

Tencent 腾讯

*2022 Fourth Quarter and
Annual Results Presentation*

Mar 22, 2023

Cautionary Note

This presentation may contain forward-looking statements relating to the forecasts, targets, outlook, estimates of financial performance, opportunities, challenges, business developments, business plans and growth strategies of Tencent Holdings Limited (the “Company” or “Tencent”) and its group companies. These forward-looking statements are based on information currently available to Tencent and are stated here on the basis of the outlook at the time that this presentation was produced. The Company undertakes no obligation to publicly update any forward- looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. The forward-looking statements are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. The forward-looking statements may prove to be incorrect and may not be realised in the future. Underlying the forward-looking statements are a large number of risks and uncertainties. Therefore you should not rely on any of these forward-looking statements. Please see our various other public disclosure documents for a detailed discussion of those risks and uncertainties.

This presentation also contains some unaudited non-IFRS financial measures which should be considered in addition to, but not as a substitute for, measures of the Company's financial performance prepared in accordance with IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies. The Company's management believes that the non-IFRS financial measures provide investors with useful supplementary information to assess the performance of the Company's core operations by excluding certain non-cash items and certain impact of acquisitions. For further explanation of our non-IFRS measures and reconciliations between our IFRS and non-IFRS results, please refer to our earnings announcement.

In addition, information relating to other companies and the market in general presented in these materials has been obtained from publicly available information and other sources. The accuracy and appropriateness of that information has not been verified by Tencent and cannot be guaranteed. All materials contained within this presentation are protected by copyright law and may not be reproduced, distributed, transmitted, displayed, published or broadcast without the prior, express written consent of Tencent.

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 RMB6.9646 for 4Q2022 and 2022.

1. *Overview*

2. *Strategy Review*

3. *Business Review*

4. *Financial Review*

5. *Q&A*

2022 Business Highlights

Vibrant Weixin

- *Video Accounts* became a leading short-form video and live streaming platform in China
- *Mini Programs* achieved strong growth in both DAU and GMV while assisting the real economy

Resilience and Expansion in Games

- Domestically, significantly reduced minors' time spent while sustained market leadership
- Internationally, elevated *VALORANT* as a top global franchise with record user counts and revenue; achieved breakthrough with publishing 2 of top 3 new mobile games of the year

Advertising Rebound

- Adapted to new industry landscape and returned to YoY revenue growth in 4Q22
- Improved long-term position by launching *Video Accounts* in-feed ads, enhancing transaction-driven capability and machine learning infrastructure

Upgraded Cloud Strategy

- Systematic restructuring resulted in initially lower revenue but improved gross profit margin
- Assisted digital transformation of non-Internet industries and public services with enhanced PaaS solutions and integrated SaaS products

Focus and Efficiency

- Increased efficiency of existing businesses and sharpened our focus, which enabled us to improve performance and positioned us for a new sustainable growth model

Capital Return to Shareholders

- Returned increased capital to shareholders through multiple channels including distribution-in-kind, share repurchase and cash dividend

Enhancing Social Value

- Committed to carbon neutrality across scope 1, 2 and 3 emissions and 100% green power by 2030
- Promoted philanthropic participation, facilitated pandemic mutual aid and contributed to basic science research
- Increased board diversity and improved governance structure

Financial Highlights

In billion RMB	4Q2022	YoY	QoQ	FY2022	YoY
Total Revenue	145.0	+0.5%	+3%	554.6	-1%
Value-added Services	70.4	-2%	-3%	287.6	-1%
Social Networks	28.6	-2%	-4%	116.9	-0.3%
Domestic Games	27.9	-6%	-11%	123.9	-4%
International Games	13.9	+5%	+19%	46.8	+3%
Online Advertising	24.7	+15%	+15%	82.7	-7%
Media	3.3	+4%	+28%	10.7	-20%
Social and Others	21.4	+17%	+13%	72.0	-4%
FinTech and Business Services	47.2	-1%	+5%	177.1	+3%
Others	2.7	-6%	+144%	7.2	-6%
Gross Profit	61.9	+7%	-0.3%	238.8	-3%
<u>Non-IFRS</u>					
Operating Profit	39.4	+19%	-4%	153.5	-4%
Operating Margin	27.2%	+4.2ppt	-2.0ppt	27.7%	-0.8ppt
Net Profit Attributable to Equity Holders	29.7	+19%	-8%	115.6	-7%

Domestic Games refers to our games business in the PRC excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan

1. *Overview*

2. *Strategy Review*

3. *Business Review*

4. *Financial Review*

5. *Q&A*

Repositioned for sustainable and high quality growth

Improved financial performance in 4Q22

- Revenue stabilised
- Gross margins improved YoY across business segments
- Non-IFRS operating profits and non-IFRS net profits both increased by 19% YoY from the low base in 4Q21

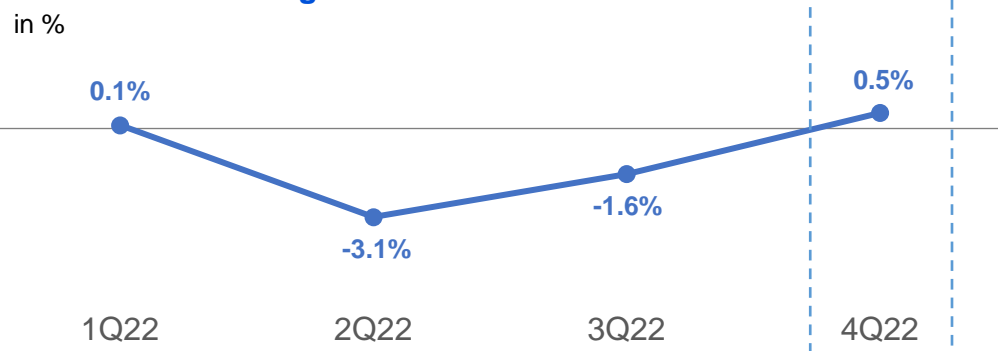
Proactive initiatives amid an improved macro environment

- Executed efficiency initiatives to improve margins and promote earnings quality
- Encouraging progress in revenue initiatives (e.g., *Video Accounts* in-feed ads and international games) to develop new, high-quality revenue streams
- Improved macro environment: post COVID-19 recovery and regulatory normalisation

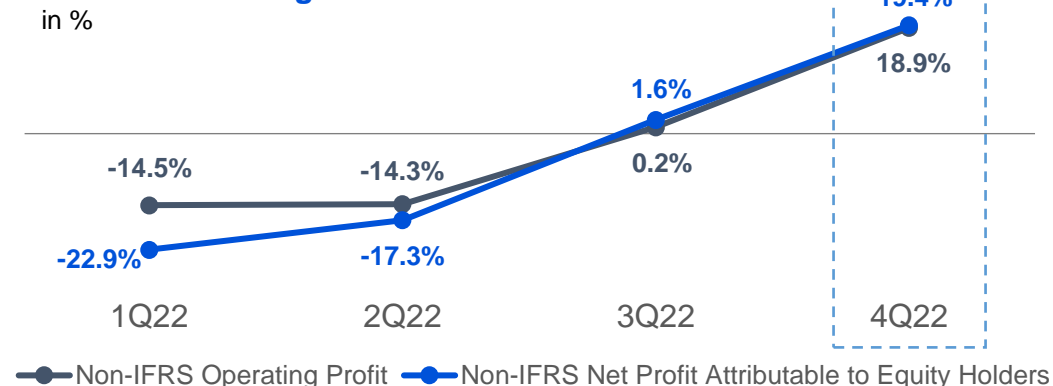
Future growth drivers

- Expanding opportunities in advertising, FinTech services and games
- Stepping up monetisation for *Video Accounts*
- Sustaining focus on operational efficiency and disciplined resource allocation
- Developing AI capabilities as a growth multiplier

