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**Tencent Music Entertainment Group  
Third Quarter 2024 Earnings Conference Call****Millicent T.:**

Good evening, good morning, and welcome to Tencent Music Entertainment Group's Third Quarter 2024 Earnings Conference Call. I'm Millicent Tu, Head of IR.

We announced our quarterly financial results earlier today before the US market opened. The earnings release is now available on our IR website and via Newswire services.

During today's call, you'll hear from Mr. Cussion Pang, our Executive Chairman, and Mr. Ross Liang, our CEO, who will share an overview of our company's strategies and business updates. 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 the Safe Harbor statement in our earnings release, which applies to this call as we'll make forward-looking statements. Please note that we will discuss non-IFRS measures today, which are more thoroughly explained and reconciled to the most comparable measures reported under IFRS in our earnings release and filings with the SEC.

All participants are muted at this time. 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 tonight.

The solid third quarter performance once again showcases our ability to deliver high-quality growth. Our balanced approach continues to drive both subscriber base expansion and ARPPU growth. Online music services revenue grew by 20% year-over-year, contributing significantly to a 29% year-over-year increase in adjusted net profit. During the quarter, we prioritized deepening integrations across different products. It's evident that the synergies between our dual engines of platform and vibrant content ecosystem have become a powerful force, enabling us to unlock more value to users.

Let me give you some examples:

First, our ongoing efforts to strengthen partnerships with domestic and international record labels have continued to bear fruit, enhancing our music offerings and diversifying our content. Recently, we renewed contracts with top Chinese labels like YH Entertainment Group (乐华娱乐集团) and

Image Music Group (大象音乐集团), including early access for new song releases from popular artists such as Silence Wang (汪苏泷). Additionally, we formed a strategic cooperation with Galaxy Corporation, home to the global music sensation G-Dragon, to bring more international music content, digital albums, and merchandise to our platform. Our scale and unique value proposition have enabled us to become the multi-year proprietary partner for G-Dragon's upcoming tour concerts in Asia and other regions. As our influence in the industry grows, an increasing number of record labels are working with us to launch innovative artist-fan interaction events focusing on new song releases, such as voice-based interactions, song guessing games, and music challenges.

Second, we have been partnering with A-list artists and rising indie musicians to host offline music experiences and concerts, connecting them with their fans in creative ways. Two recent events demonstrated our success in this space. In September, we hosted TME Zebra Music Festival in Anhui, featuring a stellar lineup of artists, including Chen Chusheng (陈楚生), Joker Xue (薛之谦), and Zhang Yuan (张远), as well as Tencent musicians and other popular artists Leon Liu (柳爽), Zhao Lei (赵雷) and Suede (山羊皮乐队). This event attracted an impressive 65,000 fans over two days, earning widespread acclaim and impact. We also organized an offline concert for talented singer and songwriter Yu Jiayun (余佳运), marking his first-ever ticketed show with over 10,000 attendees.

Third, leveraging Tencent's powerful network and ecosystem, we continued to nurture a music content community that inspires interactive engagement. In the third quarter, we collaborated with celebrities Karry Wang (王俊凯) and Esther Yu (虞书欣) to produce theme songs titled "The Hero" (成为英雄) and "Breaking News" (星·空投) for popular games "League of Legends: Wild Rift" and "Peacekeeper Elite". These cross-promotions with Tencent Games, combined with distinct in-game item redemptions, have led to impressive results. The popularity of these theme songs, which hit our Top Trending Songs Chart (巅峰潮流榜) and Chinese Songs Chart (华语榜), has increased user engagement, effectively bridging the music and gaming communities across platforms.

We recognize that different user cohorts have distinct music consumption needs and preferences. To address this, we are actively expanding unique benefits to our premium members. For our Super VIP members, we introduced priority access to extensive iconic digital albums from renowned artists such as Jolin Tsai (蔡依林) and Wang Yibo (王一博), with new additions of multiple K-pop singers in the third quarter. We also enhanced SVIP privileges to include unique concerts and fan activities, such as pre-sales for tickets to shows by G.E.M. (邓紫棋), Mariah Carey and TIA RAY (袁娅维). These enhanced privileges have effectively driven growth in our SVIP members, and we will continue to unlock new opportunities for both music labels and artists.

Last but not least, we published our inaugural ESG report in the third quarter, providing a comprehensive overview of our ESG practices and achievements. This is just the beginning of our sustainability journey. I am also delighted to share that the Tencent Musician Platform was recently recognized as one of China's first model cases for the national copyright powerhouse strategy, honoring our contributions to safeguarding music copyrights. This recognition will further motivate

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and propel us to promote the music industry's healthy and sustainable development.

