

Tencent 腾讯

*2023 Second Quarter
Results Presentation*

Aug 16, 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 RMB7.2258 for 2Q2023.

1. *Overview*

2. *Business Review*

3. *Financial Review*

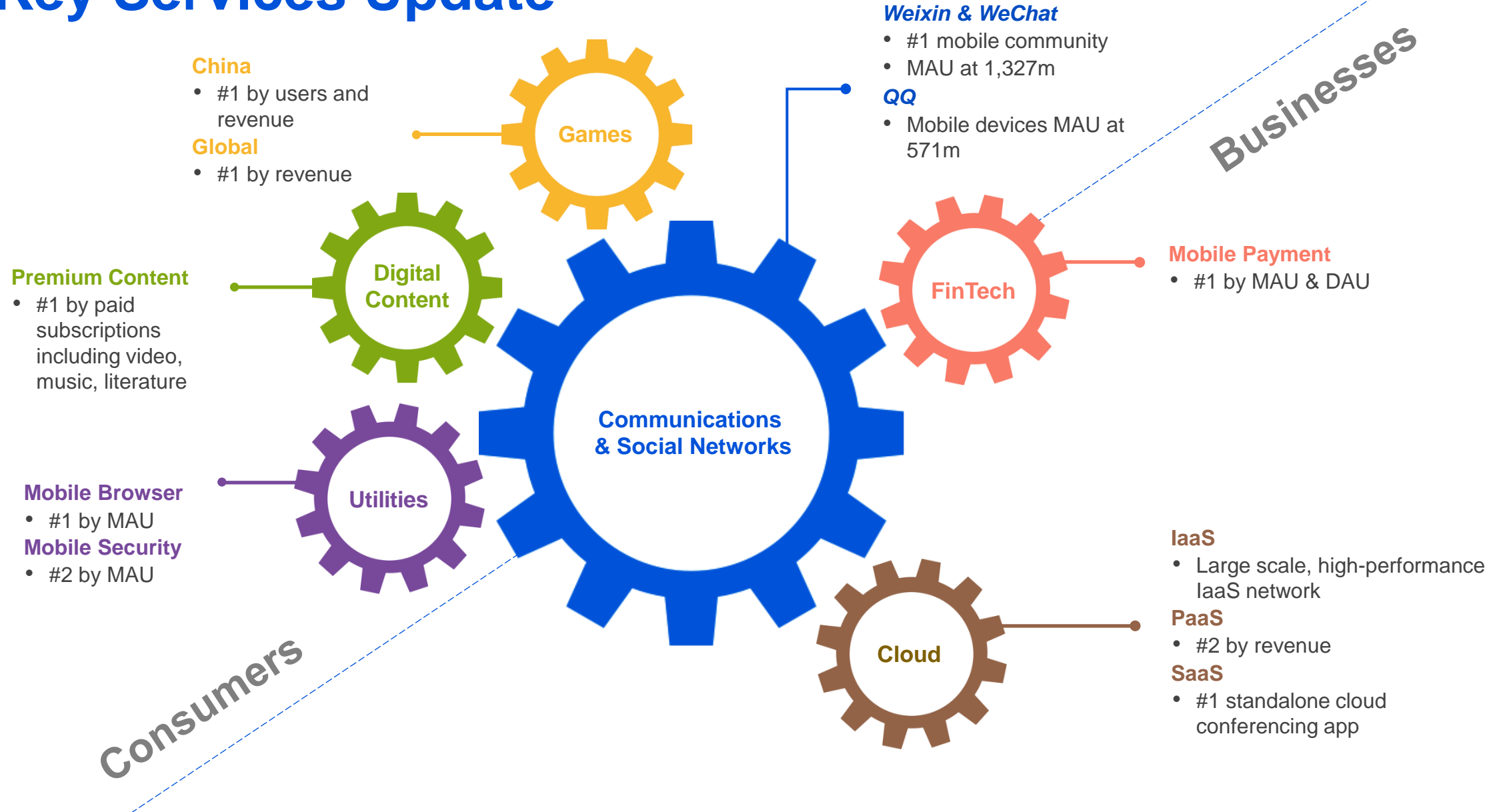
4. *Q&A*

Financial Highlights

In billion RMB	2Q2023	2Q2022	YoY	1Q2023	QoQ
Total Revenue	149.2	134.0	+11%	150.0	-0.5%
Value-added Services	74.2	71.7	+4%	79.3	-6%
Social Networks	29.7	29.2	+2%	31.0	-4%
Domestic Games	31.8	31.8	+0.1%	35.1	-9%
International Games	12.7	10.7	+19%	13.2	-4%
Online Advertising	25.0	18.6	+34%	21.0	+19%
FinTech and Business Services	48.6	42.2	+15%	48.7	-0.1%
Others	1.4	1.5	-10%	1.0	+38%
Gross Profit	70.8	57.9	+22%	68.2	+4%
<u>Non-IFRS</u>					
Operating Profit	50.1	36.7	+37%	48.4	+4%
Operating Margin	33.6%	27.4%	+6.2ppt	32.3%	+1.3ppt
Net Profit Attributable to Equity Holders	37.5	28.1	+33%	32.5	+15%

