

Tencent 腾讯

*2023 First Quarter
Results Presentation*

May 17, 2023

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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 RMB6.8717 for 1Q2023.

1. *Overview*

2. *Business Review*

3. *Financial Review*

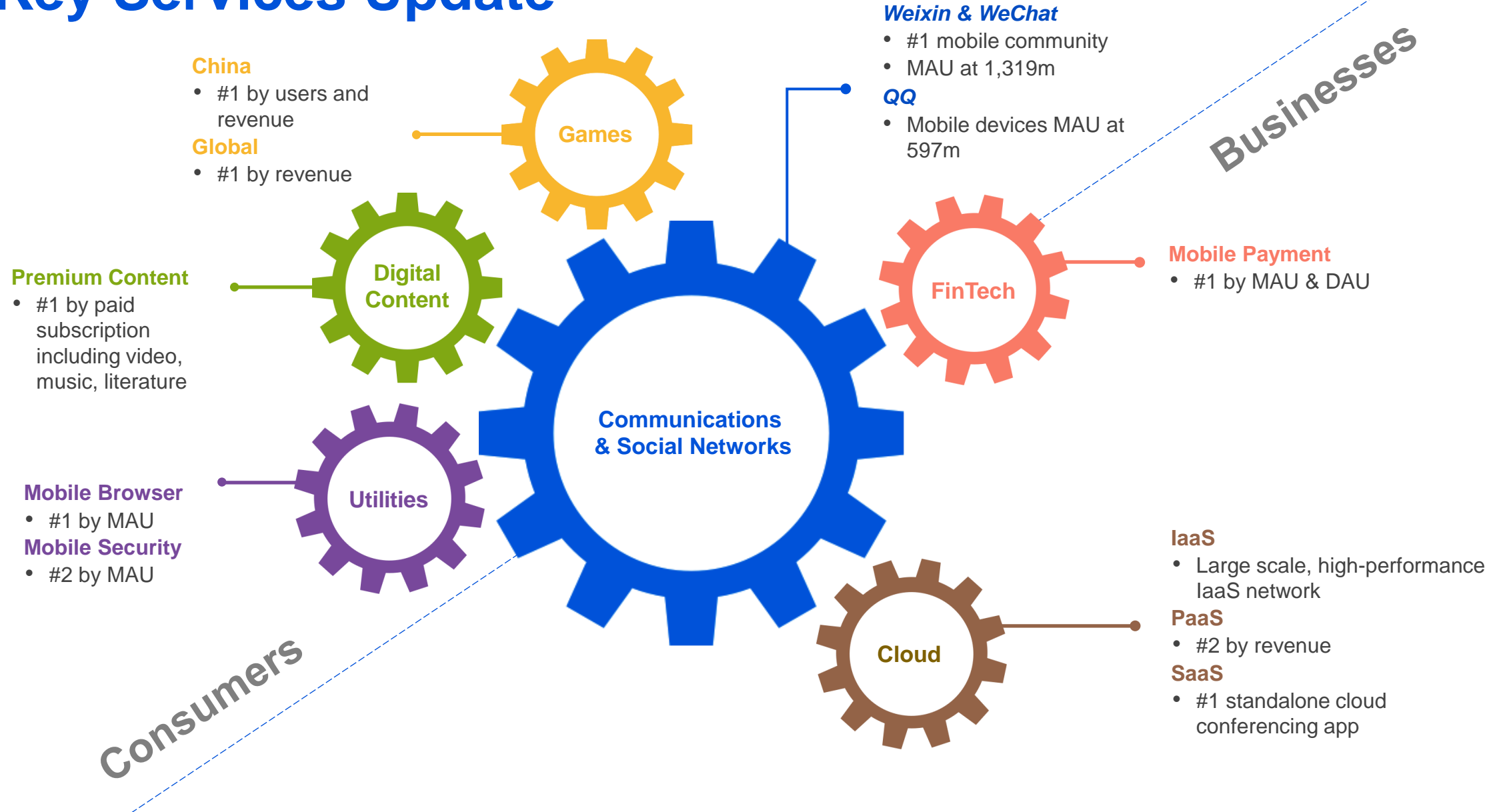
4. *Q&A*

Financial Highlights

In billion RMB	1Q2023	1Q2022	YoY	4Q2022	QoQ
Total Revenue	150.0	135.5	+11%	145.0	+3%
Value-added Services	79.3	72.7	+9%	70.4	+13%
Social Networks	31.0	29.1	+6%	28.6	+8%
Domestic Games	35.1	33.0	+6%	27.9	+26%
International Games	13.2	10.6	+25%	13.9	-5%
Online Advertising	21.0	18.0	+17%	24.7	-15%
FinTech and Business Services	48.7	42.8	+14%	47.2	+3%
Others	1.0	2.0	-50%	2.7	-63%
Gross Profit	68.2	57.1	+19%	61.9	+10%
<u>Non-IFRS</u>					
Operating Profit	48.4	36.5	+32%	39.4	+23%
Operating Margin	32.3%	27.0%	+5.3ppt	27.2%	+5.1ppt
Net Profit Attributable to Equity Holders	32.5	25.5	+27%	29.7	+10%

