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Caught in the Quagmire: Evaluating Bilibili's Strategic Transition and its Current Investment Potential

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Abstract

This paper aims to evaluate the impact of the transition to the investment value of the Chinese video website Bilibili (NASDAQ: BILI) through a multidimensional analysis encompassing financial analysis, market analysis, and give the current equity fair price of Bilibili by Discounted Cash Flow (DCF) modeling. The study asserts that Bilibili's transition from a semi-long video + animation platform to a semi-short video + pan-entertainment platform has not yielded the desired outcomes. Furthermore, the market Bilibili currently targets is fiercely competitive, lacking a distinctive competitive advantage. Contrary to expectations, the organizational challenges stemming from this transformation have intensified, and the financial repercussions persist. Consequently, the author proposes a fair price for BILI stock, which falls below the prevailing market price.

Keywords

Bilibili; Video Website; Animation; Pan-entertainment; Transformation Strategy; Financial Analysis; Market Analysis; DCF Financial Valuation.

1. Introduction

Established in 2009, Bilibili has emerged as a prominent video website in China. Originally conceived as a forum catering to niche animation enthusiasts, the platform gradually evolved into a comprehensive video website, incorporating elements of video knowledge, animation, and pan-entertainment.

Prior to FY2021Q1, Bilibili's core focus for profit generation and user attraction centered around animation. The website expanded its offerings to include animation-related merchandise and ventured into pan-entertainment video content unrelated to animation (Tian, 2021). This strategic direction was facilitated by an exclusive agreement with Japanese animation production companies, granting Bilibili broadcasting rights for the majority of Japanese animations in mainland China (Zhang, 2019). This agreement solidified Bilibili's market position, serving as a significant barrier to entry for competitors in this segment.

However, the landscape shifted in FY2021Q1 when China's General Administration of Radio, Film, and Television (SARFT) initiated a strict censorship policy for imported animations, imposing varying censorship periods ranging from six to twelve months (Dimensional Research, 2021). Consequently, Bilibili's core anime business, which formed the backbone of the nation's leading video site, suffered a severe setback. Since then, Bilibili had no choice but to seek transformation. Bilibili, the entertainment website once centered on animation, is facing a dilemma of transformation from a semi-long video and animation platform to a semi-short video and pan-entertainment.

While academic analyses of Bilibili's investment status have primarily focused on the period before FY2021Q1, there is a noticeable lack of evaluations regarding Bilibili's investment value following this strategic transformation, particularly the analysis of its transitional impact. This study aims to fill this research gap by conducting a comprehensive assessment of Bilibili's market value after the strategic shift and making a comparison with the performance of Bilibili before the transition. The analysis utilizes a multidimensional approach that encompasses financial analysis and market analysis. A comparative analysis is performed to examine the impact of the transition, and the findings about the performance of Bilibili after the transition are incorporated into a quantitative Discounted Cash Flow (DCF) financial valuation model to generate the equity fair price for Bilibili. The primary objective of this model is to determine the equity fair price of Bilibili after the transition, thus providing valuable insights into its investment potential.

2. Financial Analysis

This section endeavors to analyze Bilibili's overall corporate operating conditions using the publicly accessible financial data of the company (Bilibili, 2023).

The section can be divided into two distinct modules. The first module, absolute indices, utilizes the direct absolute data derived from the financial statements to elucidate the overall operational status of the company as reflected in Bilibili's absolute financial figures. The second module, relative indices, delves deeper into the financial data presented in Bilibili's financial statements, performing additional calculations and analyses to provide alternative perspectives for consideration.