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*

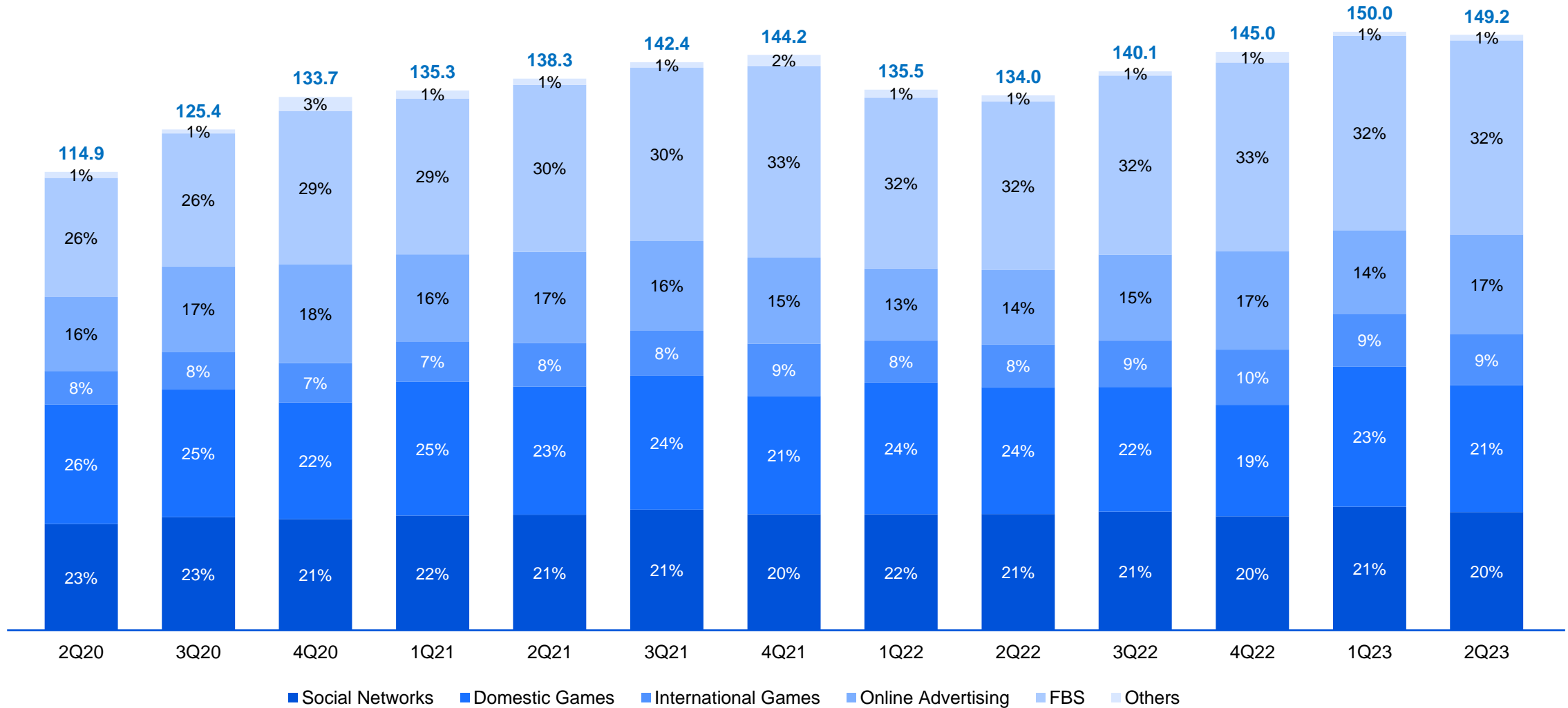
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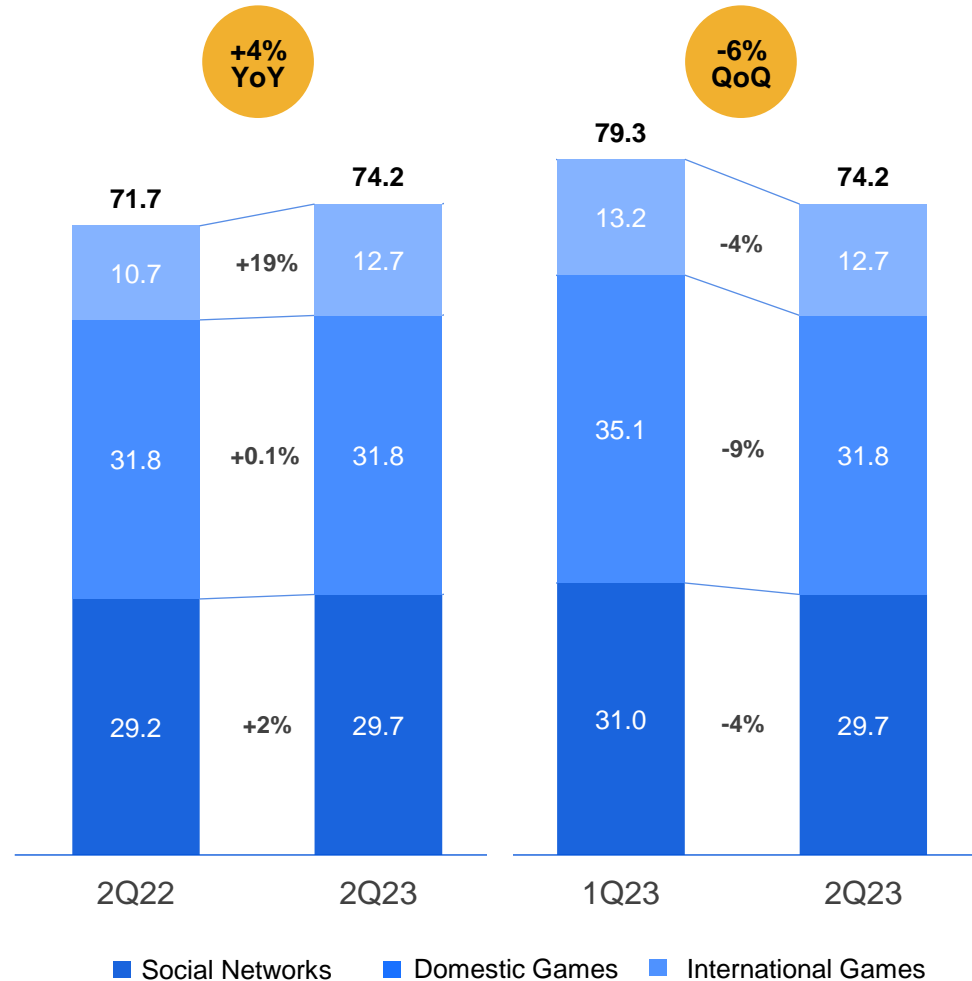
Revenue by Segment