Revenue YoY changes



Profits YoY changes



Advertising – Initiatives reinforcing macro improvements

Expanding inventories

- Ramping up *Video Accounts* in-feed ads, leveraging user engagement growth
- Increasing ad load of *Official Accounts*
- Enhancing access to more quality third-party inventories in our mobile ad network

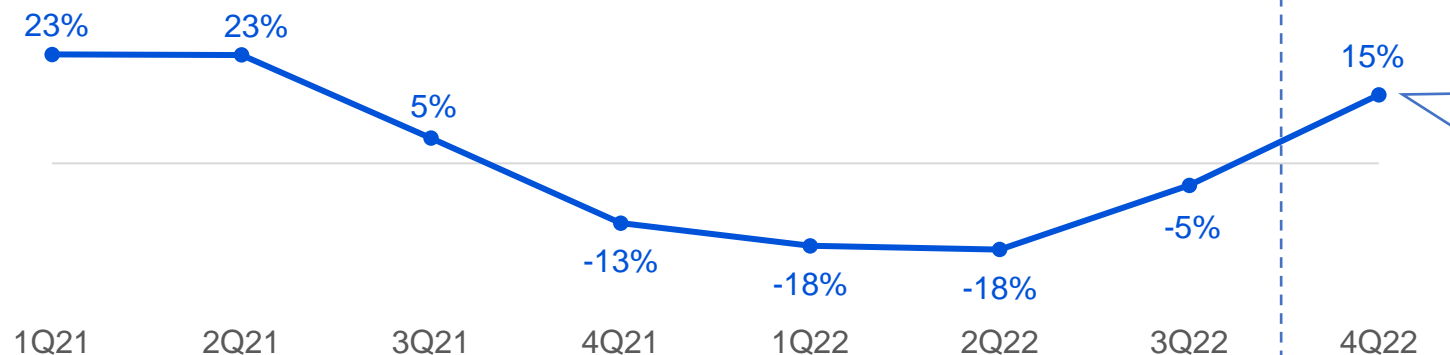
Enhancing transactional capabilities

- Upgrading transactional capabilities via innovative ad formats, CRM tools for merchants and shopping tools for users
- Over 1/3 of *Weixin* ad revenue was generated from click-to-purchase and click-to-message ads in 4Q22
- Well positioned for consumption recovery in China

New machine-learning infrastructure

- New ad targeting engine enhanced performance with higher conversion rates and ROI, especially for long-tail advertisers
- Greater processing efficiency with faster training speed and lower per unit training cost

Ad revenue YoY changes
in %



- Resumed YoY growth
- Positive YoY growth even if contribution of *Video Accounts* in-feed ads excluded

FinTech – Macro recovery on top of solid footing

Strong recovery in commercial payment volume

- Significant slowdown in YoY growth during 4Q22 due to temporary COVID-19 impact
- Resumed double digits YoY growth QTD in 1Q23 versus a high base period, amid consumption recovery

Leveraging synergies with *Mini Programs*

- *Mini Programs* is a leading transaction platform in China, generating several trillions RMB of GMV in 2022
- Online + offline solutions reduce transaction friction and drive repeat sales for merchants
- *Mini Programs* contributing high teens percentage of commercial payment volume

Further opportunities amid regulatory normalisation

- Expanding wealth management user base via investor education, better services and a broadening product line
- Exploring new opportunities in consumer loans and online insurance services via close cooperation with licensed financial institutions under a new regulatory framework

Games – Gearing up for global expansion

Domestic: reigniting growth

Key franchises demonstrating resilience and longevity

- *HoK*: best ever CNY period in Jan 23, leveraging popular new content and enhanced targeted offerings for users
- *DNF*: best-performing 4Q over last three years, riding on successful game mechanics evolution to re-engage returning users

New titles with high-production value

- Normalisation of Banhao approval has enabled us to strengthen our game releases for 2023 and beyond
- Sharpening focus on 1) new titles in high potential genres; 2) combining popular IPs with our genre expertise; and 3) publishing leading international franchises



VALORANT



LOST ARK



International: driving mid-to-long term growth

Progressive expansion

- 4Q22 revenue of USD2.0 billion, representing 1/3 of games revenue
- New additions to our top franchise portfolio: *VALORANT*, *Subway Surfers*
- Initial successes from emerging studios

Pipeline positioned for multiple opportunities

- Expansion of original IPs
- New titles from emerging studios
- Bringing top PC and console IPs to mobile