2.1. Absolute Indices

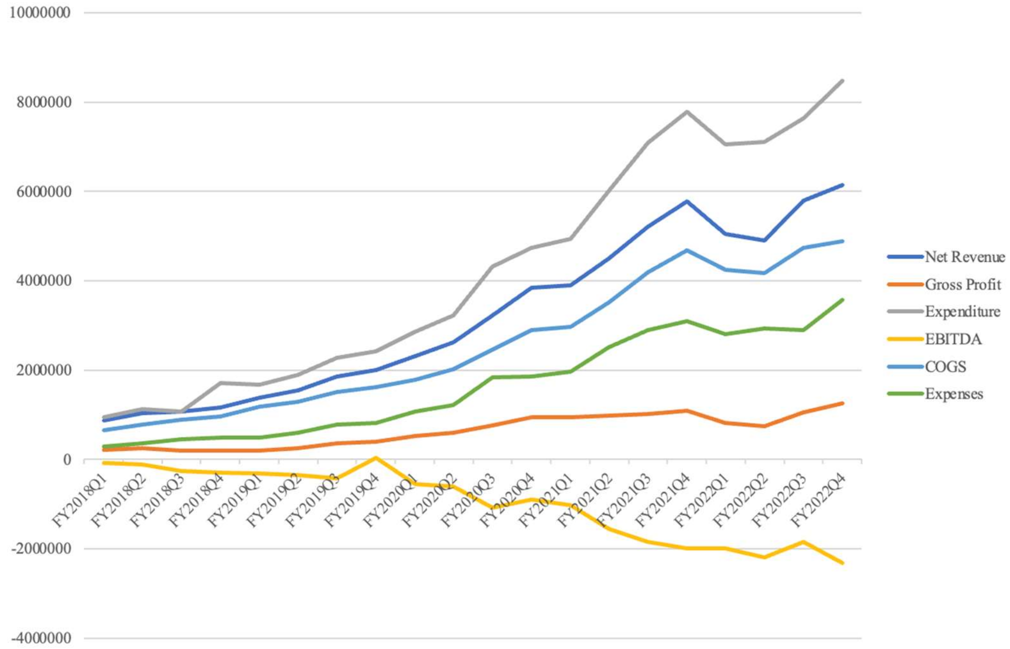

Figure 1. Bilibili (NASDAQ: BILI)'s Absolute Financial Indices from FY2018 to FY2022

A discernible disparity exists in the absolute financial data (Net Revenue, Gross Profit, EBITDA, Expenditure, COGS, Expenses) trends before and after FY2021Q1. Pre-FY2021Q1, the related indices exhibited predominantly flat to upward curves, indicating positive growth. However, subsequent to FY2021Q1, while an overall upward trend persisted, these indices started displaying fluctuations.

To provide a statistical perspective on these observations, linear regression was employed. These metrics aid in assessing the overall trend and degree of fluctuation exhibited by the financial indices. Considering FY2018Q1 as the baseline quarter value (represented by 2018), the linear regression analysis was conducted to establish the relationship between the quarter values (X) and the corresponding absolute indices (Y). The following presents the results:

Regression Coefficient (k): The coefficient estimates the magnitude and direction of the linear relationship between the quarter values and the absolute indices.

Dispersion Degree (r^2): This metric quantifies the degree of scatter or variability in the data points around the regression line, offering insights into the fluctuation level of the financial indices.

Table 1. The Linear Regression Result of Bilibili (NASDAQ: BILI)'s Absolute Indices from FY2018 to FY2022 (Divided into Before FY2021Q1 and After FY2021Q1)

Types of Absolute Indices	Absolute Indices	Before/After FY2021Q1	Regression Coefficient (k)	Disperse Degree (r^2)
Profit Rlelated	Net Revenue	Before FY2021Q1	1046025	0.9323
		After FY2021Q1	979155	0.6528
	Gross Profit	Before FY2021Q1	2666706	0.8473
		After FY2021Q1	65559	0.0615
	EBITDA	Before FY2021Q1	-319406	0.8858
		After FY2021Q1	-550743	0.6979
Cost Related	Expenditure	Before FY2021Q1	1371365	0.9338
		After FY2021Q1	1533708	0.7311
	COGS	Before FY2021Q1	779362	0.9512
		After FY2021Q1	913596	0.7272
	Expenses	Before FY2021Q1	586062	0.8963
		After FY2021Q1	620112	0.6757

Based on the analysis of the linear regression results, it is evident that Bilibili's performance in terms of absolute financial indicators has significantly deteriorated after FY2021Q1 compared to the period prior to FY2021Q1.

Firstly, the profit-related indices. By comparing the differences in k value between the pre-FY2021Q1 and post-FY2021Q1 periods within the same dimension, it becomes apparent that Bilibili's growth potential, encompassing Net Revenue, Gross Profit, and EBITDA, has experienced a substantial decline subsequent to FY2021Q1. Moreover, when examining data dispersion, it is observed that the period following FY2021Q1 exhibits greater instability than the period preceding FY2021Q1. In the earlier period, most indicators were able to maintain a stable level above 0.8. However, subsequent to FY2021Q1, these indicators failed to reach the 0.8 thresholds. These findings underscore a significant deterioration and unfavorable fluctuations in Bilibili's profitability subsequent to FY2021Q1.

The circumstances surrounding the cost-related and profit-related indices can be considered complementary. While the profit-related index exhibited a markedly negative linear growth rate, the cost-related index experienced a continuous upward trajectory. Furthermore, the degree of dispersion displayed similar characteristics to the cost-related index, wherein a

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distinct linear growth trend was evident prior to FY2021Q1. However, subsequent to FY2021Q1, significant fluctuations and erratic behavior were observed.