In billion RMB



Value-added Services

In billion RMB



Social Networks

- Revenue was up 2% YoY, driven by increased revenue from mini games and music subscriptions, partially offset by decline of revenue from music- and games-related live streaming services
- Long-form video subscription revenue decreased 2% YoY. Video subscriptions declined 5% YoY but increased 2% QoQ to 115 million. We are applying Unreal Engine for producing animated series such as *The Land of Warriors*, to streamline the workflow and enhance production capacity and efficiency
- Music subscription revenue increased 37% YoY, as both ARPU and subscriptions grew at double-digit rates YoY. TME optimised operations and enriched offerings in membership privileges and content to enhance users' paying propensity for premium music content

Domestic Games

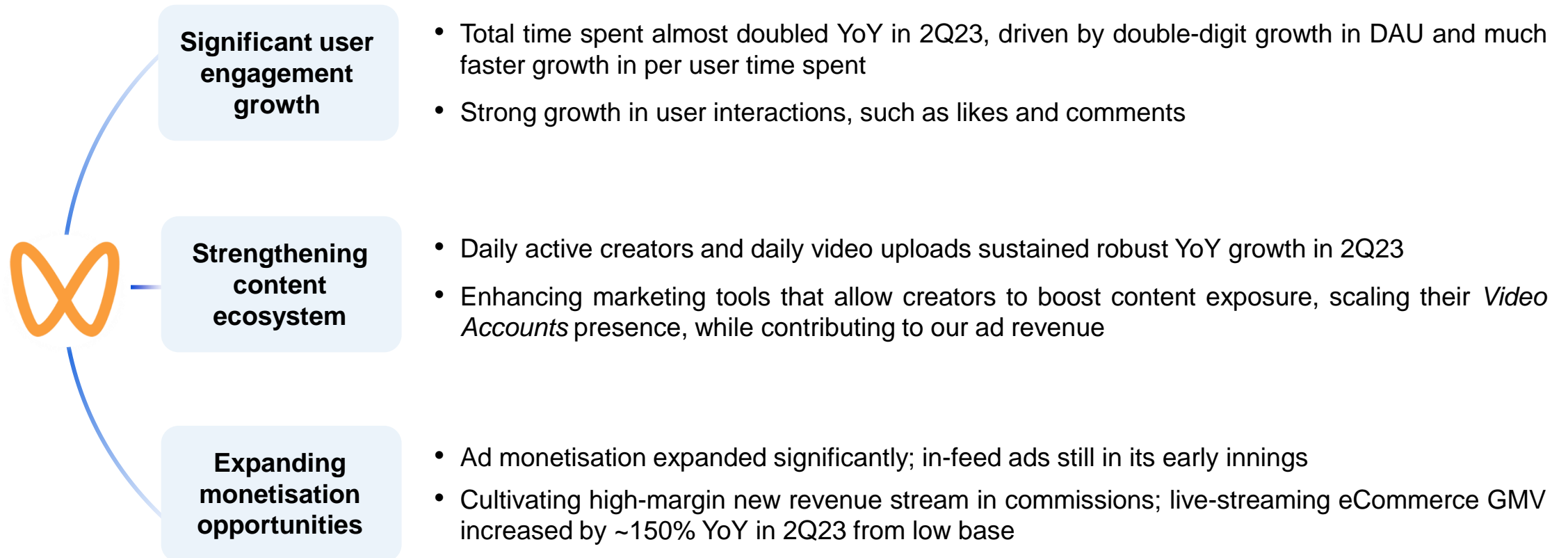
- Revenue was stable YoY at RMB31.8 billion, partly due to less commercial content scheduling after a robust 1Q, while revenue from emerging competitive eSports games, *Arena Breakout* and *Fight of the Golden Spatula*, increased

