

Tencent 腾讯

*2023 Third Quarter
Results Presentation*

Nov 15, 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 RMB7.1798 for 3Q2023.

1. *Overview*

2. *Strategy Review*

3. *Business Review*

4. *Financial Review*

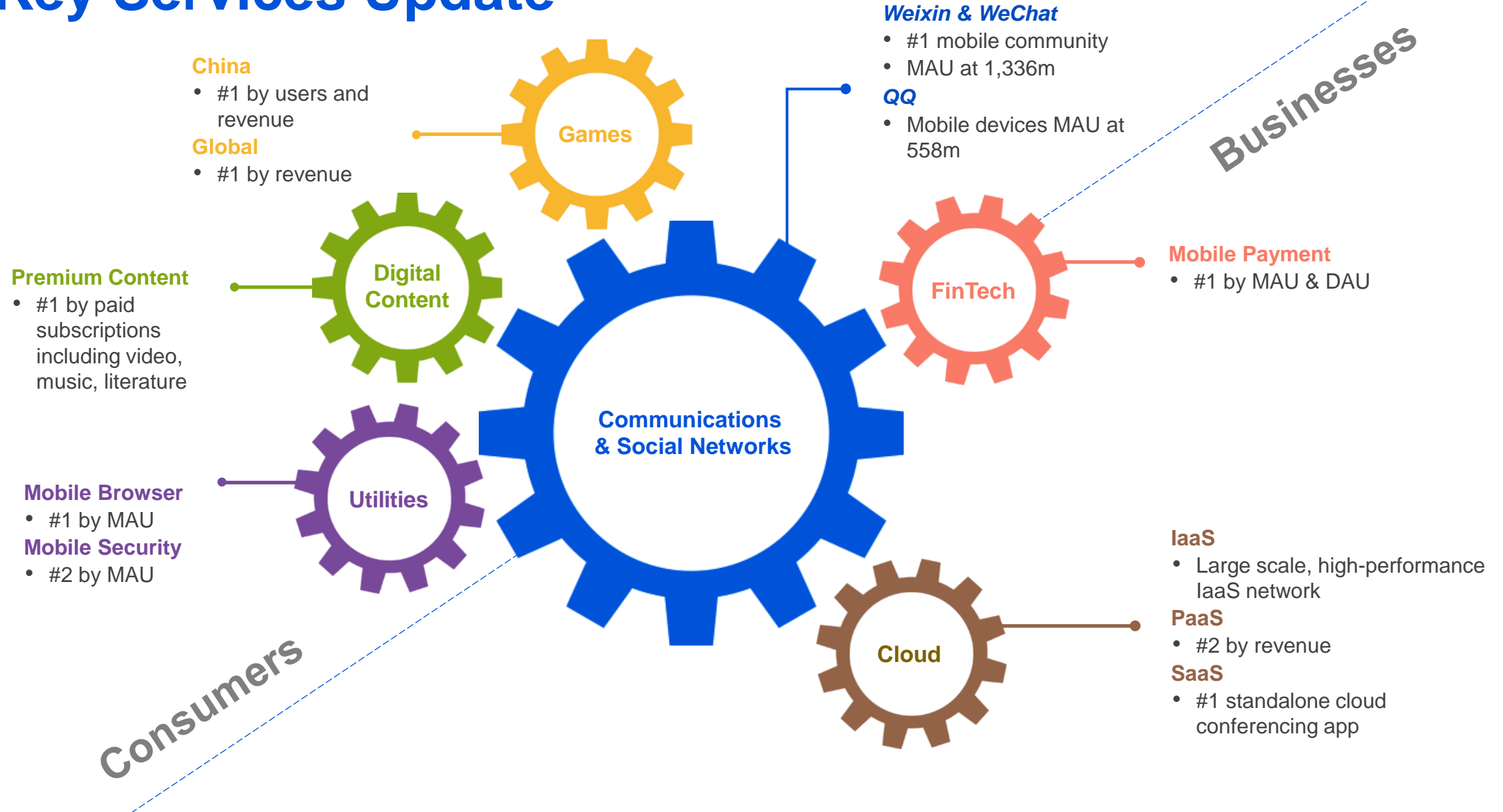
5. *Q&A*

Financial Highlights

In billion RMB	3Q2023	3Q2022	YoY	2Q2023	QoQ
Total Revenue	154.6	140.1	+10%	149.2	+4%
Value-added Services	75.7	72.7	+4%	74.2	+2%
Social Networks	29.7	29.8	-0.4%	29.7	<i>stable</i>
Domestic Games	32.7	31.2	+5%	31.8	+3%
International Games	13.3	11.7	+14%	12.7	+5%
Online Advertising	25.7	21.5	+20%	25.0	+3%
FinTech and Business Services	52.0	44.8	+16%	48.6	+7%
Others	1.2	1.1	+3%	1.4	-18%
Gross Profit	76.5	62.0	+23%	70.8	+8%
<u>Non-IFRS</u>					
Operating Profit	55.5	40.9	+36%	50.1	+11%
Operating Margin	35.9%	29.2%	+6.7ppt	33.6%	+2.3ppt
Net Profit Attributable to Equity Holders	44.9	32.3	+39%	37.5	+20%

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



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Weixin – Platform Continuously Enhancing Value to Users



1 Messaging – most indispensable and highest daily user frequency service

- DAU and daily messages sent per user consistently increase, benefitting from:
 - Perpetual demand to communicate and interact among friends, family members, and colleagues
 - *Weixin* chat meeting social networking needs through group functionalities and *Moments*
 - *Weixin* chat enabling new forms of connections, such as with customer support services

2 Open platform – extending connectivity with external services

- *Official Accounts*: enable creators to share content with their followers
- *Mini Programs*: connect users with merchants and service providers, online and offline
 - Several hundred million users interact with over 1 million unique *Mini Programs* on daily basis
 - *Mini Programs* enable seamless conversion of user interactions into transactions and drive repeat sales, facilitated over RMB 1.5 trillion GMV in 3Q23
 - Dynamic community of merchants and service providers develop and update their own *Mini Programs*, providing ecosystem growth and innovation
- *Mini Games*: operate the largest casual game community in China