From the absolute financial data, it can be seen that the growth status and potential of Bilibili after FY2021Q1 are far from those before FY2021Q1, which is not optimistic; and its investment value will also decline accordingly.

2.2. Relative Indices

2.2.1. Liquidity Conditions

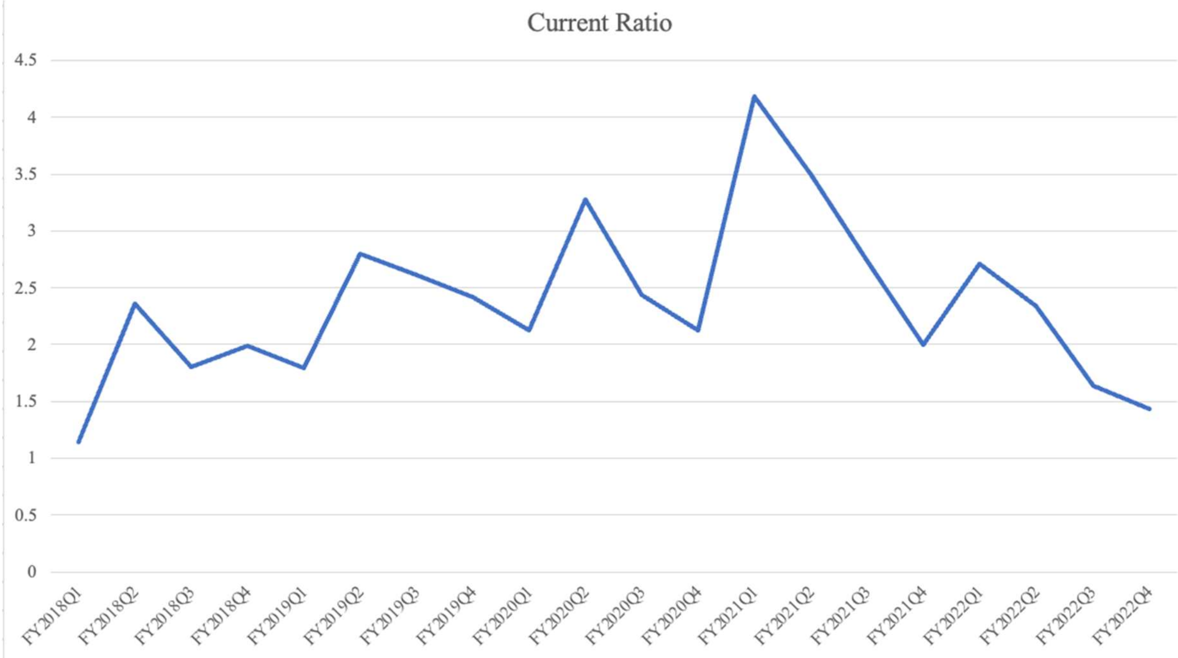

Figure 2. Bilibili (NASDAQ: BILI)'s Current Ratio from FY2018 to FY2022

The depicted graph illustrates Bilibili's current ratio, providing an informative depiction of the company's liquidity trend. Prior to FY2021Q1, Bilibili's liquidity demonstrated a clear upward trajectory. However, following significant events and changes in FY2021Q1, this upward trend was disrupted, with FY2021Q1 serving as the peak of this index. Subsequently, the liquidity index witnessed a substantial decline and continued to decrease, nearing the critical threshold of 1. Bilibili's performance on this indicator has been exceedingly weak.

In order to ensure the rigor of the analysis results, this paper still applies the method of linear regression here. It can be seen that before FY2021, although the linear regression results fluctuate, the coefficient is still positive. After FY2021, the regression coefficient k turns into a negative number. Comparing the difference of the k coefficient, we can also find that the gap is huge, even three times the k coefficient before FY2021Q1.

Table 2. The Linear Regression Result of Bilibili (NASDAQ: BILI)'s Liquidity Ratios from FY2018 to FY2022 (Divided into Before FY2021Q1 and After FY2021Q1)

Before/After FY2021Q1	Regression coefficient (k)	Disperse Degree (r^2)
Before FY2021Q1	0.522371	0.4586
After FY2021Q1	-1.385267	0.8301