International Games

- Revenue grew 19% YoY to RMB12.7 billion, or 12% in constant currency, driven by contributions from *VALORANT*, *NIKKE* and *Triple Match 3D*

Communications & Social Networks

Video Accounts – rapid user growth and strengthening ecosystem bode well for expanding monetisation



Communications & Social Networks

Mini Games – the largest casual game platform built on Mini Programs



Compelling value proposition for developers

- Reduce entry barriers and launch costs for developers, via social sharing, pre-existing log-in, and instant play infrastructure
- Extend reach to non-app users for developers with successful app games, as they can port to *Mini Games* with minimal development efforts
- Benefit from advancement in *Mini Games* infrastructure, leveraging Tencent's know-how and game technology

Strategic value for Tencent

- Host the largest casual game community in China with hundreds of millions of MAU
- Expand our audience and cultivate new gamers – over 50% of *Mini Games* MAU do not play Tencent app games; half of MAU are female
- Generate game distribution and ad revenues with high margins and platform economics

Domestic Games

Several recent games consistently growing into top tier evergreen titles

- In past two years, we launched 3 games that are sustaining within top 10 mobile games by total time spent¹
- *Fight of the Golden Spatula*: popularity of Set 9 release drove DAU to new milestone of 15 million in June; ranked #4 across all mobile games¹
- *Arena Breakout*: upgraded progression system and new game modes drove DAU to record high in 2Q23; ranked #8 across all mobile games¹; expanded internationally in July

Proven evergreen titles demonstrating ongoing vitality

- *Naruto Mobile*: gross receipts and average DAU hit all-time highs in 2Q23 after seven years of operation; clear leader in fighting genre despite multiple competitive launches over the years
- *DnF*: DAU increased by double-digit % YoY in June, driven by 15th anniversary content update featuring revisions to art style and improved combat visuals

Successfully launched PC blockbusters in China

- *VALORANT*: most successful PC game release in our history by number of active users on launch day; became the most-watched new game on game live streaming platform in China²
- *Lost Ark*: #1 MMOARPG on Steam with a thrilling combat system, captivating storyline, and vast game world exploration; became the most popular MMO game on live streaming platforms in China³



Fight of the Golden Spatula



Naruto Mobile



VALORANT

1. Source: by total time spent in 2Q23, according to QuestMobile
2. Source: out of all games released since 2019, according to Huya
3. Source: Bojianger

International Games

VALORANT: Sustained expansion



Gross receipts and DAU increased YoY, driven by introduction of 1) popular new agent (Gekko) and items; 2) Premier game mode that provides professional tournament experience for competitive players



PUBG MOBILE: Resumed growth



Gross receipts and DAU resumed YoY growth in June, benefitting from upgraded Royale Pass, new dinosaur-themed game mode, and brand collaborations with Bearbrick and Ducati



NIKKE: Increased engagement

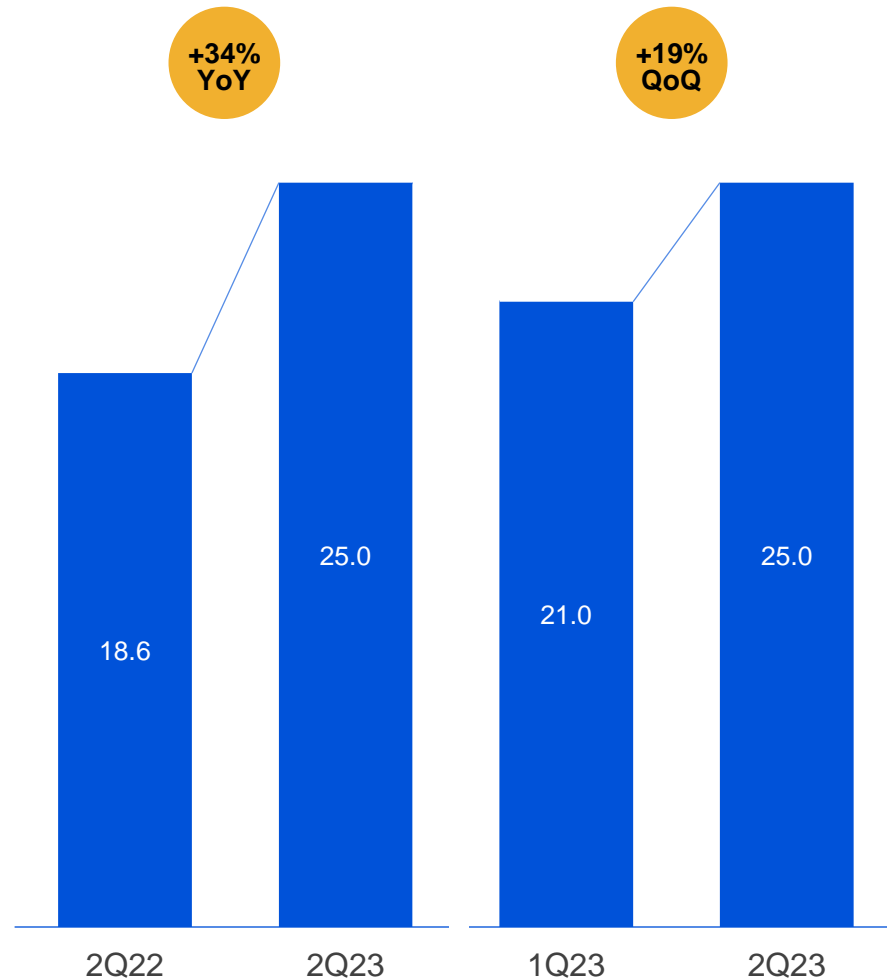


User engagement continued to grow due to new characters, newly added storylines with fully voiced scenes, and successful thematic events