3 Video Accounts – boosting engagement and incremental revenue

- Rapid growth in DAU and user time spent, both YoY and QoQ
- Short video complementary to our messaging, group chat, and social networking services; does not cannibalise their user time spent
- Substantial monetisation opportunities – advertising and eCommerce

Weixin – New Services Generating High Incremental Margins

Video Accounts starting to contribute high quality revenue

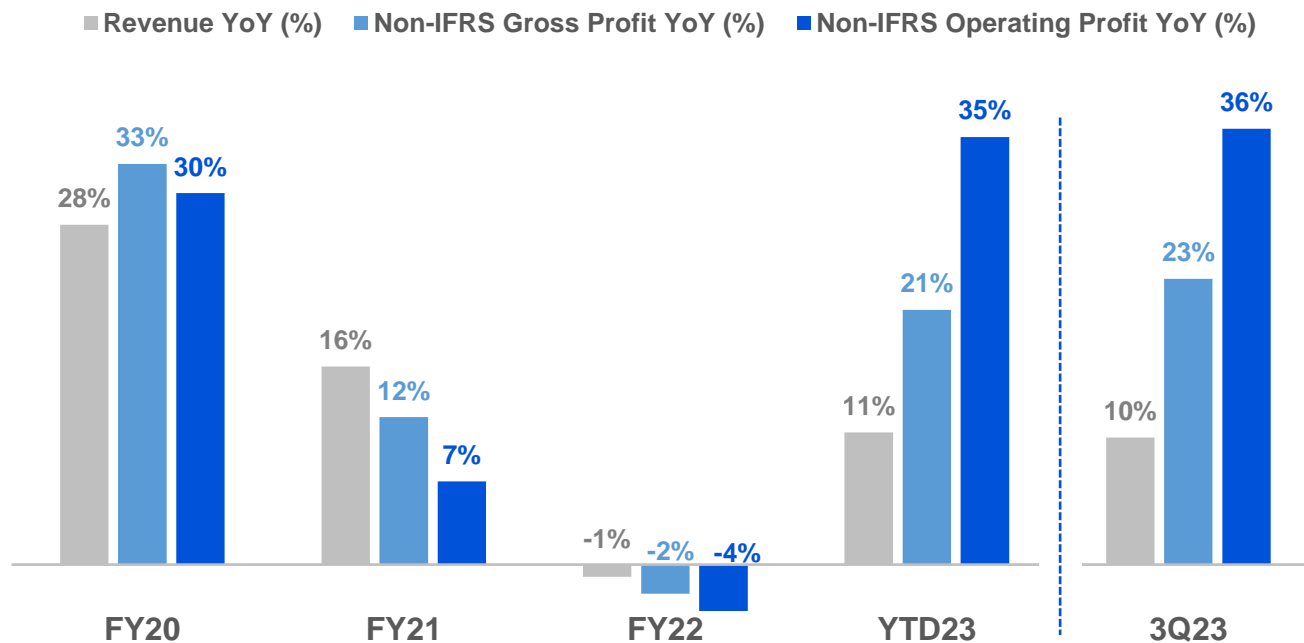
- Already incurred platform costs through P&L prior to monetisation
- Once *Video Accounts* attained critical mass, we further streamlined operating costs (e.g., bandwidth, servers, content) leveraging our technology infrastructure and platform expertise
- Now generating high contribution margin ad revenue, with long runway for growth given increasing video views, low ad load compared to peers, and deployment of AI technology to boost ad click-through rates
- *Video Accounts* eCommerce GMV at early stage of development; we book eCommerce technology service fees on net basis, so healthy contribution margin

Future monetisation also high quality and high margin

- *Mini Games*: contributing revenue through platform fees and advertisements; we book platform fees on net basis, so higher reported margin versus app-based games
- *Weixin Search*: increasing volume of transactions within *Weixin* driving rapid growth in commercial query volume, enabling us to deploy high margin sponsored search business on own traffic



High Quality Revenue Growth Model – Revenue Mix Shift and Cost Discipline Powering Operating Leverage



Revenue mix shift

- Nurturing new, high quality revenue streams (e.g., *Video Accounts* in-feed ads, *Video Accounts* eCommerce technology service fees, *Mini Games* platform service fees) which contribute incremental revenue at higher margins than group average
- Scaling back certain low-quality revenue streams (e.g., entertainment live streaming, SMS re-selling) which had operated at lower margins than group average

One-time cost optimisation

- Streamlined operations by strategically exiting certain non-core businesses
- Cut back overly aggressive spending on operations, subsidies, and marketing activities

Ongoing cost discipline

- Moving toward a quality- not quantity-driven growth model
- Continuously improving operating efficiency, thoughtfully allocating headcount, and effectively managing marketing expenses to maintain a lean cost structure for future

Games – Investing for Long Term Growth

Durable and expanding franchise in competitive multiplayer games

- Flagship evergreen franchises enjoy thriving popularity and deliver consistent financial performance (e.g., *HoK*, *LoL*, *Peacekeeper Elite*)
- Recently released competitive multiplayer games demonstrate our innovation and reinforce our leadership (e.g., *Fight of Golden Spatula*, *Arena Breakout*, *VALORANT*)

Investing to expand into content-driven and casual games

- We have some successful case studies in operating content-driven games (e.g., *Naruto Mobile*, *Lost Ark*, *NIKKE*) but aspire to, and are investing for, bigger hits
- We already operate the largest platform for casual games via *Mini Games*; we are also working on high production value app-based casual games with industry-leading UGC capabilities (e.g., *Dream Stars*)

Future games to watch include:

Expansion of our own IPs



HoK World



VALORANT Mobile



Delta Force:
Hawk Ops

Bringing new IPs to mobile



Monster Hunter



Assassin's Creed



One Piece

New titles in high potential genres



Dream Stars



Nightingale



Ash Echoes

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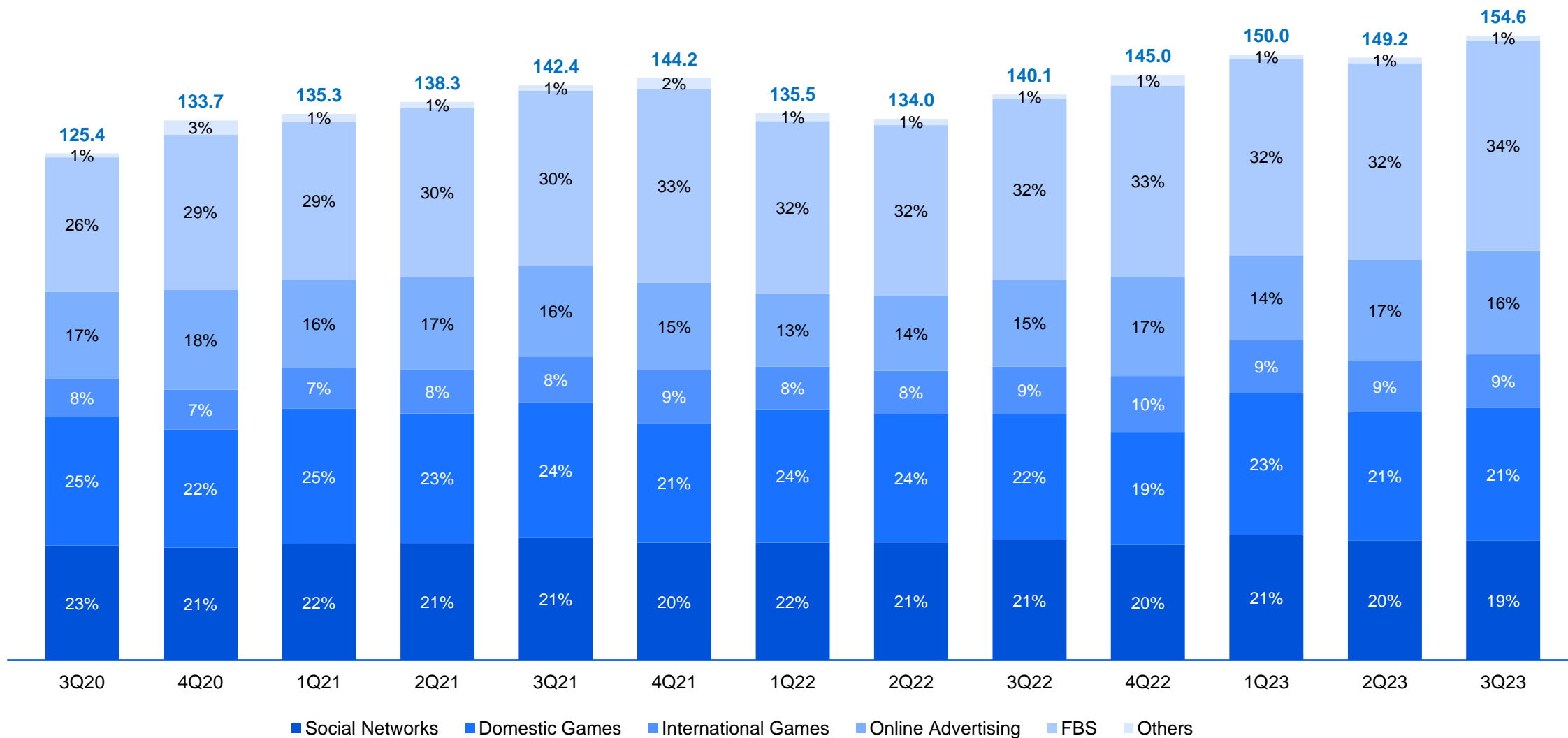
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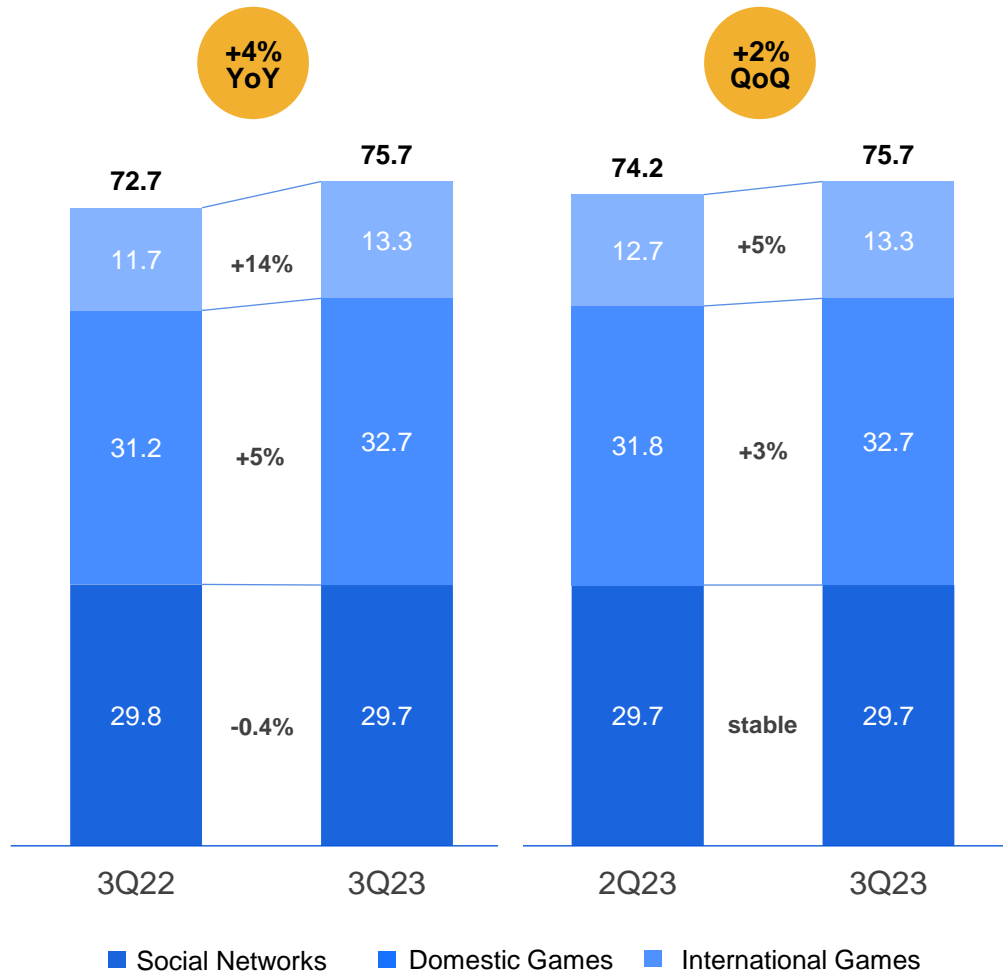
Revenue by Segment

