
NetEase Cloud Music Inc. Fiscal Year 2024 Earnings Conference Call

7:00 PM Hong Kong Time, February 20, 2025

Hello everyone, and welcome to our 2024 full-year earnings conference call.

We made exceptional progress throughout 2024, strengthening our core online music business while further cultivating a thriving, music-centric community. We further deepened user engagement by enriching our premium offerings—such as expanding our content library, refining personalised recommendations, introducing innovative features, and fostering a stronger sense of community. Additionally, the rollout of enhanced membership benefits and the improved user experience spurred growth in our subscription-based memberships. Expanding the breadth and depth of our content and community ecosystem improved our monetisation in our core online music business and drove strong profitability.

Users across our leading music-inspired community remained exceptionally engaged in 2024. Our total monthly active users (MAUs) steadily increased and our DAU/MAU ratio consistently remained above 30%, demonstrating the community's strong appeal and high user engagement. Of note, our growing online music subscriber group was more active and spent more time on our platform than non-paying users. They have become an indispensable pillar of our community.

Our **unique music community and recommendation system** continue to set us apart. In 2024, we further enhanced users' music discovery and consumption via improved personalised recommendations and innovative features, creating a premium audio-visual experience. We continued to cultivate our music-centric community and broaden interactive scenarios across various UGC formats, leading to increased community content generation and consumption. These initiatives successfully encourage users to be more active, resulting in a longer average time spent on our mobile app listening to music compared to last year. **Expanding music consumption and communication scenarios** bolsters our business. In 2024, we extended and deepened our partnership with NetEase games and Youdao dictionary. These collaborations captivated the attention of many young users, further cementing NetEase Cloud Music's position with the younger generation.

Through our rich library of licensed music, independent artist incubator and elevated in-house music offerings, we have **built a comprehensive and distinctive content ecosystem**. In 2024, we continually expanded our music content library, emphasising trending music interests among

younger generations while focusing on investment efficiency. During this period, we continued introducing work from Korean labels, enriching our Mandarin content library, and strengthening our niche genres. Meanwhile, we remained dedicated to promoting the growth of original, high-quality Chinese music. Our independent artist platform is thriving. It recently celebrated its 10th anniversary, marking a decade of fostering original Chinese music. We have continuously enhanced our in-house music development capabilities. This year, several in-house tracks gained exceptional notoriety, such as 《罗生门 follow》.

We considerably **strengthened our music-centric monetisation capabilities** in 2024, highlighted by the year-over-year growth in our membership subscription revenue, supported by an impressive increase in subscriber numbers. We successfully introduced premium offerings, such as expanded content and innovative features. We also broadened membership privileges and extended our joint programs with external partners. Notably, membership retention rates, time spent, and activity ratios each improved across our rapidly expanding, high-quality subscriber base compared to the previous year. Our successful initiatives helped attract and convert high-quality, highly active young subscribers.

We significantly **improved our profitability in 2024**. Economies of scale from our increased subscriber base and ongoing cost optimisation helped push our **gross margins to 33.7%**, up from 26.7% in 2023. Further aided by ongoing operating leverage, our **adjusted net profit more than doubled to RMB 1700 million** from RMB 819 million last year.

Looking ahead, NetEase Cloud Music firmly centres its strategic planning on long-term sustainable growth. With this in mind, we always prioritise user experience with an emphasis on cultivating and engaging high-quality users, particularly the highly active and promising youth groups.

We remain committed to driving the development of original Chinese music and continuing our investment in original in-house content to continuously deliver high-quality music experiences to our users. At the same time, we will continue to strengthen and expand our unique music community ecosystem, foster ongoing product innovation, and create exceptional music and community experiences. We believe these initiatives will serve as a powerful engine for our long-term sustainable development.

With that overview, let's take a closer look at how we are advancing our content ecosystem, product innovation and community, and commercialisation efforts.

Comprehensive and differentiated content ecosystem

By actively expanding our library of copyrighted work and developing original music, we continuously enrich our catalogue to keep pace with our users' evolving tastes—especially younger listeners who relish a mix of music styles and discovering lesser-known tracks.

Looking first at our music label partnerships, throughout 2024, we continued to strategically expand our collaborations, using a disciplined approach. We focussed on the most popular genres on our platform.