In summary, our sustainable and long-term approach to achieving high-quality growth will carry us far and beyond what we have achieved so far. We remain dedicated to fostering a compassionate, inclusive, and thriving music ecosystem that benefits music labels, artists, users, and the broader industry.

Now I would like to turn the call over to Ross for more details on our overall platform development. Ross, please go ahead. Thank you.

**Ross:**

Thank you, Cussion. Hello, everyone.

Alongside our content and user insights, our years of operational expertise have been a key driver in strengthening our industry position and differentiating our value proposition in a dynamic environment.

Our third quarter results once again demonstrated our ability to execute on strategies that retain users, attract new paying subscribers, and upgrade more members to premium services. These results boil down to our commitment to innovation and our increasing ability to meet users' evolving music consumption preferences.

Let me start by sharing some progress on our product upgrades in the third quarter, which have been well-received by our large user base:

- 1) First, our deep understanding in users' needs enables us to further innovate our product features, bringing fresh experiences. For example, recently, we launched the industry's first player interface featuring a horizontal screen as well as real-time interactive comment feature, promoting a deeper sense of community belonging. We also upgraded the Top Trending Songs Chart (巅峰潮流榜), with interactive features, attracting millions of participants. This has helped increase the chart's influence.
- 2) Second, we continued to explore new technologies to enhance users' experiences. For example, we have leveraged large language models to streamline content production, further improving both efficiency and quality. Notably, in the third quarter, we deployed AI singing technology to create single "Fairy Town (童话镇)", which quickly went viral on short video platforms. Our text-to-speech (TTS) technology also helped us create tens of thousands of audio books on our platform.

Turning to our efforts to expand our subscriber base:

- 1) First, we optimized our operational and marketing efforts to drive new subscriber acquisition across various environments. For example, centered on the Mid-Autumn Festival theme event, we rewarded new users with subscription benefits through unique interactive features. This has positively contributed to paying user net adds.
- 2) Second, we continued to improve our recommendation algorithms. One example is enhancing the novelty of tailored content suggestions, making it easier for users to discover music. This led to higher recommendation streaming share sequentially in the third quarter, which in turn improved paying user conversion efficiency.
- 3) Third, we collaborated with iconic IPs like Black Myth: Wu Kong (黑神话·悟空), Crayon Shinchan (蜡笔小新), and Disney, allowing us to offer personalized interfaces that attracted additional paying users.

In terms of SVIP, our highly engaged subscribers, we are pleased to report that as of the end of third quarter, we reached an important milestone by surpassing 10 million. The unique benefits of our SVIP plans are gaining traction, as shown by higher ARPPU and longer time spent on our platform compared to other tiers of paying users. Let me provide more details on this achievement:

- 1) First, our proprietary, self-developed audio quality features have enhanced the listening experience for SVIP members. Standout examples from this quarter are QQ Music's Premium Sound, DTS sound quality and Kugou Music's Viper Ultra Sound, which bring clearer, more immersive audio to our users. Furthermore, we expanded our high-quality sound experience to in-car scenarios, with Viper series audio quality designed for our SVIP members driving Xiaomi, Li Auto, and NIO vehicles.
- 2) Second, our enhanced long-form audio offerings have also had a positive impact on user willingness to renew their subscriptions. We expanded our audiobook content library with original content and popular IPs across various genres, including hit TV dramas and films, comics, suspense, and children's stories.
- 3) Third, these are just a few examples of the initial steps that we are taking to grow our SVIP memberships. Coupled with the growing depth of our content ecosystem, as Cussion discussed, we have a solid foundation for delivering richer content benefits. Moving forward, we will continue to focus on both unique content and product offerings, meeting the evolving needs of our users and delivering delightful music experiences.

With that, I would like to 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 effective monetization of online music services and operational efficiency management continued to drive strong financial results in the third quarter of 2024. With strong performance in our music subscription and advertising businesses, we are pleased to see our revenue growth resume its growth trajectory on a year over year basis. IFRS net profit increased by 35% year-over-year to RMB 1.7 billion, and non-IFRS net profit rose by 29% year-over-year to RMB 1.9 billion

Total revenues in the third quarter of 2024 were RMB 7.0 billion, up by 7% year-over-year.

Online music revenues increased by 20% year-over-year to RMB 5.5 billion. This increase was mainly driven by the strong expansion of our music subscription revenues, supplemented by growth in advertising revenues, as well as growth in revenues from offline performances.