In billion RMB



Value-added Services

In billion RMB



Social Networks

- Revenue was stable YoY. Revenue from music- and games-related live streaming services decreased while revenue from music subscriptions and mini games increased
- Long-form video subscription revenue increased 2% YoY, benefitting from higher ARPU. Video subscriptions declined slightly YoY, though grew QoQ, to 117 million¹. Our exclusive drama series, *Lost You Forever*, ranked #1 industry-wide² in 3Q23
- Music subscription revenue increased 42% YoY. TME optimised user operations, enriched membership privileges and deepened collaborations with labels and artists. Music subscriptions grew 21% YoY to 103 million³ and ARPU was up 17% YoY

Domestic Games

- Revenue grew 5% YoY, driven by new releases *VALORANT* and *Lost Ark*, as well as key titles *HoK* and *DnF*

International Games

- Revenue increased 14% YoY, or 7% in constant currency, as a recovery for *PUBG MOBILE*, and sustained contributions from *NIKKE*, *VALORANT* and *Triple Match 3D*, offset a tough comparison from *Tower of Fantasy's* launch quarter

1. As of Sep 30, 2023
 2. Source: Enlightent, by video views across all online platforms in China for 3Q23
 3. The average number of subscriptions as of the last day of each month during 3Q23

Communications & Social Networks



Cultivating original content creators on Video Accounts

- Total video views increased over 50% YoY, supported by a thriving creator community and growing user mindshare
- Original content contributes large majority of our total video views
- Promoted original content through enhanced recommendation algorithms and traffic support programs



Original content creators



Strengthening social ecosystem via QQ Channel

- QQ Channel enables users to create interest-based communities (“Channels”) within QQ for people who share same hobby, activity or membership
- Channels facilitate activities and discussions through event management, collaboration, and communication tools via text, voice and live streaming
- Host over 700k active Channels across categories such as colleges & universities, games, knowledge-based content and music



QQ Channel covers 3,000+ colleges and universities in China

Domestic Games

Esports debut at Asian Games

Asian Games included esports as a medal event for first time, demonstrating public interest and government endorsement

We publish 4 of 7 titles selected for the Asian Games - *AoV Asian Games Version*, *Peace Elite Asian Games Version*, *LoL*, *EA Sports FC Online*



Extending leadership in MOBA and FPS genres

MOBA: *HoK* #1 by DAU and total time spent across all mobile games YTD¹; *LoL: Wild Rift* gross receipts up ~20% YoY in 3Q23 and consistently among top 10 mobile games by gross receipts YTD²

FPS: launched new titles with distinctive gameplay - PC tactical first person game *VALORANT*, mobile hero first person game *Hyper Legends*



Investing in content and casual genres

MMORPG: *MapleStory: The Legends of Maple* ranked #4 among mobile games by gross receipts in first month of launch³, successfully reached fans of Maple Story IP

Casual: *Dream Stars*, in-house mobile party game with UGC mode, has accumulated 27 million pre-registrations



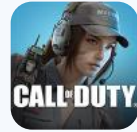
1. Source: QuestMobile, for 1Q23-3Q23
2. Source: data.ai, for 1Q23-3Q23
3. Source: data.ai, for Aug 17 - Sep 16, 2023

International Games



PUBG MOBILE

Gross receipts and DAU resumed YoY and QoQ growth in 3Q23, benefitting from appealing content and themed events, such as Dragon Ball Super collaboration



Call of Duty Mobile

Monthly gross receipts achieved record in July, driven by well-received new season content, including top-tier operator and new 4v4v4 Arena mode



