

Tencent 腾讯

*2021 Fourth Quarter and
Annual Results Presentation*

Mar 23, 2022

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The reporting currency of the company is Renminbi. For the purpose of this presentation, all figures quoted in US dollars are based on the exchange rate of US\$1 to RMB6.3757 for 4Q2021 and 2021.

1. Overview

- 2. Strategy Review
- 3. Business Review
- 4. Financial Review
- 5. Q&A

2021 Business Highlights

Achievements amid changes and challenges

Vibrant Weixin ecosystem

- *Video Accounts* significantly increased content diversity and video views
- *Mini Programs* private domains traffic grew, with physical goods GMV doubling YoY
- Our Health Code has served 1.3 billion users making 180 billion visits during the pandemic

Strengthened cloud

- Deepened integration among fast growing *WeCom*, *Tencent Meeting* and *Tencent Docs*
- #1 in China's video cloud PaaS market, with leading live streaming, RTC and VoD solutions¹

Success in games

- *LoL: Wild Rift* and *Fight of The Golden Spatula* ranked top two newly released mobile games in China²
- Developed and operate 5 out of the top 10 international mobile games by DAU³
- Increased international revenue contribution to 26%

Stable FinTech

- Grew our FinTech business with prudence, collaboration and expertise

Embrace changes and reposition for sustainable long-term growth

- New regulatory framework will provide a healthier market environment
- China Internet industry is going through a structural change
- We are proactively optimising cost, while sustaining investments in key strategic areas

1. Tencent ranked #1 in China's cloud video solution market by revenue in 1H21 according to IDC

2. *LoL: Wild Rift*, ranked No.1, and *Fight of The Golden Spatula* ranked No.2, by DAU among mobile games released in China in 2021, according to QuestMobile

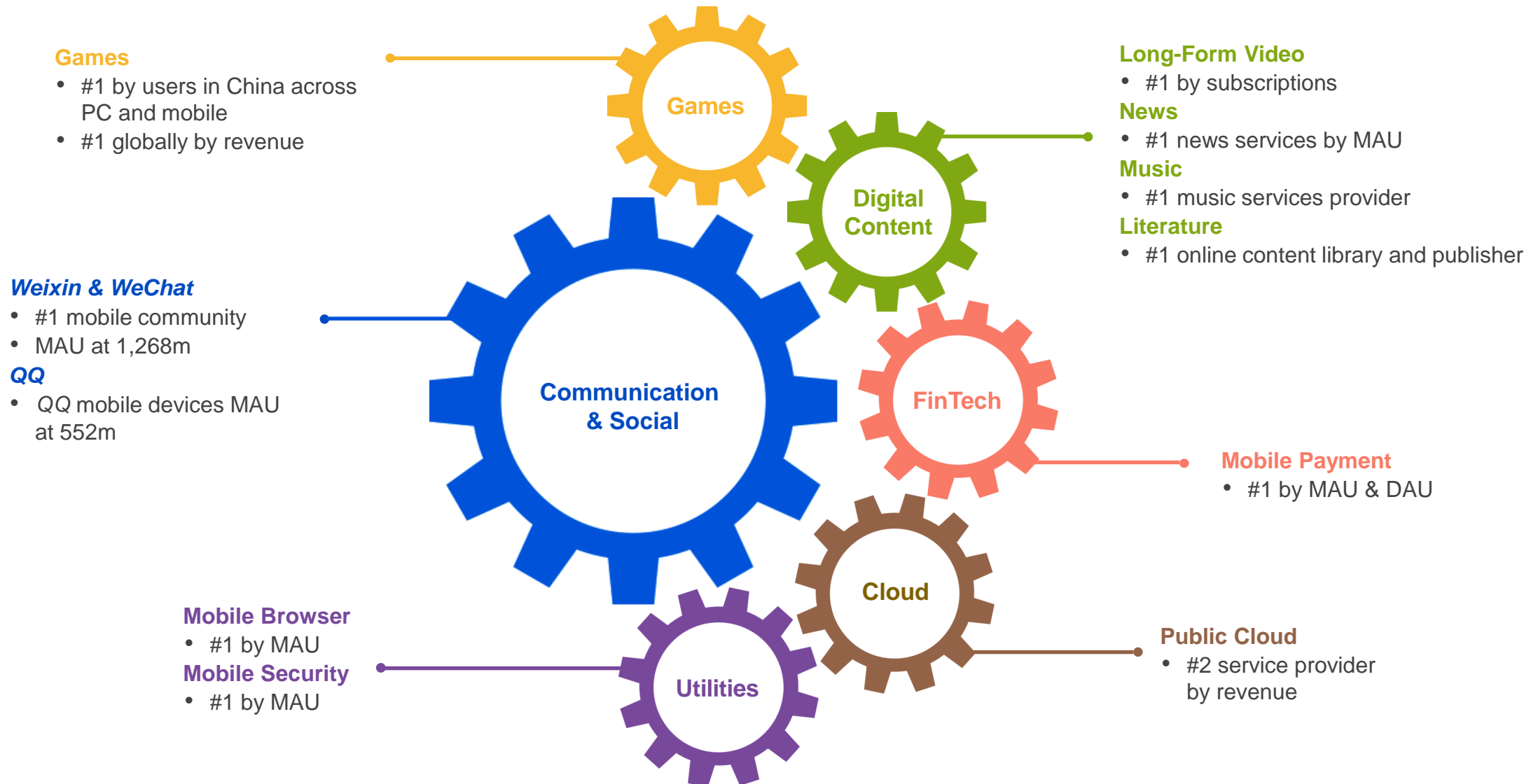
3. PUBG Mobile, Clash of Clans, Clash Royale, Call of Duty Mobile, Brawl Stars ranked among top 10 mobile games by DAU in international markets in 2021, according to data.ai

Financial Highlights

In billion RMB	4Q2021	YoY	QoQ	FY2021	YoY
Total Revenue	144.2	+8%	+1%	560.1	+16%
Value Added Services	71.9	+7%	-4%	291.6	+10%
Social Networks	29.1	+4%	-4%	117.3	+8%
Domestic Games	29.6	+1%	-12%	128.8	+6%
International Games	13.2	+34%	+16%	45.5	+31%
Online Advertising	21.5	-13%	-4%	88.6	+8%
Media	3.2	-25%	-8%	13.3	-7%
Social and Others	18.3	-10%	-4%	75.3	+11%
FinTech and Business Services	48.0	+25%	+11%	172.2	+34%
Others	2.8	-21%	+107%	7.7	+3%
Gross Profit	57.8	-2%	-8%	245.9	+11%
<u>Non-IFRS</u>					
Operating Profit	33.2	-13%	-19%	159.5	+7%
Operating Margin	23.0%	-5.5ppt	-5.7ppt	28.5%	-2.5ppt
Net Profit Attributable to Equity Holders	24.9	-25%	-22%	123.8	+1%

Starting 3Q21, we disclose revenues from Domestic Games and International Games as new sub-segments under VAS, reflecting the increasing scale of our international games business. For the purpose of preparing financial and operating information, Domestic Games refers to our games business in the PRC excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan.

Key Services Update



The background is a solid blue color with several large, overlapping, semi-transparent blue circles and arcs. A thin white line graph with two data points is visible on the right side. The first data point is a small blue dot, and the second is a thicker blue line segment.