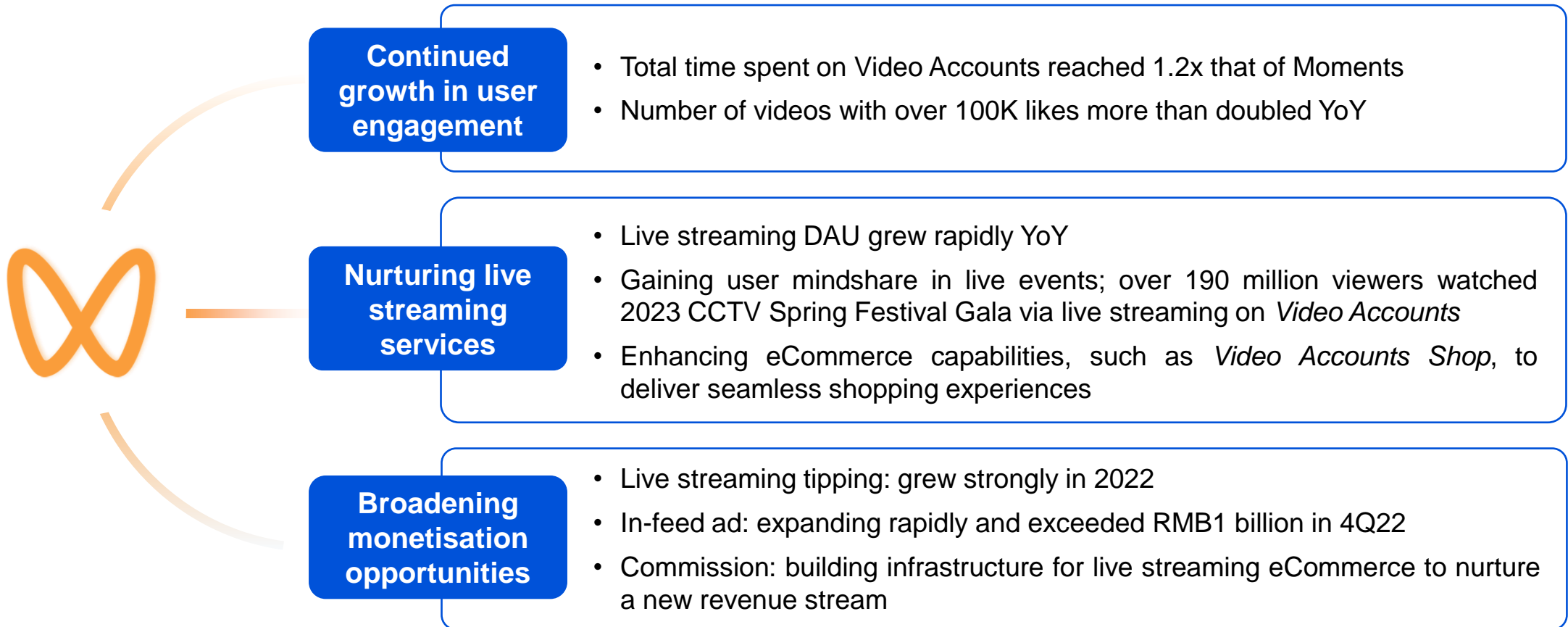
DUNE
AWAKENING



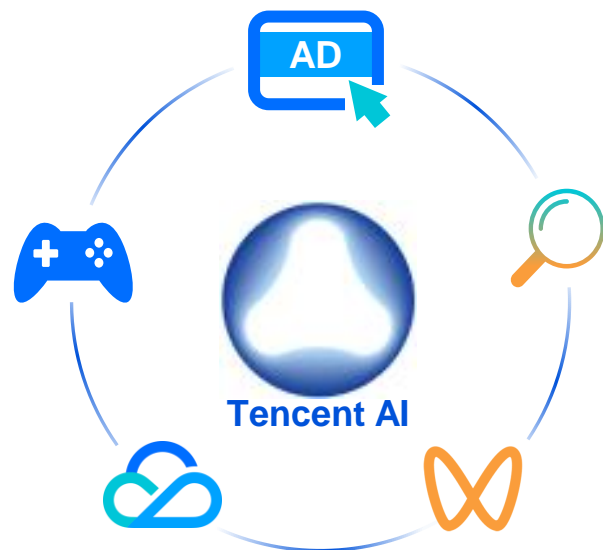
NIGHTINGALE



Video Accounts – Multiple monetisation opportunities



Artificial Intelligence – A growth multiplier



Benefiting from AI advancements

- Long-standing experience in developing and adopting AI technologies, amplifying our growth across multiple businesses
- Recent industry breakthroughs in foundation models and generative AI applications are significant new boost to our growth potential
- Our core user-to-user services are unaffected or empowered by AI technology enhancements, while foundation models facilitate our introduction of user-to-machine services

Rollout strategies for AI

- Gradually rolling out our own foundation models at the back end, while enhancing front-end use cases
- Leverage AI technologies to enhance product innovations, monetisation and operational efficiency

Strengths across the AI value chain

- Broad range of use cases via applications with deep user engagement
- Long-term investments in machine learning
- Breadth and depth in data for model training
- Scale in advanced cloud infrastructure
- Rapid advancement in proprietary foundation model *HunYuan*