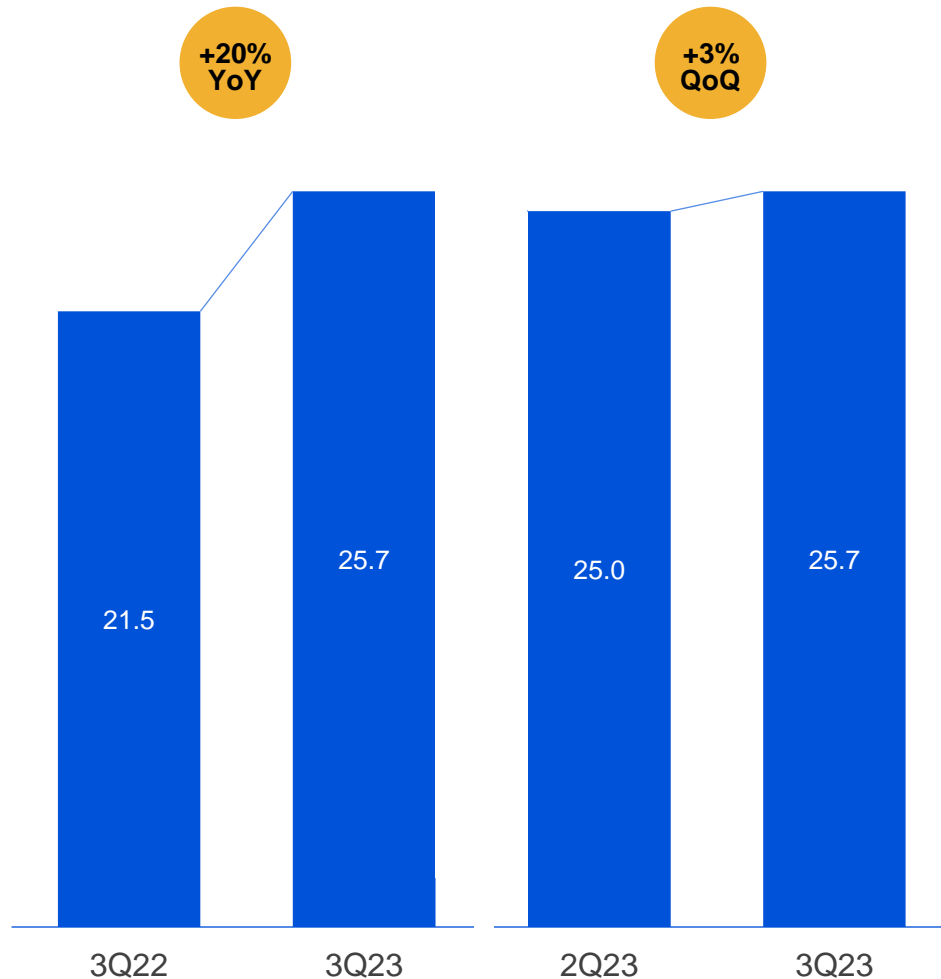
NIKKE

Maintained robust gross receipts and DAU in 3Q23, led by high-quality content updates, e.g., collaboration with NieR:Automata



Online Advertising

In billion RMB



Overall

- Revenue increased 20% YoY, bolstered by strong ad demand for *Video Accounts*, mobile ad network and *Weixin Search*. Ad spend from local services platforms and FMCG rose notably
- YoY revenue growth slowed versus previous quarter as: 1) eCommerce has become a bigger contributor and is seasonally weaker in the third quarter; 2) *Video Accounts'* in-feed ad monetisation started in 3Q22
- We expanded our advertising AI models with more parameters to increase targeting and attribution accuracy. Using our generative AI technology, we are providing tools for automated text-to-image ad creation and smart ad size optimisation to selected partners

Weixin

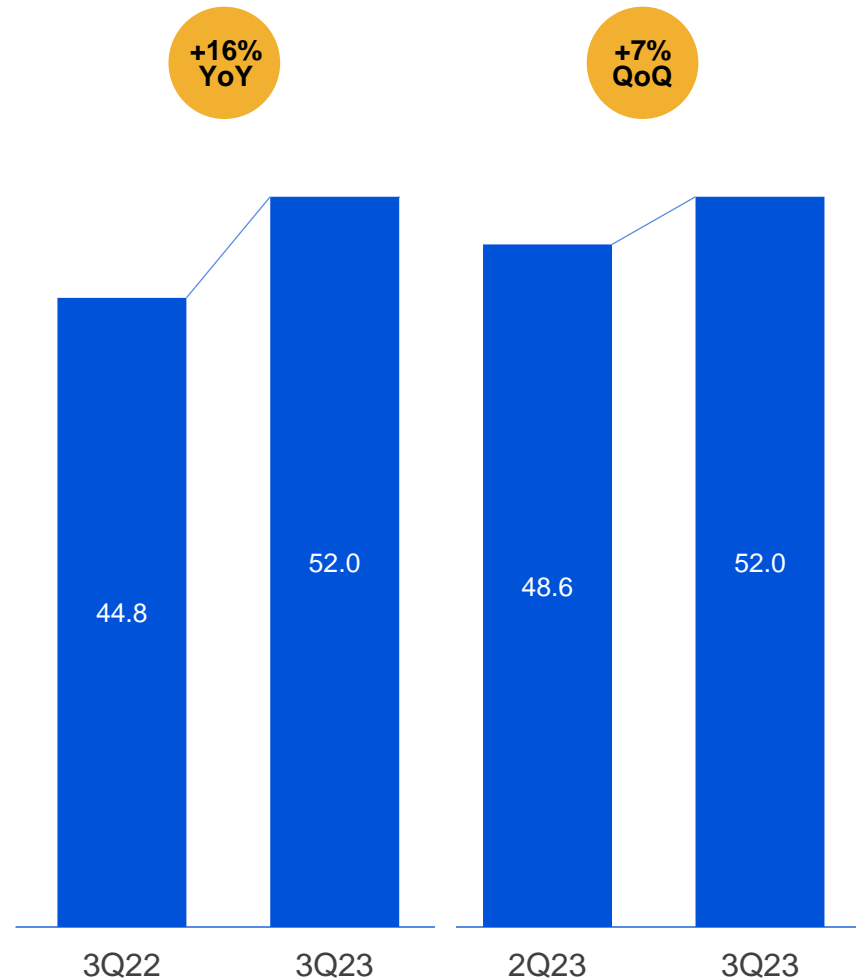
- Closed-loop ad revenue (ads linking to *Mini Programs*, *Video Accounts*, *Official Accounts* and *WeCom* landing pages) increased over 30% YoY, accounting for more than half of *Weixin* ad revenue
- *Video Accounts* ad revenue grew notably QoQ, driven by increases in video views and time spent, while ad load remained constant

Content Platforms

- Long-form video ad revenue increased YoY, benefitting from sponsorship of top-tier drama series, variety shows and sports events
- Music ad revenue maintained robust YoY growth, driven by higher impressions for our ad-supported music streaming service

FinTech and Business Services

In billion RMB



FinTech Services

- Revenue sustained teens YoY growth, benefitting from increases in commercial payment activities and wealth management aggregated customer assets
- *Mini Programs* contributed to a greater portion of commercial payment volume, as enhanced merchant solutions drove transactions in retail, travel & transportation, and dining services

Business Services

- Revenue grew at a double-digit rate YoY, faster than that in 2Q23. Gross margin increased significantly YoY
 - Cloud services revenue mainly benefitted from restructuring undertaken in prior periods and from more spending by finance and automotive industries
 - Fees collected on *Video Accounts* eCommerce transactions increased revenue and improved margins
- Upgrading *Tencent Hunyuan*, our proprietary foundation model
 - *Tencent Hunyuan Bot* is being made available to a small, but expanding, number of users via a *Mini Program*
 - *Tencent Hunyuan* is powering generative AI functionalities within our productivity applications, such as meeting summarisation in *Tencent Meeting* and content generation in *Tencent Docs*
 - Enterprises customers can utilise *Tencent Hunyuan* in our cloud via APIs or MaaS*, for functions such as coding, data analysis, and customer service automation