1. Overview

2. Strategy Review

3. Business Review

4. Financial Review

5. Q&A

Embrace Changes and Reposition for Sustainable Growth

Industry fundamental challenges and changes

Return to industry's roots

- New regulations correcting misbehaviour and promoting fair competition, user protection and data security
- Challenging global macro environment
- Time for the industry to return to its "roots"

Old paradigm

- Zero-sum competition
- Aggressive marketing
- Reckless expansion
- Short-term growth
- Corporate benefits

New paradigm

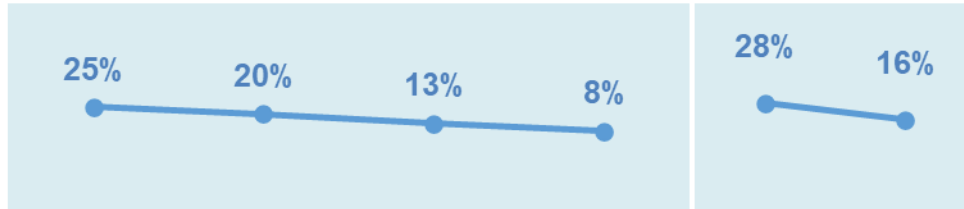
- User value
- Technology and innovation
- Efficiency and cost effectiveness
- Long-term sustainability
- Balanced benefits (corporate, industry, society)

Tencent proactively embracing changes and repositioning

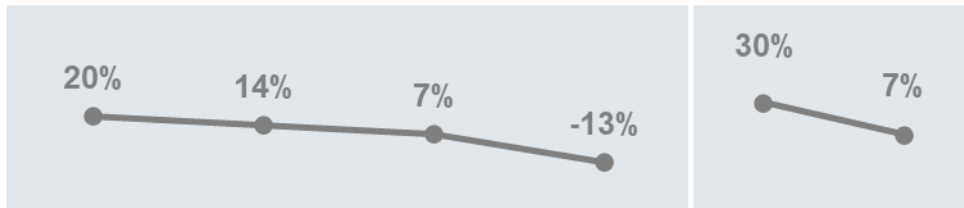
- Already well-positioned with our long term-oriented corporate culture
- Proactively embracing changes to better align with the new industry paradigm
- Controlling costs and rationalising non-core businesses
- Continuing to invest and pursue value creation opportunities in strategic growth areas
- Expecting to grow at a sustainable and healthier pace

Pressure on Financials amid Structural Industry Changes

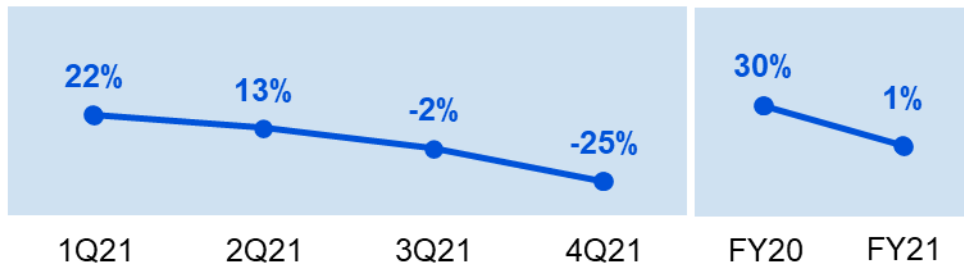
Revenue YoY (%)



Non-IFRS Operating Profit YoY (%)



Non-IFRS Net Profit Attributable to Equity Holders YoY (%)



Lower revenue growth for sustainability

- Advertisers and our ad services adapted to the new economic and regulatory conditions
- Direct, and especially indirect, impact of minor protection measures on our domestic games

Pressured margins due to operating leverage

- Strategic investments in SaaS, *Video Accounts* and international games
- Aggressive marketing activities and intense talent competition in the industry during 2020 and 2021
- Increased revenue contribution from Business Services

Increased losses at several investees

- Increased investments in new businesses such as Community Group Buy
- Heavy expenditure on user acquisition

Path to Stabilisation and Future Growth Drivers

Market position remains intact despite near-term challenges

Advertising

Expect to resume growth in late 2022, as we adapt to the new environment and further upgrade our ad solutions

Domestic Games

Impact of minor protection measures to be fully digested in 2H2022, with growth potential from more new games when there are new releases of Banhao

Cloud (IaaS & PaaS)

Repositioning our focus from revenue growth at all costs to customer value creation and quality of growth

Long-form Video

Cost optimisation to reduce losses, while maintaining its leading position

Compelling opportunities in strategic growth areas

SaaS

Expanding scale of our leading products, with attractive prospect for progressive monetisation over time

Video Accounts

Building significant monetisation opportunities via enriching user connections with creators, advertisers and merchants

International Games

Compelling pipeline backed by franchise expansions at our market-leading studios and consistent enhancement of our category-leading studios

SaaS – Leading Communication and Collaboration Tools

Well-positioned for market opportunities

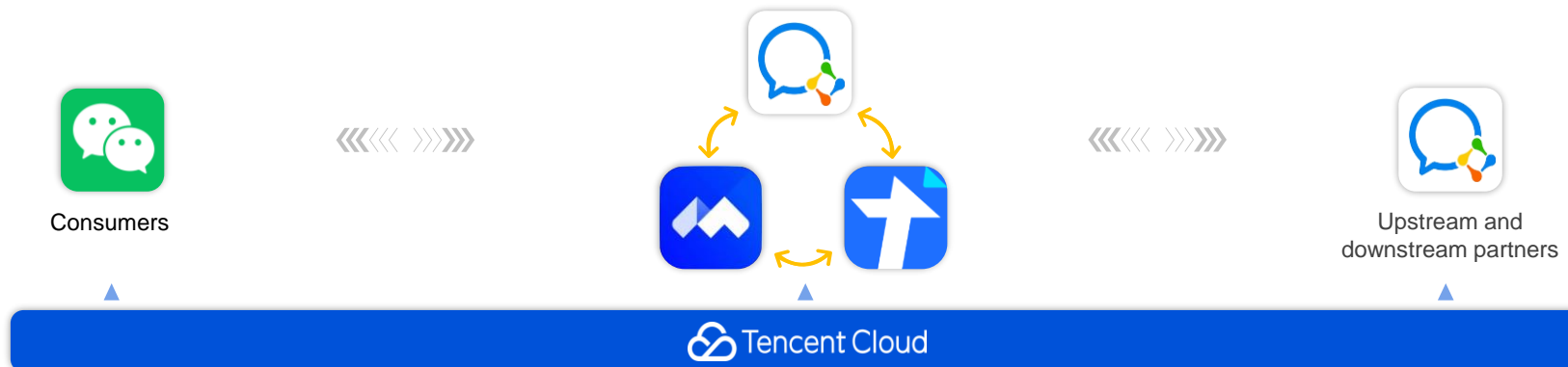
- Rapid growth in SaaS adoption in China
- *WeCom*, *Tencent Meeting* and *Tencent Docs* achieved strong user growth and deepened penetration into key verticals

Strengthening our competitive edges

- Integration with *Tencent Meeting* and *Tencent Docs* empowers *WeCom* as the core platform for enhanced collaboration and productivity
- Deepening connection with *Weixin* enables differentiated CRM functions in *WeCom*