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



1. *Overview*

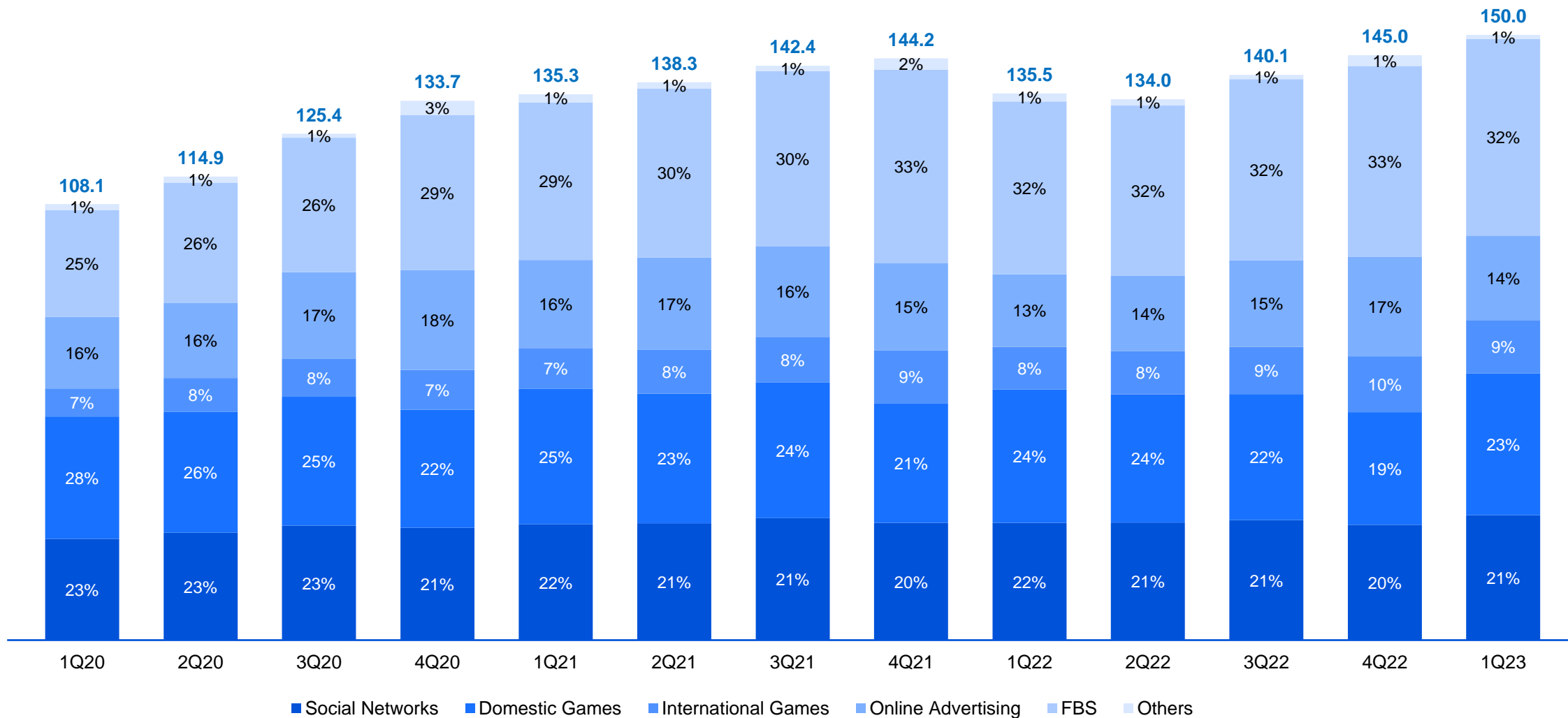
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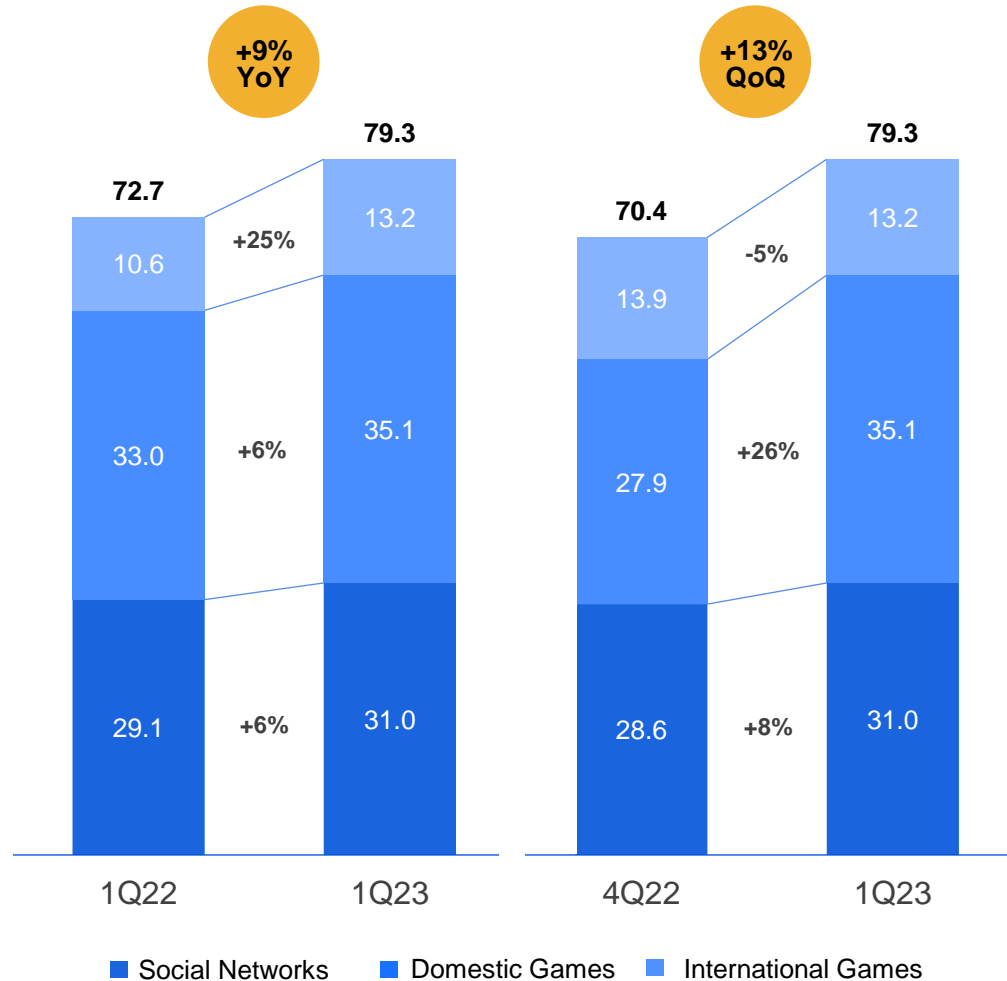
Revenue by Segment

