

Tencent 腾讯

*2022 Third Quarter
Results Presentation*

Nov 16, 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 RMB7.0998 for 3Q2022.

1. *Overview*

2. *Strategy Review*

3. *Business Review*

4. *Financial Review*

5. *Q&A*

Financial Highlights

In billion RMB	3Q2022	3Q2021	YoY	2Q2022	QoQ
Total Revenue	140.1	142.4	-2%	134.0	+5%
Value-added Services	72.7	75.2	-3%	71.7	+1%
Social Networks	29.8	30.3	-2%	29.2	+2%
Domestic Games	31.2	33.6	-7%	31.8	-2%
International Games	11.7	11.3	+3%	10.7	+9%
Online Advertising	21.5	22.5	-5%	18.6	+15%
Media	2.6	3.5	-26%	2.5	+3%
Social and Others	18.9	19.0	-0.8%	16.1	+17%
FinTech and Business Services	44.8	43.3	+4%	42.2	+6%
Others	1.1	1.4	-20%	1.5	-28%
Gross Profit	62.0	62.7	-1%	57.9	+7%
<u>Non-IFRS</u>					
Operating Profit	40.9	40.8	+0.2%	36.7	+12%
Operating Margin	29.2%	28.7%	+0.5ppt	27.4%	+1.8ppt
Net Profit Attributable to Equity Holders	32.3	31.8	+2%	28.1	+15%

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 and revenue 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 1,309m