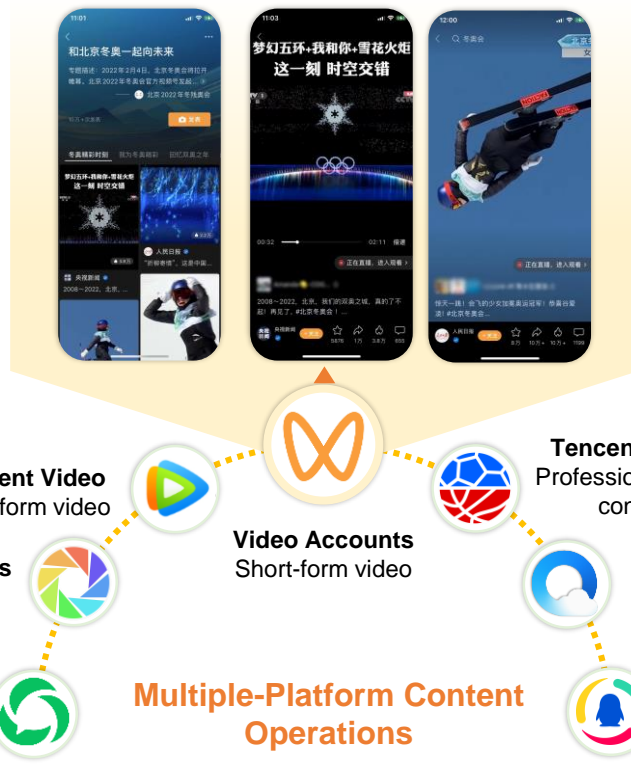
Unlocking our monetisation potential

- Prioritising scale expansion over significant revenue generation
- Proven business models for critical enterprise SaaS internationally
- Monetisation potential validated by market size and growth rate of PaaS spending in China
- Leveraging our proven success in monetising freemium 2C products



Video Accounts – Our Flywheel is Gaining Momentum

#1 User Reach among Internet Platforms for Beijing 2022 Winter Olympics¹



A thriving community

- Per user time spent and total video views more than doubled YoY
- Expanding diversity of creators and content
- Significant growth in number of videos with over 100K likes

Enriching user connection with creators and merchants

- Strong differentiation for media, retailers and brands to build user engagement via private domain
- Nurturing high-quality original content by leveraging *Official Accounts* creator pools and upgrading creator support scheme
- Facilitating merchants' operations with enhanced shopping features and marketing tools

Preparing for monetisation

- Ramping up live streaming tipping scale
- Growing live streaming eCommerce GMV before monetisation
- Testing and optimising short video feeds ad during 2022

International Games – Biggest Games, Best Studios

Market-leading franchises

- *LoL*: top 3 PC game by MAU¹, expanding franchise via new TFT game mode, high quality linear content *Arcane*, eSports
- *PUBG MOBILE*: top 5 mobile game by DAU²
- *Clash*: only mobile game franchise with 2 of top 10 highest-DAU² titles
- *Valorant*: #1 on Twitch¹ in hyper-competitive tactical shooter category

Category-leading studios

- Helping studios to improve product and expand scope, enabling sustained post-acquisition revenue and profit growth

MINICLIP

(2015)



(2018)



(2020)

- Emerging studios with promising future
- Our game competences facilitate bigger hits with greater longevity

Building on multi-year investments to drive future growth

- A key participant with revenue of USD7.1 billion for 2021
- Growth from existing titles via deepening market penetration, product enhancements and operational optimisation
- New game releases to drive additional growth, particularly for 2023 and beyond



