时代少年团”).
- 2) We also expanded our agreement with HIM International Music (“华研国际”), incorporating an industry-first component authorizing TME to use licensed AI features to promote HIM's iconic C-pop content. This will ensure the authentic and responsible use of AI, showcasing TME's commitment to protecting artists' rights and interests in the AIGC era. Artists benefit from TME's tech-powered promotions and copyright protection while users enjoy the latest in interactive features – a win-win. Yoga Lin's (“林宥嘉”) new album "Love, Lord" (“王”) is one recent success. For its premiere on our platform, we connected our AI sing-along feature and TME Live offline concerts, spurring fan interaction within new scenarios.
- 3) We enriched our K-Pop content and related offerings with various artist-fan activities, digital albums, and artist merchandise for new-generation groups like ILLIT, BABYMONSTER, and RIIZE. In the first quarter, K-Pop user engagement and streams both grew year-over-year.

Next, we **expanded original content**, a key differentiator, to attract users and enhance engagement. Based on our keen grasp of trends, we delivered an array of hits catering to users' ever-changing tastes this quarter:

- 1) We produced original soundtracks for hit TV dramas The Legend of Shen Li (“与凤行”) and In Blossom (“花间令”), including 17 songs and 38 scores. Featuring top tracks by TME strategic partner artists such as Jess Lee (“李佳薇”) and Wang Jingwen (“王靖雯”), these catchy OSTs created massive social media buzz that boosted streams and viewership. Their outstanding performance showcases our ability to spot and set content trends while maximizing the value of content. Our OST for The Legend of Shen Li, produced by Tencent Video, also highlighted the power of collaboration within the Tencent ecosystem. It smashed records with over 150 million streams within 30 days of release, making it the number one OST debut so far this year.
- 2) We also partnered with strategic artists and indie musicians on music production and promotion to build our platform's quality music offering. Our self-produced songs River Flow (“如河”) by TIA RAY (“袁娅维”) and What I Anticipate Is Not Snow (“我期待的不是雪”) by Zhang Miaoge (“张妙格”) became top-rated hits on social media this quarter.

Moving on to our commitment to social responsibility.

We cooperated with Tencent Charity for the third consecutive year on our themed program to raise autism awareness, “If Music Has a Shape.” This year, Fiona Sit (“薛凯琪”) performed the project's theme song, “Do You Understand What's Left of Me.” (“剩下的你听懂我吗”) More than 60 other renowned artists and groups, including Jay Chou (“周杰伦”), Joker

Xue (“薛之谦”) and NewJeans, also shared songs in support of children with autism. We then hosted an art exhibition featuring artwork by children with autism inspired by these musical works, leveraging multimedia to amplify our caring message and boost music’s social value.

In conclusion, by expanding content and introducing more tailored platform offerings that resonate deeply with users, we continue strengthening our vibrancy to drive industry development. We are confident that our powerful content-and-platform dual engines and ever-deepening understanding of content will propel our sustainable growth 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.

Strong execution once again resulted in solid online music growth. Record high net subscriber adds, steady ARPPU, and healthy MAUs all reflect this robust performance. Our efforts to attract and retain users were the driving force behind it. Utilizing our extensive industry experience and peerless insights into users and content, we are laser focused on anticipating and meeting user needs with enhanced experiences and trendier musical journeys.

First, I want to talk about **user retention**. We have taken a multi-pronged approach to engaging users through constant innovation of trendsetting features. I’ll walk you through a few examples.

1) Our new AIGC applications make music discovery more fun, engaging and convenient. In the first quarter, we launched a large audio model that increases promotion accuracy, helping users discover more high-quality music content. Initial results showed that streaming share of promoted songs increased notably following the model’s release. We also tested an AI assistant that supports text and voice chatting for a more customized search experience, as well as an AI playlist assistant to curate playlists, a key personal music asset that strengthens user stickiness.

2) Recently, we introduced a rewards program. Users can exchange the points they earn for benefits such as trial subscriptions, digital albums and personalized privileges. While enhancing user experience, the program also opens new avenues for commercialization for the future.

3) Ongoing platform upgrades continue to reinforce our products’ appeal. This quarter, we introduced a Lite Listening Mode (“省流母带模式”) to facilitate a smooth listening experience in low-bandwidth environments. Our enhancements allowing greater interface customization are driving increased user adoption of our platform’s players.

4) Beyond the listening experience, we captivated users with a variety of interactive activities, including themed song-guessing contests, subscriber badges and more. These interactive features not only boosted song streaming volumes but also boosted more artists follows and additions to favorites. As users’ personal music assets on our platform grow, so does their loyalty to TME.

Moving now to **user acquisition**. Our focus here is on discovering and cultivating users with long-term paying potential through refined marketing and operations.

1) During Chinese New Year (“CNY”), riding on the favorable seasonality, we utilized our deep understanding of users across various demographics to roll out a series of effective promotion activities. Our targeted multi-channel promotions with e-commerce, telecom operators and long-form video platforms contributed to stronger-than-expected subscriber growth in the first quarter.

2) We also teamed up with auto companies to launch holiday-themed playlists and comment-sharing promotions. These organically broadened our reach to new users and increased user activity, contributing positively to the sequential MAU recovery in our online music services.