Online Advertising

In billion RMB



Overall

- Revenue grew 34% YoY to RMB25.0 billion, against a low-base quarter, and outpacing industry growth. Outperformance was driven by robust demand for *Video Accounts* ads and ongoing enhancement of machine learning on our advertising platform
- Ad spend on our platforms grew at a double-digit year-on-year rate from almost every major advertiser category

Weixin

- *Weixin* ad revenue increased YoY not only on *Video Accounts* but also on *Moments*, *Mini Programs* and *Official Accounts*. As we launched new functions to enhance vibrancy of *Weixin's* commerce ecosystem, we attracted merchants and brands to allocate more ad budget on multiple *Weixin* properties
- *Video Accounts* ad revenue exceeded RMB3.0 billion in 2Q23 while ad load remained low, underpinned by continuing growth in user time spent and better ad targeting

Content Platforms

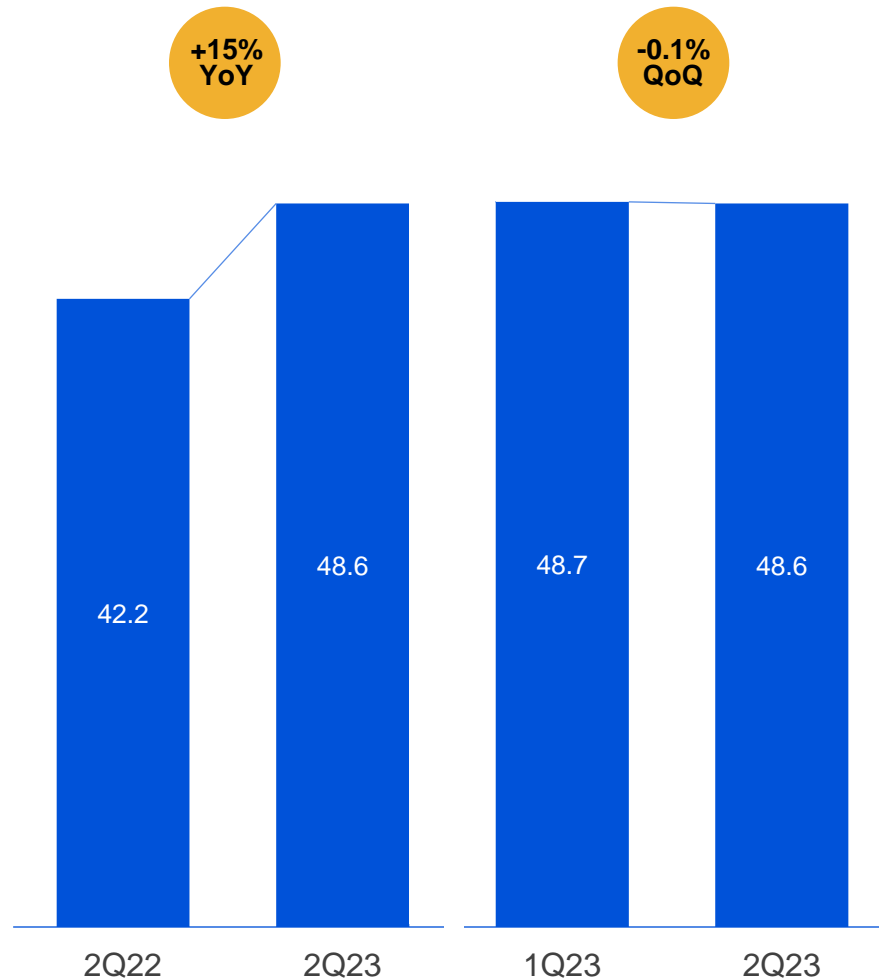
- Music ad revenue grew notably YoY, driven by ad-supported music service and brand sponsorship of offline music events

Mobile Ad Network

- Revenue ramped up significantly YoY, benefitting from partnership with high commercial value inventory owners; upgraded infrastructure and enhanced efficiency in matching advertisers' demand with traffic supply

FinTech and Business Services

In billion RMB



FinTech Services

- Revenue sustained double-digit YoY growth, mainly benefitting from the recovery of offline and online commercial payment activities
- Wealth management users and AUM increased YoY as we provided better investor education and services to meet increased user demand
- We have completed self-inspection and corresponding rectification for Tenpay, and upgraded the operational compliance capability of our payment business. We look forward to progressing our business and providing innovative services under the supportive regulatory framework