2022



2023 and beyond



Projects with Ubisoft



LoL fighting game



Clash IP games



PoE IP games

1. Source: Newzoo

2. Source: data.ai



1. Overview

2. Strategy Review

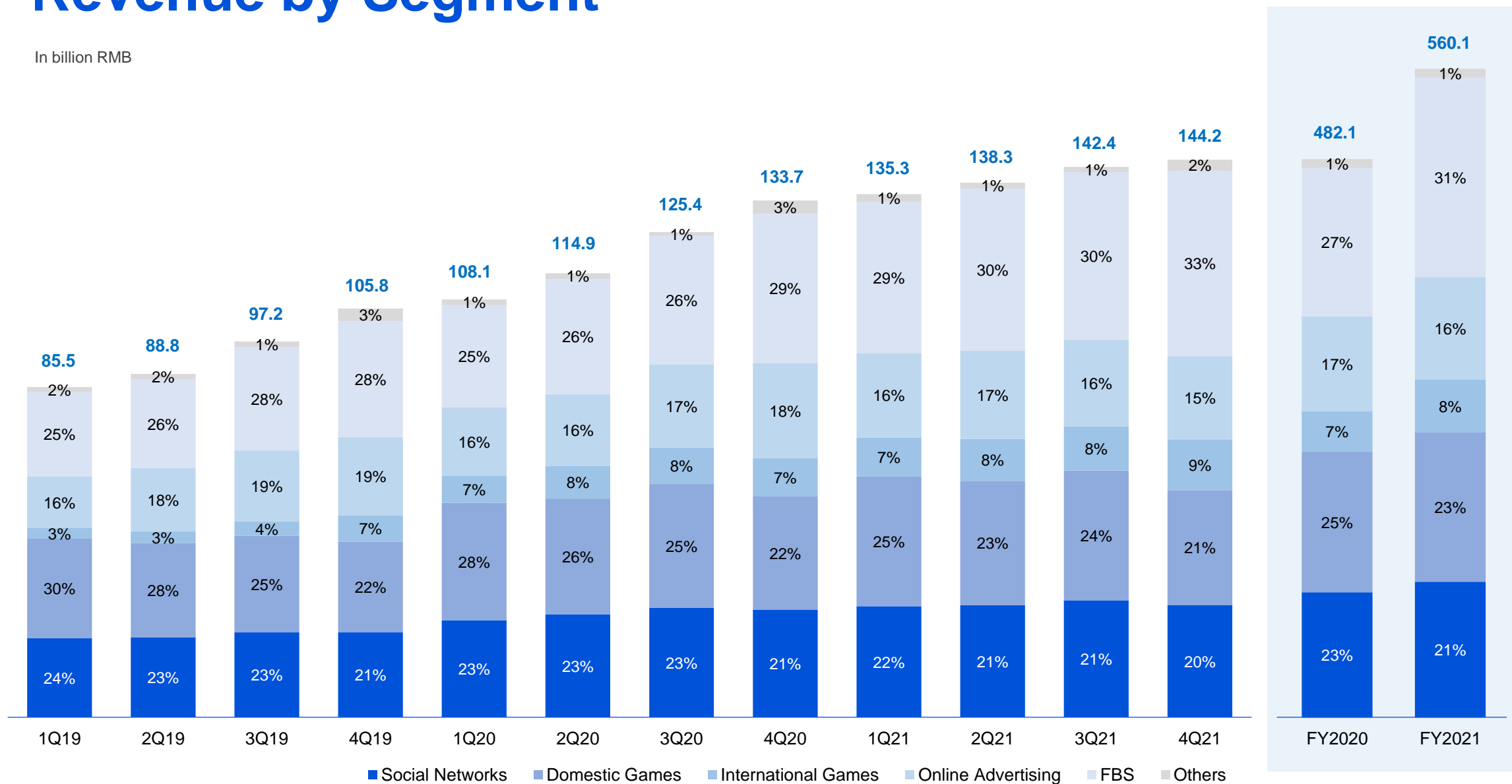
3. Business Review

4. Financial Review

5. Q&A

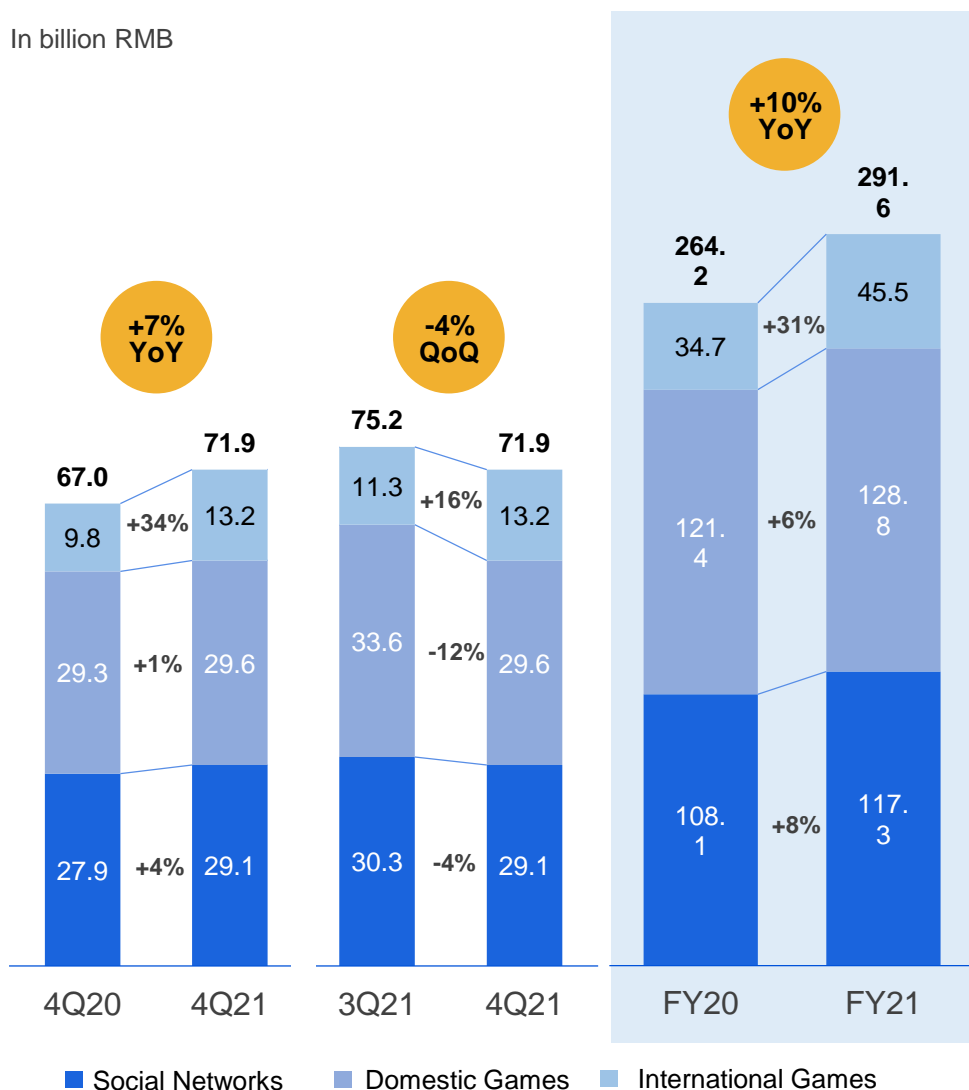
Revenue by Segment

In billion RMB



Value Added Services

In billion RMB



Social Networks

- 4Q21 revenue was up 4% YoY to RMB29.1 billion, reflecting more video subscriptions and revenue contribution from *Video Accounts* live streaming service
- Total VAS subscriptions grew 8% YoY to 236 million in 4Q21. Amid industry challenges, video subscriptions increased 1% YoY to 124 million, benefiting from popular animated series, drama series and sports events. Music subscriptions increased 36% YoY to 76 million, thanks to expanded sales channels and high quality content and services

Domestic Games

- 4Q21 revenue was up 1% YoY to RMB29.6 billion, as growth from *HoK* and new games *Fight of The Golden Spatula*, *LoL: Wild Rift* was largely offset by softness in *Moonlight Blade Mobile* and *DnF*. Revenue decreased QoQ due to seasonality and, to the direct and indirect effects of the controls on minors playing games

International Games

- 4Q21 revenue grew 34% YoY to RMB13.2 billion, reflecting 1) popular content updates in *Valorant* and *Clash Royale*, 2) a true-up adjustment to revenue of Supercell upon periodic review of revenue deferral periods, and 3) consolidation of Digital Extremes

Mobile games VAS revenue grew 9% YoY to RMB40.0 billion. PC client games revenue increased 4% YoY to RMB10.6 billion

Social Networks



Breakthrough in Video Accounts Live Streaming

Customised *Moments* sharing for 2022 CCTV Spring Festival Gala to drive user engagement

120+ million viewers
350+ million likes
9+ million comments
5.5+ million shares



Social sharing in unique format

Click for live streaming



Strengthened music content operations to broaden reach of live performance



Westlife concert
27+ million viewers



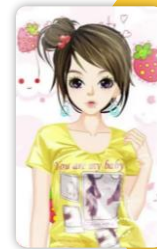
Mayday concert
14+ million viewers



Upgrading technological foundation for new immersive social experiences

Integrated Unreal Engine's capabilities to enable real-time rendering and physics simulation, providing more attractive visuals and lifelike interactions

Testing *Super QQ Show*, which allows users to customise their new 3D virtual avatars for use in various social scenarios



Before



After

Upgrade to Super QQ Show



Socialising with virtual avatars

Domestic Games

Cultivating IP franchise

- Developing new games, animated series and a movie based on popular *HoK* to enrich its IP content



Action game with HoK IP under development

Integrating thematic content

- Provided events tied into the Winter Olympics in *Peacekeeper Elite*, *QQ Speed Mobile* and *QQ Dancer Mobile*, delivering lifelike sports experience across multiple genres



Peacekeeper Elite x Winter Olympics

Industry-leading efforts yield effective results in fostering a healthy gameplay environment

- In 4Q21, time spent from users aged under 18 decreased 88% YoY, which contributed to 0.9% of Domestic Games total; grossing receipts from users aged under 18 decreased 73% YoY, which contributed to 1.5% of Domestic Games total

International Games

Pokémon Unite (MOBA)



- Google Play's Best Game 2021 and Users' Choice Award in multiple regions
- Downloads exceeded 50 million by Dec 2021

Clash Royale (Real-Time Strategy)



- Released one of the biggest updates in its history with higher level cap and innovative content
- DAU and grossing receipts increased significantly

Valorant (Tactical Shooter)



- New map and character drove user engagement and consumption growth
- Launched first global eSports tournament successfully

League of Legends (MOBA)