1. *Overview*

2. *Strategy Review*

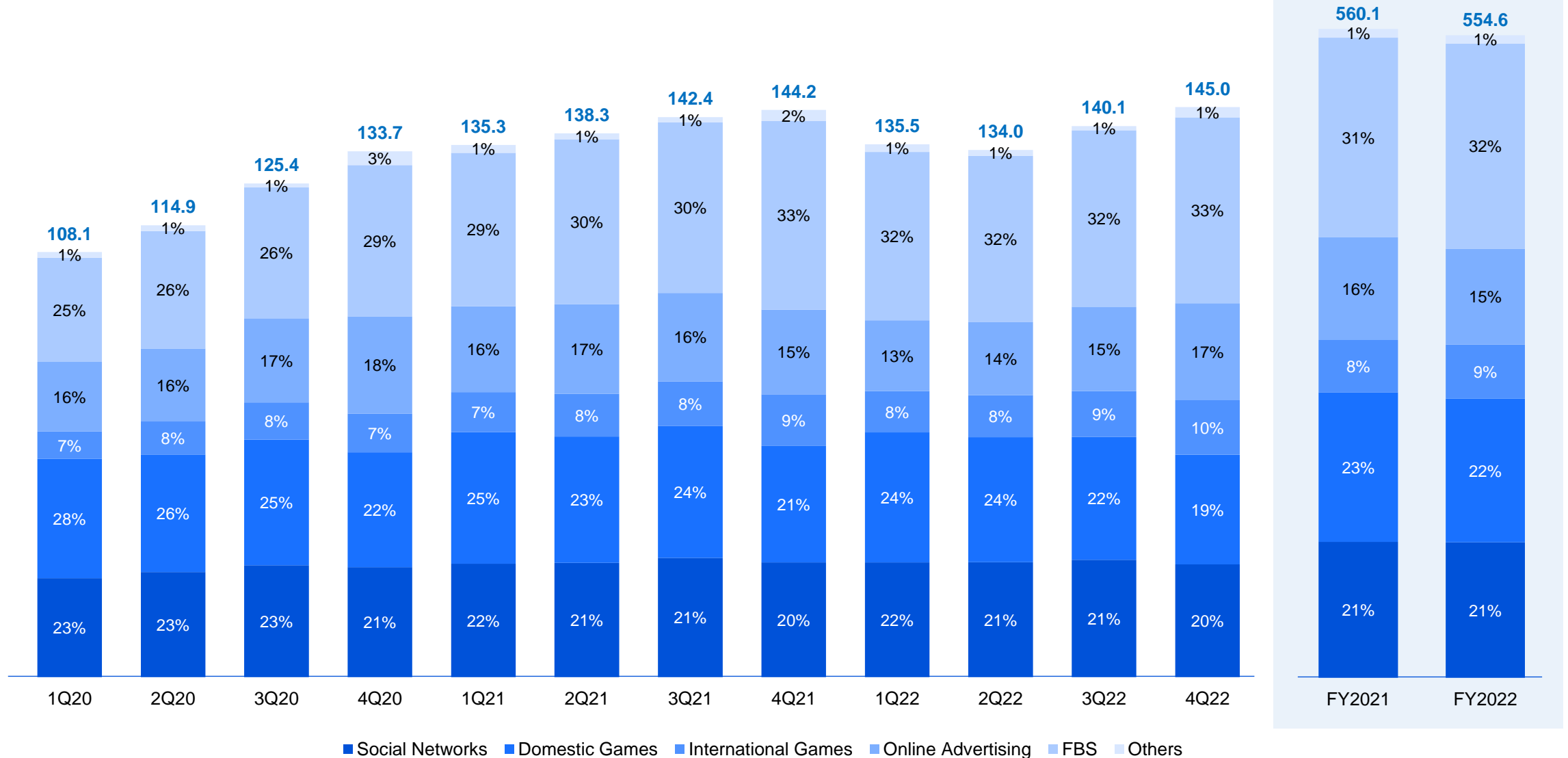
3. *Business Review*

4. *Financial Review*

5. *Q&A*

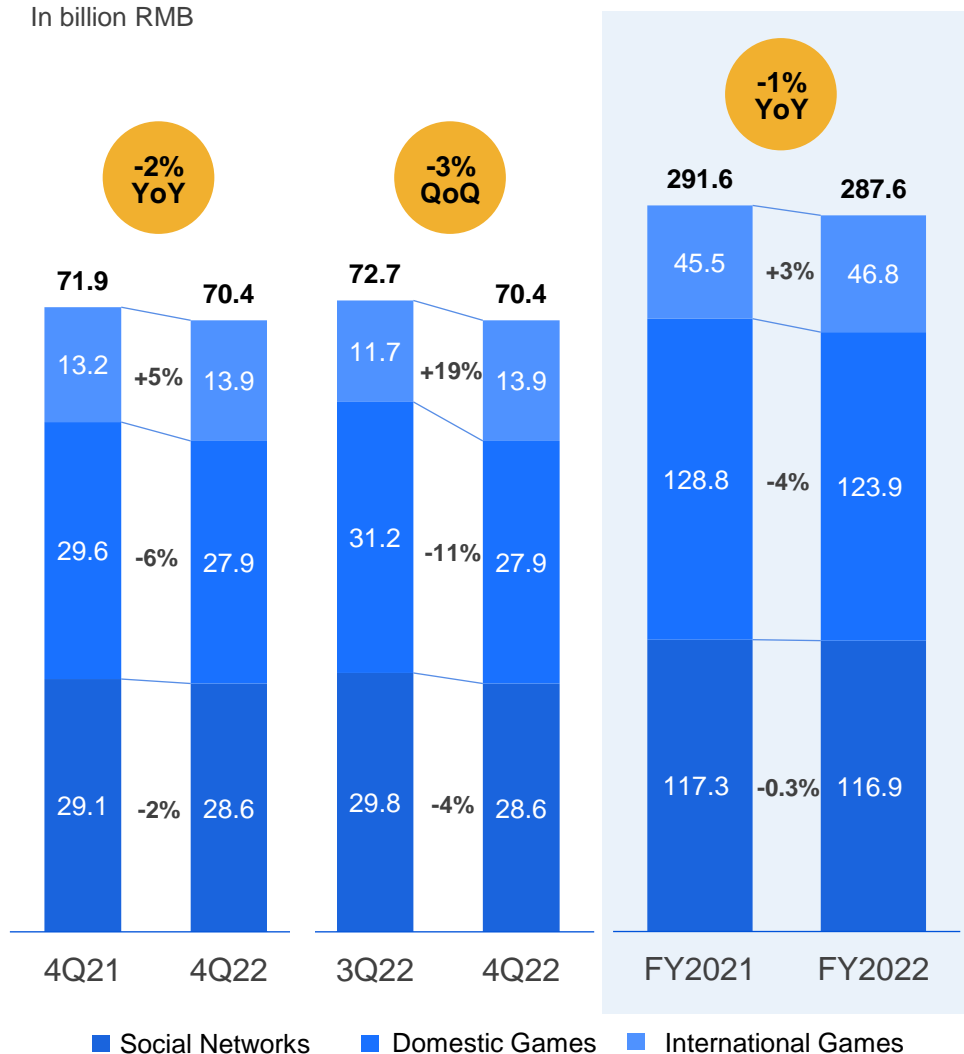
Revenue by Segment

In billion RMB



Value-added Services

In billion RMB



Social Networks

- 4Q22 revenue was down 2% YoY to RMB28.6 billion. Music- and games-related live streaming services declined while revenue from *Video Accounts* live streaming service increased
- Video subscription revenue increased YoY, driven by ARPU growth as we adjusted pricing, though subscriptions decreased due to content scheduling delays. In Jan 23, we released our self-commissioned drama series *Three-Body*, which became the highest-rated¹ domestic sci-fi series in the past five years
- Music subscription revenue increased YoY. Paying users and ARPU grew YoY, as we offered more attractive membership privileges and enhanced user engagement in various music genres

Domestic Games

- 4Q22 revenue was down 6% YoY to RMB27.9 billion, reflecting lower gross receipts in previous quarters. 4Q22 gross receipts increased YoY due to higher DAU and spending per paying user

International Games

- 4Q22 revenue was up 5% YoY to RMB13.9 billion, or up 11% excluding currency impact and Supercell-related true-up revenue adjustment made in 4Q21. Growth was driven by key franchises *VALORANT* and *LoL*, as well as successful launches of *NIKKE* and *Darktide*

1. Source: Douban, as of Mar 21, 2023

2. Mobile games VAS revenue declined 2% YoY to RMB39.2 billion; PC client games revenue grew 8% YoY to RMB11.5 billion in 4Q22

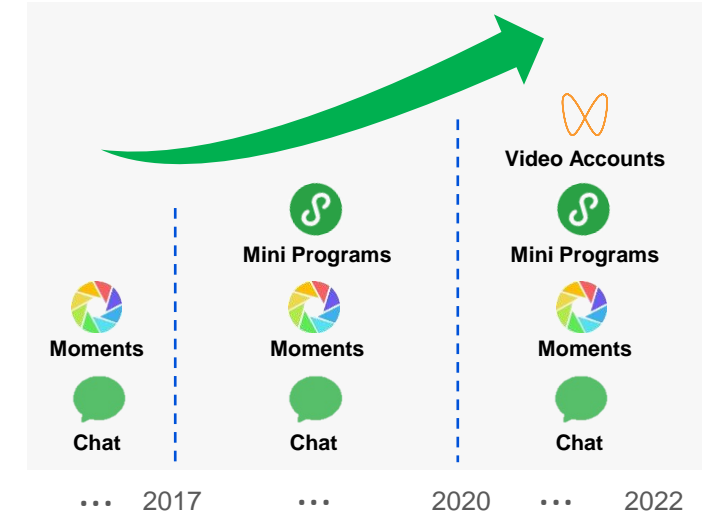
Social Networks



Increasing and diversifying user time spent on Weixin

- **Total time spent on Weixin has steadily increased throughout 2022**, driven by growth in chat activities and enriched non-chat use cases
- Among non-chat use cases:
 - **Moments** accounted for the majority of time spent in 4Q21, and its time spent was broadly stable YoY in 4Q22
 - **Mini Programs** and **Video Accounts** time spent doubled and tripled YoY in 4Q22 respectively, both exceeding that of **Moments**
- Weixin and WeChat combined MAU reached 1.313 billion, up 4% YoY

Growing user time spent on Weixin



Enhanced chat experience and ramped up short-form video consumption

- **Upgraded video chat experience** by adding *Super QQ Show* avatar and enhancing motion capture to mirror users' facial expressions and gestures in real time
- **Mini World DAU and time spent per DAU increased significantly YoY**, driven by enriched Anime, Comics and Games (ACG) content and AI-powered creation tools
- QQ mobile device MAU was 572 million, up 4% YoY



Video call using Super QQ Show

Domestic Games



HoK: Targeted offering with enriched content drove recovery

Created more attractive and top-tier outfits; launched targeted marketing programs to address various player segments

DAU resumed YoY growth in 4Q22; gross receipts achieved record high during Chinese New Year holiday



DnF: Improved gameplay reignited popularity

Upgraded PvE gameplay with lower entry barrier and more in-game rewards attracted returning players

MAU, paying users and gross receipts all increased YoY in 4Q22



Undawn: Built presence in SOC genre

In-house mobile Survival, Open-world, Crafting (SOC) title

High fidelity graphics and immersive experiences enrich player-driven exploration



International Games

Strong performance of key franchises

LoL: World Championship Finals with themed battle pass and creative outfit series drove gross receipts up YoY in 4Q22

VALORANT: New agent and “best of 9” game mode supported MAU and gross receipts YoY growth in 4Q22

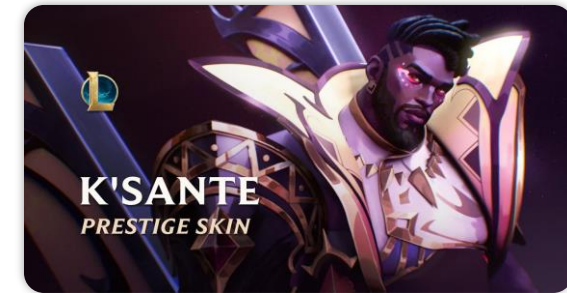
PUBG Mobile: Rate of YoY gross receipts decline in 4Q22 narrowed notably from 3Q22 as innovative outfit design appealed to hardcore players