Music subscription revenues in the third quarter of 2024 reached RMB3.8 billion, representing a 20% increase year-over-year and a 3% rise sequentially. Monthly ARPPU was RMB10.8, up 5% from RMB10.3 in the same period last year. The number of online music paying users were 119 million, representing a 16% increase year-over-year with quarterly net adds of 2 million users. With the goal of achieving growth in both subscribers and monthly ARPPU, we have strategically focused on SVIP membership program and enhanced membership benefits such as priority access to digital albums, pre-sale for tickets to concerts and fan activities and high-quality audio and sound effects for mobile and in-car users. These benefits and features have helped us achieve an important milestone of passing 10 million SVIP members this quarter.

Advertising revenues also had strong year-over-year growth, primarily due to the growth in ad-supported mode revenues. We continued to innovate and diversify our product offerings and advertising formats. The attractive interactive features and enriched benefits we offered helped improve entrance rate for our ad-supported advertising and enhance user engagement and eCPM, and attracted more advertisers this quarter.

Social entertainment services and other revenues were RMB 1.5 billion, down by 24% year-over-year. For social entertainment services, our top priority is safety in operation and we will keep monitoring market conditions and the competitive landscape. Meanwhile, we continue to innovate and build new products and features to drive quality growth in areas such as WeSing membership and advertising within social entertainment.

Our gross margin for Q3 reached 42.6%, representing an increase of 6.9 percentage points year-over-year, due to a few factors. First, the expansion of our paying user base, the enhanced monthly ARPPU for online music, and growth in advertising revenues have positively impacted our gross margin. Second, we have been focused on ROC as a key metric to manage our content royalty costs. Third, the ramping up of our own content continued to help improve our gross margin. Lastly, the growth in WeSing memberships and advertising within social entertainment also positively impacted our gross margin.

Moving on to operating expenses, in the third quarter of 2024, they amounted to RMB 1.2 billion, representing 17.4% of our total revenues, compared with 19.3% in the same period of last year.

Selling and marketing expenses were RMB220 million and remained relatively stable comparing with same period of last year. Our ROI-focused approach for promotion expenses, together with product experience improvement, have contributed to the growth in online music MAUs. We will continue to invest in areas with long-term growth perspective such as online music and content promotions.

General and administrative expenses were RMB998 million, down by 5% year-over-year, primarily driven by lower employee-related expenses.

Our effective tax rate for Q3 2024 was 17.7%, compared to 12.2% in the same period of 2023. This increase was primarily attributed to the accrual of withholding tax of RMB113 million related to earnings to be remitted by our PRC subsidiaries to offshore entities.

For Q3 2024, our net profit and net profit attributable to equity holders of the Company were RMB1.7 billion and RMB1.6 billion, respectively. Non-IFRS net profit and non-IFRS net profit attributable to equity holders of the Company were RMB1.9 billion and RMB1.8 billion, respectively. The financial results for Q3 2024 have reflected an unrealized loss from foreign exchange due to the fluctuation of exchange rate between RMB and USD as of June 30 and September 30, 2024.

Our diluted earnings per ADS this quarter was RMB1.01, up 36% year-over-year. Non-IFRS diluted earnings per ADS increased to RMB1.16, up 30% year-over-year. These results underscored our robust financial performance, enhanced operating efficiency, and the benefit from our share repurchase program.

Under the Share Repurchase Program announced in March 2023, as of September 30, 2024, we have repurchased 42.1 million ADSs from the open market for a total cash consideration of US\$335.5 million, of which approximately US\$100 million were repurchased in the third quarter of 2024.

As of September 30, 2024, our combined balances of cash, cash equivalents, term deposits and short-term investment were RMB36 billion, as compared with RMB35 billion as of June 30, 2024. This combined balance was also affected by changes in the exchange rate of the RMB to USD at different balance sheet dates.

Looking forward, we will continue to drive high-quality growth in our music business such as expanding SVIP memberships and advertising business, as well as operational efficiency improvement. We will also continue to invest in high quality content, original content production, as well as innovative technologies to further improve user engagement and enhance user experience. We remain confident in the long term healthy growth in music industry and our business, and are dedicated to provide high-quality returns for our shareholders.

This concludes our prepared remarks. We are now ready to take your questions.

**Millicent:**

Thanks, Shirley.

**Millicent:**

Thank you. Thank you everyone for joining us today. If you have any further questions, please feel free to contact our IR team. And this concludes today's call, and thank you so much again and look forward to speaking to you next quarter.