

Tencent 腾讯

***2022 First Quarter
Results Presentation***

May 18, 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 RMB6.3482 for 1Q2022.

1. *Overview*

2. *Business Review*

3. *Financial Review*

4. *Q&A*

Financial Highlights

In billion RMB	1Q2022	1Q2021	YoY	4Q2021	QoQ
Total Revenue	135.5	135.3	Stable	144.2	-6%
Value Added Services	72.7	72.4	Stable	71.9	+1%
Social Networks	29.1	28.8	+1%	29.1	Stable
Domestic Games	33.0	33.5	-1%	29.6	+11%
International Games	10.6	10.1	+4%	13.2	-20%
Online Advertising	18.0	21.8	-18%	21.5	-16%
Media	2.3	3.3	-30%	3.2	-27%
Social and Others	15.7	18.5	-15%	18.3	-15%
FinTech and Business Services	42.8	39.0	+10%	48.0	-11%
Others	2.0	2.1	-2%	2.8	-29%
Gross Profit	57.1	62.6	-9%	57.8	-1%
<u>Non-IFRS</u>					
Operating Profit	36.5	42.8	-15%	33.2	+10%
Operating Margin	27.0%	31.6%	-4.6ppt	23.0%	+4.0ppt
Net Profit Attributable to Equity Holders	25.5	33.1	-23%	24.9	+3%