We were pleased to sign new partnerships with several top-tier labels in 2024, introducing a wide range of popular music. We signed new agreements with labels, including JYP Entertainment and CJ Entertainment. Additionally, we strategically collaborated with Kakao Entertainment, partnering on new song releases and music promotion. We continuously bring our users hit music, with tracks like Jay Park's Christmas song and Got7 (Jackson Wang)'s Comeback Album. Adding to the list, early this year, we also gained access to Li Jian's music and brought Liuhuan's classic works to our platform.

We actively expanded our music content library, offering users more music in our signature genres like hip-hop, rock, Japanese ACG and Western music. This includes collaborations with key partners, such as our newly signed strategic partnerships with Modern Sky Entertainment and Planet Culture. Users can also gain access to the latest content in our signature music genres, including songs from rappers like KeyNG, AIR, 沙一汀, as well as rock band Penicillin and artist 窦唯 Dou Wei. We are also pursuing copyright collaborations with Western artists, particularly in electronic music, hip-hop, folk and rock genres.

Furthermore, we successfully extended our collaborative efforts with copyright holders and artists on content distribution and commercialisation, resulting in impressive sales of premium digital and physical albums on our platform. Most recently, Hua Chenyu's latest digital album, "TIPPING POINT," sold over 1 million copies in its first 24 hours on our platform, generating over RMB 30 million in its first week of sales.

Our leading independent artists' ecosystem also continues to thrive. By the end of the year, our platform had over 773,500 registered independent artists. Recently, we honoured the 10th anniversary of our NetEase Musician platform. To celebrate, we launched a series of activities that showcased musicians' 10-year journey, including the annual report for musicians and the

badge achievement, as well as planning the 'Life Music Festival,' among others. These initiatives provide a comprehensive retrospective of musicians' decade of growth, strengthening their sense of belonging to the platform and fostering a sense of pride and motivation. They also enhanced artists' connection with fans on the platform while elevating the NetEase Musician brand image and influence.

What started as an idea, after years of hard work, today, NetEase Musician stands as the industry's No. 1 platform for original musicians in China. It showcases talented artists such as Fangdong's Cat, Qiu De, Ele Yan and Zheng Runze. NetEase Musician has introduced key programs like "Project Cornerstone," designed to nurture new talent and "Project Cloud Ladder," which systematically boosts original musicians' income and exposure. We also launched important initiatives to create a comprehensive ecosystem for music creators, allowing artists to create, share, collaborate and grow. By championing musical diversity and personalised aesthetics, our platform has fuelled a movement in China's original music industry toward bolder innovation, inclusivity and diverse artistic freedom.

In 2024, we continued to progress our **support for independent talent**, enhancing their creative efficiency, increasing exposure and realising commercial value.

Our diverse range of talent support throughout the creative and promotion process, such as dynamic covers and new song pre-order features, effectively promoted new songs. Our all-in-one AI music creation tool, NetEase Tianyin, is making the musicians' production process more efficient and music creation more accessible.

To further **increase independent musicians' exposure**, we utilise both internal and external resources. In 2024, we took a deeper dive into regional geographies to support musicians in emerging stages with projects like our renowned City Tour Guide planning series (城市云游指南). In 2024, we launched the Northeast Special Edition of the series, bringing both online and offline events to Guizhou and Suzhou. Throughout the year, we also released nine compilation albums under Project Cornerstone (石头计划), showcasing fresh talent from different regions. Early this year, NetEase Cloud Music and Ctrip joined forces to launch the *Singing Journey* competition, *One City, One BGM*. The competition's goal is to promote original music that truly reflects the spirit of each city.

As we continue to **cultivate top music genres with our independent artists**, in 2024, we added to successful programs like our Chinese Rap Rookie Award (中文说唱新人赏) that identifies emerging rap talent. We launched an exciting new project called "Rap Map 「说唱地图」" to

help users explore and understand Dialect rap. We also introduced "Nation" 「呐·声」, a music integration initiative that earned us an invitation to exhibit at the Chinese National Museum of Nationalities.

Our platform's diverse monetisation approaches and upgraded support initiatives are designed to **help musicians maximise their financial yields**. We launched the latest phase of our renowned support initiative, *Project Cloud Ladder 2024* (云梯计划2024). This new phase of the Project strengthens musicians' financial backing by introducing a more attractive settlement mechanism and expanding the range of available incentives.