QQ

- QQ mobile devices MAU at 574m

Mobile Browser

- #1 by MAU

Mobile Security

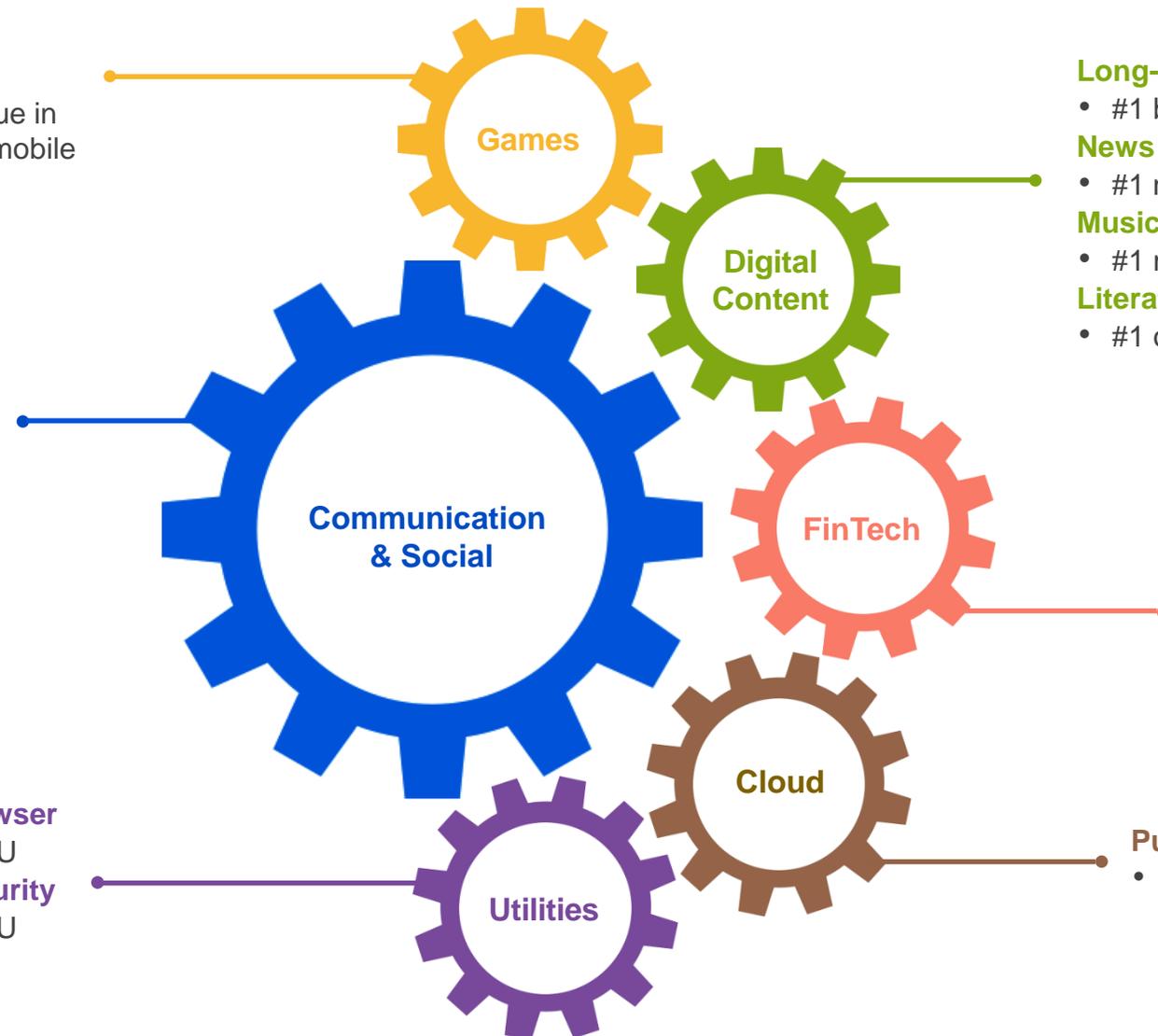
- #2 by MAU

Mobile Payment

- #1 by MAU

Public Cloud

- #2 service provider by revenue



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2. *Strategy Review*

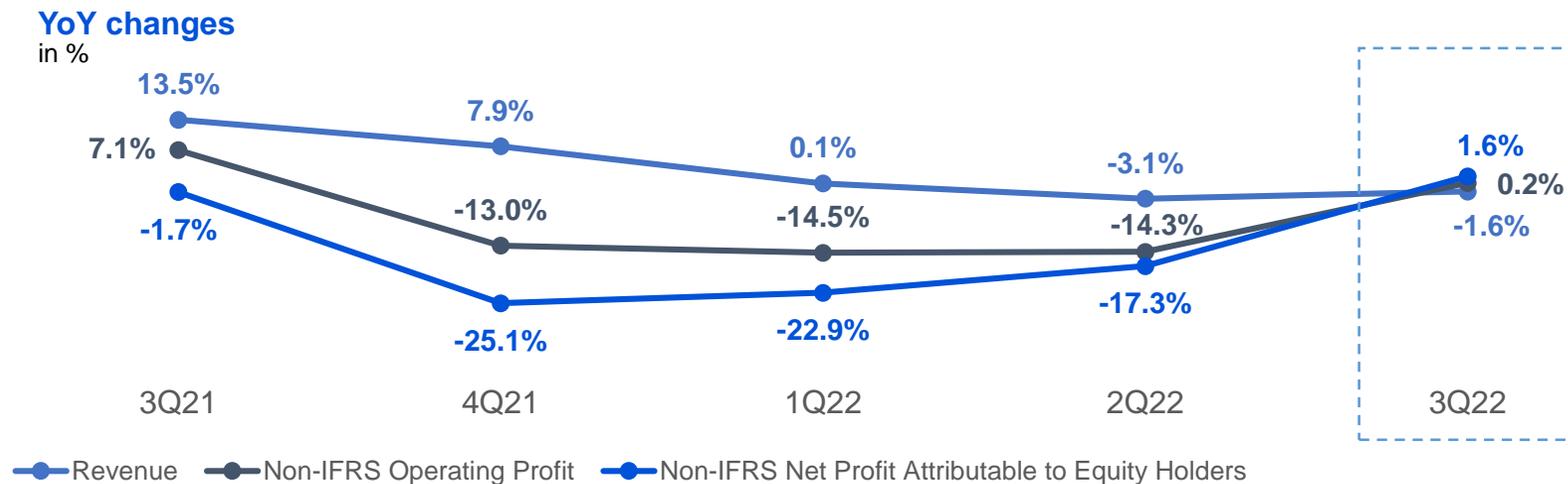
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Efficiency initiatives stabilising earnings

- **Marketing programs** – reduced selling and marketing expenses by 32% YoY
- **Business services** – gross profit grew, as we proactively adjusted our strategic focus to generate high-quality revenue
- **Video Accounts** – operating costs per video view reduced significantly
- **Workforce optimisation** – total headcount down from peak; total staff costs, ex severance pay, up low single digit % YoY



Well-positioned for recovery and sustainable growth

Encouraging progress in revenue initiatives

Video Accounts

- Fast ramp-up of in-feed ads since mid-Aug
- On track to exceed RMB1 billion quarterly revenue milestone in 4Q22

International Games

- Launched new hits *Tower of Fantasy* and *GODDESS OF VICTORY: NIKKE*
- Strategic partnership with Ubisoft enabling us to bring more AAA franchises to mobile globally and PC titles to China

SaaS

- Prioritising scale expansion as there are proven business models for international players with industry leadership
- Launched a subscription bundle combining *WeCom*, *Tencent Meeting* and *Tencent Docs*

Business resilience and normalising regulatory environment

Fintech

- Commercial payment volume growth recovered in 3Q22
- Received approval for investment in Samsung Property and Casualty Insurance Company (China)

Domestic Games

- Received approval for new banhao and banhao amendment in Sep
- Aligning our business operations with the new environment, driving growth in 2023

Ad

- Ad revenue grew QoQ in 3Q22, even excluding new contributions from *Video Accounts* in-feed ads
- On track to grow YoY in late 2022

Resilient cash flow generation and robust balance sheet

Resilient free cash flow despite industry challenges and changes

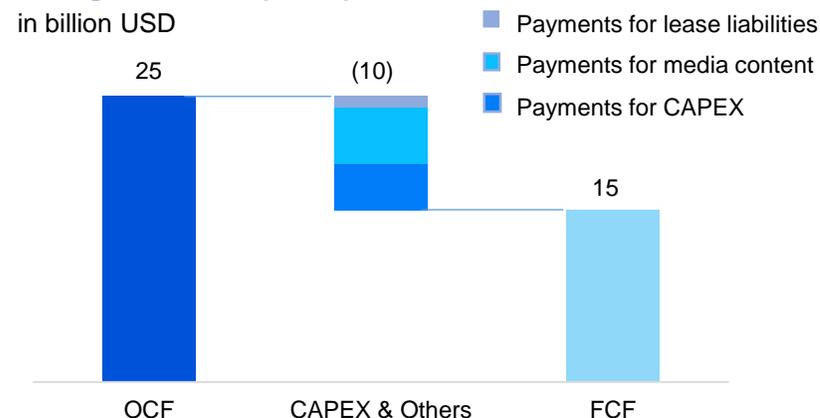
- Robust operating cash flow (OCF), well diversified across social networks, games, advertising and fintech services
- Significant free cash flow (FCF) of USD15 billion LTM¹

Robust balance sheet underpins financial strengths and flexibility

- Total cash of USD44 billion¹
- Net debt low at USD4 billion¹
- Investment portfolio² of USD123 billion³

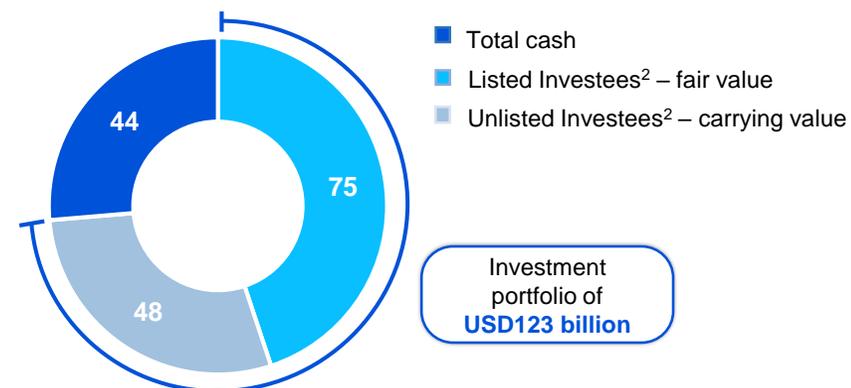
FCF generation (LTM¹)

in billion USD



Cash and investment portfolio^{1, 2}

In billion USD



1. As of 30 Sep 2022

2. Investment portfolio consists of: a) our shareholdings (including those held via special purpose vehicles on an attributable basis) in listed investee companies (excluding subsidiaries) (defined as “Listed Investees”); and b) unlisted investees companies (defined as “Unlisted Investees”)