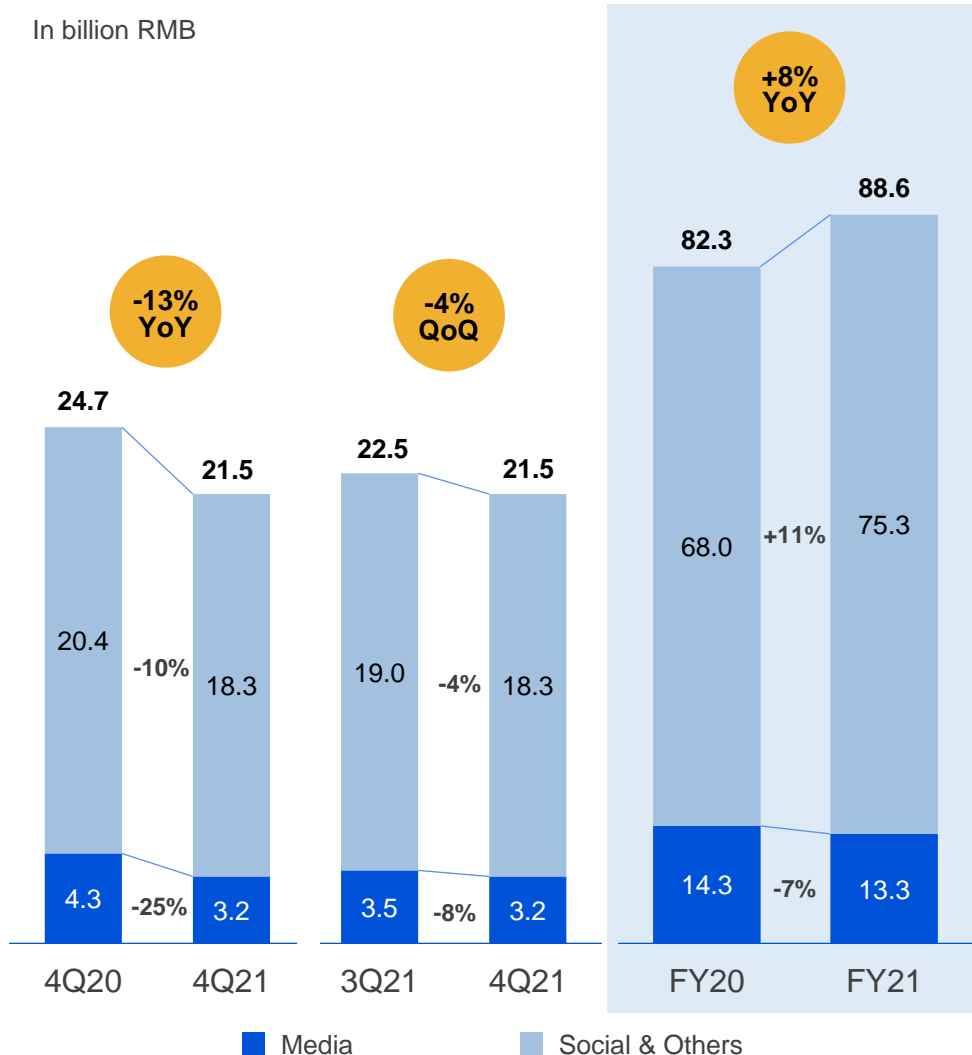


- *Arcane* ranked #1 English-language TV series on Netflix
- LoL World Championship Finals set record high viewership as #1 most-watched eSports event for 2021¹

1. Source: eSports Charts

Online Advertising

In billion RMB



Overall

- 4Q21 revenue declined 13% YoY with lower bidding density, resulting in lower eCPMs
- Weakness in education, games and Internet services ad spend more than offset strength in consumer staples and consolidation of Sogou's ad business
- Regulatory changes directly impacting ad services included limitations on launch screen ads, restrictions on ads for elderly and minors, as well as Personal Information Protection Law

Social & Others

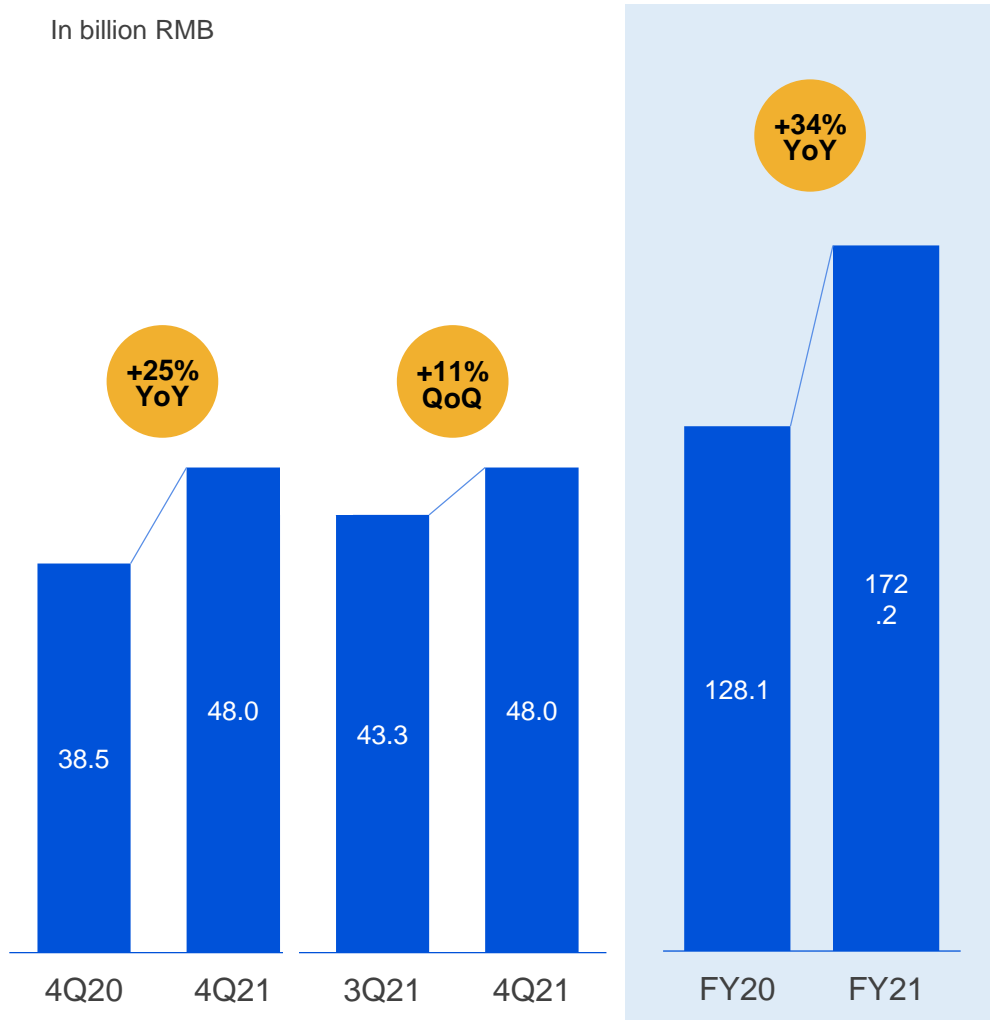
- *Weixin's* daily active advertisers increased over 30% YoY in 4Q21 as we helped advertisers enhance ROI
- Over 1/3 of *Moments'* ad revenue in 4Q21 was generated from ads using *Mini Programs* as landing pages and ads connecting users to customer services representatives via *WeCom*

Media

- Video ad revenue declined YoY in 4Q21 due to fewer releases of top-tier drama series and variety shows

FinTech and Business Services

In billion RMB



FinTech Services

- YoY revenue growth in 4Q21 was mainly driven by increased commercial payment volume, which benefited from an expanded merchant acquirer network and increased *Mini Programs* transactions
- Strengthened our payment ecosystem by enhancing user security, upgrading *Mini Program*-based transaction and customer management tools for SMEs, and reducing transaction friction
- Supporting e-CNY as a new funding option within *Weixin Pay* as part of the PBOC's e-CNY pilot phase

