

Tencent 腾讯

***2021 FIRST QUARTER
RESULTS PRESENTATION***

May 20, 2021

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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 RMB6.5713 for 1Q2021.

1. Overview

2. Strategy Review

3. Business Review

4. Financial Review

5. Q&A



Financial Highlights

In billion RMB	1Q2021	1Q2020	YoY	4Q2020	QoQ
Total Revenue	135.3	108.1	+25%	133.7	+1%
Value Added Services	72.4	62.4	+16%	67.0	+8%
Social Networks	28.8	25.1	+15%	27.9	+3%
Games	43.6	37.3	+17%	39.1	+12%
Online Advertising	21.8	17.7	+23%	24.7	-11%
Media	3.3	3.1	+7%	4.3	-22%
Social and Others	18.5	14.6	+27%	20.4	-9%
FinTech and Business Services	39.0	26.5	+47%	38.5	+1%
Others	2.1	1.5	+39%	3.5	-43%
Gross Profit	62.6	52.8	+19%	58.9	+6%
Non-IFRS					
Operating Profit	42.8	35.6	+20%	38.1	+12%
Operating Margin	31.6%	32.9%	-1.3ppt	28.5%	+3.1ppt
Net Profit Attributable to Equity Holders	33.1	27.1	+22%	33.2	Stable