3. Representing the sum of: a) fair value of Listed Investees as of 30 Sep 2022; and b) carrying value of Unlisted Investees as of 30 Sep 2022

Financial strengths enabling both business value creation and return of capital to shareholders

Financial strengths

Business value creation

- Organic investments
 - Video Accounts
 - International game studios and publishing infrastructure
 - SaaS products
 - Weixin commerce ecosystem
 - Infrastructure and technologies
- Strategic investments in complementary companies supporting growth of our core businesses

Return of capital to shareholders

- Total return of USD18.3 billion YTD (as of 16 Nov 22)
- Declaring a special interim dividend of USD20.3 billion of Meituan shares for distribution in 2023
 - Entitlement ratio of 10:1
 - Equivalent to HKD16.6 per share¹

Total return of capital to shareholders

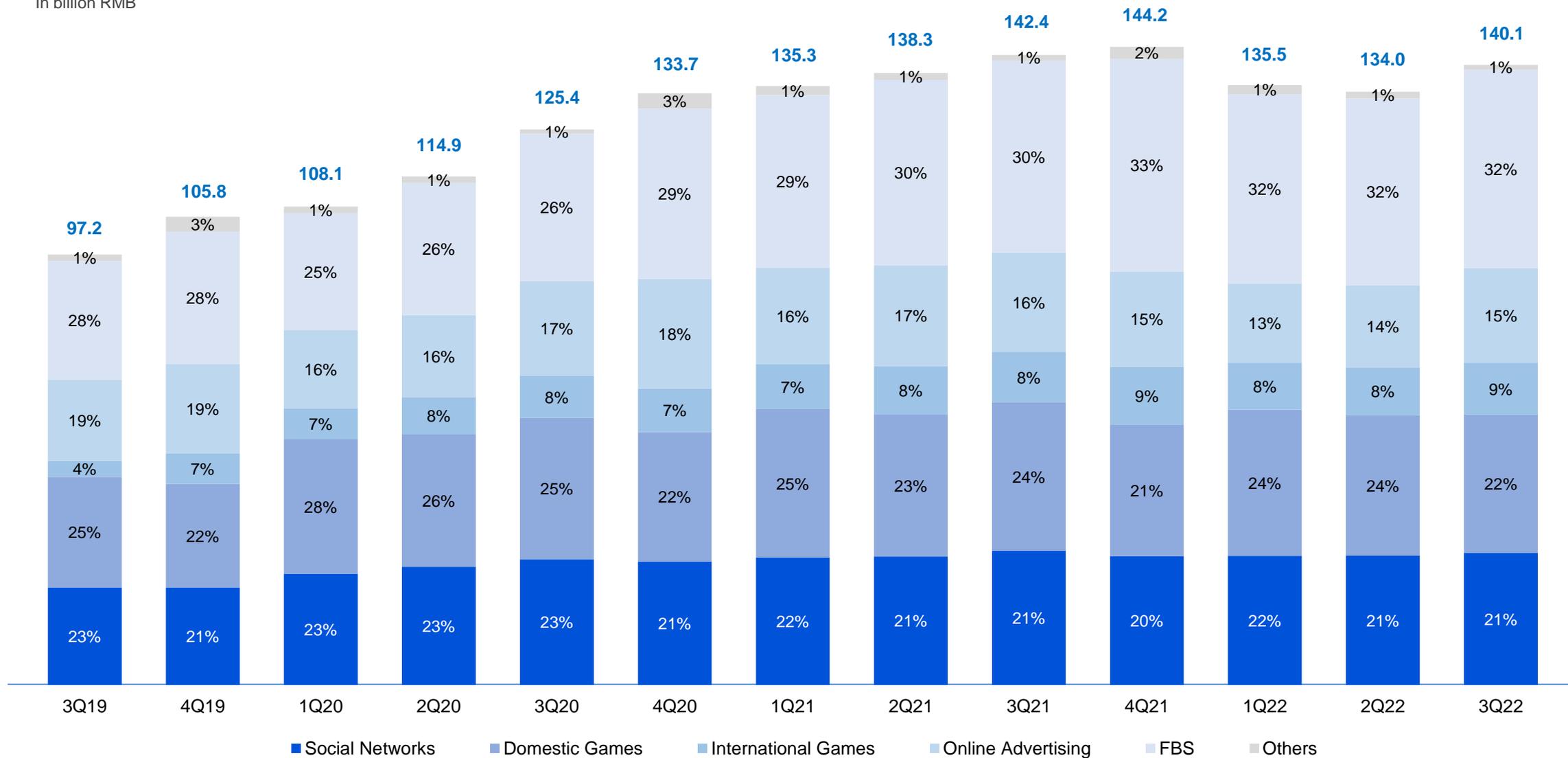


1. Corresponding market value of Meituan based on closing price on 15 Nov 22
2. Based on JD.com closing share price on dispatch date (25 Mar 22)