2.2.2. Efficiency Conditions

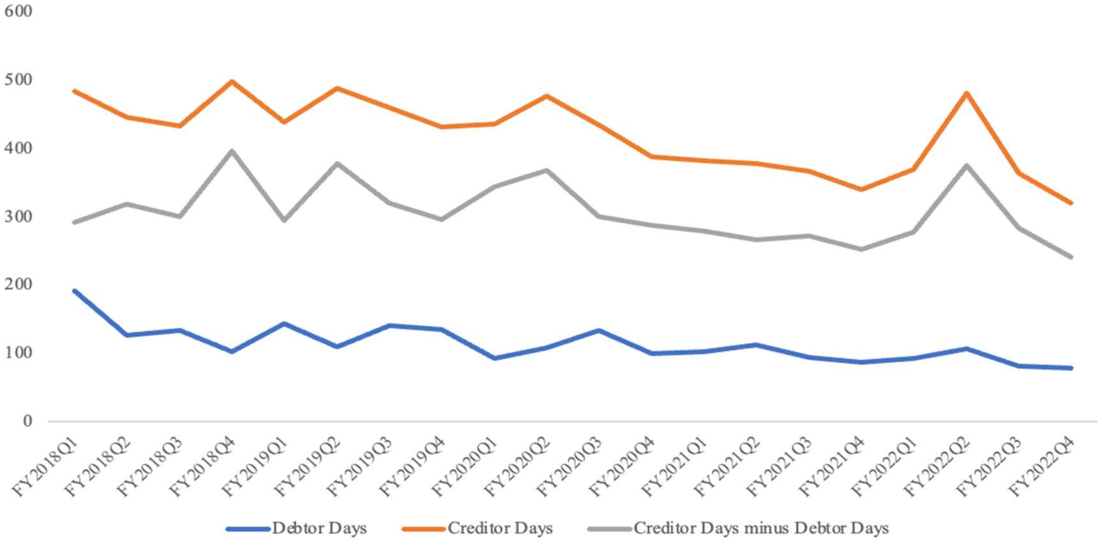

Figure 3. Bilibili (NASDAQ: BILI)'s Efficiency Conditions from FY2018 to FY2022

Figure 3 illustrates the Efficiency-related index (including Debtor Days, Creditor Days). In order to reflect the changes in the working capital cycle, the difference between Debtor Days and Creditor Days is additionally added. No significant changes can be seen in the Efficiency indicator in the figure.

In order to mine more trends and content from the data, this article also performed linear regression on these three indicators before and after FY2021Q1, and compared the results.

Table 3. The Linear Regression Result of Bilibili (NASDAQ: BILI)'s Efficiency Indices from FY2018 to FY2022 (Divided into Before FY2021Q1 and After FY2021Q1)

Indices	Before/After FY2021Q1	Regression coefficient (k)	Disperse Degree (r^2)
Debtor Days	Before FY2021Q1	-15.9676	0.4586
	After FY2021Q1	-13.0032	0.8301
Creditor Days	Before FY2021Q1	-22.4359	0.3778
	After FY2021Q1	-5.7891	0.0056
Debtor Days – Creditor Days	Before FY2021Q1	-6.4683	0.0273
	After FY2021Q1	7.2140	0.1118

In analyzing the indicators of Debtor Days, a comparison with the period preceding FY2021Q1 reveals that the regression coefficient (k) exhibits a negative value. However, it is worth noting that the k value has increased after FY2021Q1. This observation indicates a decline in Debtor Days both before and after FY2021Q1, which is a positive development. However, the downward trend after FY2021Q1 has begun to exhibit signs of slowing down, suggesting a deceleration in the overall working capital cycle. While it is possible to attribute this trend to diminishing marginal efficiency, it is important to recognize that this is not a favorable trend.

Similarly, upon examining the indicators of Creditor Days and comparing them with the period preceding FY2021Q1, it is observed that the regression coefficient (k) also exhibits a negative value. However, the k value has significantly increased after FY2021Q1. This finding indicates that the decline in Bilibili's overall Creditor Days has been successfully curbed, which is a positive outcome.

To assess the impact of Debtor Days and Creditor Days on the working capital cycle, this study analyzes the difference between the two indicators. Notably, the regression coefficient of this difference has transitioned from negative to positive. This change implies that Bilibili's overall working capital cycle has begun to improve to some extent after FY2021Q1.

Consequently, from an efficiency perspective, it can be concluded that Bilibili has demonstrated a certain degree of improvement after FY2021Q1 when compared to the period preceding it.