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

Games

- #1 by users in China across PC and mobile
- #1 globally by revenue

Long-Form Video

- #1 by subscriptions

News

- #1 news services by MAU

Music

- #1 music services provider

Literature

- #1 online content library and publisher

Weixin & WeChat

- #1 mobile community
- MAU at 1,288m

QQ

- QQ mobile devices MAU at 564m

Mobile Browser

- #1 by MAU

Mobile Security

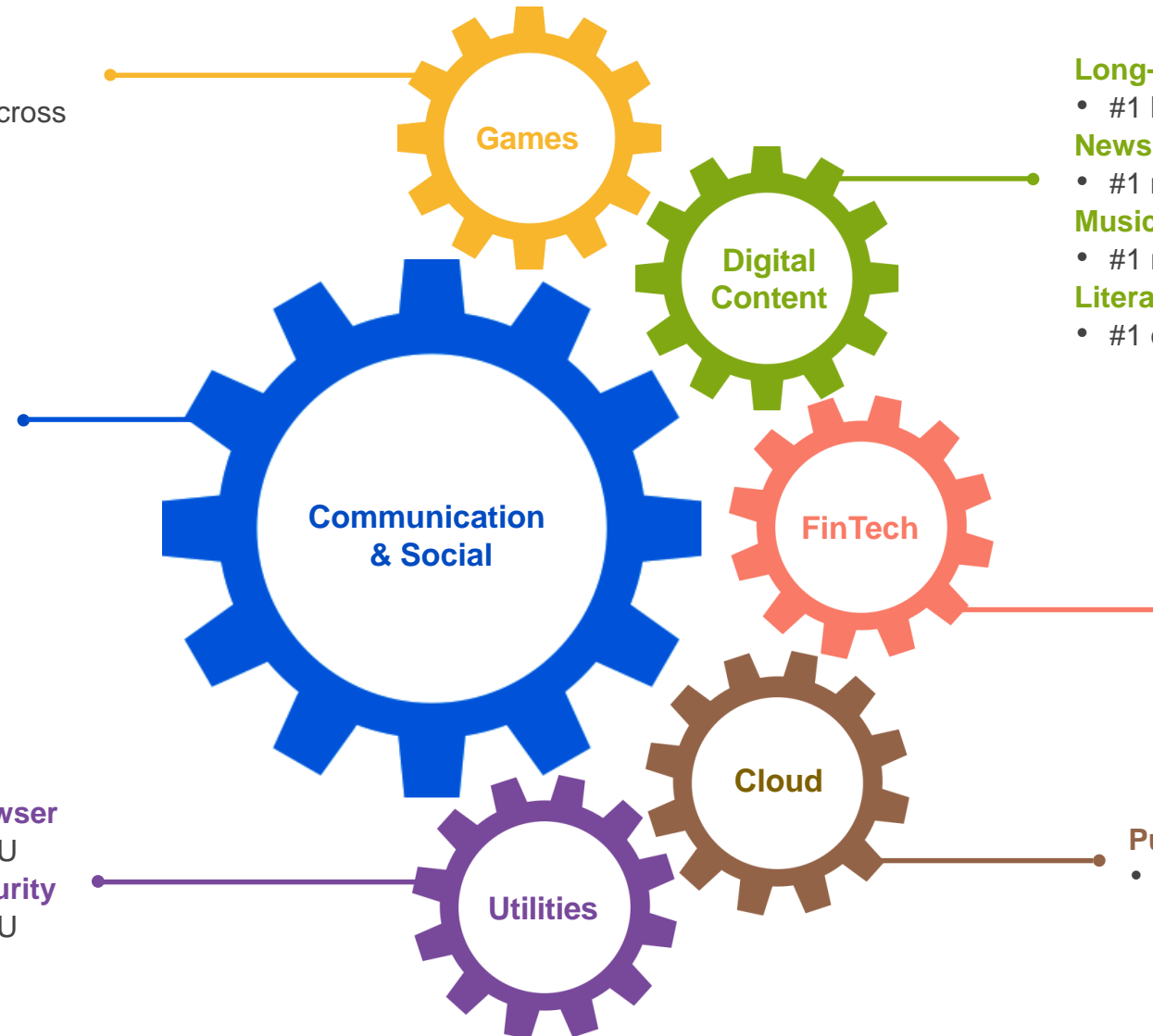
- #2 by MAU

Mobile Payment

- #1 by MAU & DAU

Public Cloud

- #2 service provider by revenue



1. *Overview*

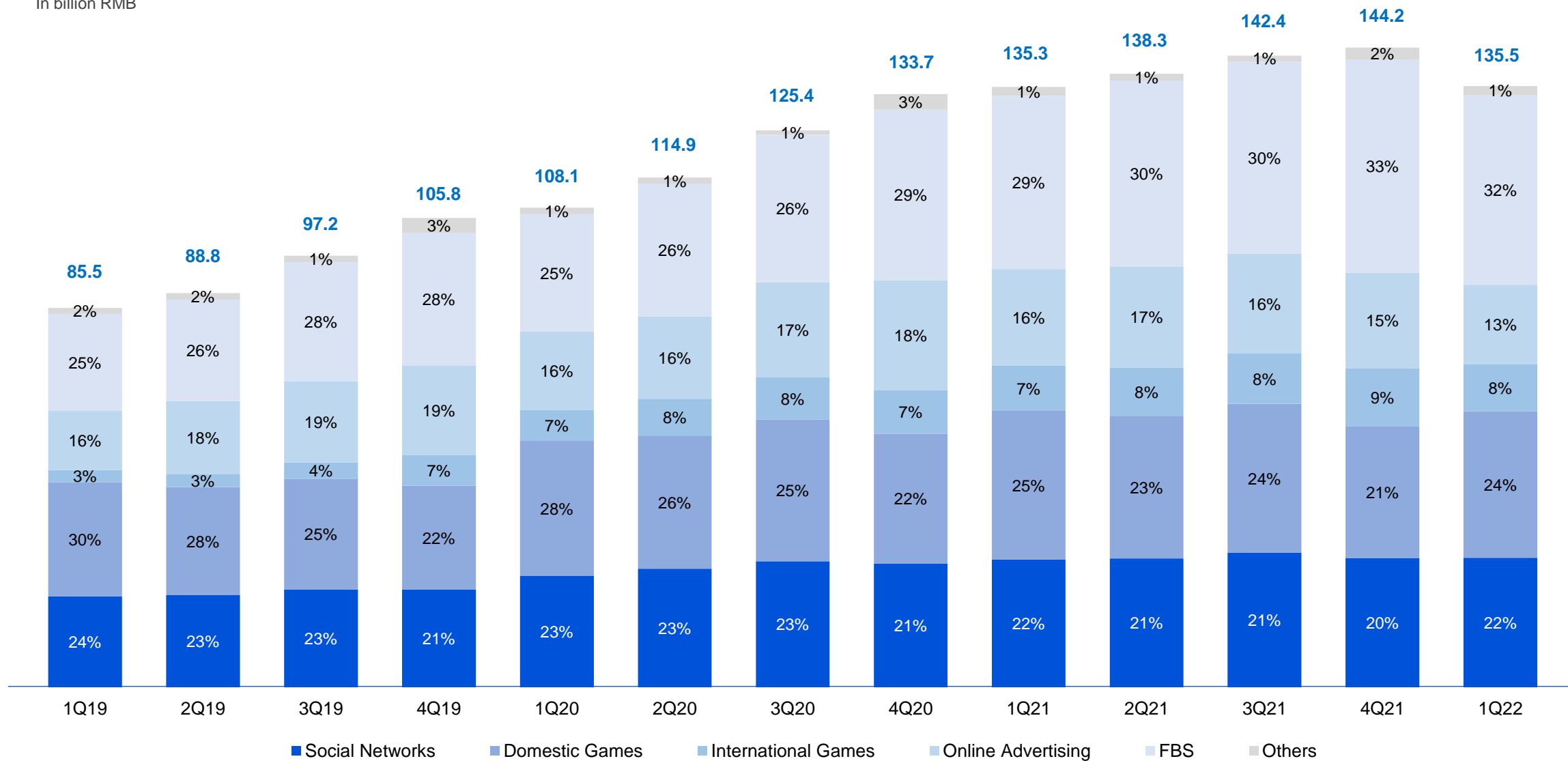
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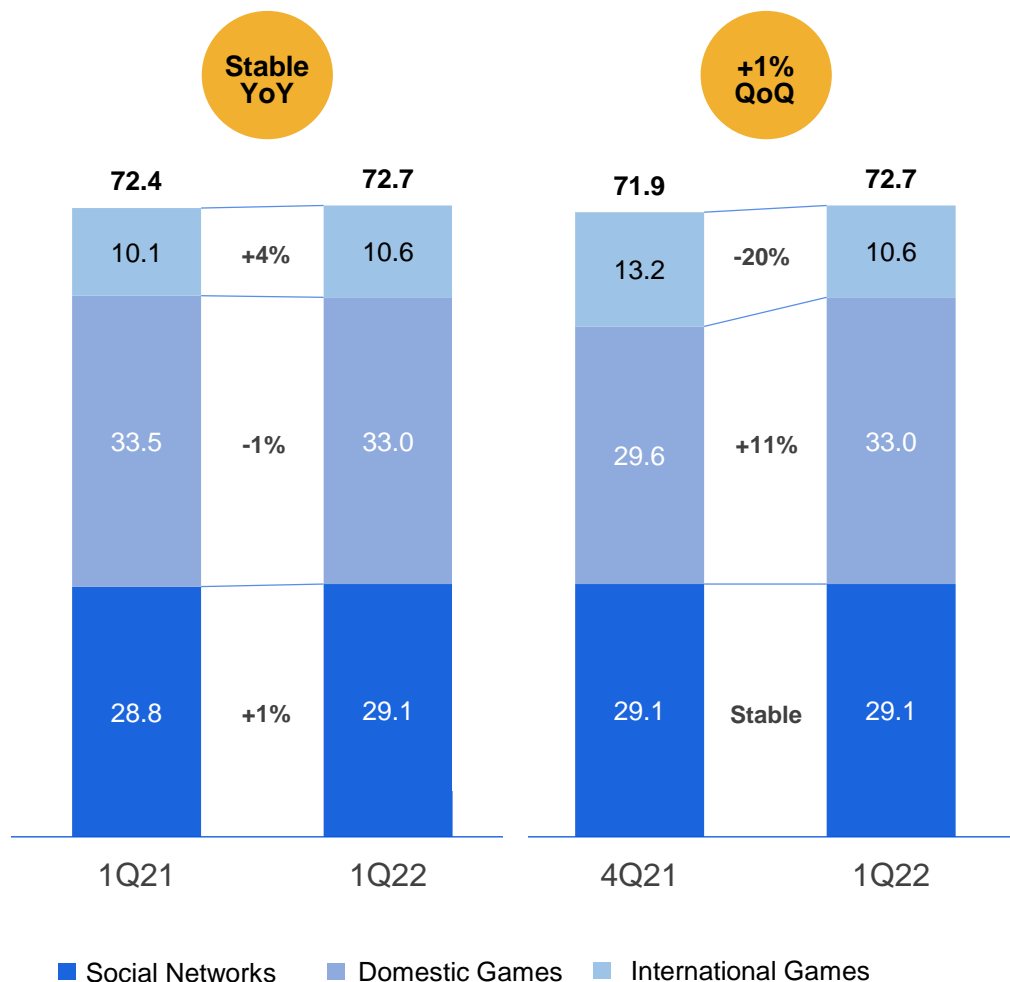
Revenue by Segment