Business Services

- Returned to low double digit YoY revenue growth in 2Q23, driven by fees collected on *Video Accounts* live streaming eCommerce transactions and modest growth of cloud services. Gross margin increased notably YoY due to cost optimisation and new fee-based revenue streams
- Launched Tencent Cloud Model-as-a-Service (MaaS) library of models and solutions, which enables enterprises in multiple industries to develop customised large models at higher efficiency and lower cost, leveraging our proprietary vector database and high-performance computing cluster services

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Income Statement

In billion RMB	2Q2023	2Q2022	YoY	1Q2023	QoQ
Revenue	149.2	134.0	+11%	150.0	-0.5%
COPS	(78.4)	(76.1)	+3%	(81.8)	-4%
Gross profit	70.8	57.9	+22%	68.2	+4%
Interest income	3.4	1.9	+76%	2.9	+15%
Other gains/(losses), net	(0.2)	4.4	N/A	0.9	N/A
Operating expenses	(33.7)	(34.1)	-1%	(31.6)	+7%
Operating profit	40.3	30.1	+34%	40.4	-0.3%
Finance costs, net	(3.4)	(1.8)	+82%	(2.6)	+24%
Share of profit/(loss) of associates & JVs, net	1.2	(4.5)	N/A	0.1	+1349%
Income tax expense	(11.1)	(4.6)	+144%	(11.5)	-3%
Net profit	27.0	19.2	+41%	26.4	+2%
Net profit attributable to equity holders	26.2	18.6	+41%	25.8	+1%
Diluted EPS in RMB	2.695	1.915	+41%	2.639	+2%
Non-IFRS					
Operating Profit	50.1	36.7	+37%	48.4	+4%
Net profit attributable to equity holders	37.5	28.1	+33%	32.5	+15%
Diluted EPS in RMB	3.875	2.896	+34%	3.353	+16%