Call of Duty Mobile: Gross receipts increased YoY in 4Q22, benefitting from top-tier outfit released during third anniversary event

Successful new launches

NIKKE: #1 by gross receipts¹ among new mobile games released in 2022; delivered a cross-platform experience with PC version launched in Feb 23

Darktide: Hardcore co-op action shooter PC game developed by subsidiary Fatshark, ranked among 2022 Top New Releases² on Steam



League of Legends



PUBG Mobile



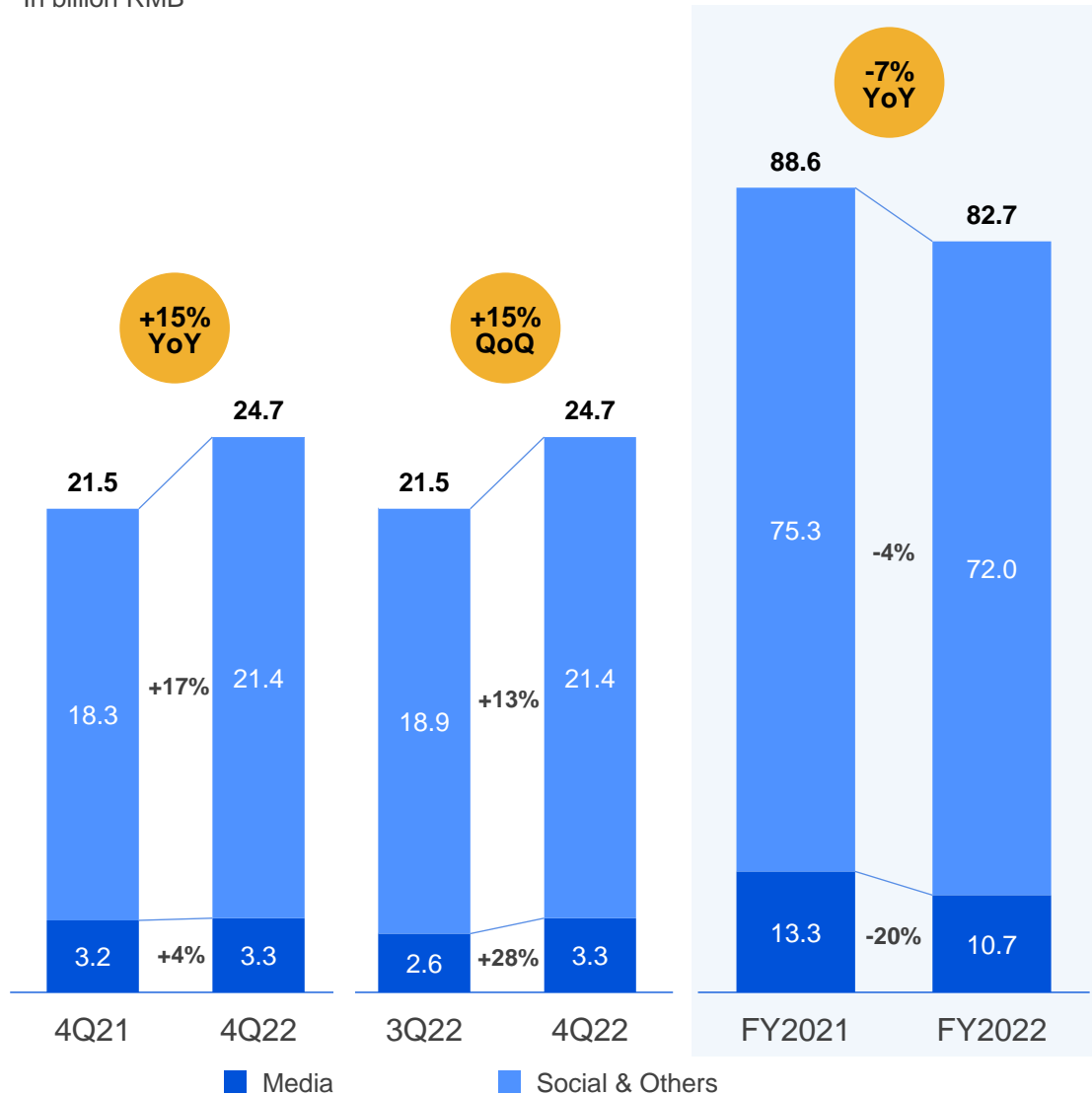
NIKKE

1. Source: by first month grossing of new releases, data.ai

2. Source: Steam, Top New Releases measured by gross revenue

Online Advertising

In billion RMB



Overall

- 4Q22 revenue grew 15% YoY, underpinned by robust demand for *Video Accounts* and *Mini Programs* ads, recovery of mobile ad network, as well as enhanced machine learning infrastructure
- Ad spend from eCommerce platforms, FMCG and games advertisers increased notably YoY

Social & Others

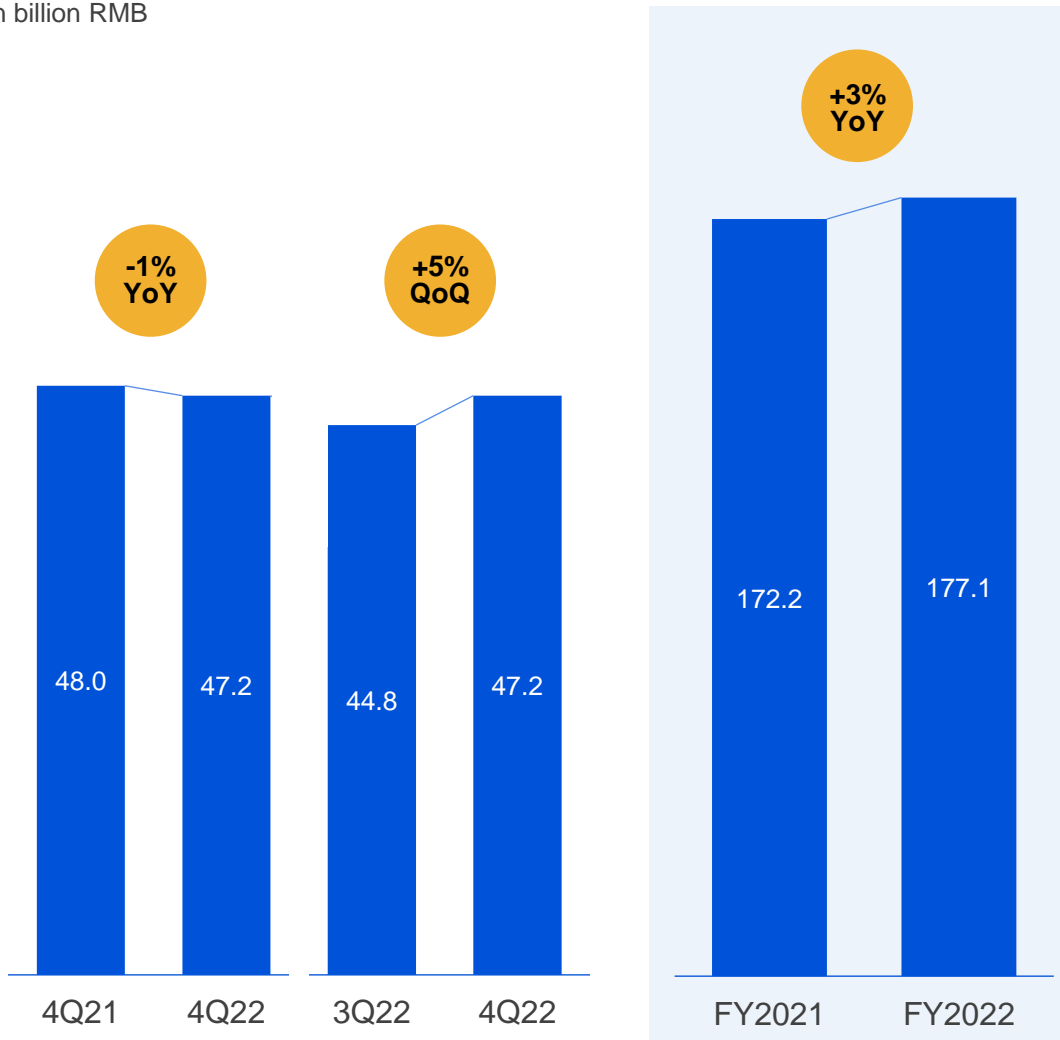
- *Video Accounts* in-feed ad revenue exceeded RMB1 billion, as we released more inventory to satisfy strong demand
- *Mini Programs* revenue increased rapidly, reflecting popularity of enriched content and higher adoption of rewarded video ads
- Mobile ad network revenue resumed YoY growth due to improved conversion and increased adoption of bidding mechanism