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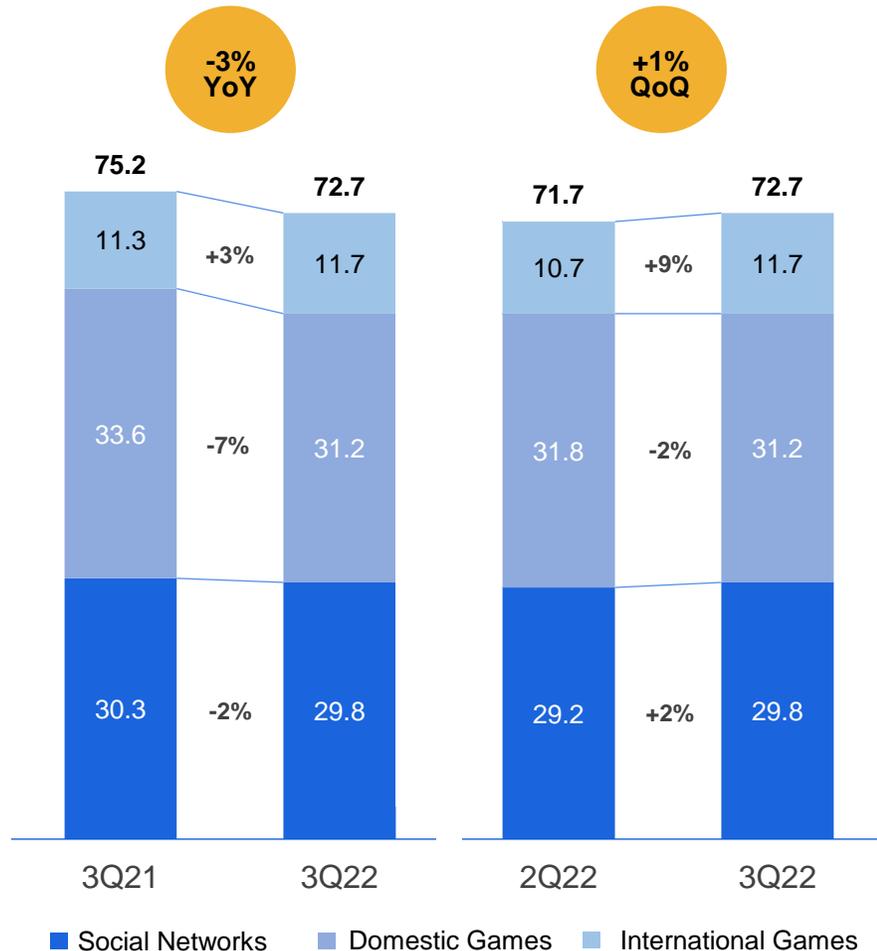
Revenue by Segment

In billion RMB



Value-added Services

In billion RMB



Social Networks

- Revenue was down 2% YoY to RMB29.8 billion. Revenue from music- and games-related live streaming services decreased; revenue from *Video Accounts* live streaming service increased
- Video subscription revenue decreased slightly YoY, as content scheduling delays resulted in lower subscriptions (120 million). *Tencent Video* grew ARPU as we adjusted pricing. Our self-commissioned drama series, *Love Like The Galaxy*, ranked #1 industry-wide¹ in 3Q22
- Music subscription revenue increased YoY, driven by expansion in paying users. ARPU declined YoY but increased QoQ

Domestic Games

- Revenue was down 7% YoY to RMB31.2 billion, as transitional industry challenges resulted in lower paying user counts. Revenue from *HoK* and *Peacekeeper Elite* decreased in first summer vacation under current minor protection measures. *LoL: Wild Rift*, *Return to Empire*, *LoL Esports Manager* contributed incremental revenue

International Games

- Revenue increased 3% YoY to RMB11.7 billion, or 1% in constant currency, amid ongoing industry normalisation post-COVID. Growth was driven by a robust performance of *VALORANT*, the successful launch of *Tower of Fantasy* and expanded game portfolio at Miniclip

1. Source: Enlightent, by video views across all online platforms in China for 3Q22

2. Mobile games VAS revenue declined 4% YoY to RMB41.0 billion. PC client games revenue was largely stable YoY at RMB11.7 billion

Social Networks



Mini Programs achieved new milestone while assisting real economy

- Surpassed 600 million DAU, up 30%+ YoY, and attained 50%+ YoY growth in daily activations, as we accommodated more commerce and municipal service use cases
- Served more commerce categories, e.g., F&B, apparel and department stores, by facilitating offline merchants and brands to integrate membership programs and loyalty points and build multi-channel retailing
- Health Code Mini Programs helped users verify their health and travel status with over 320 billion visits YTD¹



Mini Programs for municipal services: daily activations +300% YoY



Mini Programs for shopping malls & department stores: GMV +70% YoY



Deepening social interactions in Super QQ Show

- Launched virtual spaces in partnership with renowned F&B and fashion brands, where users can participate in events and extend the experience offline
- Enabled users to showcase and share their personalised rooms with a broader community

Gucci space in Super QQ Show



1. During 1Q22-3Q22

Domestic Games

Minors' game time sharply reduced, while adult user base and time spent resilient

- **World-leading minor protection program, fully compliant with government regulation** - time spent from users aged under 18 has decreased by 92% YoY, and constituted 0.7% of total time spent in Jul 2022
- **Combined PC and mobile games DAU of adult players increased by double digit % YoY in Sep**
- **Combined PC and mobile games time spent by adult players grew by single digit % YoY in Sep**, driven by *HoK*, *Peacekeeper Elite*, *CrossFire* franchise and new titles *LoL: Wild Rift*, *Arena Breakout*

Extending longevity of key franchise

- **CrossFire PC**, launched in 2008, increased **grossing receipts by high single digit % YoY YTD¹**; ongoing gameplay innovation in PvE and ranked mode sustained a loyal user base
- **CrossFire Mobile**, launched in 2015, increased **CrossFire's franchise user base significantly; ranked among top 10 mobile games by time spent and grossing receipts²**
- Enriching franchise with eSports and cross-media collaboration



CrossFire franchise anniversary



Professional eSports



Drama series



CrossFire Mobile x QQ Music

1. During 1Q22-3Q22

2. By time spent according to QuestMobile and by grossing receipts according to data.ai, 3Q22

International Games

Growing success of market-leading franchises

Enhancing in-house IP value with Riot's world-class eSports expertise and Supercell's relentless content innovation

VALORANT



VALORANT *Champions* became the most watched eSports in tactical shooter genre¹; helped expand fanbase and drive record high quarterly grossing receipts

Clash of Clans



Ongoing content enhancement, including biggest-ever update in Oct, boosted user engagement and monetisation; #1 mobile strategy game by grossing receipts YTD²

Breakthrough in international publishing

Showcasing Level Infinite's capabilities in localised content marketing and user community management across genres

Tower of Fantasy



An open world MMORPG; #2 by DAU internationally, #1 in Japan and #2 in the US by grossing receipts among MMORPG in 3Q22³

GODDESS OF VICTORY: NIKKE



A sci-fi RPG shooter with appealing anime graphics; #1 by grossing receipts internationally across mobile games in first ten days following its Nov 4 launch³

