



Tencent Music Entertainment Group
2025 Second Quarter Earnings Conference Call

Millicent T.:

Good evening, good morning, and welcome to Tencent Music Entertainment Group's Second Quarter 2025 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 today.

We delivered high-quality growth in the second quarter, with solid year-over-year increases in both revenue and profitability.

On one hand, our music subscription business remains a core growth driver and continues to gain traction. On the other hand, we are also seeing impressive results from our expanding suite of music related services. Key initiatives, like advertising, concerts, and artist merchandise, all achieved rapid growth in the second quarter, and that strong momentum is carrying into the third quarter.

By constantly enhancing our content ecosystem, expanding our offerings, and fostering new ways for artists-fans engagement, we're shaping a vibrant, all-in-one music service platform.

Now let me share some of the key highlights on the content business:

- 1) First, we began cooperating with well-known Korean labels The Black Label and H MUSIC for the first time, further strengthened and differentiated our K-pop offerings. We also

extended collaboration with renowned Chinese artist Wang Feng (汪峰), offering both his classics and latest works on our platform.

- 2) Second, we continued to focus on co-creation and original content production to further enrich and diversify our content offerings. From concept origination, creation, to production and promotion, we are actively involved in every stage to build a more dynamic and innovative music ecosystem.
 - a) A prime example is our recent collaboration with SM Entertainment on NCT CHENLE's (钟辰乐) Chinese special EP, *Lucid* (灿). Our integrated promotions across music festivals, debut concerts, and variety shows attracted a large audience. 10,000 music lovers participated in a singalong at the music festival, and variety show clips generated over one million likes, highlighting the power of end-to-end industry collaboration across borders and cultural exchange through music.
 - b) We also worked closely with artists to develop original pieces, like the theme song for the acclaimed film THE LYCHEE ROAD with Chen Chusheng (陈楚生). This song topped multiple music charts, and garnered extensive praise from national media.
 - c) Additionally, our strategic partnership with Zhejiang Satellite TV has further supplemented our music copyright portfolio of popular variety shows, such as The Treasured Voice (天赐的声音) and Shining Summer (闪光的夏天), and opened new opportunities for collaboration in content co-creation, musician promotion, and more.

We have also shown strong capabilities in staging artists and connecting them with users through other music related service offerings. These efforts have further energized our ecosystem, boosted user loyalty, and cultivated content creation, altogether reinforcing our platform's unique position in the evolving music industry.

A few examples:

- 1) First, we successfully hosted leading Korean artist G-DRAGON's first major tour since 2017 in Macau, which attracted over 36,000 attendees to immerse in the captivating atmosphere, and the event merchandise was quickly sold out. This marked our first large-scale international concert production, significantly boosting our industry reputation. Following a strong kickoff, we are scheduled to expand the tour into other regions this year.

Additionally, we organized a series of stadium concerts for Fiona Sit (薛凯琪), TIA RAY (袁娅维) and rapper GAI, helping them to reach a broader, younger audience. Due to overwhelming demand, we quickly responded and worked with TIA RAY to schedule additional shows to accommodate fan interest.

- 2) Second, we have become an important partner for staging and curating live performances for emerging talents. In the first half of the year, we leveraged our proprietary IPs, *CITY LIVE* and *BUFF LIVE* to host over 300 offline shows for nearly 100 Tencent Musicians. Our cross-platform promotions also boosted a number of works into trending hits, connecting them with

a broader audience of music lovers. For instance, after we promoted Xiang Sisi's single Why Not Wait for the Wind (不如就等风来) on short-video platforms, it quickly went viral—sparking a wave of user-generated content on social media and surpassing 20 million streams on our platform.

- 3) Third, we created more opportunities for music lovers to meet and interact with artists, both online and offline.

For example, buyers of Jason Zhang (张杰)'s physical album Not Bad (要得) could win opportunities to attend his offline signing events. Such privileges not only deepened fans' engagement, but also helped drive the album's outstanding performance.

In late June, we partnered with DearU, a global fan communication platform company, to launch the interactive community *bubble* on QQ Music. *bubble* enables users to engage directly with hundreds of K-pop artists from labels such as SM, JYP, and CUBE Entertainment, providing artists an avenue to share members-only content. To cater to a wider audience, we also plan to invite some popular Chinese artists to the community, allowing them to foster a deeper and more personal connections with their fans.

Finally, reflecting our commitment to serving the music industry and supporting its healthy growth, we hosted the 3rd Wave Music Awards, which was designed to honor the most outstanding Chinese music works of 2024. 15 top-tier music creators, including Gu Jianfen, Li Haiying, and Xiao Ke, presented the awards. The chart's professionalism earned industry-wide acclaim and endorsement, amassing over 200 million social media views.