Business Services

- YoY revenue growth in 4Q21 was mainly driven by increased use of our services by Internet services, public transportation, and retail industries
- Developed three in-house chips (AI inference, smart NIC, video transcoding) to enhance product performance and cost efficiency, and released a distributed cloud native operating system *Orca* to enable consistent app deployment and IT management
- Leading manufacturers such as Foxconn and Sany Heavy Industry are leveraging our advanced AI, IoT and proprietary cloud solutions to automate their production and quality control processes



1. Overview

2. Strategy Review

3. Business Review

4. Financial Review

5. Q&A

Income Statement

In billion RMB	4Q2021	YoY	QoQ	FY2021	YoY
Revenue	144.2	+8%	+1%	560.1	+16%
COPS	(86.4)	+15%	+8%	(314.2)	+21%
Gross profit	57.8	-2%	-8%	245.9	+11%
Interest income	1.7	Stable	Stable	6.7	-4%
Other gains, net	86.2	+162%	+275%	149.5	+162%
Operating expenses	(36.0)	+21%	+5%	(130.4)	+29%
Operating profit	109.7	+72%	+106%	271.6	+47%
Finance costs, net	(1.9)	-17%	-4%	(7.1)	-10%
Share of loss of associates & JVs	(8.3)	N/A	+46%	(16.4)	N/A
Income tax expense	(3.9)	+5%	-29%	(20.3)	+2%
Net profit	95.7	+61%	+139%	227.8	+42%
Net profit attributable to equity holders	95.0	+60%	+140%	224.8	+41%
Diluted EPS in RMB	9.788	+60%	+140%	23.174	+40%
Non-IFRS					
Operating Profit	33.2	-13%	-19%	159.5	+7%
Net profit attributable to equity holders	24.9	-25%	-22%	123.8	+1%
Diluted EPS in RMB	2.547	-25%	-22%	12.698	Stable

Non-IFRS Adjustments

In billion RMB	IFRS 4Q2021	SBC	Net (gains)/ losses from investee companies ¹	Amortisation of intangible assets	Impairment provisions/ (reversals) ²	SSV & CPP ³	Others ⁴	Tax effect	Non-IFRS 4Q2021	YoY change	QoQ change	Non-IFRS FY2021	YoY change
Operating profit	109.7	5.7	(100.3)	1.3	15.2	0.6	1.0	-	33.2	-13%	-19%	159.5	+7%
Net profit	95.7	7.9	(98.0)	3.3	15.6	0.6	1.6	(0.9)	25.8	-25%	-21%	127.9	+1%
Net profit attributable to equity holders	95.0	7.8	(97.8)	3.0	15.6	0.6	1.6	(0.9)	24.9	-25%	-22%	123.8	+1%
Operating margin	76.1%								23.0%	-5.5ppt	-5.7ppt	28.5%	-2.5ppt
Net margin	66.4%								17.9%	-7.9ppt	-4.9ppt	22.8%	-3.5ppt

Note:

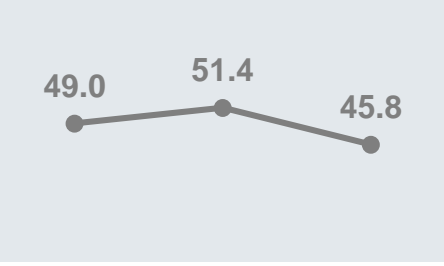
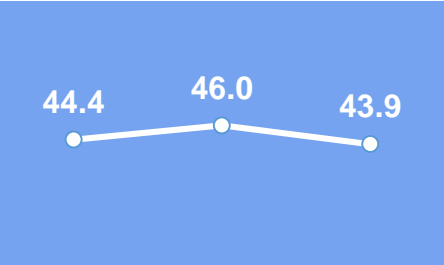
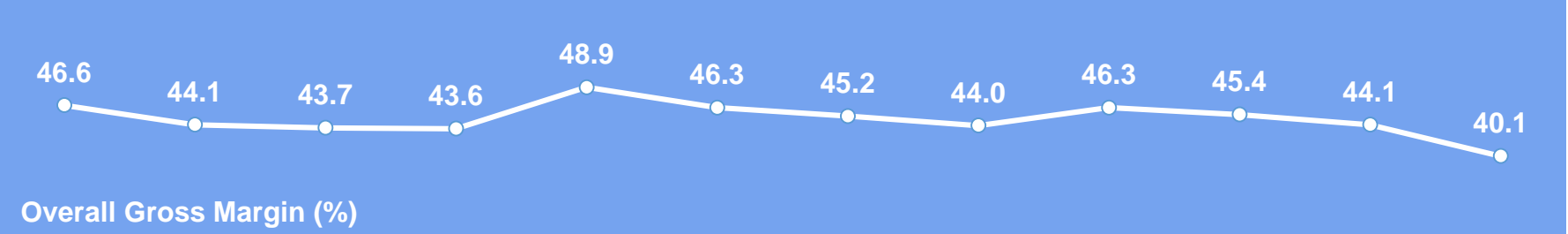
1. Including net (gains)/losses on deemed disposals/disposals of investee companies, fair value changes arising from investee companies, and other expenses in relation to equity transactions of investee companies.

2. Impairment provisions/(reversals) for associates, joint ventures, goodwill and other intangible assets arising from acquisitions.

3. Including donations and expenses incurred for Sustainable Social Value & Common Prosperity Programme.

4. Mainly including expenses incurred for regulatory fines in the Mainland of China and certain litigation settlements.

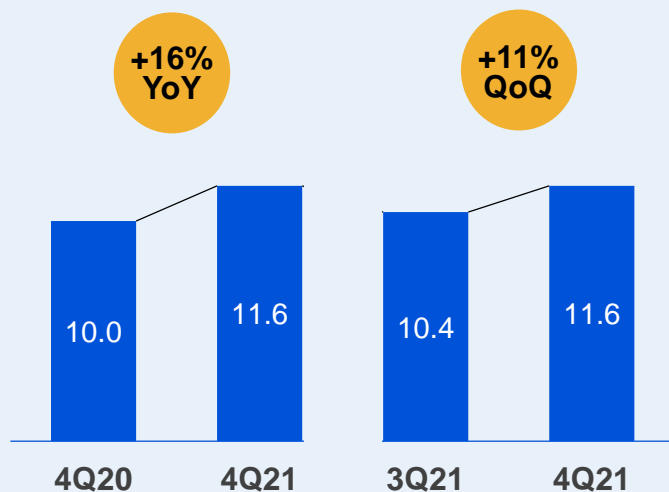
Gross Margins



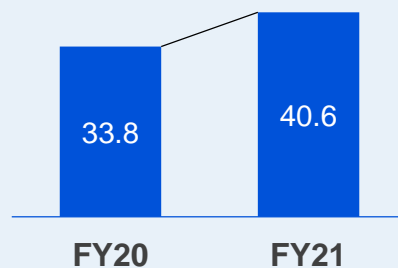
Operating Expenses

S&M

in billion RMB



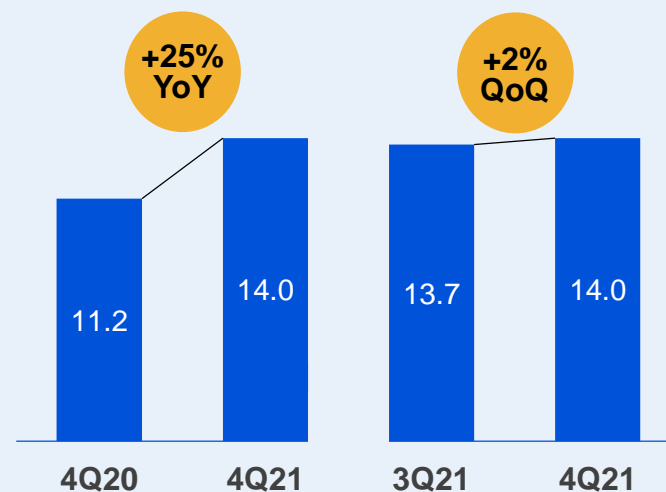
+20% YoY



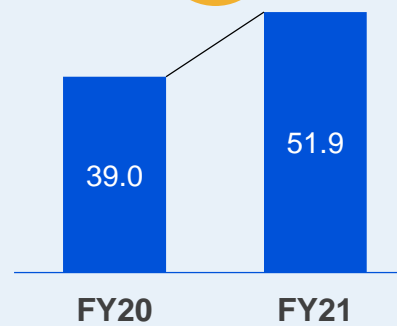
4Q21 S&M increased by 15% YoY and 12% QoQ excl. SBC
FY21 S&M increased by 19% YoY excl. SBC.