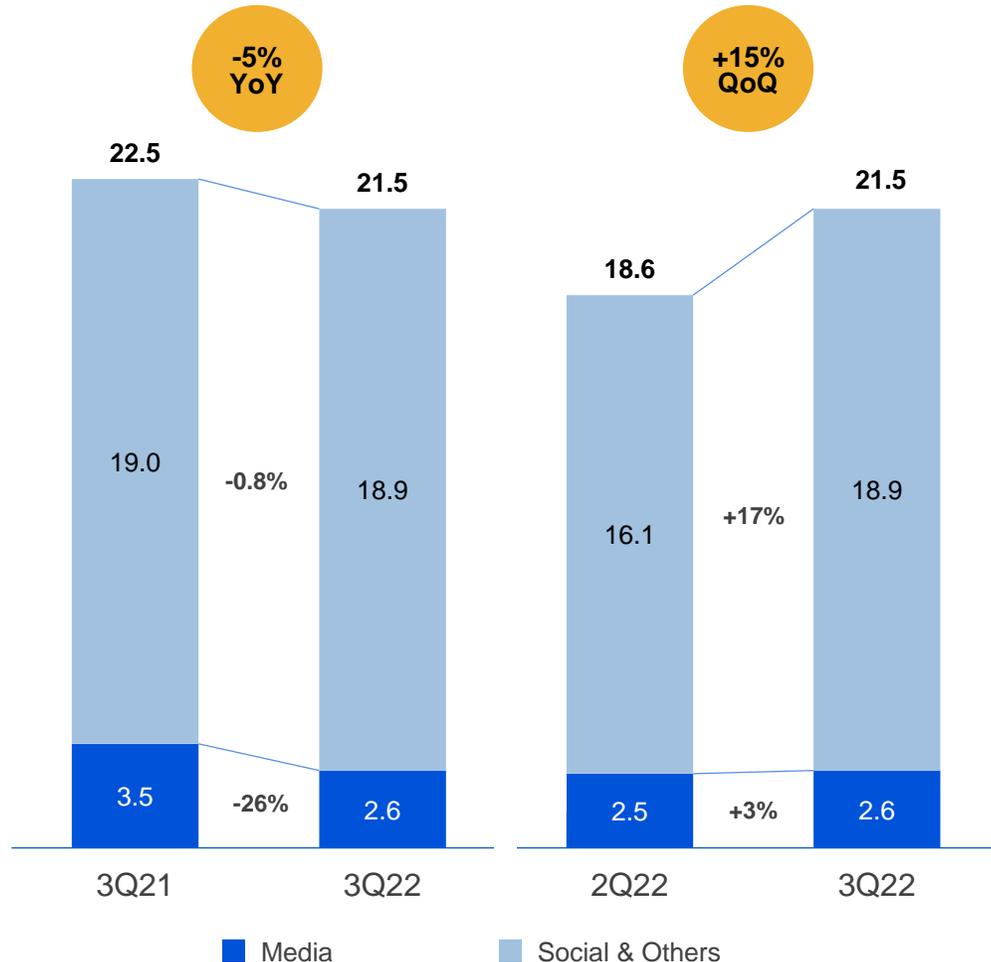
1. Source: by hours watched according to Esports Charts, 3Q22

2. Source: data.ai, for Jan 1, 2022 – Nov 14, 2022

3. Source: data.ai

Online Advertising

In billion RMB



Overall

- The rate of YoY revenue decline narrowed from 18% in 2Q22 to 5% in 3Q22, driven by improvement of games, eCommerce and FMCG categories, as well as lapping of certain industry-specific headwinds from 2021
- Revenue grew 15% QoQ in 3Q22, benefitting from positive seasonality, initial monetisation of *Video Accounts* in-feed ads, and ongoing improvement of targeting technology

Social & Others

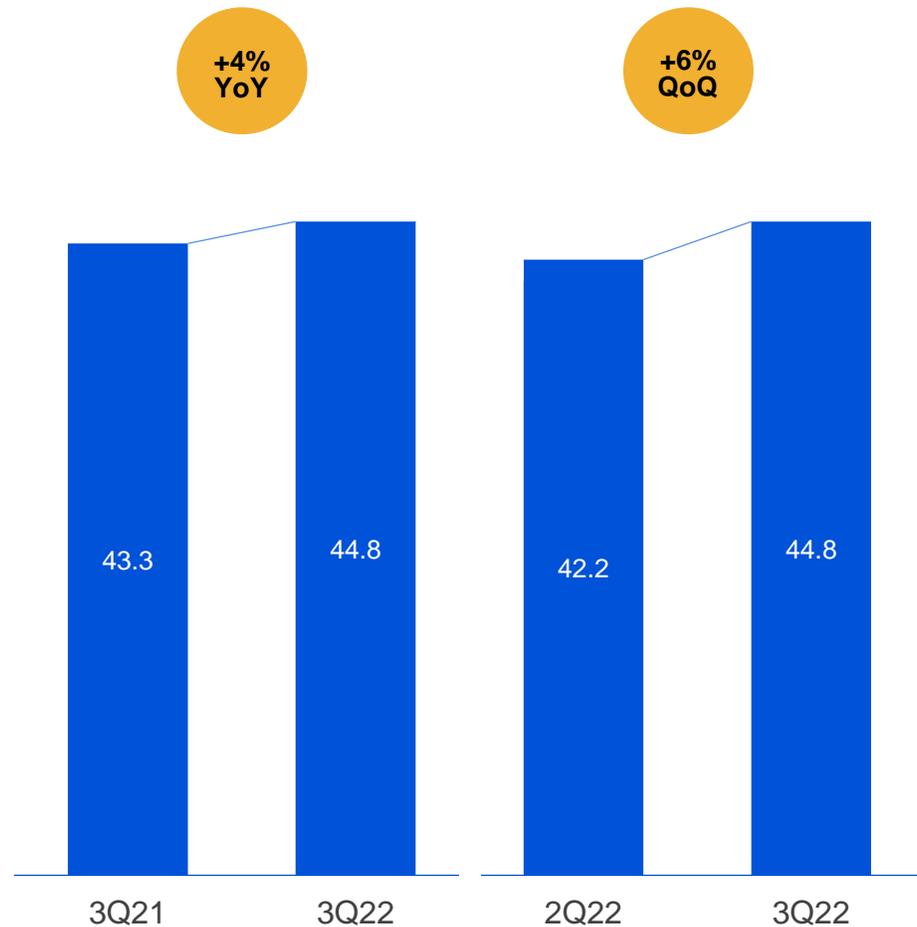
- *Video Accounts* in-feed ads gained traction, attracting incremental ad spend from existing advertisers and new advertisers
- Excluding *Video Accounts*, *Weixin* ad revenue posted moderate YoY growth