Media

- Enhanced targeting technology and introduced new formats for video services
- Increased monetisation for ad-supported music content

FinTech and Business Services

In billion RMB



FinTech Services

- FinTech Services revenue grew slightly both YoY and QoQ
- Commercial payment volume declined QoQ due to COVID-19 outbreaks, but rebounded QTD in 1Q23 benefitting from consumption recovery in China

Business Services

- 4Q22 revenue declined YoY. Gross profit increased YoY mainly due to (1) proactive reduction of loss-making activities and cost optimisation; (2) increasing focus on healthier-margin self-developed PaaS in areas such as video cloud and database
- Increasing adoption of Intelligent Mobility solution among auto manufacturers. We upgraded our strategic partnership with NIO and became its largest cloud provider, demonstrating our capabilities in customised smart cockpit solution, digital map and data management. Other notable customers included BMW and GAC Motor

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

Income Statement

In billion RMB	4Q2022	YoY	QoQ	FY2022	YoY
Revenue	145.0	+0.5%	+3%	554.6	-1%
COPS	(83.1)	-4%	+6%	(315.8)	+0.5%
Gross profit	61.9	+7%	-0.3%	238.8	-3%
Interest income	2.5	+52%	+11%	8.5	+29%
Other gains, net	85.8	-0.4%	+311%	124.3	-17%
Operating expenses	(33.4)	-7%	-0.5%	(135.9)	+4%
Operating profit	116.8	+6%	+126%	235.7	-13%
Finance costs, net	(3.7)	+96%	+88%	(9.4)	+31%
Share of profit/(loss) of associates & JVs, net	(1.6)	-80%	-54%	(16.1)	-2%
Income tax expense	(4.6)	+18%	-36%	(21.5)	+6%
Net profit	106.9	+12%	+175%	188.7	-17%
Net profit attributable to equity holders	106.3	+12%	+166%	188.2	-16%
Diluted EPS in RMB	10.977	+12%	+167%	19.341	-17%
<u>Non-IFRS</u>					
Operating Profit	39.4	+19%	-4%	153.5	-4%
Net profit attributable to equity holders	29.7	+19%	-8%	115.6	-7%
Diluted EPS in RMB	3.042	+19%	-8%	11.835	-7%

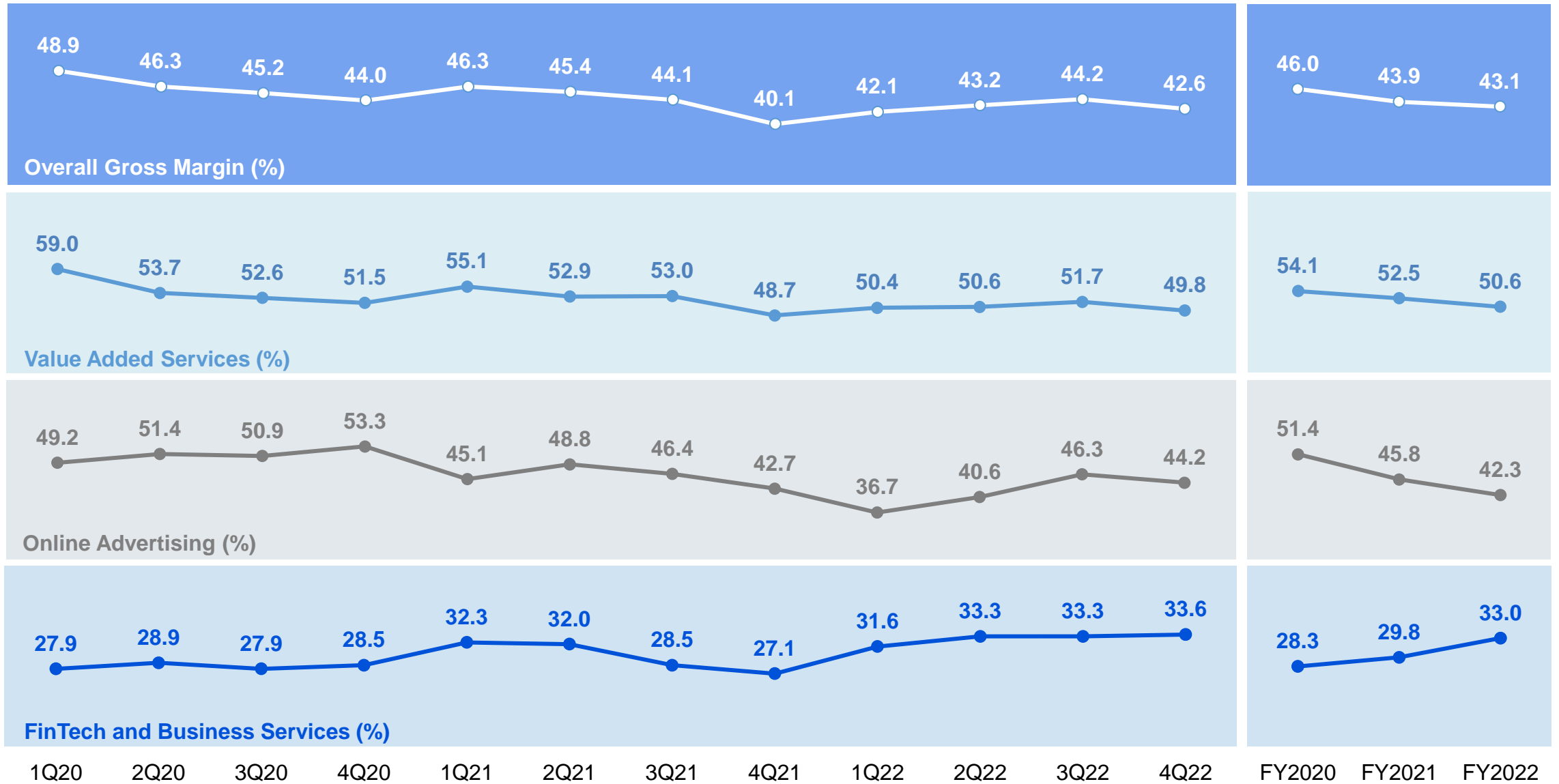
Non-IFRS Adjustments

In billion RMB	IFRS 4Q2022	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 4Q2022	YoY change	QoQ change	Non-IFRS FY2022	YoY change
Operating profit	116.8	5.7	(108.0)	1.3	22.0	1.6	-	-	39.4	+19%	-4%	153.5	-4%
Net profit	106.9	7.2	(108.0)	2.7	23.7	1.6	0.2	(3.7)	30.6	+19%	-8%	119.2	-7%
Net profit attributable to equity holders	106.3	7.1	(107.9)	2.4	23.7	1.6	0.2	(3.7)	29.7	+19%	-8%	115.6	-7%
Operating margin	80.6%								27.2%	+4.2ppt	-2.0ppt	27.7%	-0.8ppt
Net margin	73.8%								21.1%	+3.2ppt	-2.7ppt	21.5%	-1.3ppt

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 non-recurring compliance-related costs and certain litigation settlements of the Company and/or arising from investee companies.