In billion RMB



Value Added Services

In billion RMB



Social Networks

- Revenue was up 1% YoY to RMB29.1 billion, reflecting increased revenue from Video Accounts live streaming service, largely offset by decreased revenue from music- and games-related live streaming services
- Total VAS subscriptions grew 6% YoY to 239 million in 1Q22. We extended market leadership with a video subscriber base of 124 million, benefitting from strengthened IP adaptations of comics and novels. Music subscriptions increased 32% YoY to 80 million, driven by high quality content, as well as increased consumer willingness to subscribe for music services

Domestic Games

- Revenue was down 1% YoY to RMB33.0 billion, as direct and indirect effects of minor protection measures impacted active user and paying user counts. Recently released games *LoL: Wild Rift* and *Fight of The Golden Spatula* generated incremental revenue, while revenue of *Moonlight Blade Mobile* and *Call of Duty Mobile* decreased

International Games

- Revenue increased 4% YoY to RMB10.6 billion. YoY growth was slower than recent quarters due to 1) decreased *PUBG Mobile* revenue as user spending normalised post-COVID industry-wide, and 2) timing of content update in *LoL* and *Clash of Clans*
- Revenue declined QoQ due to high base in 4Q21, reflecting 1) a true-up adjustment to revenue of Supercell, and 2) holiday consumption

Social Networks



Weixin

- **Video Accounts significantly increased video views and time spent YoY**, bolstered by expansion in news, knowledge-based and entertainment content, as well as enhanced recommendation technologies
- **Mini Programs crossed 500 million DAU and sustained rapid GMV growth**, as we deepened penetration in retail, restaurant and municipal services

Institute for Planets – a popular Video Account about geographical exploration of the world

Link to creator's Official Account

Purchase books via Mini Store

Connect with creator (on WeCom)



QQ

- **Provide avatar tools** for users to create short videos featuring users' customised **Super QQ Show** characters
- Facilitate social interactions by enabling users to **share video and music they are consuming on Status**, so that friends can stream the same content within QQ via **Mini Programs**

Click friends' Status to watch the same show in Tencent Video Mini Program

Create video using own Super QQ Show AR overlay

Domestic Games

Long-standing leadership in high-DAU genres

MOBA: *Honour of Kings*



- Grossing receipts decreased YoY during Chinese New Year on fewer commercially successful items; resumed YoY growth with more attractive items in March
- Adult user base relatively stable over last few quarters

Shooter: *Peacekeeper Elite*



- #1 in genre and #2 in all mobile games by DAU* and grossing** in 1Q22
- Third anniversary content update with new combat items and battlefield design enhanced user engagement in April

Growing presence in other key genres

Auto battler: *Fight of the Golden Spatula*



- New champions and game mechanics in Chinese New Year version enriched competitive experience
- #1 in genre and #6 in all mobile games by DAU* in 1Q22

Real-time strategy: *Return to Empire*



- In-house title launched on Mar 29 with high quality graphics and content
- #2 in genre by grossing receipts** in April

International Games

PUBG Mobile (March 2018)



- Grossing receipts decreased on post COVID-19 normalisation
- Spider-Man-themed mini PvE game mode launched in Jan drove user engagement
- Lamborghini items released in late March became top-selling car skins since game launch

VALORANT (June 2020)