Leveraging our musical expertise and deep user insights, our in-house studios created more notable content in 2024. Here, we specifically catered to high-quality music creation, especially for the younger generation, who actively seek fresh, high-quality music. In 2024, our in-house studios successfully produced and popularised multiple hit songs. Hip-hop tracks were particularly strong, including (《罗生门 Follow》), "5:20 AM" (《5: 20 AM》) and "Xie Tian Xie Di"(《谢天谢帝》), among others. Our in-house version of 《Dehors》, inspired by both Chinese and French music, has gained significant popularity. Other notable works include “Thus (于是),” which younger audiences love, and "Blooming Bauhinia," which received widespread acclaim both on and off the platform.

Beyond music tracks, we have **broadened the long-form audio offerings on our platform** to create a richer listening experience across diverse interests. This approach has both deepened user engagement and unlocked potential new commercial opportunities. In 2024, long-form audio content consumption grew steadily, with the average listening time per user of long-form audio on our platform increasing by a significant 35.8% year-over-year.

Podcasts focused on music-derived audio content are a key part of our content ecosystem, enriching users' experiences of music discovery and consumption. In 2024, we launched several customised podcasts on music genre education, providing professional insights into folk, rock and other music styles.

In PGC audiobooks and radio drama, we expanded our cost-effective, self-produced audio content, driving strong engagement and improving monetisation. This strategic focus has strengthened our layouts in long-form audio.

Product innovation and community ecosystem

Now, let's talk about **our product innovation and our community ecosystem**. Throughout 2024, we focused on product innovation and enhancing features to activate engagement and interaction. Beginning in early 2024, we achieved significant strides in product innovation. We made continuous upgrades to the NetEase Cloud Music App, emphasising personalised content recommendations and strengthening our music-centric community, which effectively increased user engagement.

Firstly, we intensified our focus on improving users' **music discovery and consumption experiences**.

We strengthened recommendation capabilities by analysing user behaviour across homepages, roaming recommendations and search pages to better match users' genre and artist preferences. We also improved recommendations for familiar songs, helping new users develop their consumption habits on our platform. Plus, we introduced new playlist categories based on masterpieces, emotions and genres, making music discovery more dynamic. These enhancements have expanded recommendation coverage and increased efficiency.

During 2024, we took engagement to the next level with **richer audio-visual and scenario-based features**. We expanded music exploration by adding profound insights into musicians' backgrounds, songwriting and lyrics. Our upgraded Music Encyclopedia and new features like Lyric Books (歌词本), AI Singing and Lightbulb (小灯泡) for song recommendations made music discovery more immersive. To elevate the listening experience, we introduced a variety of new music player interfaces, including album art styles, artist series and the popular DIY Vinyl Player. We also launched sleep aid features tailored to young professionals, which fit seamlessly into users' daily lives.

Furthermore, we continuously **innovate and optimise our music community features** to deepen the connection between users and music, drive social engagement and foster a vibrant, loyal and sticky community. In 2024, we focused on the emotional power of music, strengthening community content consumption, interaction and creation—driving higher user activity.

We continuously amplify the value of our iconic Comments section. During the year, we enhanced comment visibility in various app scenarios, like when users listen to music or search for songs. We achieved this by displaying popular comments on the Vinyl Player and introducing a new player interface that showcases selected comments, among others. We also

optimised interactive features around our iconic Comments section, such as the Like Effect (点赞特效). These efforts boost emotional connections and interactions inspired by music.

We also launched community-driven activities to encourage the creation of UGC community content. Additionally, we're diversifying our content formats, integrating music-inspired graphics and text-based content to provide artists and users with more robust options for creation and interaction.

Meanwhile, we **expanded music consumption and communicative scenarios**, embedding music into daily activities.

We are advancing our collaborations with NetEase Group and deepening our partnership with NetEase Games. Our co-branding activities, in collaboration with popular games, helped broaden our audience. We've also introduced and enhanced music-inspired social interaction features in several games. These integrations resonate with younger audiences and align well with social gaming scenarios. They boost our brand recognition among younger users while encouraging music consumption habits and expanding the way users develop their music assets within our ecosystem.

We also optimised IoT connectivity, making it seamless for users to switch between mobile, PC, TV and in-car systems. Our regular vinyl membership subscribers can also access content on IoT terminals. These efforts help us improve overall user activity and engagement across multiple devices and scenarios. Meanwhile, we are actively expanding our in-car play presence. In 2024, we launched our platform on new brands and models from Xiaomi, Mercedes-Benz, Harmony Intelligent Mobility Alliance, and Changan. We also forged a new long-term strategic partnership with Great Wall Motors.