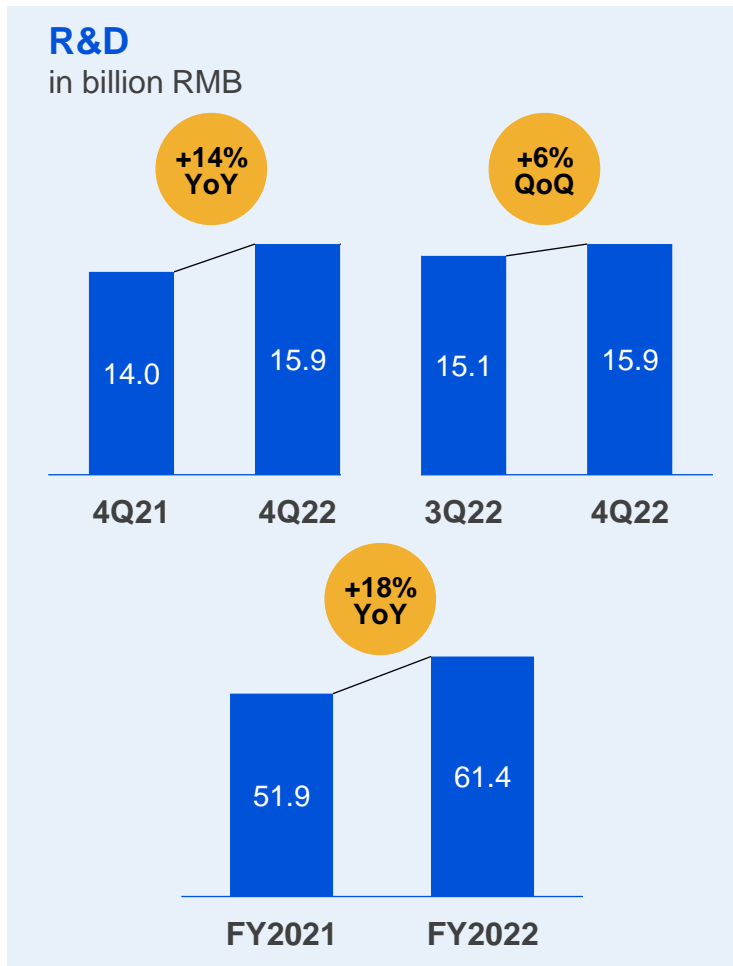
Gross Margins



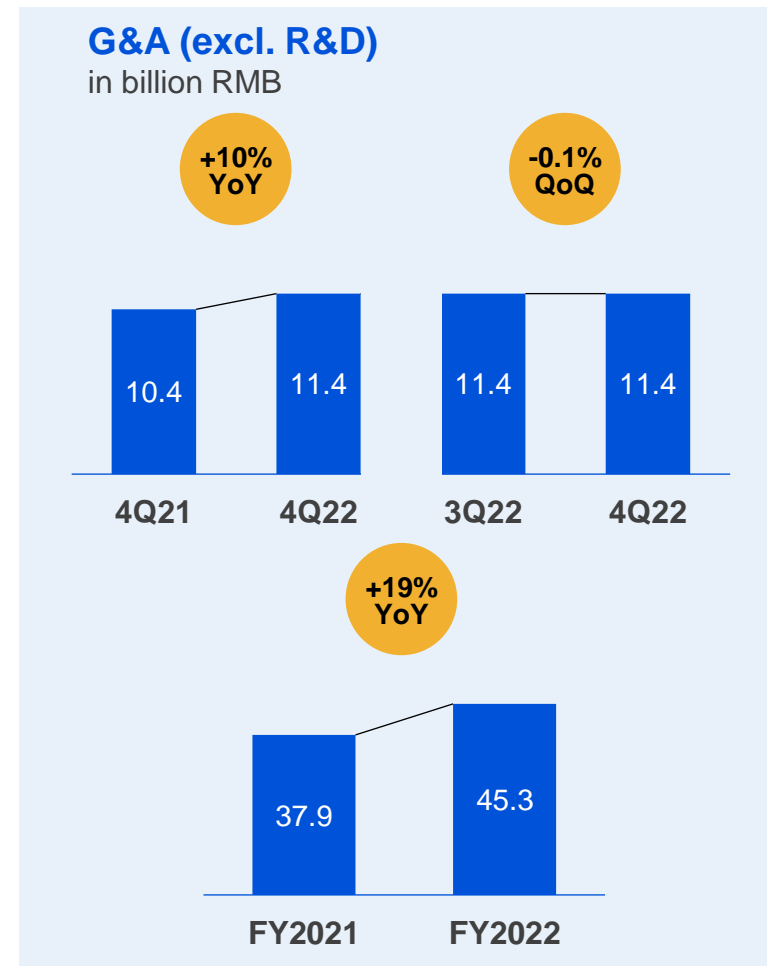
Operating Expenses



Non-IFRS
 4Q22 S&M declined by 48% YoY and 14% QoQ
 FY2022 S&M declined by 29% YoY