Key Services Update

Games

- #1 by users 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 1,242m

QQ

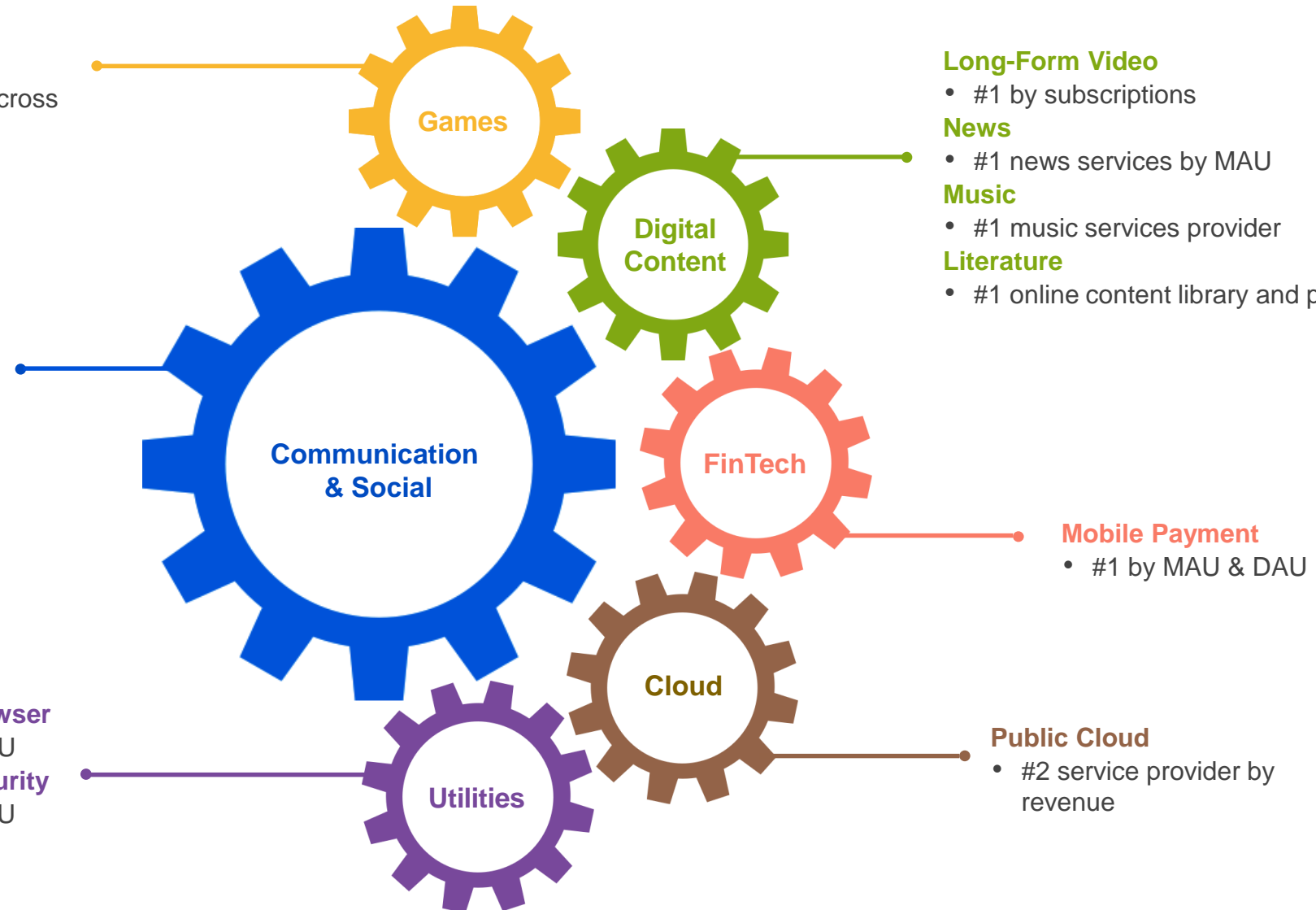
- QQ mobile devices MAU at 606m

Mobile Browser

- #1 by MAU

Mobile Security

- #1 by MAU



* All rankings above refer to China market, unless otherwise stated. Company data as of March 31, 2021.

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China Internet Undergoing a New Round of Investment

New market opportunities clearly emerging

- **Businesses accelerate movement online; various industries speed up digitalisation**
- **Game user base expanded; long-term growth driven by new genres and technologies**
- **Users seek more diverse and nutritious short video content**

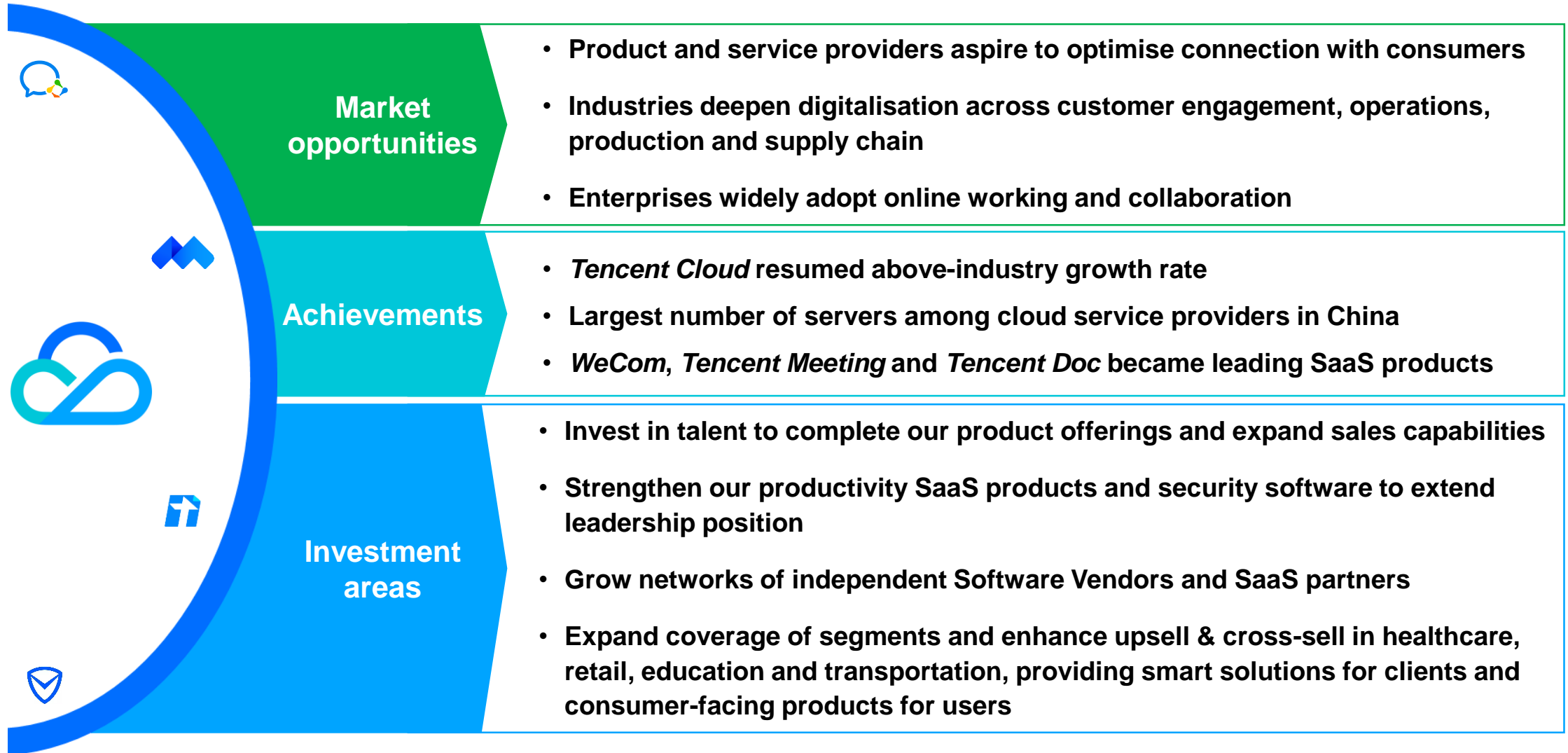
Investees' value appreciates, while incurring wider losses