Commercialisation

In terms of commercialisation, we considerably strengthened our music-centric monetisation capabilities throughout 2024, with online music services revenues increasing by 23% in 2024. The healthy growth in membership subscriptions is a clear sign of our platform's increasing value and community engagement, which further validates the sustainability and long-term potential of our business. We've built a highly engaged, loyal community of young users who are not only deeply connected to our platform but also willing to spend. By continuously optimising distinctive content and product experiences, we are driving the platform's sustainable commercial growth.

Membership subscriptions

We saw strong growth in subscription-based membership revenues in 2024, increasing 22% year-over-year, driven by a significant increase in subscribers. To expand our membership base, we focused on enhancing premium content and improving music distribution, expanding membership benefits and penetration, and refining a comprehensive pricing strategy—all aimed at increasing users' willingness to pay for a premium experience. Notably, we launched key initiatives that helped us attract and convert new young subscribers. These younger generation users are highly engaged and willing to spend.

- **Membership privileges.** We continued rolling out diverse music-related functional rights, interactive features, and a series of dress-up rights for our members.
 - [Functional Rights]: Our innovations in product functionality aim to provide members with a premium and personalised music-oriented experience, including features like Ear Age Sound Effects (个性化耳龄音效), Listening History (听歌足迹), and AI-enabled functions such as AI singing assistant (AI 帮唱), AI MV and AI Tarot (AI 塔罗). For example, our AI Singing Assistant uses advanced vocal tone extraction and intelligent singing to help users discover their one-of-a-kind voice and singing potential.
 - [Interactive features]: We also introduced new social tools like Bestie Space (双人关系) and Duo Recommendations (双人推荐), strengthening user interaction and engagement. These new interpersonal features effectively boosted membership conversion.
 - [Dress-up Rights]: We added new dress-up rights, releasing themed music players for premium users, featuring styles like Artist Series, Farmerbob and *Eggy Party*. Additionally, we introduced IP-themed skins inspired by Capybara and characters from NetEase's hit game *Where Winds Meet* (燕云十六声). Additionally, our Vinyl Player DIY feature allows users to customise backgrounds and Vinyl record covers, while the Album Wall landing image (唱片墙启动图) and Music Comment/Lyrics landing image (乐评/歌词启动图) seamlessly blend music with visual storytelling, offering a richer experience.
- **Joint programme.** On top of these additions, we are actively exploring and creating a new collaboration model for our membership programme with both internal and external partners. The joint programmes we have launched so far with *World of Warcraft* (魔兽

世界), *Identity V* (第五人格) and *Eggy Party* (蛋仔派对) that cater to music and game enthusiasts have been a success. We continue to extend our external partnerships through similar joint-membership programmes. For example, we expanded our presence into other internet service platforms and offline scenarios, extending partnerships with Vipshop, Zhihu, Youdao Dictionary and Atour hotels in 2024, specifically targeting high-value users and younger generations.

Our goal with membership subscriptions is to continuously advance content and product development while expanding member privilege and external partnerships, aiming for steady and sustainable growth. At this stage, our core strategy is to grow our membership base, with a particular focus on attracting more high-quality young user groups. We are committed to fostering their music consumption habits and platform loyalty through premium content and exceptional product experiences. In the long term, we think this strategy will drive the continuous growth of our subscription revenue and create more diversified commercialisation opportunities.

Overall, in terms of commercialisation, we will continue to explore and refine healthy, sustainable monetisation strategies. Prioritising user experience, we are dedicated to fostering a thriving community ecosystem centred around high-quality user groups. We believe this approach will lay a solid foundation for our future commercialisation efforts, and we look forward to unlocking greater long-term monetisation potential.

Q&A

Q1: Could management elaborate on how AI is applied within the Company? Additionally, how does management perceive the impact of AI technology on the music industry and on NetEase Cloud Music specifically?

William Ding: The rapid development of AI technology significantly impacts the streaming music industry in two key areas. First, it enhances music production and creation, making the process more efficient and providing greater value than any previous tool has in lyric writing, music composition and music arrangement. Second, it improves intelligent recommendations on

platforms like NetEase Cloud Music, allowing music to better align with users' tastes. Overall, AI is adding tremendous value to both content creation and personalised recommendations.