2.2.3. Profitability Conditions

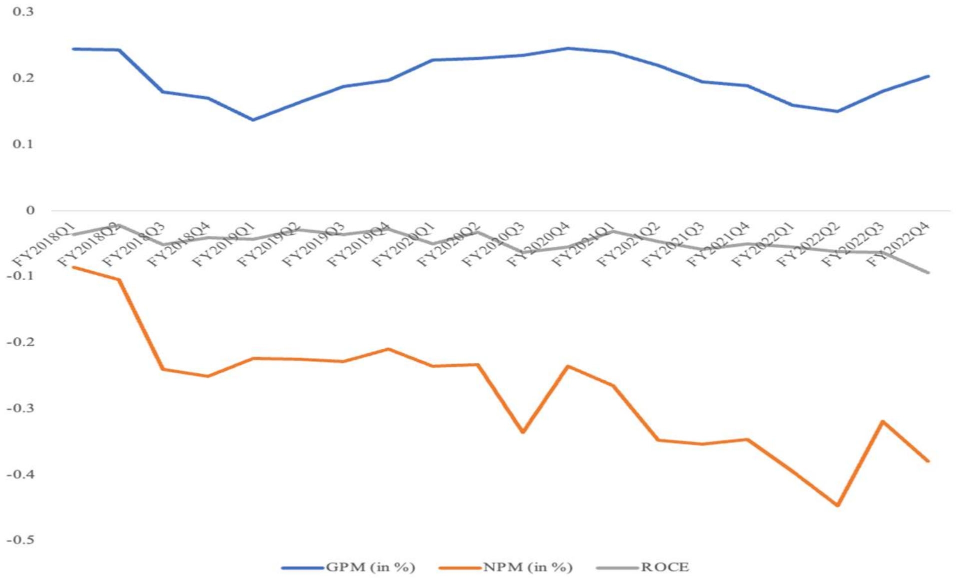

Figure 4. Bilibili (NASDAQ: BILI)'s Profitability Conditions from FY2018 to FY2022

The provided figure illustrates the Profitability Conditions of Bilibili for the period spanning FY2018 to FY2022, focusing on three key indexes: Gross Profit Margin (GPM), Net Profit Margin (NPM), and Return on Capital Employed (ROCE).

Regarding GPM, there was a consistent upward trend from FY2019Q1 to FY2020Q4, followed by a significant interruption caused by the arrival of FY2021Q1. Subsequently, a notable period of decline ensued until FY2022Q2 when the downward trend was finally halted. The graph clearly indicates that the transformation in FY2021Q1 had a significant impact on this particular index.

The graph does not exhibit substantial changes in the ROCE over the examined period.

In terms of NPM, aside from a slight anomaly observed in FY2020Q3, the index remained relatively stable at approximately -0.25 from FY2018Q4 to FY2021Q1. However, after FY2021Q1, a rapid downward trend became evident, reaching its lowest point around FY2022Q3. This trend further underscores the significant impact of the FY2021Q1 transformation on the NPM index.

To validate the observed trend depicted in the figure and provide a preliminary quantitative analysis, linear regression is employed. The regression analysis yields the following results.

From the perspective of GPM, the regression analysis reveals that the regression coefficient (k) exhibited a positive value before FY2021Q1, indicating a rising trend. However, a significant drop in the coefficient occurred after FY2021Q1, with the decline being three times greater than the coefficient's pre-FY2021Q1 value. This observation underscores the substantial negative impact of the FY2021Q1 transformation on GPM.

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Table 4. The Linear Regression Result of Bilibili (NASDAQ: BILI)'s Profitability Indices from FY2018 to FY2022 (Divided into Before FY2021Q1 and After FY2021Q1)

Indices (in %)	Before/After FY2021Q1	Regression coefficient (k)	Disperse Degree (r^2)
NPM	Before FY2021Q1	-4.5454	0.4796
	After FY2021Q1	-47.1398	0.2904
ROCE	Before FY2021Q1	-3.7974	0.0933
	After FY2021Q1	-25.5987	0.7602

Similarly, considering NPM, the regression coefficient (k) remained negative both before and after the transformation. However, it is evident that the rate of decline in NPM accelerated significantly after FY2021Q1. Analyzing the disparity between the regression coefficients before and after the transformation, the difference is more than ten times greater than the overall pre-FY2021Q1 regression coefficient. This stark contrast further highlights the considerable negative impact of the FY2021Q1 transformation on NPM.

Regarding ROCE, the regression analysis indicates that the regression coefficient (k) remained negative both before and after the transformation. However, the rate of decline in ROCE notably accelerated after FY2021Q1. Comparing the difference between the regression coefficients before and after the transformation, although not as substantial as NPM, it is still more than seven times greater than the overall pre-FY2021Q1 regression coefficient. This finding reinforces the significant negative impact of the FY2021Q1 transformation on ROCE.

The regression analysis of GPM, NPM, and ROCE reveals the adverse consequences of the FY2021Q1 transformation on Bilibili's profitability.

2.3. Part Summary

From a financial standpoint, Bilibili's performance, when compared to the pre-transformation period, can be characterized as extremely poor. Apart from a slight improvement in Efficiency Conditions, all other absolute and relative indices exhibited a significant decline. This deterioration trend appears to pose a severe challenge to Bilibili's transformation strategy, leading to a troubling financial outlook.