- **Valuation increased: fair value of our listed investees was over USD200 billion**
- **Several investees at heavy loss stage due to investment in new opportunities: top 5 loss-making associates reduced our 1Q21 non-IFRS net profit by 7%**

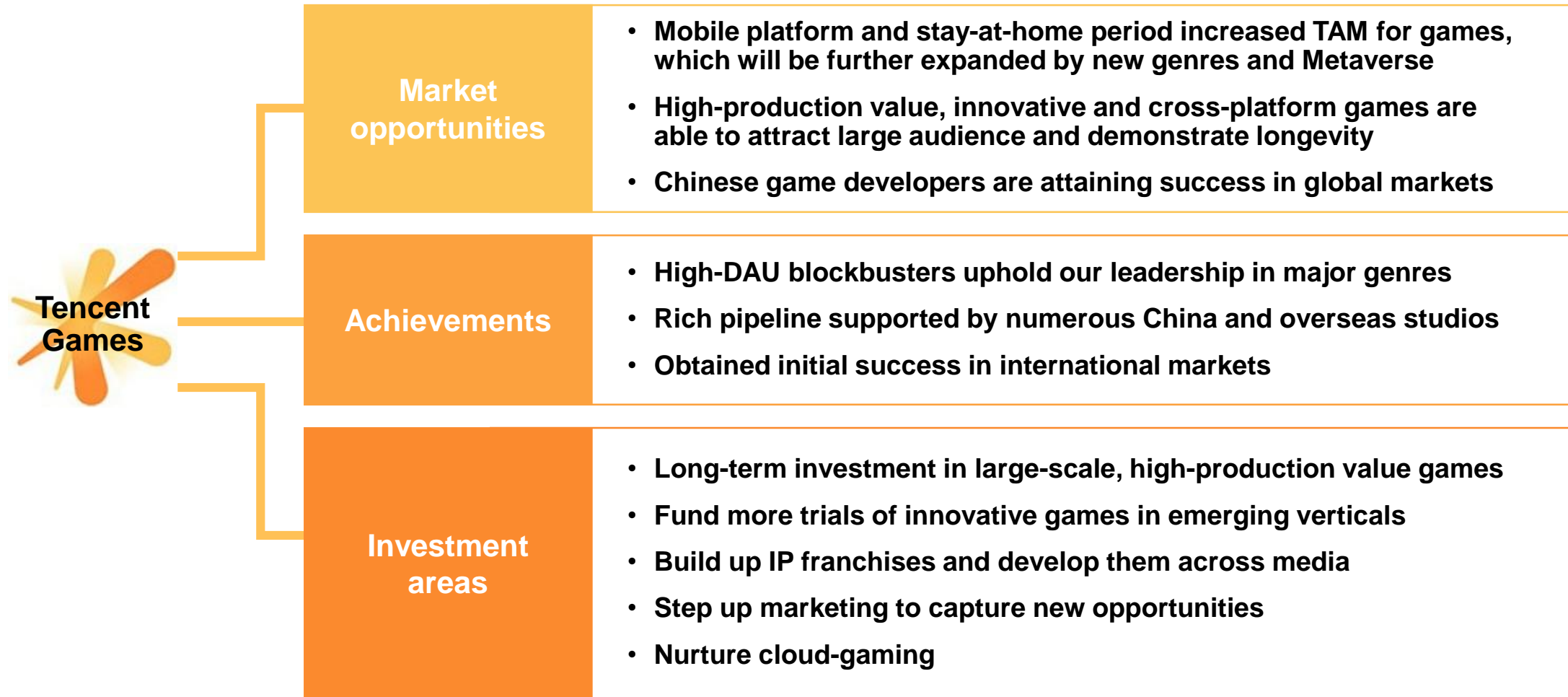
Tencent is proactively investing for future