Q2: What are the Company's strategic priorities for the overall music business in 2025?

William Ding: In 2025, NetEase Cloud Music will maintain its focus on content production and creation, just as it has for the past three years, to support the development of original music in China. Secondly, we will emphasise making our product simpler and more visually appealing, addressing past issues of complexity and bloated features. The goal is to create a more streamlined and user-friendly experience, with improvements expected in Q1. Thirdly, we will continue to increase our investment in content copyright licensing, in-house music production, and marketing to ensure that the premium NetEase Cloud Music offerings resonate with Chinese music enthusiasts and help talented musicians thrive on our platform.

Q3: What are the plans for future content strategies regarding copyrighted music, independent musicians and in-house music?

William Ding: Over the past year, we have actively collaborated with copyright music providers both domestically and internationally, including Kakao Entertainment in Korea and with musicians like Li Jian and Liu Huan in China. Moving forward, we will continue to expand our content library, enhance our in-house music production, and support the development of talented independent musicians.

Q4: What are your expectations for user growth in 2025 in terms of the MAU growth rate and the number of subscribers? What user acquisition and marketing strategies are the Company implementing?

William Ding: As a music streaming platform, the Chinese market presents significant growth potential with ample room for growth in both membership and MAU. To achieve these goals, we will employ the following measures: First, in terms of product, we will focus on user needs and optimise the music listening experience and recommendation functions according to the highest standards. Second, in terms of content, we will focus on enhancing our unique offerings and continue investing in high-quality original Chinese music across genres such as pop, rap, folk, and hip-hop. Third, in terms of marketing, we will employ diverse strategies to engage passionate music lovers and convert them into loyal fans of our platform.

Q5: Some free music streaming services, like Soda Music, are rapidly evolving. What are your thoughts on this? Could it compete with NetEase Cloud Music, or is there a better differentiation strategy?

William Ding: Over half of the music on NetEase Cloud Music is free, which may be sufficient for some users. While other free music apps in the market can satisfy a portion of users, their ceilings are relatively low, falling short in areas like content quality and selection. Therefore, there is little concern that these products will impact the future market.

Q6: Will the Company consider reducing membership discounts this year? What are the priorities for increasing subscriber numbers and revenue growth?

William Ding: ARPPU is linked to revenue and profit. However, our primary focus is on fulfilling user needs and delivering the ultimate music-listening experience. This is a key objective for the Company. Regarding revenue, we believe that by creating quality products, users will naturally be inclined to pay.

Q7: What strategic thinking lies behind the Company's decision to change its name to NetEase Cloud Music?

William Ding: The Company was previously named "Cloud Music," which is difficult to pronounce in Chinese. More importantly, users commonly referred to it as "NetEase Cloud," which was the Company's original target name. However, due to compliance considerations from HKEX, it was changed to "NetEase Cloud Music." This name was selected for user recognition and has no other significance.

Q8: What is the current structure and growth trend of copyright cost, and how is cooperation progressing with copyright holders like SM and others?

William Ding: The Company's primary cost is related to copyright fees. China is the world's largest music streaming market. We actively collaborate with both domestic and international copyright companies. We have already established valuable strategic partnerships with the top three global labels, as well as other labels from Hong Kong, Taiwan, Japan and South Korea. We are committed to maintaining harmonious, win-win relationships with upstream copyright holders and jointly exploring the market, which is a win-win strategy. Additionally, we engage in cross-sector collaborations, such as our "Singing Journey" initiative with Ctrip, which

integrates the culture of tourist cities with music. Overall, we are focused on fostering long-term, mutually beneficial cooperations with copyright holders and cross-sector partners.

Q9: The gross margin has been increasing each quarter. What is the estimated long-term normalised gross margin? Additionally, what feedback have you received regarding AI-related functions, and what potential areas for improvement exist in these aspects for the future?

William Ding: Gross profit margin is not our primary focus in the short term. At this stage, our top priority is to enhance users' consumption and listening experiences. AI plays a vital role in the NetEase Cloud Music platform, as its tools have significantly improved the production and recommendation of high-quality content. We believe that future advancements in AI will lead to even more high-quality content being created and shared.

Q10: Do you have any insights and initial ideas on capital allocation for the upcoming year?

William Ding: We will continue to focus our capital investments on product experience and content services, with the goal of ensuring the uniqueness and longevity of our in-house content.