R&D

in billion RMB



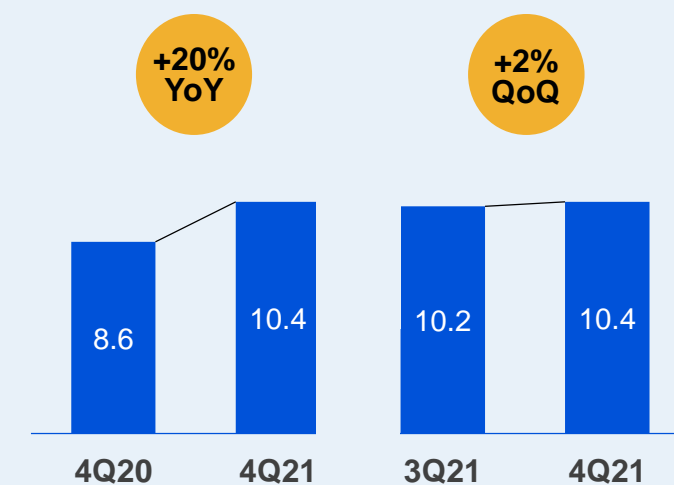
+33% YoY



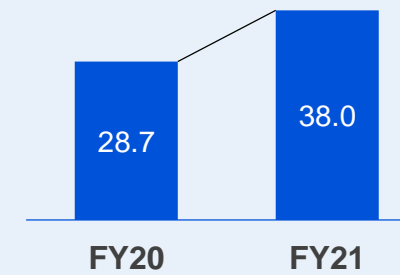
4Q21 R&D increased by 19% YoY and 3% QoQ excl. SBC;
FY21 R&D increased by 28% YoY excl. SBC.

G&A (excl. R&D)

in billion RMB

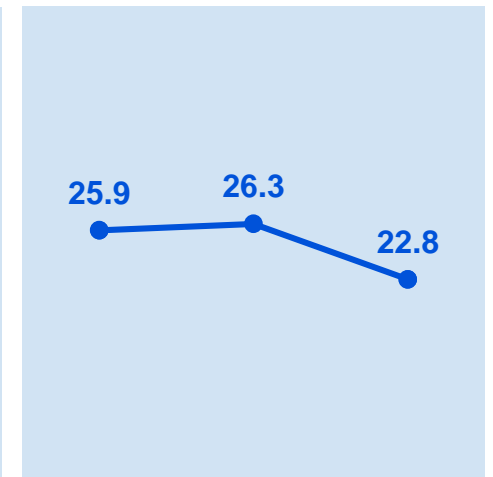
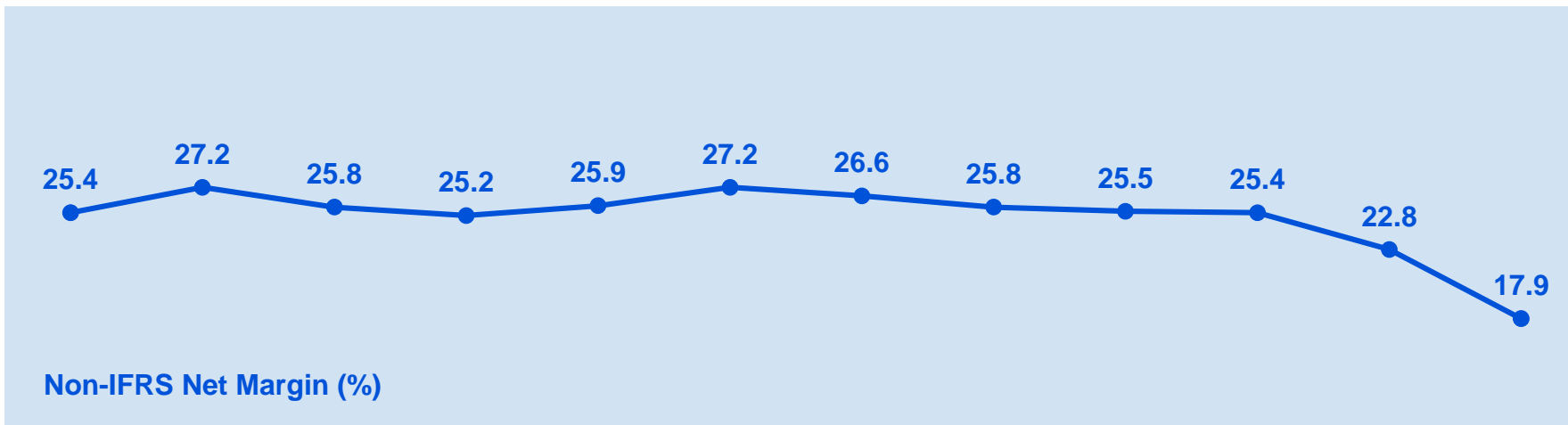
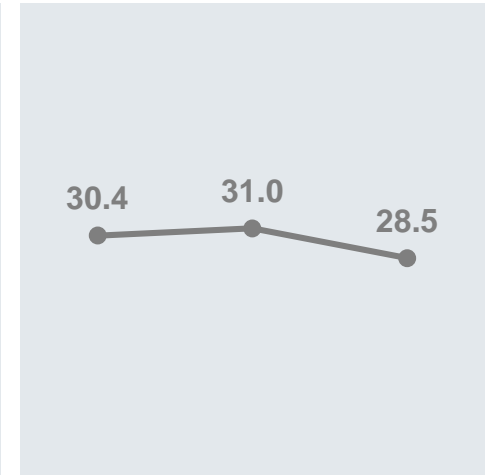
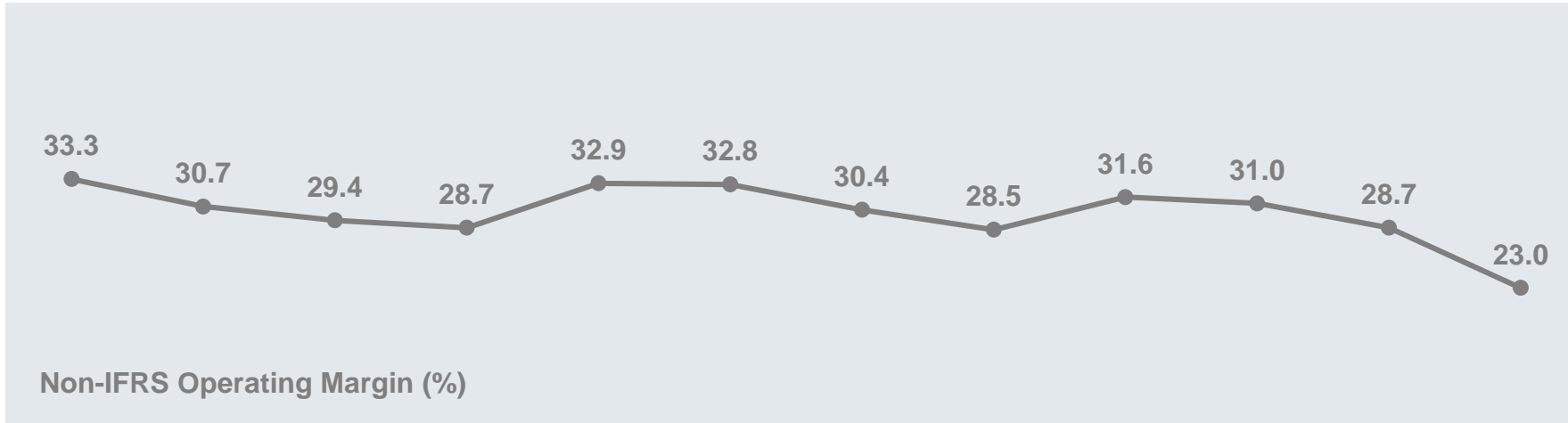