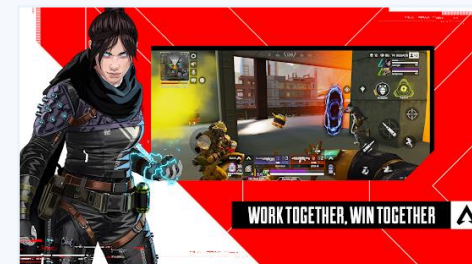
- Growing user base, paying propensity and attractive content drove grossing receipts up significantly YoY
- #6 PC game internationally across all genres by MAU* in March, highest-ranked title released in last four years

Dune : Spice Wars (April 2022)



- 4X real-time strategy PC game based on iconic sci-fi IP Dune, published by subsidiary Funcom
- Initial success on Steam since Early Access on Apr 26
- Funcom is developing an open-world survival game based on Dune, under its exclusive game IP partnership

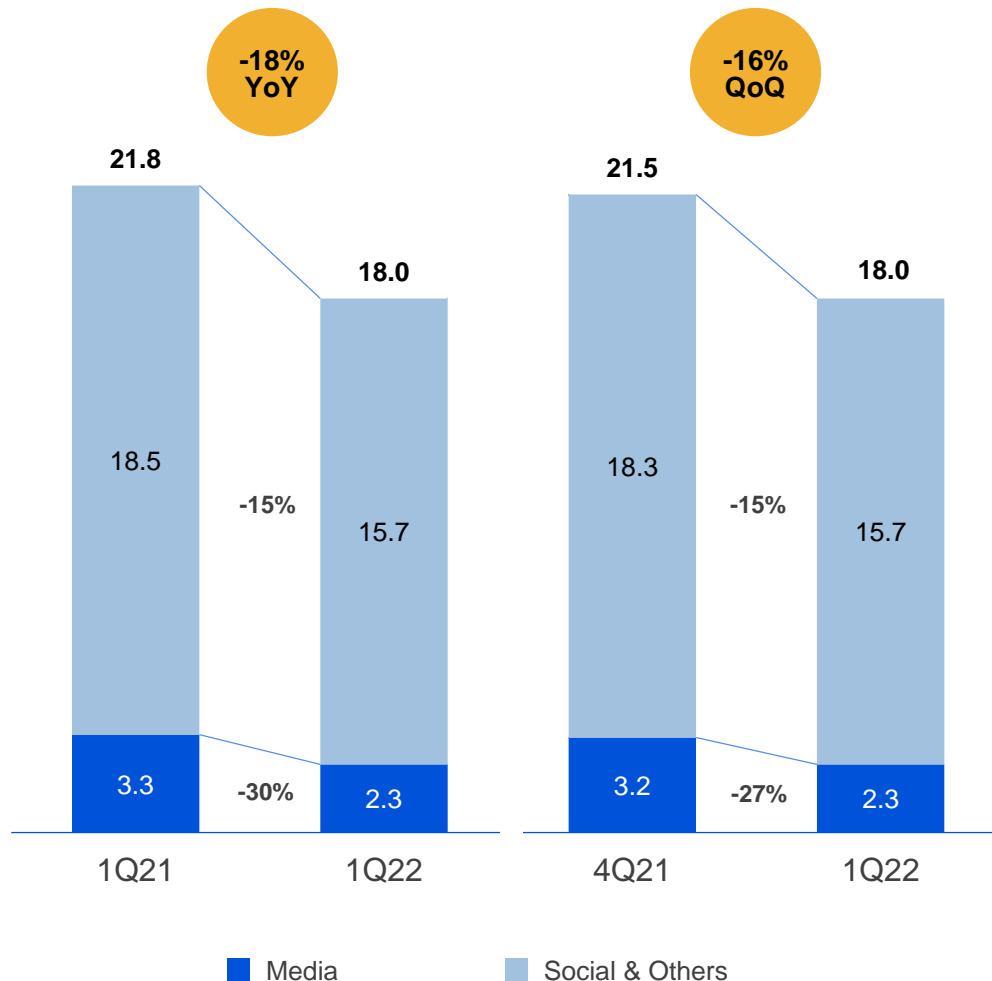
Apex Legends Mobile (May 2022)



- Hero shooter battle royale game jointly developed by Electronic Arts' Respawn Studio and Lightspeed & Quantum
- Leveraging Apex Legends IP and our expertise to deliver optimal shooting experience and graphics on mobile

Online Advertising

In billion RMB



Overall

- Revenue declined 18% YoY as bidding density remained subdued, resulting in lower eCPMs
- For the second quarter-to-date, overall sentiment remained weak. Advertisers in sectors such as FMCG, eCommerce and travel have reduced their spending significantly
- We are upgrading ad system's machine learning infrastructure to process data more efficiently, enhancing ad targeting and conversion rates