In billion RMB



Value-added Services

In billion RMB



Social Networks

- Revenue was up 6% YoY, reflecting growth of in-game item sales and music subscription revenue
- Long-form video subscription revenue decreased 6% YoY due to delayed content releases. We are enhancing our content and extending our collaboration with short-form video services to expand long-form content popularity and capture more monetisation opportunities
- Music subscription revenue increased 30% YoY, driven by growth in paying users and ARPU. We upgraded the listening experience and strengthened cooperation with labels and artists, improving user engagement and paying propensity

Domestic Games

- Revenue resumed growth to 6% YoY, benefitting from growth in *HoK*, *DnF*, *CrossFire Mobile* and 3Q22 released game *Arena Breakout*

International Games

- Revenue increased 25% YoY, or 18% in constant currency. Growth was driven by robust performance of *VALORANT*, and 2022 releases of *NIKKE* and *Triple Match 3D*

Communications & Social Networks



Nurturing Video Accounts creator community with enhanced traffic and monetisation support

- **Upgraded our creator onboarding support** with greater traffic incentives, wider creator coverage and more effective content creation tools
- **Enhanced eCommerce infrastructure**, enabling creators to benefit from sales commissions associated with eCommerce transactions
- **Daily active creators and video uploads more than doubled YoY, while creators with 10k+ followers more than tripled YoY**



Upgraded technology for better user experience

- **Deployed a new cross-platform architecture** to optimise development efficiency, strengthen security and enhance graphical experience

For customers to connect with creator (on WeCom)



Video Accounts Shop

Promote a live streaming show

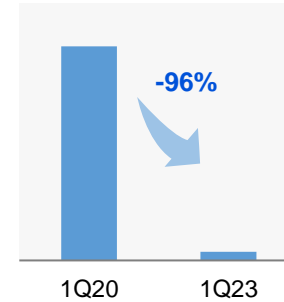
An eCommerce-focused Video Account

Domestic Games

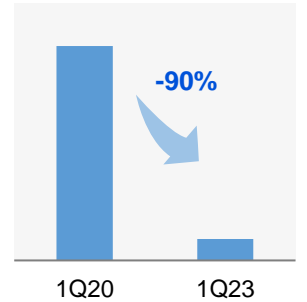
Resumed solid growth with a healthier user base

- As a result of our continued and dedicated minor protection program, users aged under 18 contributed 0.4% of 1Q23 domestic games total time spent and 0.7% of total gross receipts, significantly reduced from 1Q20 level
- We continue to take our societal responsibility with regard to games content and minor protection very seriously

Time spent from users aged under 18



Gross receipts from users aged under 18



Strong performance of most popular games

- *HoK* achieved record high gross receipts in 1Q23 on highly appealing *ShanHaiJing*-themed outfits coupled with targeted marketing programs
- *CrossFire* PC reached all-time high gross receipts in 1Q23 on promotions targeting Internet cafés. *CrossFire Mobile* set historical high gross receipts in 1Q23 on virtual idol group themed content