*Model-as-a-Service

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Income Statement

In billion RMB	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	154.6	140.1	+10%	149.2	+4%
COPS	(78.1)	(78.1)	stable	(78.4)	-0.3%
Gross profit	76.5	62.0	+23%	70.8	+8%
Interest income	3.6	2.3	+51%	3.4	+3%
Other gains/(losses), net	2.6	20.9	-87%	(0.2)	N/A
Operating expenses	(34.2)	(33.6)	+2%	(33.7)	+1%
Operating profit	48.5	51.6	-6%	40.3	+20%
Finance costs	(2.8)	(2.0)	+43%	(3.4)	-15%
Share of profit/(loss) of associates & JVs, net	2.1	(3.7)	N/A	1.2	+81%
Income tax expense	(11.0)	(7.1)	+55%	(11.1)	-1%
Net profit	36.8	38.8	-5%	27.0	+36%
Net profit attributable to equity holders	36.2	39.9	-9%	26.2	+38%
Diluted EPS in RMB	3.752	4.104	-9%	2.695	+39%
Non-IFRS					
Operating Profit	55.5	40.9	+36%	50.1	+11%
Net profit attributable to equity holders	44.9	32.3	+39%	37.5	+20%
Diluted EPS in RMB	4.657	3.306	+41%	3.875	+20%

Non-IFRS Adjustments

In billion RMB	IFRS 3Q2023	SBC	Net (gains)/ losses from investee companies ¹	Amortisation of intangible assets	Impairment provisions/ (reversals) ²	SSV & CPP ³	Tax effects	Non-IFRS 3Q2023	YoY change	QoQ change
Operating profit	48.5	5.7	(0.7)	1.4	0.3	0.3	-	55.5	+36%	+11%
Net profit	36.8	6.9	(0.6)	2.7	0.3	0.3	(0.6)	45.8	+37%	+19%
Net profit attributable to equity holders	36.2	6.8	(0.6)	2.5	0.3	0.3	(0.6)	44.9	+39%	+20%
Operating margin	31.4%							35.9%	+6.7ppt	+2.3ppt
Net margin	23.8%							29.6%	+5.8ppt	+3.7ppt

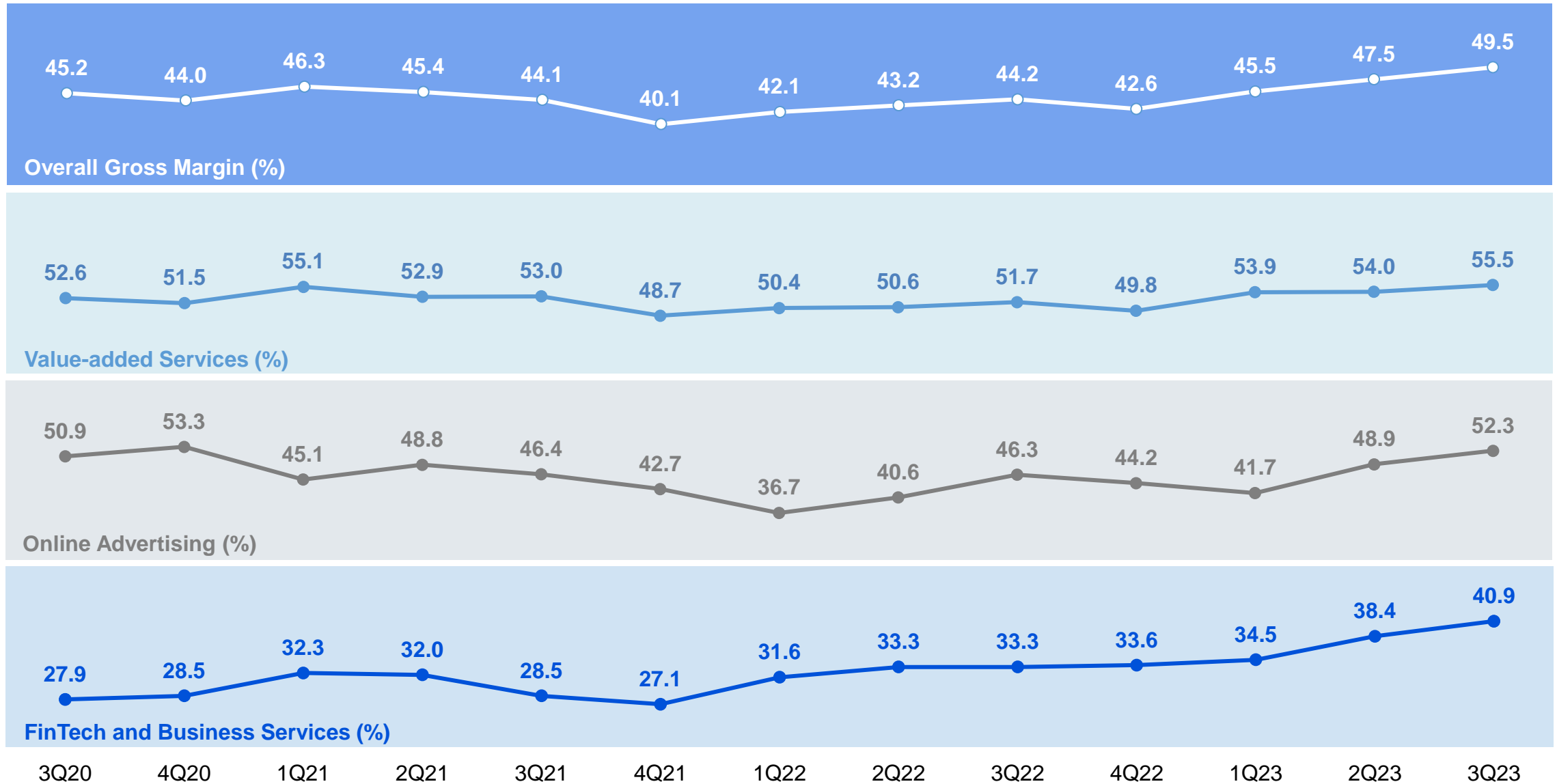
Note:

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.

