

Revenue vs. Costs, Profit, Sunk Cost—A Business can continue to be to operate while earning a loss.

TikTok Parent ByteDance Sees Losses Swell in Push for Growth

Social-media giant saw its operating losses more than triple last year to above \$7 billion

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by Salvador Rodriguez

TikTok parent ByteDance Ltd. saw its operating losses more than triple last year to above \$7 billion as it spent heavily to continue its torrid growth, according to a financial report shared with employees that offers a rare look inside the private company's closely guarded finances.

ByteDance also produced an operating profit in the first quarter of 2022, the report showed, indicating one of the world's most valuable startups could be turning a corner after years of incurring large losses.

As a private company based in Beijing, ByteDance has closely guarded its finances and doesn't publicly disclose results. The report—sent to employees in August and that covers the full years for 2020 and 2021 as well as the first quarter of 2022—provides one of the most detailed looks at how it is performing and is planning for the future.

The report shows a company rapidly increasing its revenues, accumulating a massive war chest of cash and other investments, but with net results weighed down by tens of billions of dollars in unrealized market losses on convertible securities.

ByteDance's revenue continues to expand, up nearly 80% to \$61.7 billion in 2021, but so too are the company's expenses as it focuses on growth. The Chinese company's cost of sales came in at \$27.4 billion for 2021, up 79% from the previous year. Among the factors offsetting its rapid revenue growth: \$14.6 billion in research and development spending, \$19.2 billion in selling and marketing expenses and \$75.6 billion in market-value changes on a range of convertible securities. That was up more than 76% compared to 2020.

The company's operating losses in 2021 totaled \$7.15 billion, up from \$2.14 billion in 2020, the report said.

A ByteDance spokeswoman declined to comment.

While TikTok is by far the company's most high-profile product in the U.S., ByteDance also runs apps used by hundreds of millions of people in China—including short-video app Douyin and Jinri Toutiao, or Today's Headlines. The report viewed by The Wall Street Journal doesn't break out the relative performance of the company's units.

Revenue reached nearly \$18.3 billion for the first three months of 2022, up almost 54% compared to a year prior. ByteDance showed it was beginning to rein in its expenses, with net loss for the period coming in at \$4.7 billion, down nearly 84% from \$29.1 billion a year prior.

The reduction in net losses in the first quarter of 2022 could reflect ByteDance readjusting its valuation as Chinese internet companies have been hit by the government's crackdown on the tech industry.

Despite the rising expenses, ByteDance has managed to increase its cash and cash equivalents, which sat at \$42.6 billion at the end of March, up from \$34.1 billion at the end of 2021. Its total assets were at \$74 billion in March, up from \$64.3 billion in December.

ByteDance had more than 130,000 employees globally at the end of 2021, according to people familiar with the matter.

Another cited the risks relating to doing business in China. It said if the company doesn't comply with government regulations or if those change in the future, "we could be subject to severe penalties or be forced to relinquish our interests in those operations."

Such disclosures are common among Chinese tech companies, though no other has the presence in the U.S. that TikTok has developed.

U.S. officials have been negotiating with TikTok executives for more than a year on measures aimed at preventing information TikTok collects on millions of American users from being shared with the Chinese government.

Last year, ByteDance's expenses were amplified by expanding into many new sectors. It made substantial acquisitions in the videogaming space, including in March 2021 when ByteDance spent \$4 billion acquiring Shanghai Moonton Technology Co., the videogame studio behind the hit title "Mobile Legends: Bang Bang."

ByteDance also sped up hiring and research into advanced chips supporting artificial intelligence and servers, people familiar with the business said.

ByteDance Chief Executive Liang Rubo said at an all-hands meeting in August that he has been reflecting on the company's organizational bloat and vowed to cut costs and improve efficiency, according to employees who attended.

Many of ByteDance's businesses hadn't met expectations in the past year, Mr. Liang told employees.