Expansion in high potential genres

- *Fight of the Golden Spatula*, an auto-battler released in Aug 2021, increased gross receipts by more than 30% YoY in 1Q23 and reached record high average DAU of over 10 million in April 2023
- *Arena Breakout*, an extraction shooter released in Jul 2022, grew and achieved new milestones in DAU and gross receipts in 1Q23
- *Metal Slug: Awakening* ranked #1 among new action games¹ released YTD, as we moved classic arcade game IP to mobile and multiplayer experience



1. Ranking by gross receipts among action games released between Jan 1 – May 16, 2023, according to data.ai

International Games



VALORANT: New items and game mode

1Q23 gross receipts increased by over 30% YoY, driven by more active users, popular Japan- and alien-themed weapon items



PUBG MOBILE: Enhanced gameplay

DAU resumed QoQ growth, benefitting from new combat features and enhanced PvP gameplay

New map editing tool facilitates user-generated content, enhancing user engagement and longevity



Triple Match 3D: Breakthrough in match games

Broke into top 10 match games ranking¹, leveraging creative gameplay and Miniclip's effective user acquisition

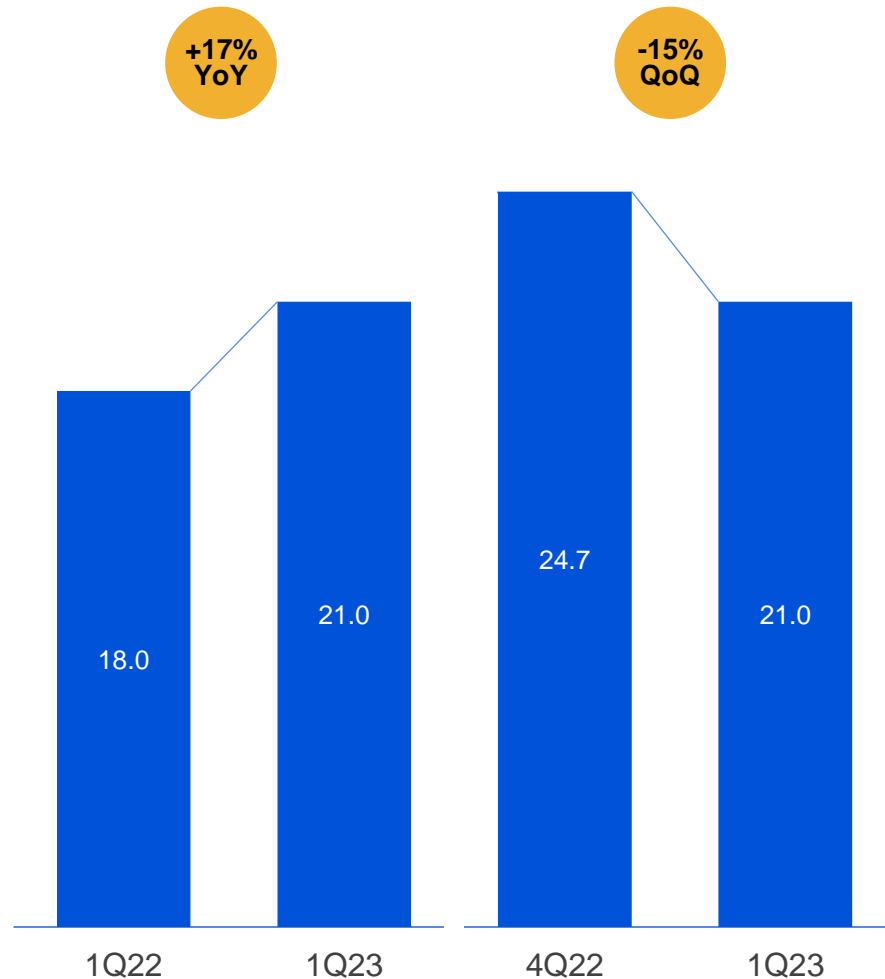
Miniclip achieved record high gross receipts in 1Q23



1. Top 10 match games by gross receipts in 1Q23, according to data.ai

Online Advertising

In billion RMB



Overall

- Revenue was up 17% against a 1Q22 base period which included several percentage-point contribution from Beijing Winter Olympics
- Ad spend grew YoY across most categories, benefitting from consumption recovery. Large eCommerce platforms increasingly recognised us as a key user acquisition channel and boosted ad spend
- Upgraded our machine learning advertising platform to include deep-learning model and standard product unit (SPU) database, delivering higher conversions for advertisers

Weixin

- *Weixin* outpaced overall ad business, contributing over half of total ad revenue. *Video Accounts* revenue ramped up as we attracted new advertisers and incremental spending from existing advertisers; eCPM sustained at a premium level