+33% YoY



4Q21 G&A (excl. R&D) increased by 22% YoY and 15% QoQ excl. SBC
FY21 G&A (excl. R&D) increased by 29% YoY excl. SBC.

Non-IFRS Margin Ratios



EPS and Annual Dividend

In RMB	4Q2021				FY2021			
	IFRS	YoY	Non-IFRS	YoY	IFRS	YoY	Non-IFRS	YoY
Basic EPS	9.957	+60%	2.609	-25%	23.597	+40%	12.992	Stable
Diluted EPS	9.788	+60%	2.547	-25%	23.164	+40%	12.698	Stable

On 23 December 2021, declared a special interim dividend in the form of a distribution in specie of 457 million Class A ordinary shares of JD.com

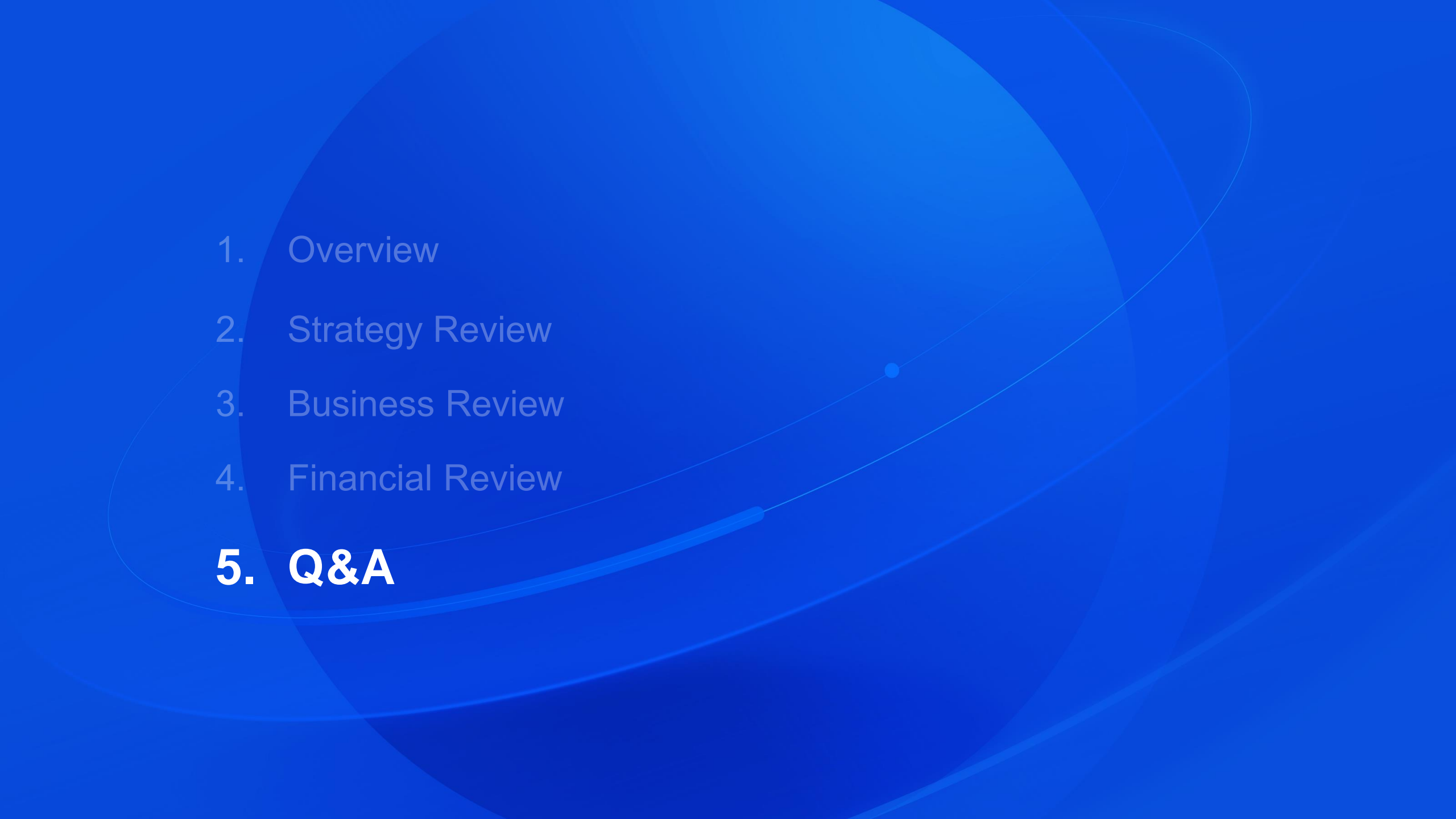
**Subject to shareholders' approval at the 2022 AGM,
proposed 2021 annual dividend of HKD1.60 per share for the year ended 31 December 2021**

CAPEX, FCF and Cash Position

In billion RMB	4Q2021	YoY	QoQ	FY2021	YoY
Operating CAPEX	8.1	Stable	+43%	26.1	-12%
Non-operating CAPEX	3.6	+122%	+149%	7.3	66%
Total CAPEX	11.7	+21%	+65%	33.4	-2%
Operating Cash Flow	51.3	+5%	+25%	175.2	-10%
Less: CAPEX Paid	(7.5)	-39%	-2%	(31.2)	-24%
Payments for media content	(8.8)	+13%	+9%	(30.8)	+20%
Payments for lease liabilities	(1.5)	+27%	+16%	(5.1)	+25%
Free Cash Flow	33.5	+21%	+39%	108.1	-12%
Total Cash	281.3	+8%	-3%	281.3	+8%
Less: Total Debt	301.5	+21%	-4%	301.5	+21%
Net (Debt)/Cash	(20.2)	N/A	-23%	(20.2)	N/A

As at 31 Dec 2021, the fair value of our shareholdings¹ in listed investee companies (excluding subsidiaries) was approximately RMB983 billion (USD154 billion)

1. Including those held via special purpose vehicles, on an attributable basis.

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 4. Financial Review

5. Q&A

Tencent Holdings Limited

*2021 Fourth Quarter and
Annual Results Presentation*

Thank you!



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