This quarter, we also collaborated with professional institutions, music labels and artists, leveraging AI technology to unlock the social value and healing power of music. For example, we launched the *Hearing Guizhou* project, featuring natural soundscapes to enhance sleep quality.

In summary, our dedication to diversifying music services and delivering well-rounded music entertainment has set the stage for long term sustainable growth. With a strong foundation in place, we will continue to enhance our content/platform ecosystem, offer richer experiences, and unlock greater opportunities for both music lovers and stakeholders across the music value chain.

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.

In the second quarter, our platform demonstrated robust growth, driven by our commitment to continuous product improvement and operational excellence. Online music recorded strong

performance, supported by sustained expansion in both our subscriber base and ARPPU.

This positive trajectory was underpinned by our innovations across product features, artist merchandise, and artist-fan interactions, which has further strengthened our appeal among SVIP members. Overall user average time spent reached a record-high and SVIP subscribers exceeded 15 million, a new milestone that reflects the deep trust and loyalty within our user community.

To enhance the SVIP experience, we introduced a range of new and upgraded features during the quarter. Here are some key highlights:

- 1) First, high-quality sound quality remains the most popular SVIP membership benefit. This is effective in fulfilling users' robust demand for more premium and immersive listening experiences. In the second quarter, Kugou Music pioneered VIPER HiFi sound quality and One-Click Audio Enhancement 2.0. By delivering superior audio fidelity and louder speaker volumes, we let users easily transform their smartphones into portable speakers. We also upgraded voice extraction technologies with the industry-first AI Chorus function. Users can now plug in a live concert sing-along experience anytime and anywhere, without the usual fuss.
- 2) Second, to further drive SVIP adoption, artist-centric privileges became increasingly effective. Such achievements are powered by our deeper collaborations with labels and artists, that unlock a wider range of compelling benefits for our users.
 - a) Digital albums are a great example. Recently, we premiered JJ Lin (林俊杰) and A-Lin's new digital single Hold Me Close (在月蚀里抱紧我). We also launched Jolin Cai (蔡依林)'s new album, Pleasure. By integrating these albums as SVIP sign-up privileges, we significantly boosted SVIP conversions.
 - b) Another example is priority access to concert tickets for in-demand events. This quarter, SVIP users had the opportunities to secure tickets for G-Dragon and BLACKPINK's concert tours in advance on our platform, sparking significant buzz among music fans.
 - c) We also cooperated with both domestic and international artists, including JC-T (檀健次), Silence Wang (汪苏泷), and aespa, to release multiple star cards series. These initiatives successfully met users' growing demand for collectibles.
- 3) Third, we elevated user engagement by introducing new ways for artists and fans to connect.
 - a) For example, beyond launching bubble, in May, we partnered with TF Entertainment (时代峰峻) to live-stream Teens in Times (时代少年团) and TransForm Project (TOP 登陆少年组合)'s two concerts. These events garnered over 33 million viewers, with SVIP members enjoying dedicated access to solo camera angles, bringing fans even closer to the artists.
 - b) We also upgraded our virtual fan community, Penguin Starlight Island, introducing special avatar outfits and gestures for SVIP members to make online meetups more personalized. During Lars Huang (黄子弘凡)'s birthday and song releases, we hosted

fan team-building activities and a live voice call with him, attracting over 100,000 users to his island page.

- 4) Next, as our in-car music service gained recognition from SVIP members, we broadened our alliances with prominent automakers. For instance, this quarter, we formed a comprehensive partnership with Geely and collaborated with Xiaomi on its first SUV, the YU7 model. These partnerships integrated Dolby Atmos and Premium series sound effects, elevating users' music listening experience. We also built an AI-powered music cabin for Great Wall Motor, offering personalized on-demand features like AI vocal extraction and healing music playlists to facilitate a more enjoyable journey.

Alongside the success of our SVIP offerings, the power of our platform and innovative ad formats led to accelerated advertising growth, both quarter-over-quarter and year-over-year. In particular, we optimized interactive ad tasks and enriched redemption benefits, significantly boosting user engagement and receiving positive feedback from advertisers. Lastly, our initial pilot on ad-based membership gained positive momentum. It gives us more room to provide tailored solutions to advertisers and users with various needs.

Looking ahead, we see great potential in the music entertainment space, and are committed to investing in new initiatives that create lasting value and impact on music creation and consumption. Along this journey, we will continue to push boundaries, innovate, and enhance user experiences to deliver more premium and immersive experiences to all of our users.

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.