Content Platforms

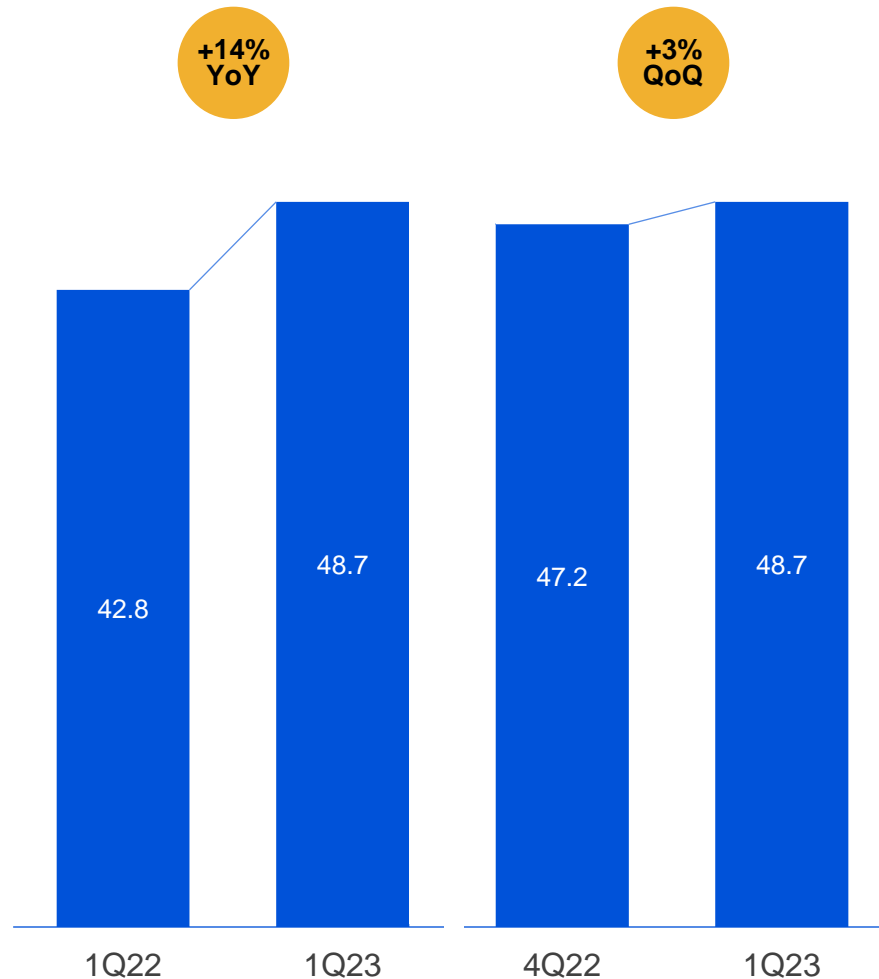
- Music ad grew primarily due to monetisation of ad-supported music content, while long-form video ad declined with fewer releases of popular content

Mobile Ad Network

- Revenue increased robustly YoY, as we increased ad inventory in high-conversion-rate properties and attracted spending from ROI-focused eCommerce platform advertisers

FinTech and Business Services

In billion RMB



FinTech Services

- Revenue resumed double-digit YoY growth, mainly benefitting from the recovery of payment activities. Within commercial payment, offline activities rebounded more sharply than online
- YoY revenue growth in wealth management and consumer loans remained healthy

Business Services

- YoY revenue growth turned positive in 1Q23, benefitting from stabilisation for our cloud services after a period of extensive restructuring, and initial contribution from technology support fee collected on *Video Accounts* live streaming eCommerce transactions. Gross margin increased notably YoY due to reduction in loss-making activities, cost optimisation and new revenue streams
- *Tencent Smart Transportation* solutions are assisting the digitalisation of large-scale transportation projects, such as smart highways in Sichuan and metro systems in Guangzhou, leveraging our strengths in cloud infrastructure, digital map and 3D rendering technologies

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Income Statement

In billion RMB	1Q2023	1Q2022	YoY	4Q2022	QoQ
Revenue	150.0	135.5	+11%	145.0	+3%
COPS	(81.8)	(78.4)	+4%	(83.1)	-2%
Gross profit	68.2	57.1	+19%	61.9	+10%
Interest income	2.9	1.7	+71%	2.5	+15%
Other gains, net	0.9	13.1	-93%	85.8	-99%
Operating expenses	(31.6)	(34.7)	-9%	(33.4)	-5%
Operating profit	40.4	37.2	+9%	116.8	-65%
Finance costs, net	(2.6)	(1.9)	+37%	(3.7)	-28%
Share of profit/(loss) of associates & JVs, net	0.1	(6.3)	N/A	(1.6)	N/A
Income tax expense	(11.5)	(5.3)	+118%	(4.6)	+151%
Net profit	26.4	23.7	+11%	106.9	-75%
Net profit attributable to equity holders	25.8	23.4	+10%	106.3	-76%
Diluted EPS in RMB	2.639	2.404	+10%	10.977	-76%
<u>Non-IFRS</u>					
Operating Profit	48.4	36.5	+32%	39.4	+23%
Net profit attributable to equity holders	32.5	25.5	+27%	29.7	+10%
Diluted EPS in RMB	3.353	2.620	+28%	3.042	+10%