- **Business Services: assist in digitalisation**
- **Games: focus on high-production value games with global appeal**
- **Short-Form Video Content: cultivate differentiated ecosystems**
- **Sustainable Social Value: bring technology benefits to society**

Invest for Future – Business Services



Invest for Future – Games



Invest for Future – Short-Form Video Content

Foster UGC ecosystem for *Video Accounts*

- A new infrastructure in *Weixin*, connecting users with real-life content and bridging high-quality content creators with their customers
- Provide resources as well as handy creation and monetization tools to attract diverse content creators, incubating a unique content portfolio
- Optimise technology to unlock potential of social+algorithmic recommendation and increase exposure of knowledge-based content
- Add servers and bandwidth to support solid organic growth

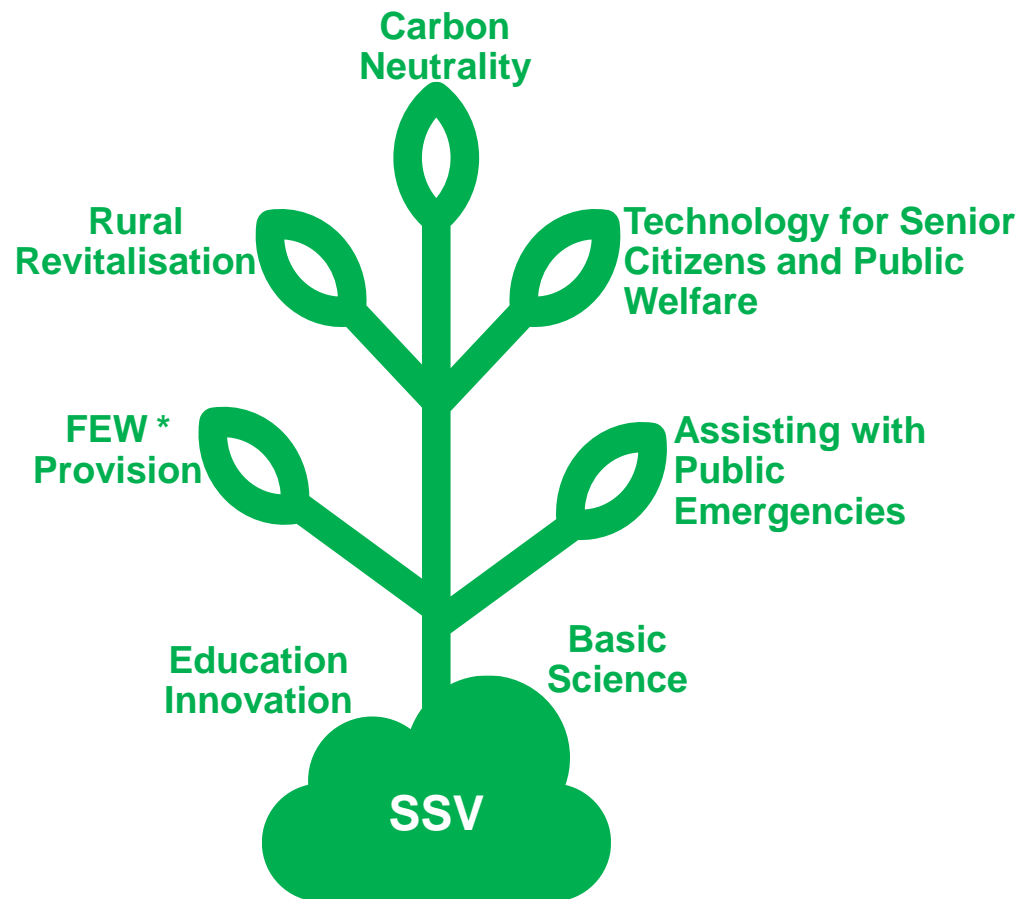


Unleash synergies between long-form and short-form content

- Merged *Tencent Video* and *WeiShi* to strengthen viewing experience, enrich content offerings, sharpen algorithmic recommendation
- Escalate self-commissioned production to further expand our IP content library, enabling more video clips produced by creator network to serve emerging needs for high-quality short content
- Leverage our capabilities acquired through building up *WeiShi*, such as short-form content creation, recommendation, user acquisition and operations, to empower long-form video



Invest for Future – Sustainable Social Value



* FEW refers to food, energy and water.