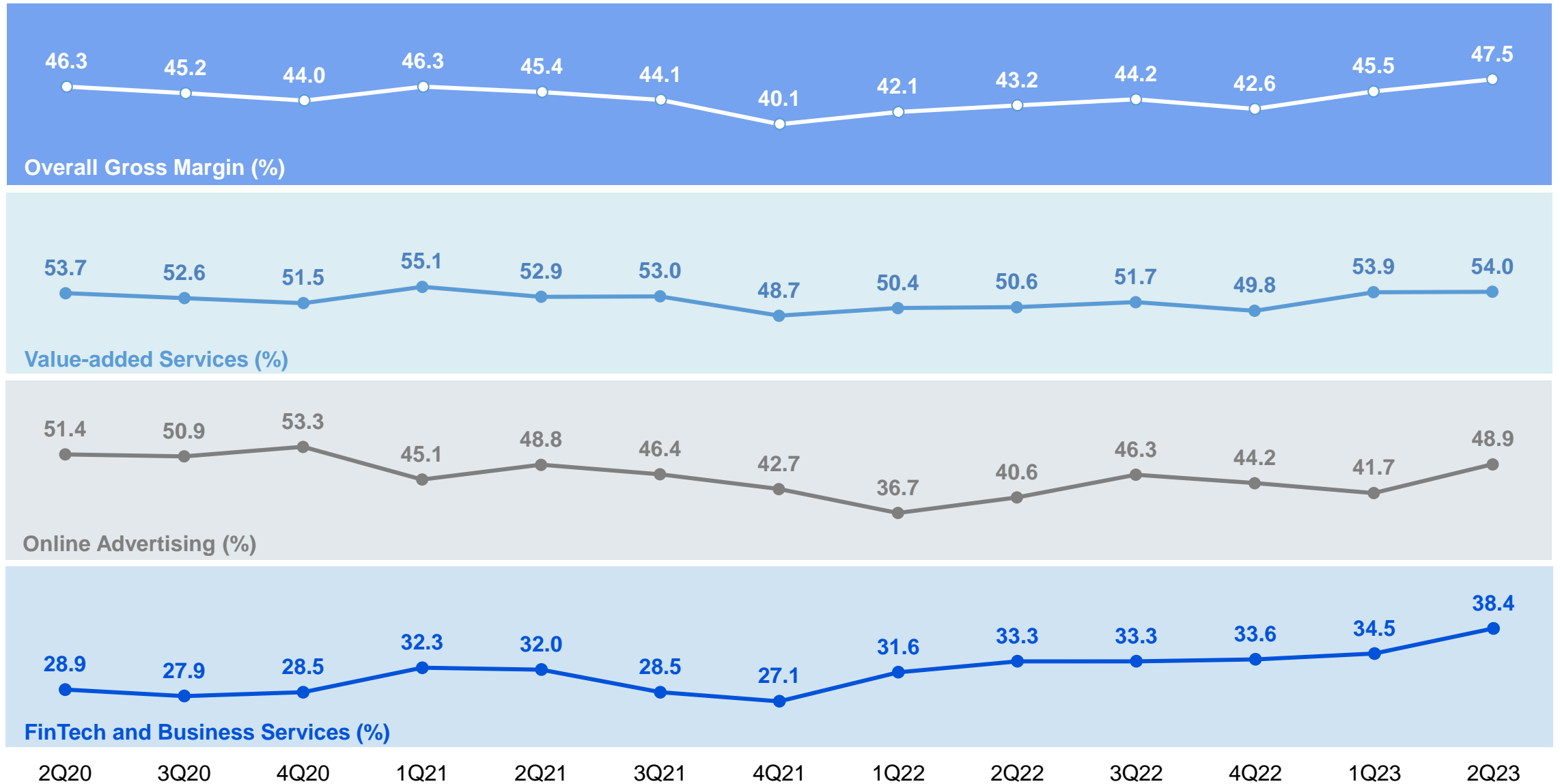
Non-IFRS Adjustments

In billion RMB	IFRS 2Q2023	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 2Q2023	YoY change	QoQ change
Operating profit	40.3	5.6	(0.2)	0.9	0.1	0.4	3.0	-	50.1	+37%	+4%
Net profit	27.0	6.9	(0.3)	2.3	0.2	0.4	3.0	(0.9)	38.6	+33%	+15%
Net profit attributable to equity holders	26.2	6.7	(0.2)	2.1	0.2	0.4	3.0	(0.9)	37.5	+33%	+15%
Operating margin	27.0%								33.6%	+6.2ppt	+1.3ppt
Net margin	18.1%								25.9%	+4.3ppt	+3.6ppt

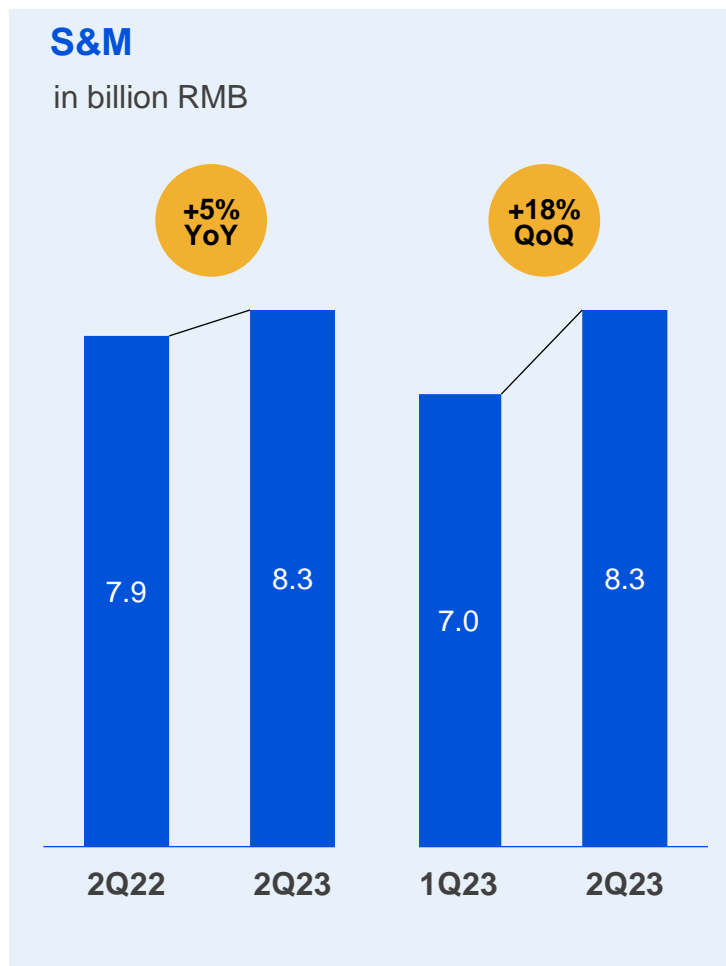
Note:

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. Mainly including 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. Primarily non-recurring compliance-related costs (including the fine imposed by the PBOC on Tenpay which was disclosed in our announcement dated 7 July 2023) and expenses incurred for certain litigation settlements of the Group