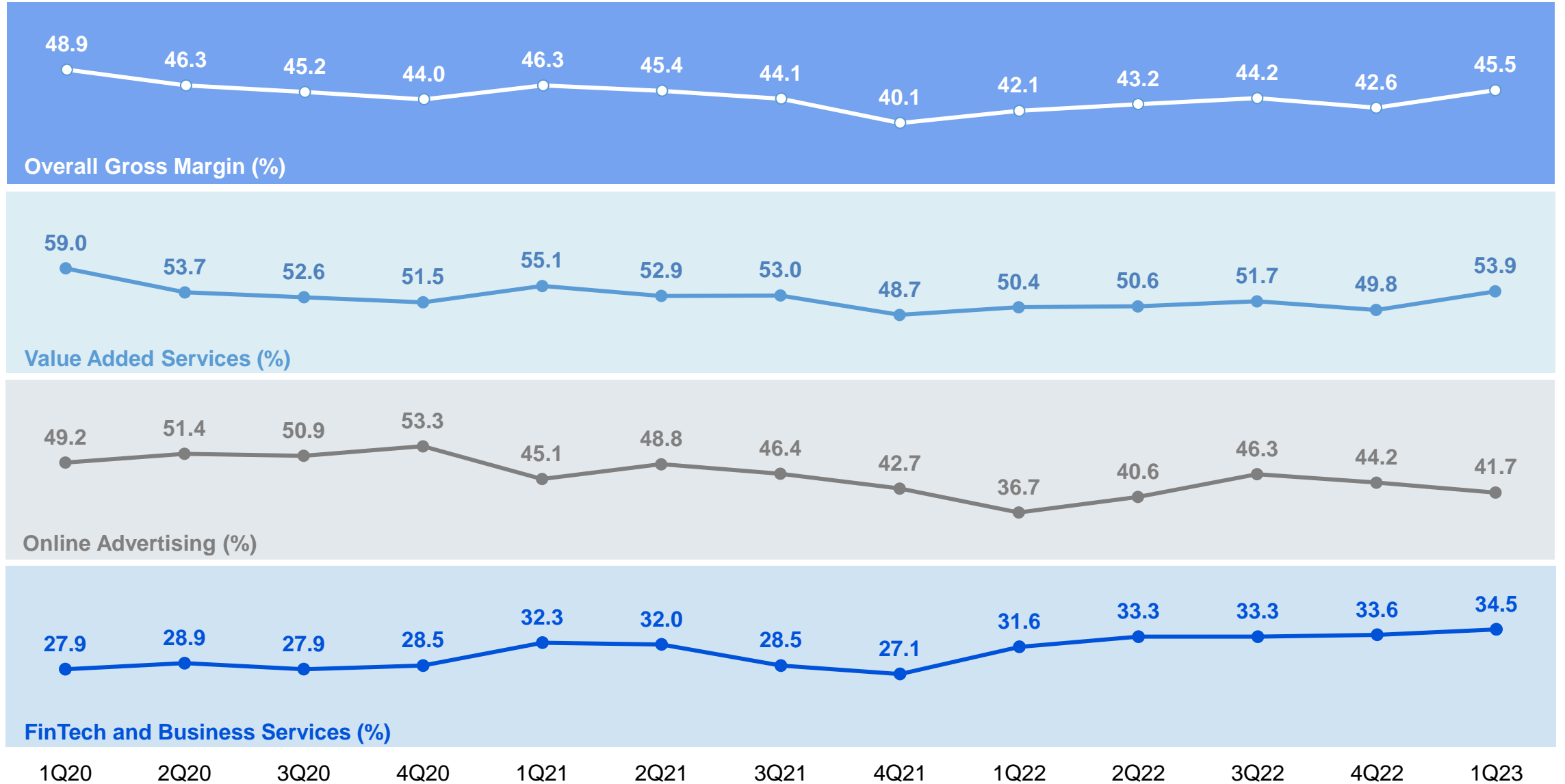
Non-IFRS Adjustments

In billion RMB	IFRS 1Q2023	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 1Q2023	YoY change	QoQ change
Operating profit	40.4	5.8	(0.6)	1.1	0.2	1.5	-	-	48.4	+32%	+23%
Net profit	26.4	7.3	(5.2)	2.2	1.9	1.5	-	(0.7)	33.4	+27%	+9%
Net profit attributable to equity holders	25.8	7.1	(5.2)	2.1	1.9	1.5	-	(0.7)	32.5	+27%	+10%
Operating margin	27.0%								32.3%	+5.3ppt	+5.1ppt
Net margin	17.6%								22.3%	+2.9ppt	+1.2ppt