Let me now turn to our financial results. In Q2 2025, our total revenues hit a record high of RMB 8.4 billion, up by 18% year-on-year, successfully overcoming the challenges from adjustments in social entertainment services in recent years. This was driven by continued strong growth in music subscription and advertising services, as well as robust growth from artist-related merchandise sales, and offline performances.

Online music revenues grew 26% year-on-year to RMB 6.9 billion. Music subscription revenues grew 17% year-on-year to RMB 4.4 billion in Q2 2025, driven by continued expansion in subscriber base and monthly ARPPU. Monthly ARPPU reached RMB 11.7 this quarter, compared to RMB 10.7 in the same period of last year, primarily driven by expansion in SVIP subscribers and ARPPU. As discussed earlier, to enhance the SVIP members' experience, we continued to broaden and strengthen SVIP benefits—including enhanced sound quality and effects, artist-centric privileges such as free shipping for our merchandise, priority access to concert tickets and artist-related merchandise. These efforts collectively have helped enhance our SVIP membership base and

achieve higher monthly ARPPU this quarter.

Advertising revenue continued its strong growth trajectory on both year-on-year and quarter-on-quarter basis, primarily driven by the following: First, our innovative ad formats such as ad-supported mode kept gaining traction and significantly contributed to our advertising revenue growth. Second, the 618 shopping festival provided a great opportunity to showcase our recent product optimization results, leading to increased number of advertisers, higher entrance rates and eCPM. Third, sponsorship advertising also had strong growth this quarter, which benefited from increased number of offline events and performances.

Additionally, artist-related merchandise sales and offline performances delivered robust results this quarter and further contributed to overall revenue growth in music services. The shipping for the physical album of Xiao Zhan this quarter, together with the offerings of artist-related merchandise, such as Joker Xue(薛之谦)'s physical albums and G-DRAGON's official light sticks, significantly enhanced revenues from artist-related merchandise sales in Q2. Meanwhile, we continued our strategic initiatives in the offline performance market. This quarter, leading Korean artist G-DRAGON started his first major tour since 2017 and we successfully hosted his concerts in Macau in Q2 with more locations to come in Q3. We also hosted other high-profile concerts for artists such as Will Pan(潘玮柏) this quarter.

Social entertainment services and other revenues were RMB 1.6 billion, down by 9% year-on-year. The year-on-year decrease was mainly due to the adjustments to certain live-streaming interactive functions and more stringent compliance procedures previously implemented.

Our gross margin rose by 2.4 percentage points year-on-year to 44.4%, primarily driven by the following factors: first, strong growth in music subscription and advertising revenues, together with improved cost efficiency, thanks to our long-standing win-win relationships with labels and artists, have benefited our gross margin; second, as the market landscape evolves, we successfully lowered our revenue sharing ratio in social entertainment services without materially impacting revenues. Meanwhile, the growth in revenues from artist-related merchandise and offline performances, which require higher investment, had offset gross margin increase.

Moving on to operating expenses. Sales and marketing expenses as a percentage of revenues were 2.6%, down from 2.9% in the same period of last year. General and administrative expenses as a percentage of revenues were 11.1%, down from 13.1% in the same period of last year, reflecting our strong operating efficiency. Majority of our sales and marketing spending have been in the category of content promotion and channel spending, we will keep monitoring market conditions and increase spending as needed with financial discipline.

Our effective tax rate for Q2 2025 was 17.3%, compared to 19.4% in the same period of 2024. We accrued withholding income tax of RMB118 million in the second quarter of 2025.

In Q2 2025, our net profit increased by 38% to RMB2.5 billion, and net profit attributable to equity



holders of the Company increased by 43% to RMB2.4 billion. Non-IFRS net profit increased by 33% to RMB2.6 billion, reaching a historic high and non-IFRS net profit attributable to equity holders of the Company increased by 37% to RMB2.6 billion.

Our diluted earnings per ADS this quarter was RMB1.55, up by 45% year-on-year, and non-IFRS diluted earnings per ADS was RMB1.66, up by 39% year-on-year. These results underscored our effective monetization, enhanced operating efficiency, and the benefit from our share repurchase program.

As of June 30, 2025, our combined balances of cash, cash equivalents, term deposits and short-term investment were RMB34.9 billion, as compared to RMB37.7 billion as of March 31, 2025. This combined balance was also affected by changes in the exchange rate of the RMB to USD at different balance sheet dates.

Going forward, we will keep focusing on expanding our SVIP membership, introducing more and enhanced SVIP privileges such as high-quality content, artist-centric privileges including early access to artist merchandise and concerts. Meanwhile, we will continue to invest in our products and innovative technologies globally. We remain optimistic in the healthy growth prospects of the music entertainment industry and are confident about the high-quality growth of our business.

This concludes our prepared remarks. We are now open for 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.