Nevertheless, there is still a possibility for Bilibili to emerge from this challenging situation. Certain financial indicators have shown a short-lived upward trend in the past one to two quarters, such as GPM and NPM. This positive development suggests that Bilibili may be gradually recovering from the difficult phase of its transformation. However, it is important to acknowledge that, compared to the pre-transformation period, Bilibili's overall financial performance still presents a highly unfavorable situation after FY2021Q1.

In conclusion, while there are some signs of improvement in select financial indicators, Bilibili's overall financial performance remains concerning when evaluated against the pre-transformation period. The company faces significant hurdles in executing its transformation strategy and must address the underlying issues to restore its financial health.

3. Marketing Analysis

3.1. Changes in Customer Profile

The change in Bilibili's position on the Positioning Map also caused changes in its customer profile, which ultimately had a profound impact on users' payment habits.

Before the transformation, Bilibili had an overall customer profile who was willing to pay for Bilibili's derivative content and advertisements. From the perspective of paying for derivative

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products and advertisements, the previous Bilibili was undoubtedly successful. As a subcultural circle with strong user stickiness and idol attributes, the animation has great enthusiasm for purchasing animation product peripherals (the most typical ones are figures). With the gradual popularization of the animation culture, this buying habit has gradually expanded from animation fans to other user groups of Bilibili, from animation products to advertised products provided by other companies. Coupled with the fact that Bilibili itself operates high-quality videos such as medium and long videos, the income level of the user group for these videos is knowledge sufficient and income sufficient, therefore they are also able to afford this kind of consumer culture. This is reflected in the study by Guolian Securities (2023), showing the data that Bilibili's user payment rate has increased steadily since FY2018Q1 financial data to FY2021Q1.

However, the situation is gradually changing with changes in market positioning. As Bilibili turned to the short video and pan-entertainment market with great fanfare, its precipitous popularization of positioning has resulted in the "precipitous popularization" of its customer profile. Compared with the animation + pan-entertainment culture and high-quality medium and long videos, the service targets of short videos and pan-entertainment elements are more inclined to those "office workers" who are less educated or have no interest in watching high-quality long videos. The consequence of this is that Bilibili expelled the high-net-worth high-consumer groups in its previous customer profile, in exchange for a larger number of low-net-worth consumer groups. This is also reflected in the figure above. Since FY2021Q1, the overall payment rate of Bilibili users has no longer followed the previous rising trend but has been in a floating state.

3.2. Porter’s Five Forces

The Porter’s Five Forces analysis presented in this section is mainly analyzed from the perspective of Bilibili’s core profit composition: product sales and advertising revenue.

From the perspective of core competitiveness, the transformation of Bilibili has brought about the loss of core competitiveness. The previous way of Bilibili's market development was based on the two-dimensional culture, which gave Bilibili the moat of core users and the basis and grasp of outward development. This is not the case with the market-adjusted Bilibili. Bilibili, which has penetrated into the purely pan-entertainment cultural circle, is facing the problem of highly homogeneous content with Douyin and Kuaishou, and its core competitiveness has been completely lost. This means that Bilibili, which started at this moment, can no longer take advantage of the combination of animation culture and pan-entertainment culture as the core signboard to attract "Generation Z young people", but can only use other marketing methods that are highly homogeneous and compete with the company's strength Join the cruel stock market game.

In terms of customer bargaining power, Bilibili has also lost its original advantage. Judging from the profitable segment of self-operated product sales, Bilibili before the transformation, as the pioneer of the domestic second dimension, naturally has a large number of loyal users and consumers. Bilibili took the lead in seizing the priority channel for foreign animation peripheral products to enter the country, and thus formed a semi-monopoly on the sales of animation products, with strong bargaining power. However, after the transformation, with the loss of Bilibili’s core competitiveness in the second dimension, other competitors have gradually begun to set foot in the peripheral field of animation products, which means that Bilibili’s bargaining power in animation peripheral products has also gradually lost. From the point of view of the profit sector of advertising, Bilibili also suffered heavy losses. In the past, Bilibili won the favor of many companies with advertising delivery needs due to the strong payment ability of its customer profile, which resulted in Bilibili’s previously strong customer bargaining power in advertising; after the market adjustment, As described in the section on customer

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profile, Bilibili's customer profile has gradually shifted to low-net-worth customers, and they have gradually lost their attractiveness to advertisers, which has led to the loss of their bargaining power in advertising.