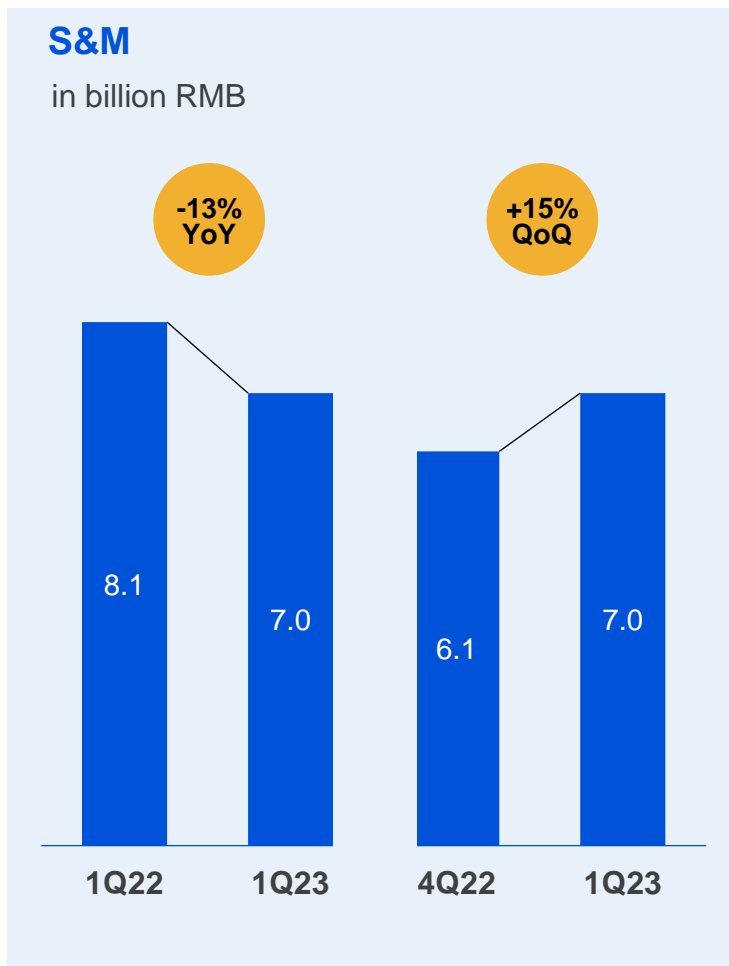
Note:

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

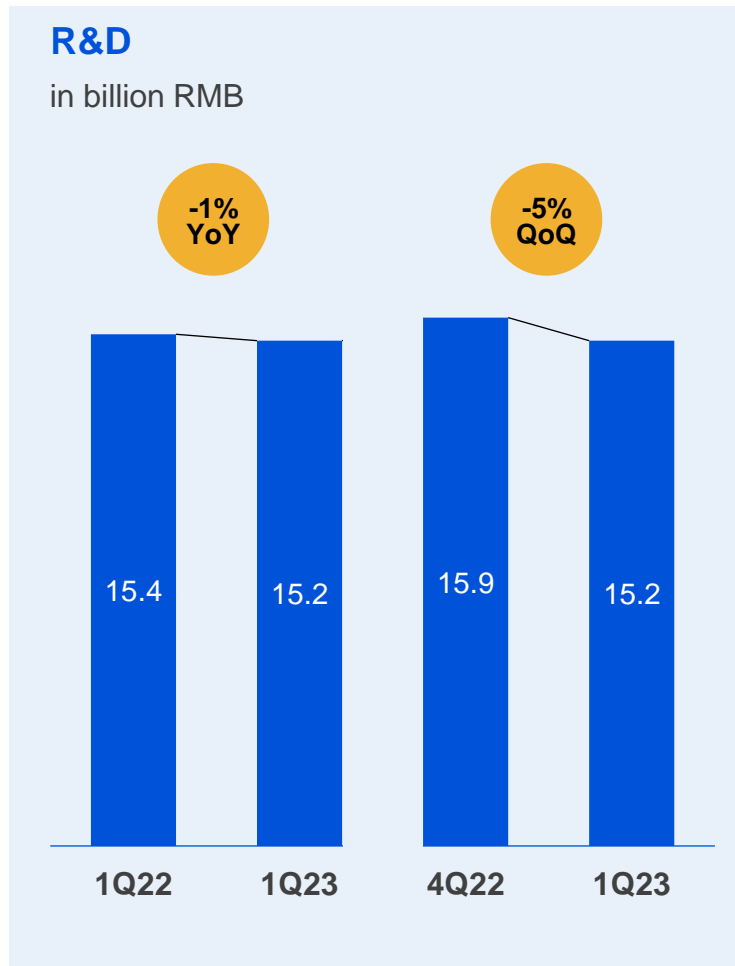
Gross Margins



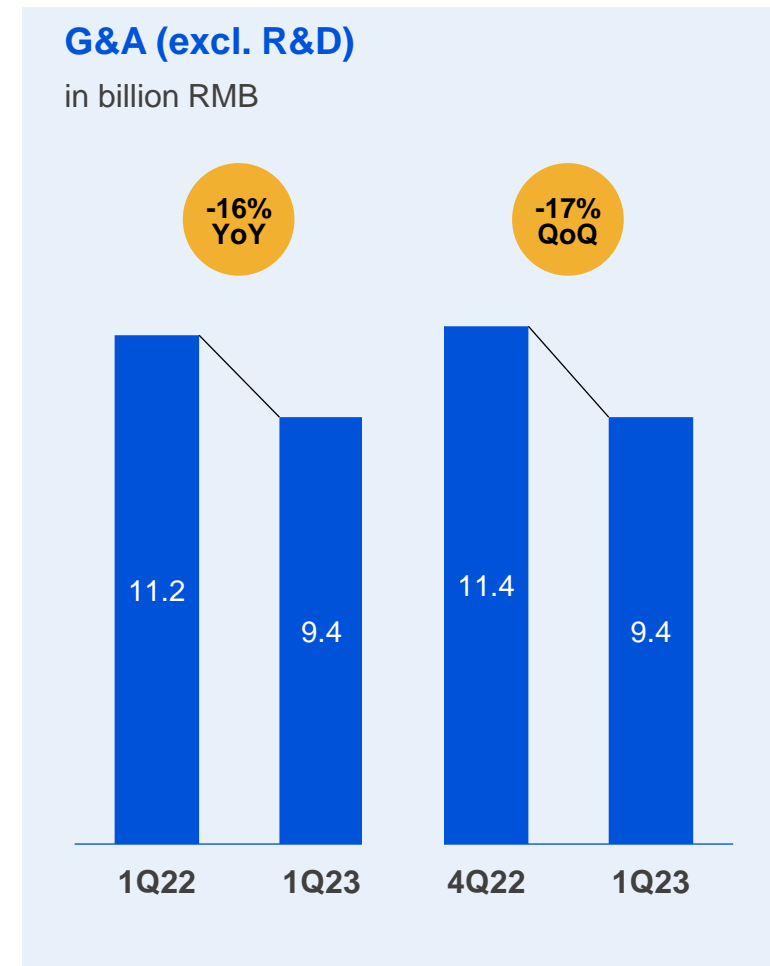
Operating Expenses



Non-IFRS
1Q23 S&M declined by 14% YoY or grew by 14% QoQ

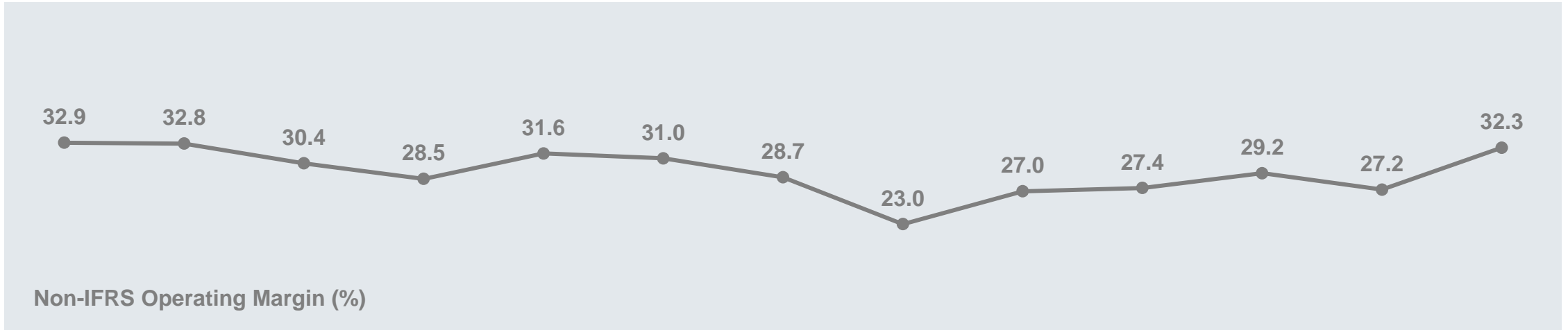


Non-IFRS
1Q23 R&D grew by 4% YoY or declined by 7% QoQ



Non-IFRS
1Q23 G&A (excl. R&D) declined by 7% YoY and 19% QoQ

Non-IFRS Margin Ratios



1Q20 2Q20 3Q20 4Q20 1Q21 2Q21 3Q21 4Q21 1Q22 2Q22 3Q22 4Q22 1Q23

CAPEX, FCF and Cash Position

In billion RMB	1Q2023	1Q2022	YoY	4Q2022	QoQ
Operating CAPEX	1.0	5.2	-81%	1.9	-47%
Non-operating CAPEX	3.4	1.8	+91%	3.8	-9%
Total CAPEX	4.4	7.0	-37%	5.7	-22%
Operating Cash Flow	62.3	33.8	+84%	35.6	+75%
Less: CAPEX Paid	(4.6)	(8.2)	-44%	(5.6)	-17%
Payments for media content	(4.4)	(8.9)	-50%	(5.3)	-17%
Payments for lease liabilities	(1.5)	(1.5)	-1%	(1.6)	-5%
Free Cash Flow	51.8	15.2	+240%	23.1	+124%
Total Cash	370.5	304.1	+22%	319.6	+16%
Less: Total Debt	(339.0)	(315.1)	+8%	(334.4)	+1%
Net Cash/(Debt)	31.5	(11.0)	N/A	(14.8)	N/A

- Repurchased ~12.5 million shares with an aggregated cost of ~RMB4.0 billion during 1Q23
- As at 31 Mar 2023, the fair value of our shareholdings¹ in listed investee companies (excluding subsidiaries) was ~RMB473 billion (USD69 billion) and the carrying value of our unlisted investee companies was ~RMB332 billion (USD48 billion)

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

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4. **Q&A**

Tencent Holdings Limited

2023 First Quarter Results Presentation

Thank you!



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