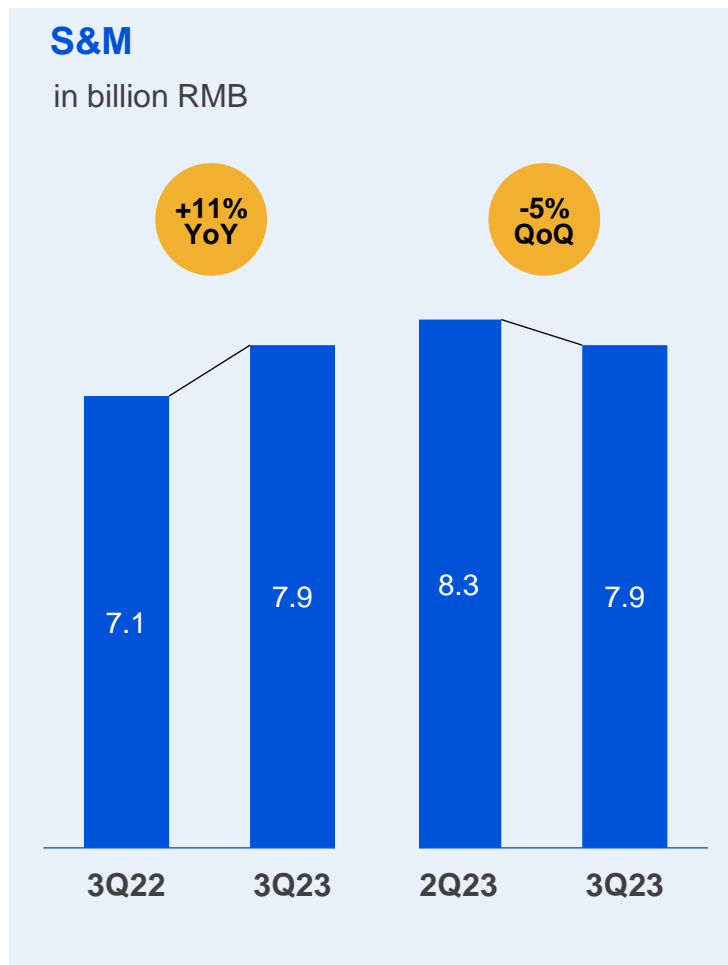
2. Mainly including impairment provisions/(reversals) for associates, joint ventures, goodwill and other intangible assets arising from acquisitions.

3. Mainly including donations and expenses incurred for the Group's Sustainable Social Value & Common Prosperity Programme initiatives.