From the perspective of suppliers' bargaining power, Bilibili has also experienced a very large decline. Since there are no upstream suppliers in the advertisement, here the author mainly describes the bargaining power of suppliers of Bilibili's self-operated products. Before the transformation, Bilibili was a giant that basically monopolized the domestic animation peripheral market, so Japanese suppliers could only choose Bilibili to supply, and there were almost no other options (there were only a few alternatives, such as Tencent Animation), which gave Bilibili a lot. bargaining power of suppliers. After the transformation, other companies began to intervene to carve up the animation peripheral market, which gradually transformed the B2B animation peripheral market from a buyer's market to a seller's market, which greatly weakened the bargaining power of suppliers in Bilibili and the entire industry.

In terms of the threat of new entrants, Bilibili itself is a new entrant, and the disadvantages of Bilibili compared to the two market giants Douyin and Kuaishou have also been mentioned in the change of Market Positions, so I won't repeat them here. From the perspective of the threat of substitutes, short videos are currently in the rising period of the market, and it is impossible for other threats to emerge for the time being.

4. Equity Valuation

This article employs the Discounted Cash Flow (DCF) approach to determine Bilibili's enterprise value (forecasting in 5 years). The Discounted Cash Flow (DCF) model, particularly the Gordon Growth Model, is frequently employed in financial valuation. It primarily assesses the true value of a company by forecasting the Unlevered Free Cash Flow (UFCF), estimating the Weighted Average Cost of Capital (WACC), and appraising the value of sustainable growth.

4.1. UFCF Calculation and Forecast

The table below presents both the computation of the actual five-year Unlevered Free Cash Flow (UFCF) data and the extrapolation of the detailed forecast period data as depicted in this study. All financial figures not explicitly specified within the table are denoted in millions of dollars.

Table 5. UFCF Calculation and Forecast from FY2018 to FY2027

Fiscal Year	EBIT	Tax	D&A	Changes in Working Capital	CapEx	UFCF
FY2018	-12.6	0	0	356.6	42.7	-411.9
FY2019	-57.1	0	1.3	396.5	42.5	-494.8
FY2020	-217.4	0	3	409.8	92.2	-716.4
FY2021	-627.4	0	4	2556.7	151.9	-3332
FY2022	-678.5	0	7	-2768.6	110.3	1986.8
FY2023	**-701.2**	**0**	**8.1**	**-167.5**	**87.2**	**-612.8**
FY2024	**-647.3**	**0**	**7.4**	**220.2**	**92.1**	**-952.2**
FY2025	**-472.8**	**0**	**6.2**	**345.7**	**120.4**	**-932.7**
FY2026	**-177.4**	**0**	**5.9**	**222.7**	**131.1**	**-525.3**
FY2027	**92.7**	**12.52**	**6.3**	**-182.6**	**129.7**	**139.38**

4.1.1. Calculation of Unlevered Free Cash Flow (UFCF)

The calculation of UFCF follows the formula below:

$$UFCF = EBIT - Tax + DA - \triangle WC - CapEx$$

4.1.2. Elucidation of EBIT Assumptions

The evaluation adopts a more optimistic assumption-namely, that Bilibili will successfully establish itself in the new market. It presumes that Bilibili will secure an initial foothold in this new market by fiscal year 2024, and then devote approximately four years to internal financial reorganization, aimed at cost reduction and efficiency enhancement.

Under these ideal conditions, Bilibili would extend the upward trajectory of its Gross Profit Margin (GPM) and Net Profit Margin (NPM) as witnessed in FY2022's first and second quarters. The goal is to incrementally increase profits while ensuring a slow rise in costs, thereby gradually diminishing the extent of EBIT losses. By adhering to this trend, Bilibili could potentially turn its losses into profits by fiscal year 2027.

4.1.3. Elucidation of Taxation Assumptions

Assuming that the Chinese government continues to maintain a preferential tax rate (15%) for the information industry in the year of profitability (FY2027), the pre-tax profit (83.48) is computed by subtracting the year's interest (assumed to be the average from FY2018 to FY2022, i.e., 9.22) from the EBIT.

4.1.4. Elucidation of D&A Assumptions

Assuming that with its current capacity, Bilibili will cease to procure large-scale fixed equipment, instead opting for minor additions and disposals. If these conditions hold, the Depreciation & Amortization (D&A) is projected to hover around 7, matching the level recorded in FY2022, though some fluctuations may occur.

4.1.5. Elucidation of Changes in Working Capital Assumptions

Building upon the EBIT assumptions, it is presumed that Bilibili will establish a solid presence by FY2024. The contraction of working capital is expected to halt this year, followed by an upward trend as internal financial conditions are optimized. This upward trend is anticipated to reach a relatively healthy plateau around FY2026, after which fluctuations may occur.