Social & Others

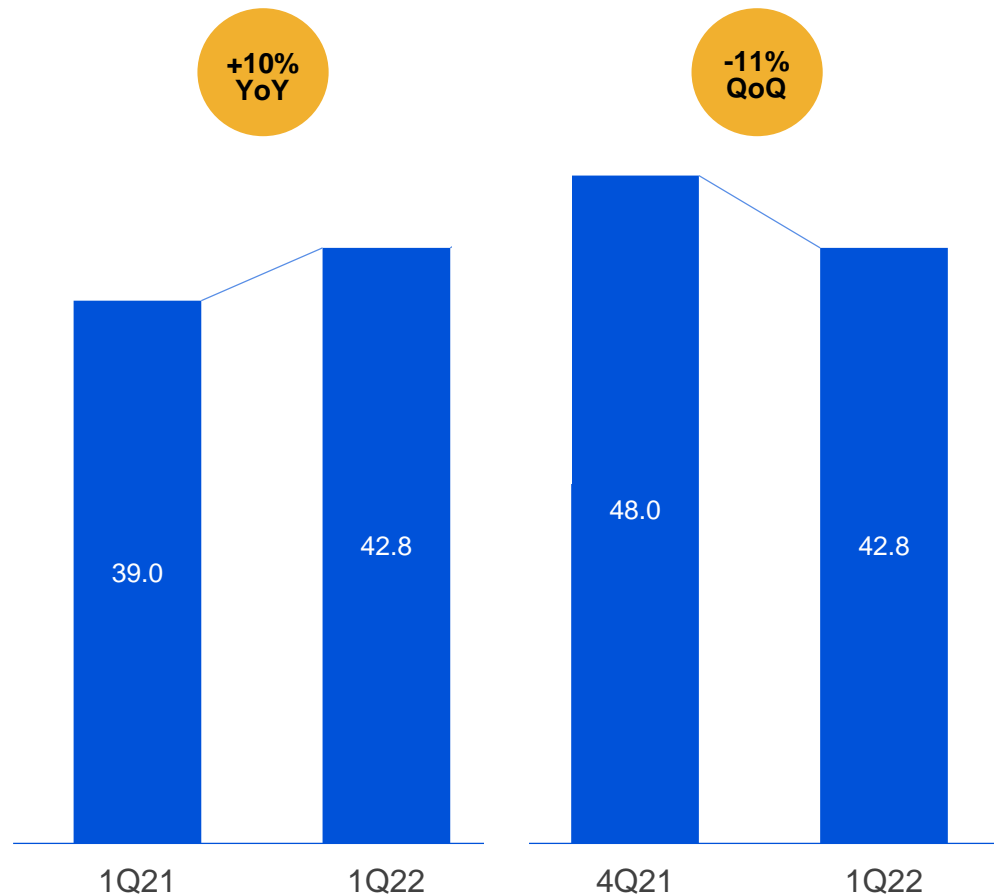
- Mobile ad network revenue declined sharply due to weak demand and regulatory changes; *Moments* revenue dipped slightly YoY as weakness in education and real estate outweighed growth in FMCG and games sectors
- *Official Accounts* revenue increased, driven by popularity of notification feeds ads; over 20% of its revenue came from click-to-purchase and click-to-message ads, which are powered by *Mini Programs* and *WeCom*

Media

- Video ad revenue decreased double digits YoY; revenue contribution from *Beijing 2022 Winter Olympics* and popular drama series, such as *The Oath of Love*, was more than offset by fewer releases of top-tier variety shows

FinTech and Business Services

In billion RMB



FinTech Services

- YoY revenue growth moderated as COVID-19 resurgence in March impacted commercial payment volume
- Commercial payment activities have been weak since mid March, particularly in transportation, dining services and apparel. eCommerce was also affected by logistic bottlenecks

Business Services

- Revenue declined slightly YoY as we proactively reduced loss-making activities including 1) projects with high proportion of subcontracts; 2) deeply-discounted contracts for Cloud Virtual Machines and CDN capacity. Instead, we increased our healthier-margin self-developed PaaS revenue, especially in video cloud and cybersecurity
- **Video Cloud:** we increasingly upsell clients from CDN to VoD, live streaming and RTC solutions to capture growing demand for ultra-low latency and interactive video services; ranked #1 Communication PaaS provider in China in terms of revenues by Gartner*
- **Cybersecurity:** we expanded our client base and achieved revenue growth in network security, endpoint security and business operation protection

* Gartner's "Market Share: All Software, Markets, Worldwide, 2021"

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Income Statement

In billion RMB	1Q2022	1Q2021	YoY	4Q2021	QoQ
Revenue	135.5	135.3	Stable	144.2	-6%
COPS	(78.4)	(72.7)	+8%	(86.4)	-9%
Gross profit	57.1	62.6	-9%	57.8	-1%
Interest income	1.7	1.6	+8%	1.7	+2%
Other gains, net	13.1	19.5	-33%	86.2	-85%
Operating expenses	(34.7)	(27.5)	+26%	(36.0)	-4%
Operating profit	37.2	56.3	-34%	109.7	-66%
Finance costs, net	(1.9)	(1.4)	+42%	(1.9)	+4%
Share of (loss)/profit of associates & JVs, net	(6.3)	1.3	N/A	(8.3)	-24%
Income tax expense	(5.3)	(7.2)	-27%	(3.9)	+36%
Net profit	23.7	49.0	-52%	95.7	-75%
Net profit attributable to equity holders	23.4	47.8	-51%	95.0	-75%
Diluted EPS in RMB	2.404	4.917	-51%	9.788	-75%
<u>Non-IFRS</u>					
Operating Profit	36.5	42.8	-15%	33.2	+10%
Net profit attributable to equity holders	25.5	33.1	-23%	24.9	+3%
Diluted EPS in RMB	2.620	3.415	-23%	2.547	+3%