Media

- Video ad revenue decreased YoY primarily due to fewer releases of popular drama series, and to comparison versus Tokyo Olympic Games in 3Q21

FinTech and Business Services

In billion RMB



FinTech Services

- YoY revenue growth was higher than previous quarter, mainly benefitting from recovery of online and offline commercial payment activities
- Commercial payment volume achieved double-digit YoY growth, with notable expansion in categories such as groceries, dining services and transportation

Business Services

- Revenue declined slightly YoY. Gross profit increased significantly YoY and QoQ, primarily due to reduction in loss-making activities and higher mix of internally developed products
- We help non-Internet companies embrace digital transformation, resulting in increased adoption of our solutions and higher revenue diversity
 - *Tencent Cloud Enterprise (TCE)* enables private cloud customers to integrate and deploy our public cloud products, highly valued by financial services and public sectors
 - *Tencent Cloud AI Digital Humans (TCAIDH)* utilises conversational AI chatbots and intelligent virtual assistants for customer service improvement in sectors such as financial services and tourism
 - *Tencent Real-Time Communication (TRTC)* expands into industrial use cases, such as remote control for mining and container trucks
- Public sector organisations are increasingly using our key SaaS tools, facilitating efficient collaboration and online education

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Income Statement

In billion RMB	3Q2022	3Q2021	YoY	2Q2022	QoQ
Revenue	140.1	142.4	-2%	134.0	+5%
COPS	(78.1)	(79.7)	-2%	(76.1)	+3%
Gross profit	62.0	62.7	-1%	57.9	+7%
Interest income	2.3	1.7	+37%	1.9	+20%
Other gains, net	20.9	23.0	-9%	4.4	+373%
Operating expenses	(33.6)	(34.3)	-2%	(34.1)	-2%
Operating profit	51.6	53.1	-3%	30.1	+72%
Finance costs, net	(2.0)	(1.9)	+0.4%	(1.8)	+8%
Share of profit/(loss) of associates & JVs, net	(3.7)	(5.7)	-35%	(4.5)	-17%
Income tax expense	(7.1)	(5.4)	+30%	(4.6)	+56%
Net profit	38.8	40.1	-3%	19.2	+102%
Net profit attributable to equity holders	39.9	39.5	+1%	18.6	+115%
Diluted EPS in RMB	4.104	4.074	+0.7%	1.915	+114%
<u>Non-IFRS</u>					
Operating Profit	40.9	40.8	+0.2%	36.7	+12%
Net profit attributable to equity holders	32.3	31.8	+2%	28.1	+15%
Diluted EPS in RMB	3.306	3.269	+1%	2.896	+14%