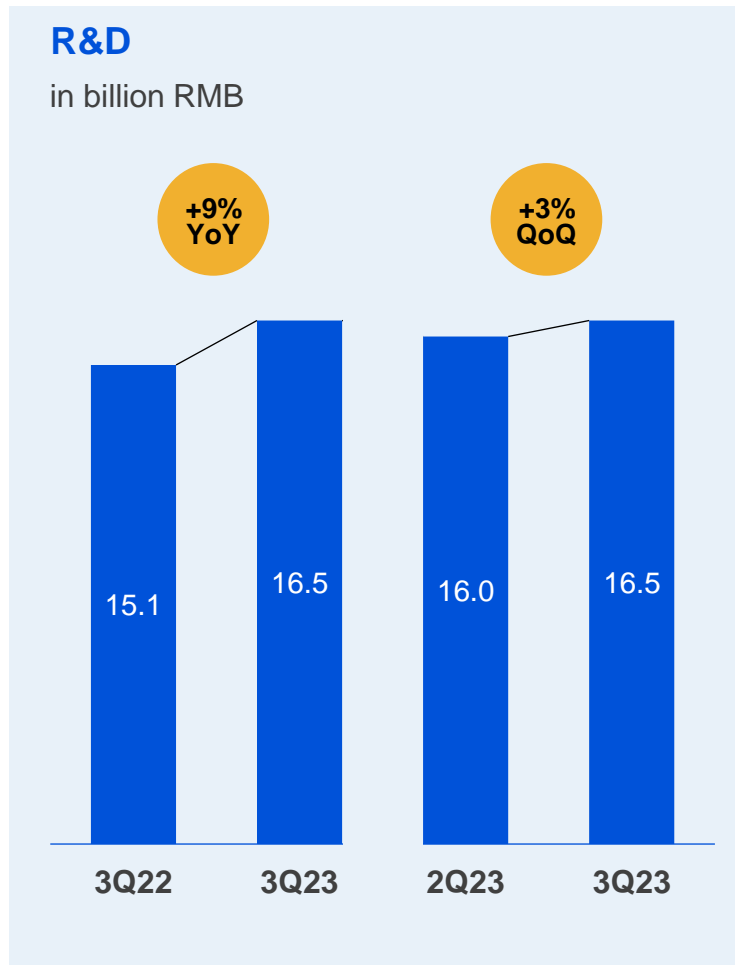
Gross Margins



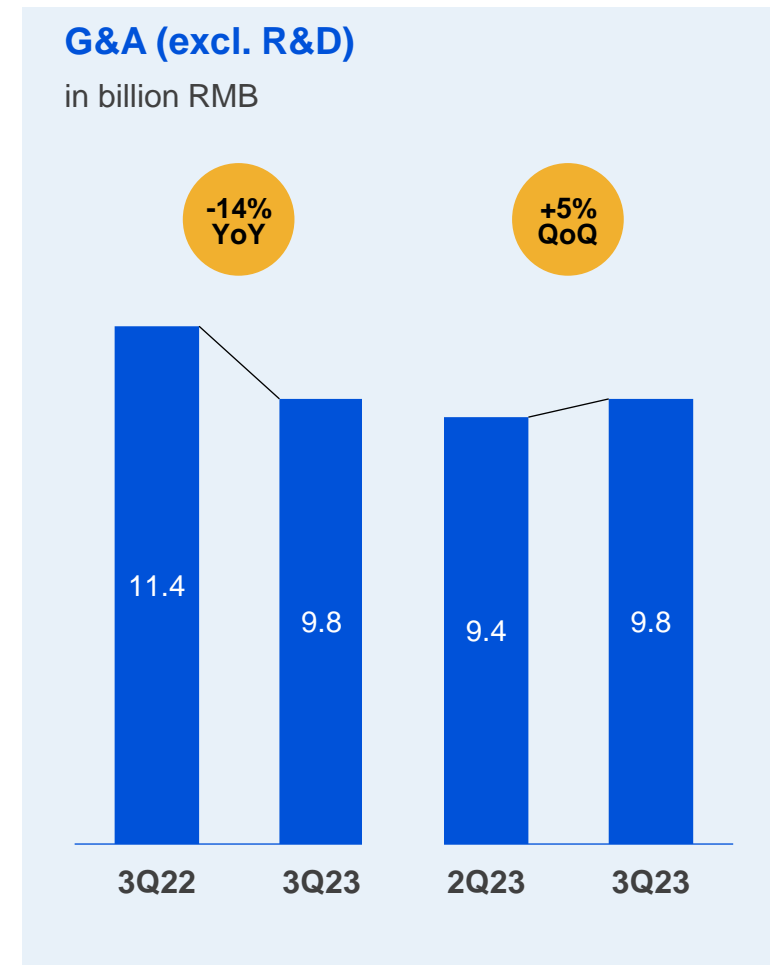
Operating Expenses



Non-IFRS
3Q23 S&M grew by 10% YoY or declined by 5% QoQ

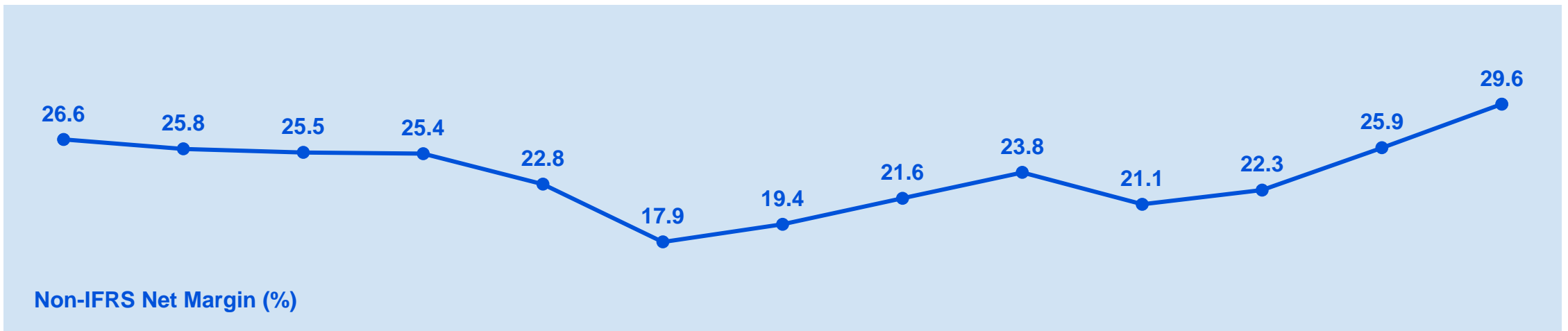
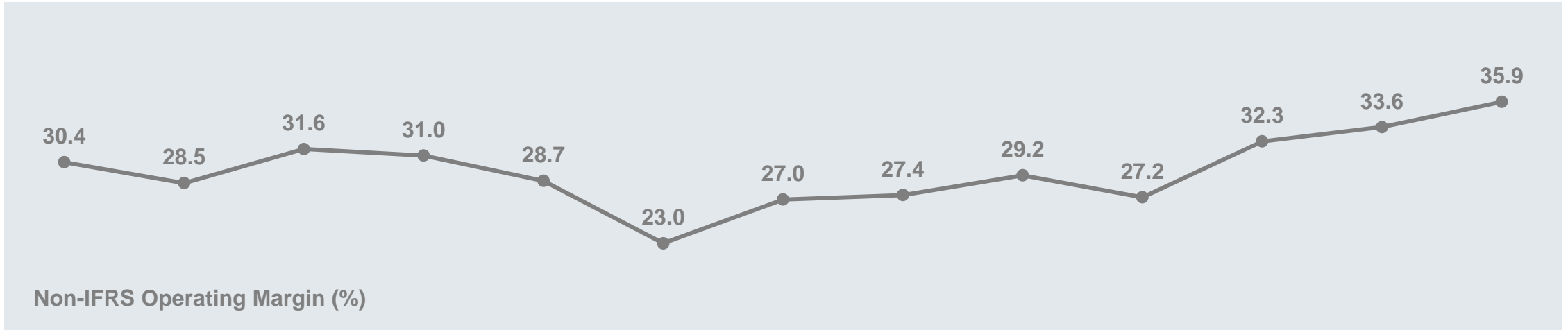


Non-IFRS
3Q23 R&D grew by 11% YoY and 4% QoQ



Non-IFRS
3Q23 G&A (excl. R&D) declined by 13% YoY or grew by 3% QoQ

Non-IFRS Margin Ratios



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

CAPEX, FCF and Cash Position

In billion RMB	3Q2023	3Q2022	YoY	2Q2023	QoQ
Operating CAPEX	6.6	1.1	+526%	3.0	+125%
Non-operating CAPEX	1.4	1.3	+6%	1.0	+37%
Total CAPEX	8.0	2.4	+237%	4.0	+103%
Operating Cash Flow	65.0	41.0	+59%	40.7	+60%
Less: CAPEX Paid	(5.8)	(5.0)	+15%	(3.0)	+95%
Payments for media content	(6.3)	(6.4)	-2%	(6.3)	+0.1%
Payments for lease liabilities	(1.8)	(2.0)	-4%	(1.5)	+24%
Free Cash Flow	51.1	27.6	+85%	29.9	+71%
Total Cash	387.4	315.6	+23%	371.8	+4%
Less: Total Debt	(351.0)	(342.9)	+2%	(354.1)	-0.9%
Net Cash/(Debt)	36.4	(27.3)	N/A	17.7	+106%

- Repurchased ~48 million shares with an aggregated cost of ~RMB14 billion during 3Q23
- As at 30 Sep 2023, the fair value of our shareholdings¹ in listed investee companies (excluding subsidiaries) was ~RMB464 billion (USD65 billion) and the carrying book 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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Thank you!



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