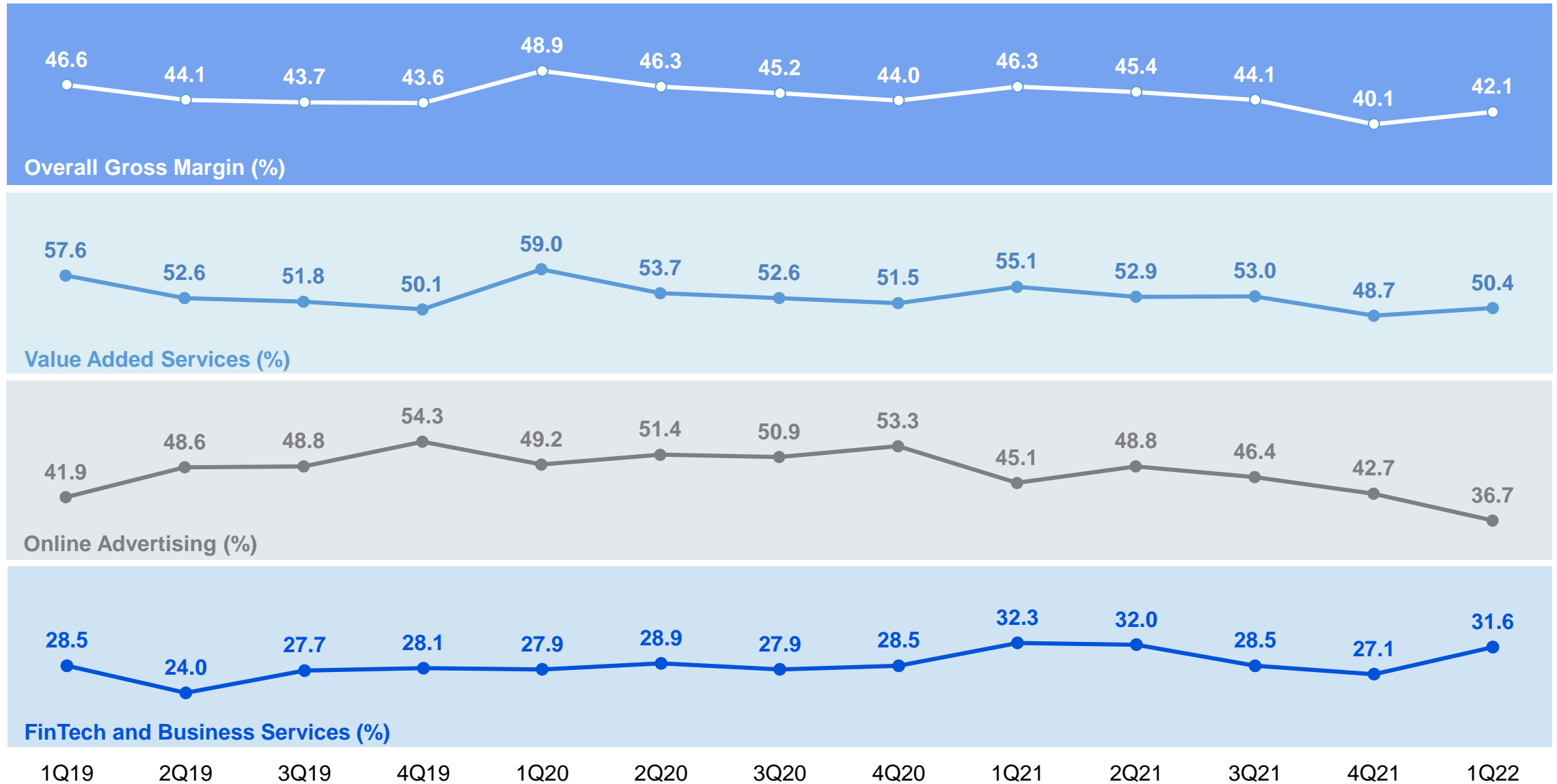
Non-IFRS Adjustments

In billion RMB	IFRS 1Q2022	SBC	Net (gains)/ losses from investee companies ¹	Amortisation of intangible assets	Impairment provisions/ (reversals) ²	SSV & CPP ³	Tax effect	Non-IFRS 1Q2022	YoY change	QoQ change
Operating profit	37.2	8.1	(18.5)	1.4	7.0	1.3	-	36.5	-15%	+10%
Net profit	23.7	9.6	(18.5)	3.3	7.8	1.3	(0.9)	26.3	-24%	+2%
Net profit attributable to equity holders	23.4	9.5	(18.5)	2.8	7.8	1.3	(0.8)	25.5	-23%	+3%
Operating margin	27.5%							27.0%	-4.6ppt	+4.0ppt
Net margin	17.5%							19.4%	-6.1ppt	+1.5ppt