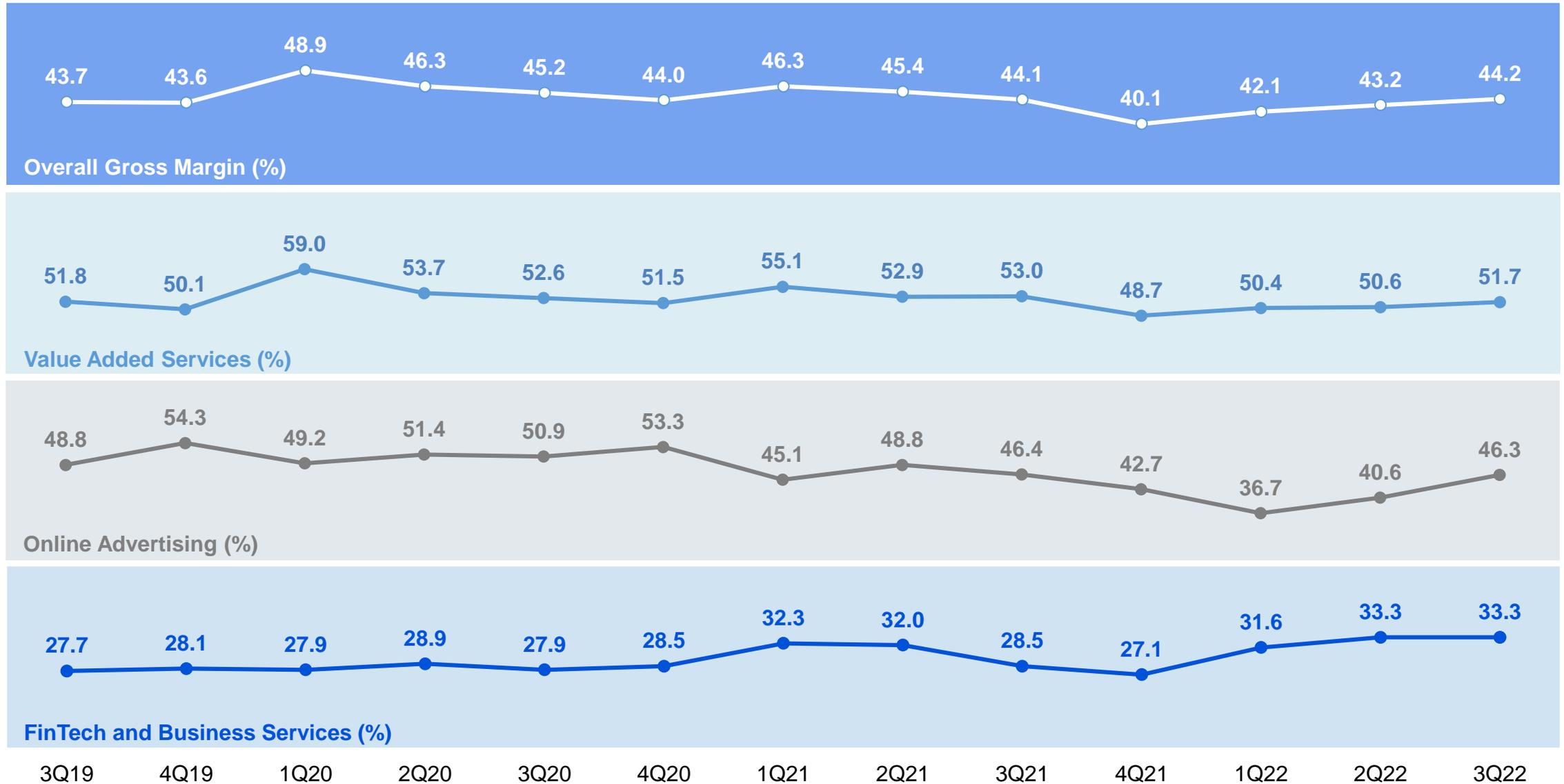
Non-IFRS Adjustments

In billion RMB	IFRS 3Q2022	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 3Q2022	YoY change	QoQ change
Operating profit	51.6	5.9	-32.3	1.3	13.0	1.4	-	-	40.9	+0.2%	+12%
Net profit	38.8	8.0	-32.1	3.2	13.3	1.4	1.7	-0.9	33.4	+3%	+15%
Net profit attributable to equity holders	39.9	7.8	-32.4	2.9	11.6	1.4	1.8	-0.7	32.3	+2%	+15%
Operating margin	36.8%								29.2%	+0.5ppt	+1.8ppt
Net margin	27.7%								23.8%	+1.0ppt	+2.2ppt

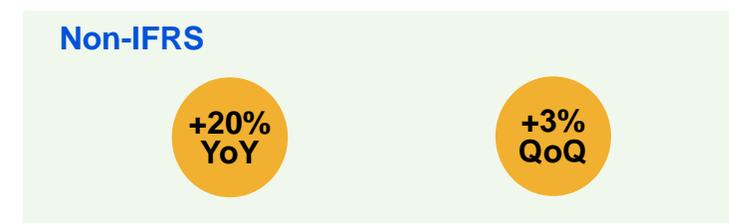
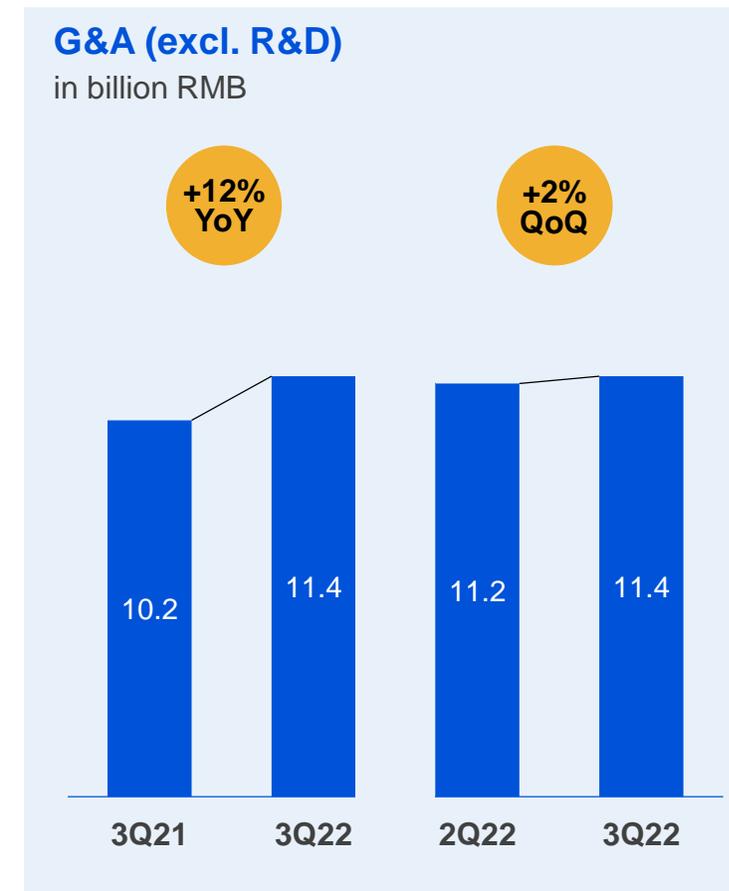
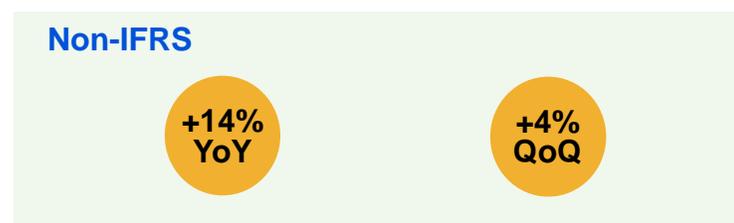
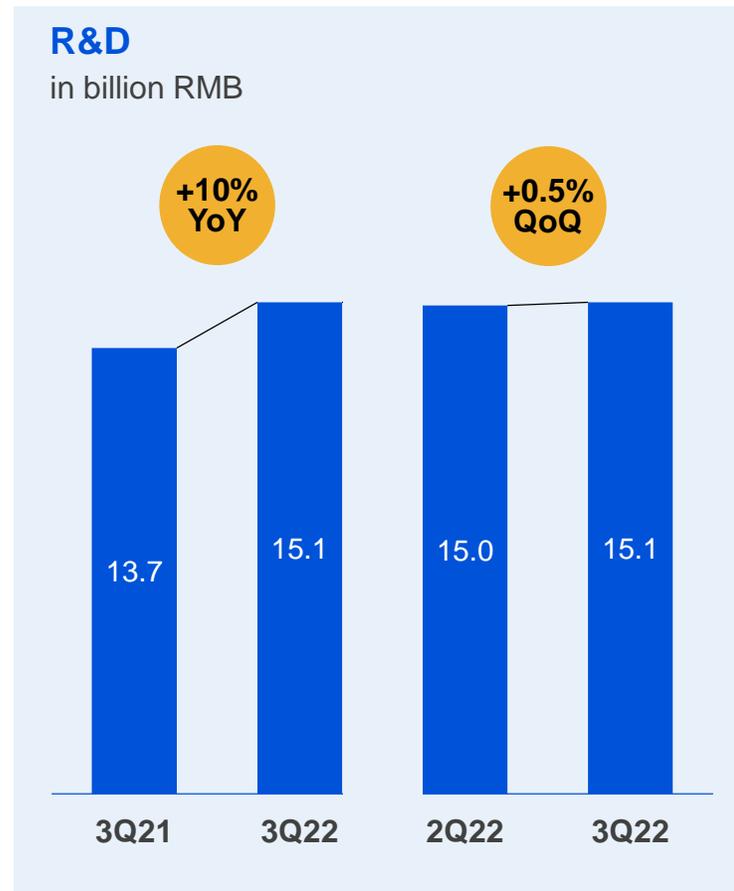
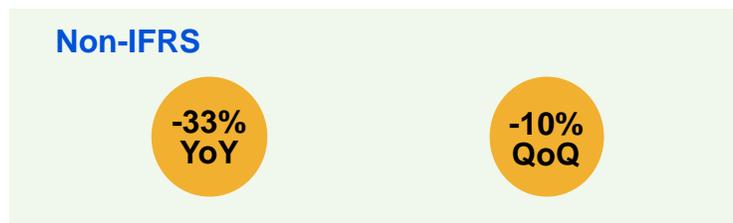
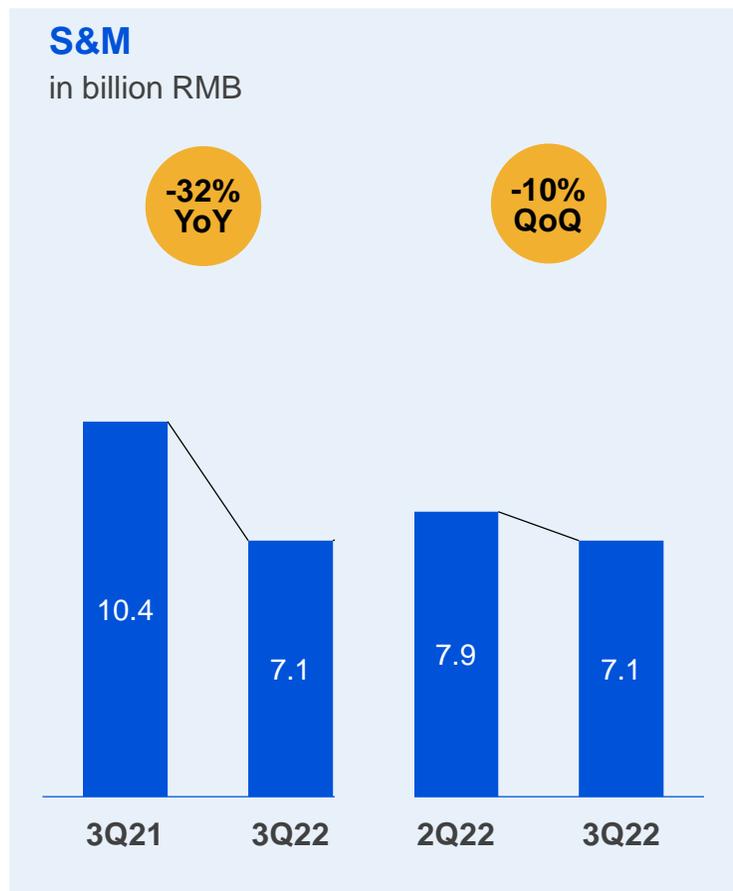
Note:

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 initiatives.
4. Mainly including expenses incurred for regulatory fines and certain litigation settlements of the Company and/or arising from investee companies.

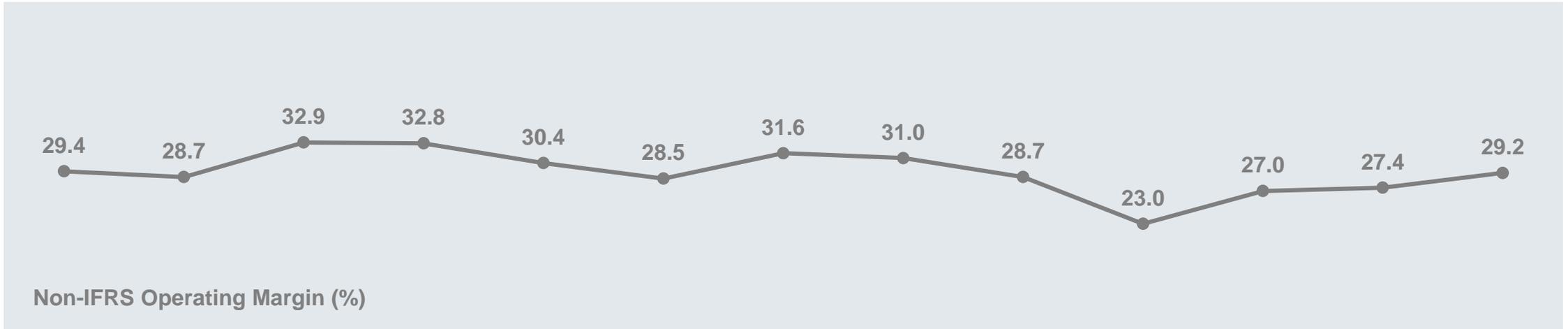
Gross Margins



Operating Expenses



Non-IFRS Margin Ratios



3Q19 4Q19 1Q20 2Q20 3Q20 4Q20 1Q21 2Q21 3Q21 4Q21 1Q22 2Q22 3Q22

CAPEX, FCF and Cash Position

In billion RMB	3Q2022	3Q2021	YoY	2Q2022	QoQ
Operating CAPEX	1.1	5.6	-81%	2.1	-49%
Non-operating CAPEX	1.3	1.5	-9%	0.9	+37%
Total CAPEX	2.4	7.1	-66%	3.0	-21%
Operating Cash Flow	41.0	40.9	Stable	35.7	+15%
Less: CAPEX Paid	(5.0)	(7.5)	-34%	(5.6)	-10%
Payments for media content	(6.4)	(8.0)	-21%	(5.8)	+10%
Payments for lease liabilities	(2.0)	(1.3)	+53%	(1.8)	+4%
Free Cash Flow	27.6	24.1	+15%	22.5	+23%
Total Cash	315.6	289.5	+9%	315.9	-0.1%
Less: Total Debt	(342.9)	(315.6)	+9%	(336.3)	+2%
Net (Debt)/Cash	(27.3)	(26.1)	+4%	(20.4)	+33%

- Repurchased ~42.8 million shares with an aggregated cost of ~RMB11.8 billion during 3Q22
- As at 30 Sep 2022, the fair value of our shareholdings¹ in listed investee companies (excluding subsidiaries) was ~RMB532 billion (USD75 billion) and the carrying value of our unlisted investee companies was ~RMB340 billion (USD48 billion)

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

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Thank you!



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