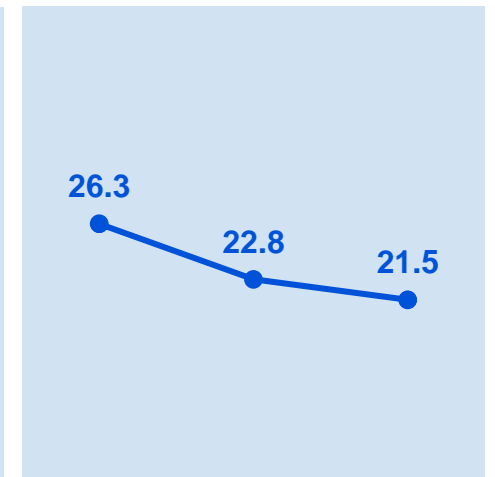
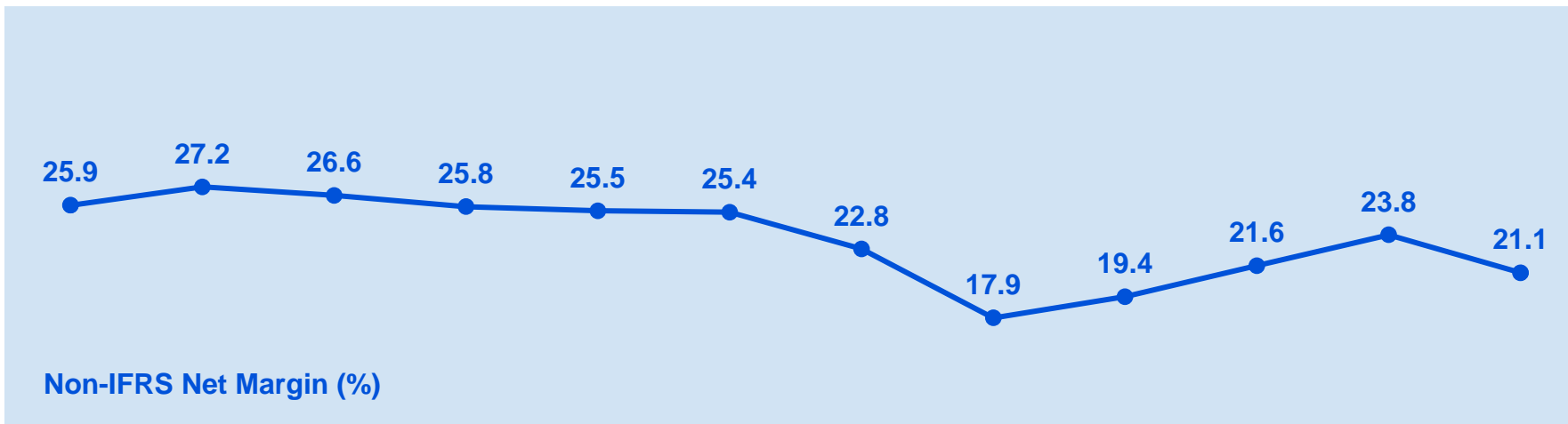
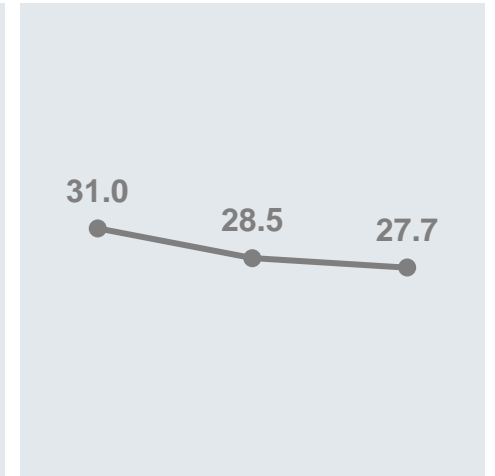
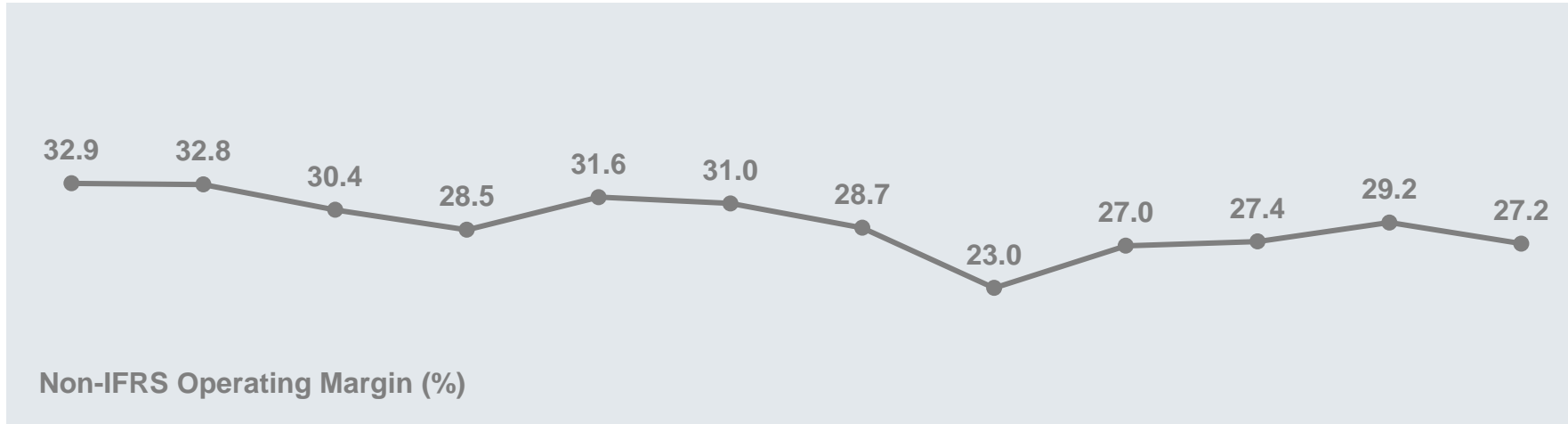


Non-IFRS
 4Q22 R&D grew by 18% YoY and 7% QoQ
 FY2022 R&D grew by 19% YoY



Non-IFRS
 4Q22 G&A (excl. R&D) grew by 11% YoY and 2% QoQ
 FY2022 G&A (excl. R&D) grew by 19% YoY

Non-IFRS Margin Ratios



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

FY2020 FY2021 FY2022

EPS and Annual Dividend

In RMB	4Q2022				FY2022			
	IFRS	YoY	Non-IFRS	YoY	IFRS	YoY	Non-IFRS	YoY
Basic EPS	11.173	+12%	3.124	+20%	19.757	-16%	12.138	-7%
Diluted EPS	10.977	+12%	3.042	+19%	19.341	-17%	11.835	-7%

Declared a special interim dividend (HKD18.13 per Tencent share¹) in the form of a distribution in specie of Class B ordinary shares of Meituan

Subject to shareholders' approval at the 2023 AGM, proposed 2022 annual dividend of HKD2.40 per share (up 50% YoY) for the year ended 31 December 2022

1. HKD18.13 is calculated based on the share price of Meituan on Jan 4, 2023, the day prior to ex-dividend date

CAPEX, FCF and Cash Position

In billion RMB	4Q2022	YoY	QoQ	FY2022	YoY
Operating CAPEX	1.9	-76%	+80%	10.2	-61%
Non-operating CAPEX	3.8	+4%	+184%	7.8	+7%
Total CAPEX	5.7	-52%	+138%	18.0	-46%
Operating Cash Flow	35.6	-31%	-13%	146.1	-17%
Less: CAPEX Paid	(5.6)	-25%	+11%	(24.4)	-22%
Payments for media content	(5.3)	-39%	-17%	(26.4)	-14%
Payments for lease liabilities	(1.6)	+7%	-19%	(6.9)	+35%
Free Cash Flow	23.1	-31%	-16%	88.4	-18%
Total Cash	319.6	+14%	+1%	319.6	+14%
Less: Total Debt	(334.4)	+11%	-2%	(334.4)	+11%
Net (Debt)/Cash	(14.8)	-27%	-46%	(14.8)	-27%

- Repurchased ~45.6 million shares with an aggregated cost of ~RMB12.0 billion during 4Q22
- As at 31 Dec 2022, the fair value of our shareholdings¹ in listed investee companies (excluding subsidiaries) was ~RMB585 billion (USD84 billion) and the carrying value of our unlisted investee companies was ~RMB333 billion (USD48 billion)

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

1. *Overview*
2. *Strategy Review*
3. *Business Review*
4. *Financial Review*
5. **Q&A**

Tencent Holdings Limited

*2022 Fourth Quarter and
Annual Results Presentation*

Thank you!



<https://www.tencent.com/ir>