4.1.6. Elucidation of Capital Expenditure Assumptions

In line with the EBIT assumptions, assuming Bilibili achieves a stable footing in FY2024, Capital Expenditures (CapEx) should largely return to the levels seen before FY2021Q1, while also showing some growth to accommodate market expansion. To satisfy both these conditions, the average data from FY2020 and FY2021 is considered, implying a fluctuation of around 125.

4.2. WACC Calculation

The calculation of WACC follows the formula below:

$$WACC = \frac{D}{D+E} \times COD + \frac{E}{D+E} \times COE$$

Where:

COD: Cost of Debt.

COE: Cost of Equity.

t: Tax Rate.

D: Market Value of Debt.

E: Market Value of Equity.

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4.2.1. Calculation of Cost of Equity

The calculation of the Cost of Equity follows the formula below:

$$COE = r_f + \beta \times r_{mp}$$

Where:

r_f : risk-free rate.

r_{mp}: market risk premium.

Assume that r_f = Chinese 5-year treasury yield = 2.492%.

Assume that β = the average β value of the video industry = 1.16.

Assume that r_{mp} = SSE 500 5-year average yield = 5.1%.

Therefore COE = 8.408%.

4.2.2. Calculation of Cost of Debt

The calculation of the Cost of Debt follows the formula below:

$$COD = LTD \times (1 - t)$$

Long-term Debt (LTD) = 3.53%.

Assume that t = current tax rate to information industry = 0.15.

Therefore COD = 3.001%.

4.2.3. Calculation of WACC

Since:

· Market Value of Debt = $4773.7M,

· Market Value of Equity = $3417.2M,

Therefore WACC = 5.417%.

4.3. Terminal Value Calculation

The calculation of the Cost of Debt follows the Gordon Growth method, the formula is as below:

$$TV = \frac{FCF_n \times (1 + g)}{WACC - g}$$

Considering the currently available financial data and market analysis, a perpetual growth rate (g) of 4% is assumed.

Therefore, TV = $10229.72M.

4.4. Calculation of Enterprise Value and Fair Equity Price

4.4.1. Calculation of Enterprise Value

The calculation of the enterprise value follows the formula below:

$$EV = \sum_{i=1}^{n} \frac{FCF_i}{(1 + WACC)^i} + \frac{TV}{(1 + WACC)^n}$$

Therefore, Enterprise Value (EV) = $5305.33M.

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4.4.2. Calculation of Equity Value

The calculation of the equity value follows the formula below:

$$EquityValue = EnterpriseValue - Debt + CashEquivalent$$

Since:
Debt = $2324.2M (Bilibili, 2023).
Cash Equivalents = $1474.9M (Bilibili, 2023).
Therefore, Equity Value = $4456.03M.

4.4.3. Calculation of Equity Fair Price

The calculation of the equity value follows the formula below:

$$P_f = \frac{EV}{n(OE)}$$

Where:
P_f : Equity Fair Price.
EV: Equity Value.
n(OE): number of outstanding stocks,
Given that n(OE) = $404.6M,
Therefore, Equity Fair Price = $11.02.

5. Conclusion and Discussion

This paper has provided a comprehensive analysis of Bilibili's strategic transition and its impact on the company's investment value. The findings suggest that Bilibili's shift from a semi-long video + animation platform to a semi-short video + pan-entertainment platform has not yielded the desired outcomes. The company's financial performance has been negatively affected, and it has struggled to establish a distinctive competitive advantage in the fiercely competitive market it now targets.

The transition has also led to organizational challenges and financial repercussions, which persist. The paper's financial analysis indicates that while there are some signs of improvement in select financial indicators, Bilibili's overall financial performance remains concerning. The company faces significant hurdles in executing its transformation strategy and must address the underlying issues to restore its financial health.

In terms of market analysis, Bilibili's strategic shift has resulted in significant challenges. The company risked losing its core user base and unique competitive edge by moving away from animation-centered medium-to-long videos to the saturated short-to-medium video and pan-entertainment market. Furthermore, abandoning the animation market, which is showing robust growth and potential for domestic development, was identified as a missed opportunity.

The equity valuation conducted using the Discounted Cash Flow (DCF) approach suggests that the fair price for BILI stock is 11.02, which falls below the prevailing market price, indicating that the company's investment potential may be overestimated.

These findings have important implications for investors and stakeholders in Bilibili. They highlight the potential risks and challenges associated with strategic transitions in highly competitive markets. They also underscore the importance of maintaining core competencies and seizing growth opportunities in existing markets.

Future research could further explore the potential strategies that Bilibili could adopt to improve its financial performance and market position. It would also be interesting to examine the impact of similar strategic transitions in other companies in the video website industry.

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