3) On partnerships, we recently forged the pre-installation partnership with the Xiaomi SU7 (“小米 SU7”). We also enhanced our collaboration with rideshare leader CaoCao (“曹操出行”). Our new self-service, rear-seat music selection feature offers rideshare passengers an easy way to navigate music consumption, further extending our reach.

4) Our trendsetting annual QQMUSIC DIANFENG AWARDS (“QQ 音乐巅峰盛典”) for the first time included online-merge-offline offerings. Participation in interactive online features rewarded fans with tickets to artist meet-and-greets, artist merchandise and more. Thanks to a lineup of popular artists and inspired performances, this event reinforced our appeal among our core young user base.

In short, our rich content and unparalleled product offerings continue to fuel user acquisition and engagement. With user needs at the heart of everything we do, we remain committed to creating a music platform that users cherish.

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 success in effective monetization for music services and operational efficiency management continued to lead to strong financial results in the first quarter of 2024. IFRS net profit increased by 28% year-over-year to RMB1.5 billion, and non-IFRS net profit rose by 24% to RMB1.8 billion.

Our total revenues were RMB6.8 billion, down by 3% year-over-year. Our online music services achieved significant revenue growth, which largely offset the decline in revenue from social entertainment and other services.

In the first quarter of 2024, our online music revenues increased by 43% to RMB5.0 billion on a year-over-year basis. This surge was driven by the strong expansion of our music subscription and growth in advertising businesses, supplemented by an increase in revenues from offline performances.

Music subscription revenues in the first quarter of 2024 reached RMB3.6 billion, marking a 39% increase year-over-year and a 6% rise sequentially. Our refined operation and effective pricing strategy enabled us to achieve higher-than-expected growth in music subscribers while maintaining a healthy monthly ARPPU. Monthly ARPPU was 10.6, up from 9.2 in the same period last year. Taking the difference in number of days into consideration, our monthly ARPPU would have remain relatively stable sequentially. The number of online music paying users were 113.5 million, representing a 20% increase year-over-year and a record-breaking quarterly net adds of 6.8 million users. Our enriched content offerings and enhanced member privileges, such as Dolby Atmos upgrades, have made our products more attractive

and improved user stickiness.

Advertising revenues also had strong year-over-year growth, primarily due to the growth in ad-supported advertising. We upgraded our incentive-ads experience and provided more attractive interactive features to our users, which helped the improvement in entrance rate. We continue to innovate and diversify our product suite and advertising formats.

Social entertainment services and other revenues were RMB1.8 billion, down by 50% 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 since the second quarter of 2023. As these adjustments and procedures are largely completed, we expect our social entertainment services to remain relatively stable.

Our gross margin for Q1 reached 40.9%, marking an increase of 7.8 percentage points year-over-year, due to a few factors. First, growth of revenues in online music subscription and advertising has generated the benefits of economies of scale. Over the years, we have made significant efforts and investments in the music industry and have built win-win relationships with labels and artists, and now these efforts and investments started bearing fruits. Additionally, the ramping up of our own content continued to impact our margin favorably. Lastly, we have optimized revenue sharing ratio for live streaming and also improved monetization in Weseing membership and advertising, which also benefited our gross margin. All above factors have collectively enabled us to move to a healthier margin model.

Moving on to operating expenses, in the first quarter of 2024, they amounted to RMB1.1 billion, representing 16.8% of our total revenues, compared with 17.5% in the same period of last year.

Selling and marketing expenses were RMB187 million, down by 12% year-over-year. We will continue to spend in areas such as online music with long-term growth perspective, as well as content promotions.

General and administrative expenses were RMB949 million, down by 7% year-over-year, primarily driven by lower employee-related expenses.

Our effective tax rate for Q1 2024 was 19.9%, compared to 12.2% in the same period of 2023. This increase was primarily attributed to the accrual of withholding tax of RMB107 million related to earnings to be remitted by our PRC subsidiaries to offshore entities. Additionally, changes in preferential tax rates for certain entities also impacted our effective tax rate.

For Q1 2024, our net profit and net profit attributable to equity holders of the Company were RMB1.5 billion and RMB1.4 billion, respectively. Non-IFRS net profit and non-IFRS net profit attributable to equity holders of the Company were RMB1.8 billion and RMB1.7 billion, respectively.

Our diluted earnings per ADS reached a record high this quarter at RMB0.91, up 25% year-over-year. Non-IFRS diluted earnings per ADS increased to RMB1.1, up 23% year-over-year. These results underscored our robust financial performance, enhanced operating efficiency, and the beneficial impact of our share repurchase program.

As of March 31, 2024, our combined balances of cash, cash equivalents and term deposits were RMB34.2 billion, as compared with RMB32.2 billion as of December 31, 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 March 31, 2024, we had repurchased 32.2 million ADSs from the open market for a total cash consideration of US\$235.5 million, of which approximately US\$61 million were repurchased in the first quarter.

Looking forward, we will continue to invest in high quality contents and original content productions, as well as new products and technologies such as AIGC. we remain confident in the prospects of music industry and our music subscription and advertising businesses.

This concludes our prepared remarks. We are now open to taking your 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.