Gross Margins

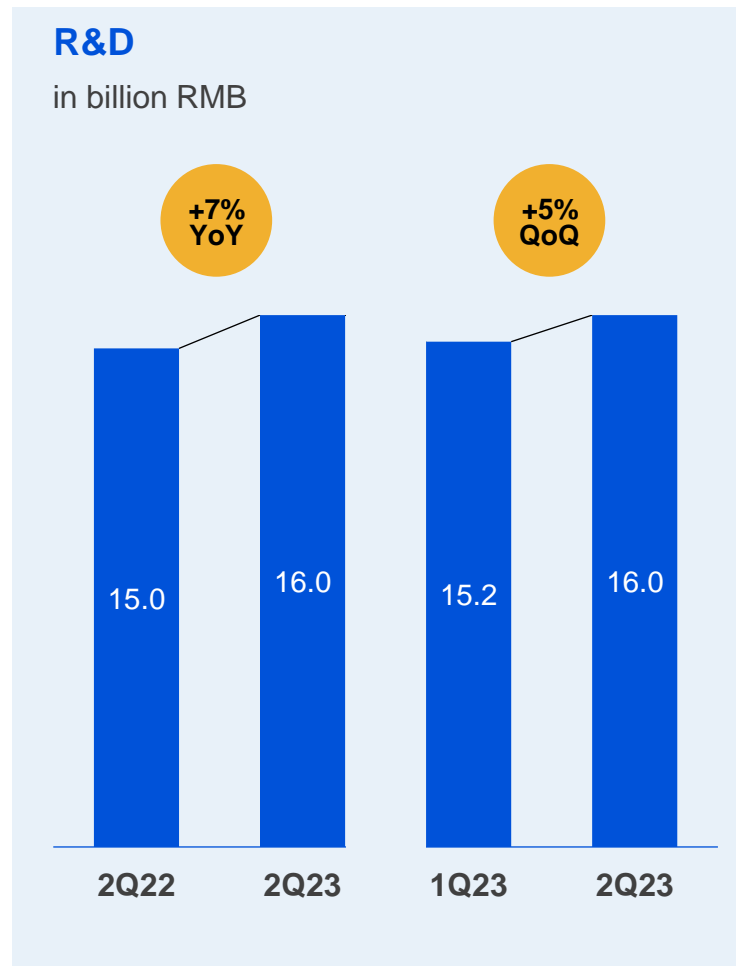


Operating Expenses



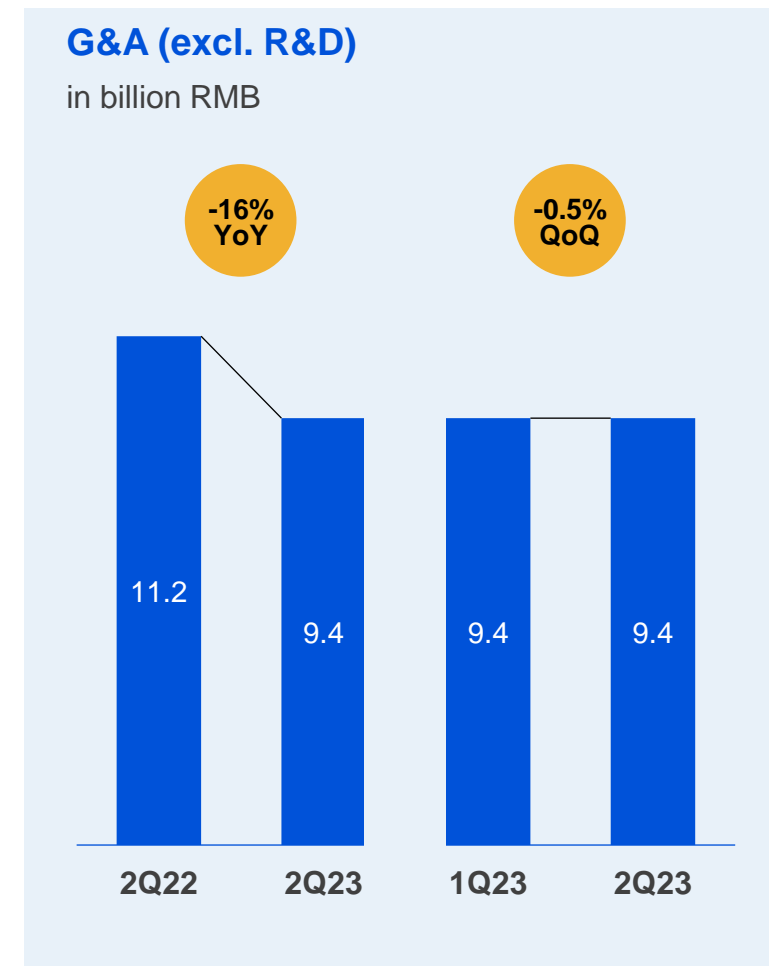
Non-IFRS

2Q23 S&M grew by 5% YoY and 19% QoQ



Non-IFRS

2Q23 R&D grew by 10% YoY and 7% QoQ



Non-IFRS

2Q23 G&A (excl. R&D) declined by 14% YoY or grew by 1% QoQ

Non-IFRS Margin Ratios



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

CAPEX, FCF and Cash Position

In billion RMB	2Q2023	2Q2022	YoY	1Q2023	QoQ
Operating CAPEX	3.0	2.1	+43%	1.0	+191%
Non-operating CAPEX	1.0	0.9	+6%	3.4	-70%
Total CAPEX	4.0	3.0	+31%	4.4	-10%
Operating Cash Flow	40.7	35.7	+14%	62.3	-35%
Less: CAPEX Paid	(3.0)	(5.6)	-47%	(4.6)	-36%
Payments for media content	(6.3)	(5.8)	+7%	(4.4)	+41%
Payments for lease liabilities	(1.5)	(1.8)	-20%	(1.5)	+0.2%
Free Cash Flow	29.9	22.5	+34%	51.8	-42%
Total Cash	371.8	315.9	+18%	370.5	+0.3%
Less: Total Debt	(354.1)	(336.3)	+5%	(339.0)	+4%
Net Cash/(Debt)	17.7	(20.4)	N/A	31.5	-44%

- Repurchased ~36 million shares with an aggregated cost of ~RMB11 billion during 2Q23
- Paid cash dividend of RMB21 billion during 2Q23
- As at 30 Jun 2023, the fair value of our shareholdings¹ in listed investee companies (excluding subsidiaries) was ~RMB435 billion (USD60 billion) and the carrying value of our unlisted investee companies was ~RMB347 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 Second Quarter Results Presentation

Thank you!



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