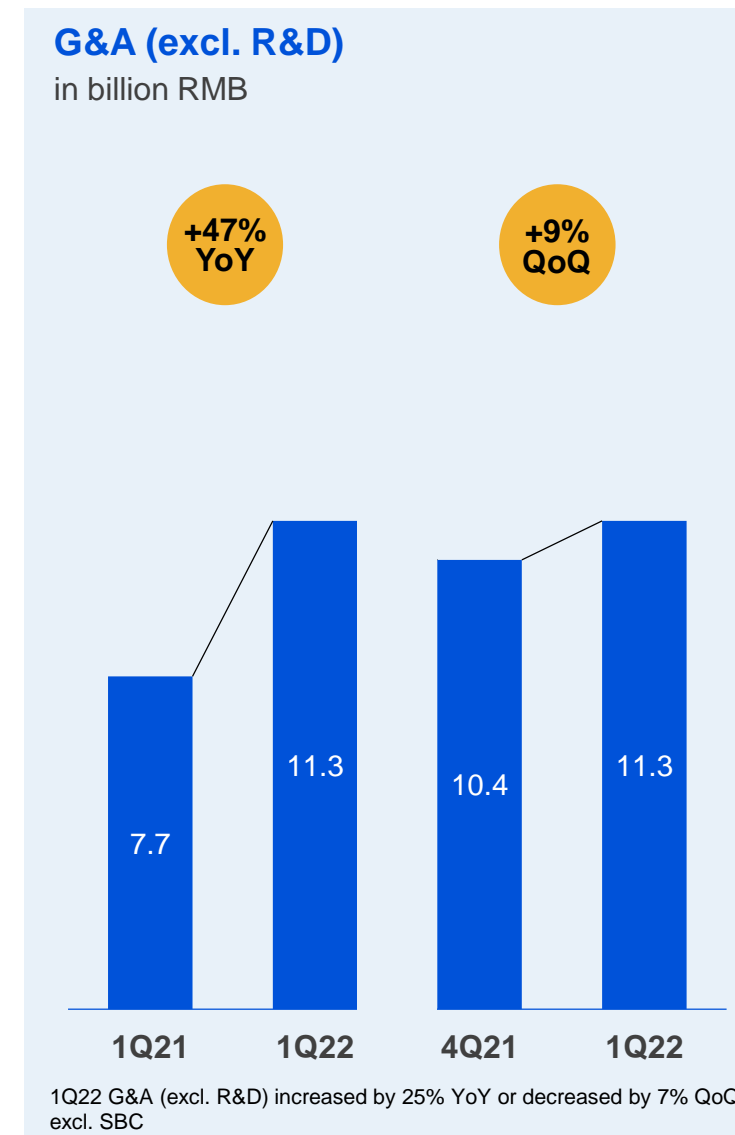
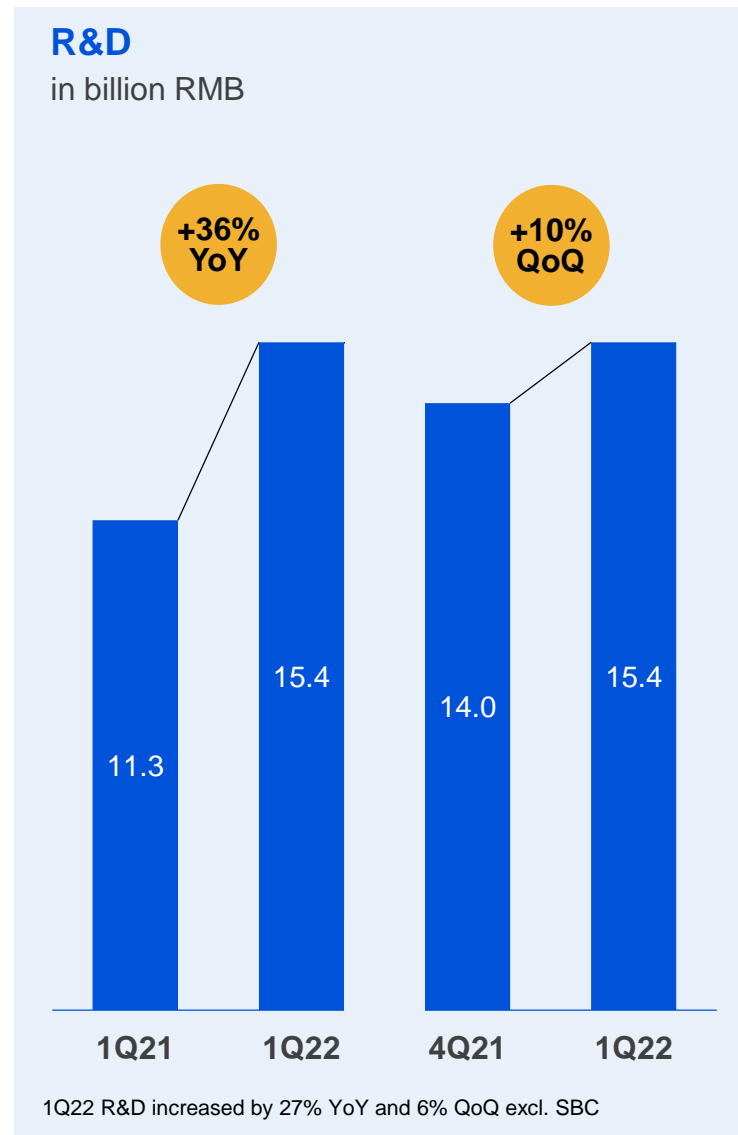
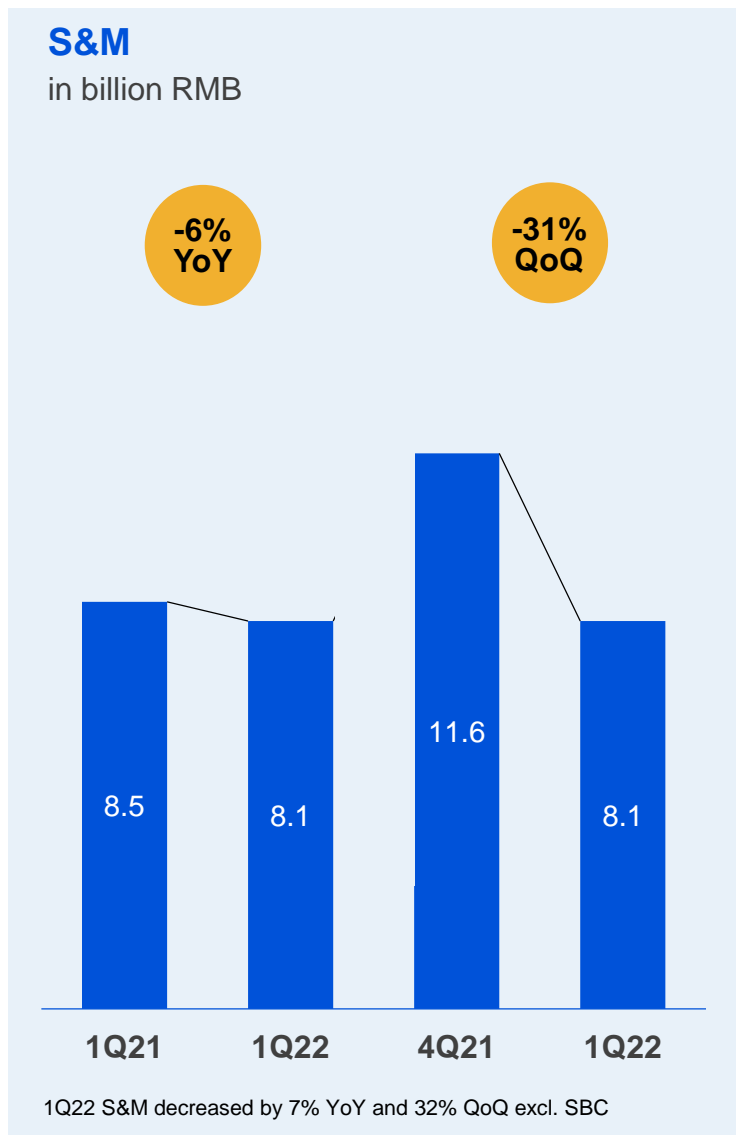
Note:

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. Mainly including donations and expenses incurred for the Group's Sustainable Social Value & Common Prosperity Programme (excluding share-based compensation expenses)

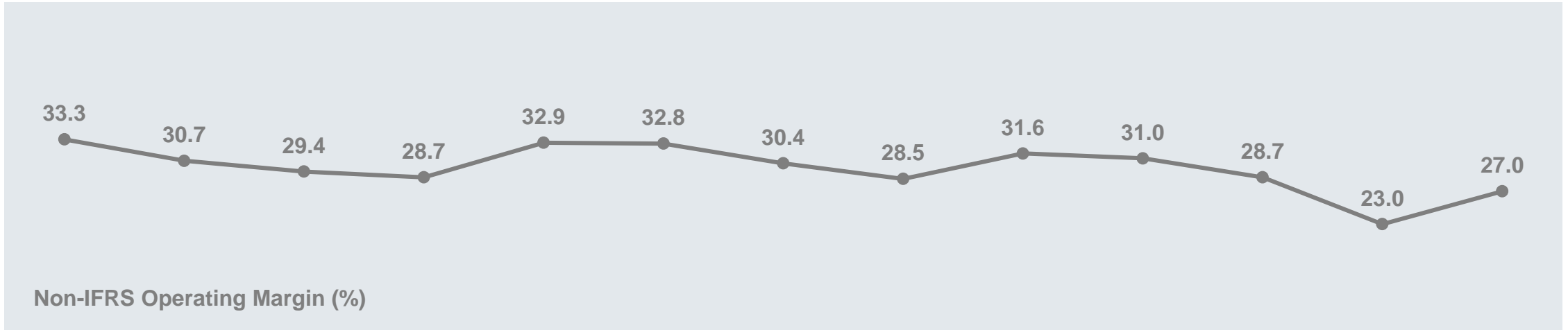
Gross Margins



Operating Expenses



Non-IFRS Margin Ratios



1Q19

2Q19

3Q19

4Q19

1Q20

2Q20

3Q20

4Q20

1Q21

2Q21

3Q21

4Q21

1Q22

CAPEX, FCF and Cash Position

In billion RMB	1Q2022	1Q2021	YoY	4Q2021	QoQ
Operating CAPEX	5.2	6.6	-21%	8.1	-35%
Non-operating CAPEX	1.8	1.1	+54%	3.6	-51%
Total CAPEX	7.0	7.7	-10%	11.7	-40%
Operating Cash Flow	33.8	51.0	-34%	51.3	-34%
Less: CAPEX Paid	(8.2)	(9.1)	-9%	(7.5)	+10%
Payments for media content	(8.9)	(7.6)	+17%	(8.8)	+1%
Payments for lease liabilities	(1.5)	(1.1)	+32%	(1.5)	+2%
Free Cash Flow	15.2	33.2	-54%	33.5	-55%
Total Cash	304.1	258.8	+17%	281.3	+8%
Less: Total Debt	315.1	253.2	+24%	301.5	+5%
Net (Debt)/Cash	(11.0)	5.6	N/A	(20.2)	-45%

- As at 31 Mar 2022, the fair value of our shareholdings¹ in listed investee companies (excluding subsidiaries) was approximately RMB606 billion (USD95 billion)
- Repurchased approximately 8.9 million shares with an aggregated cost of RMB3.0 billion (USD474 million) during 1Q22

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

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2. *Strategy Review*

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Tencent Holdings Limited

2022 First Quarter Results Presentation

Thank you!



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