- Realise our aspiration: bring benefits and value to society sustainably by leveraging our technology and products
- Broad undertaking to elevate importance of sustainable social value in making product decisions
- Established SSV Org to deploy social value initiatives in a professional and entrepreneurial way
- Incubate projects in various areas, linking with our existing businesses when appropriate
- Promote development of self-sustainable operations in addition to providing donations
- Pursue long-term social value rather than economic profits
- Capital funded by our investment gains

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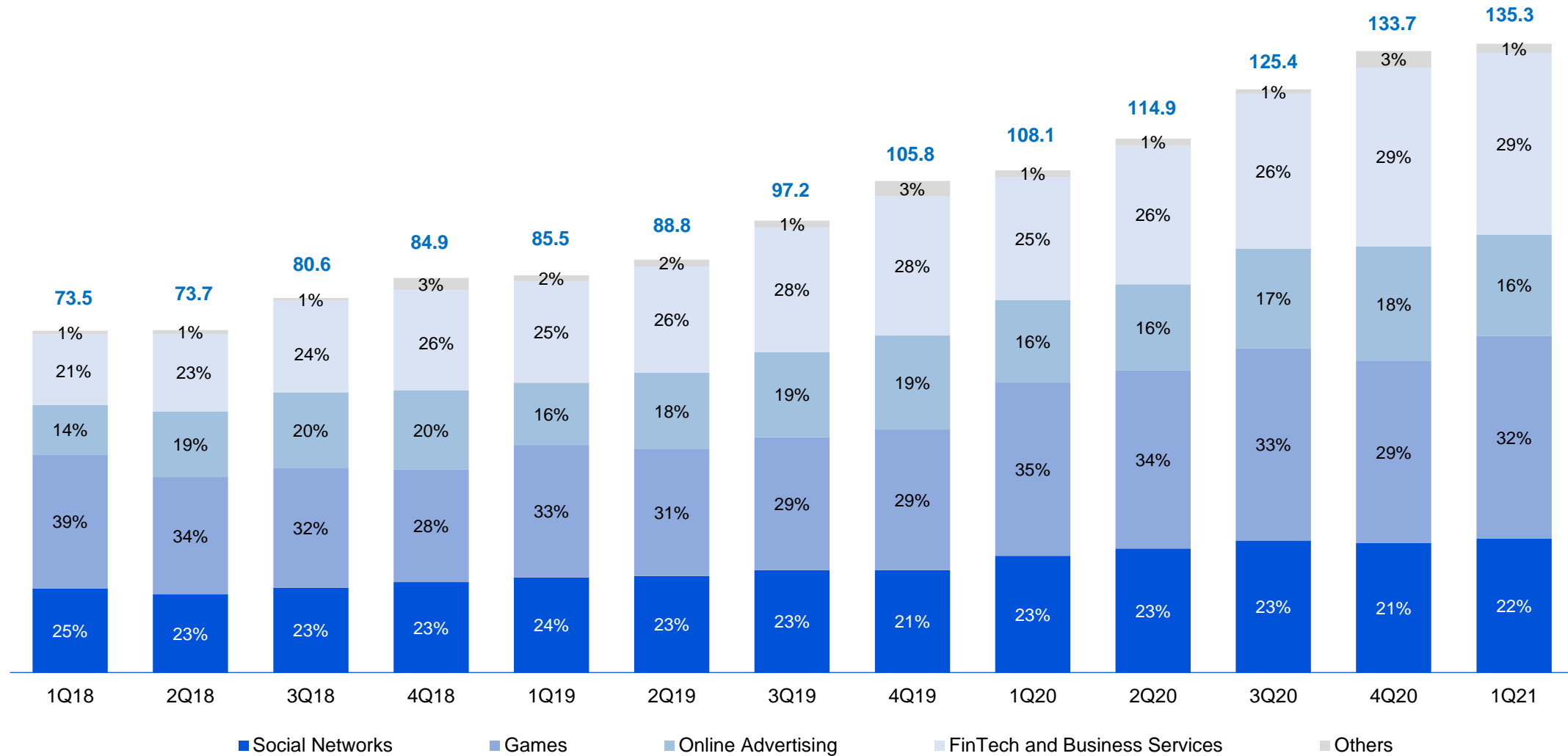
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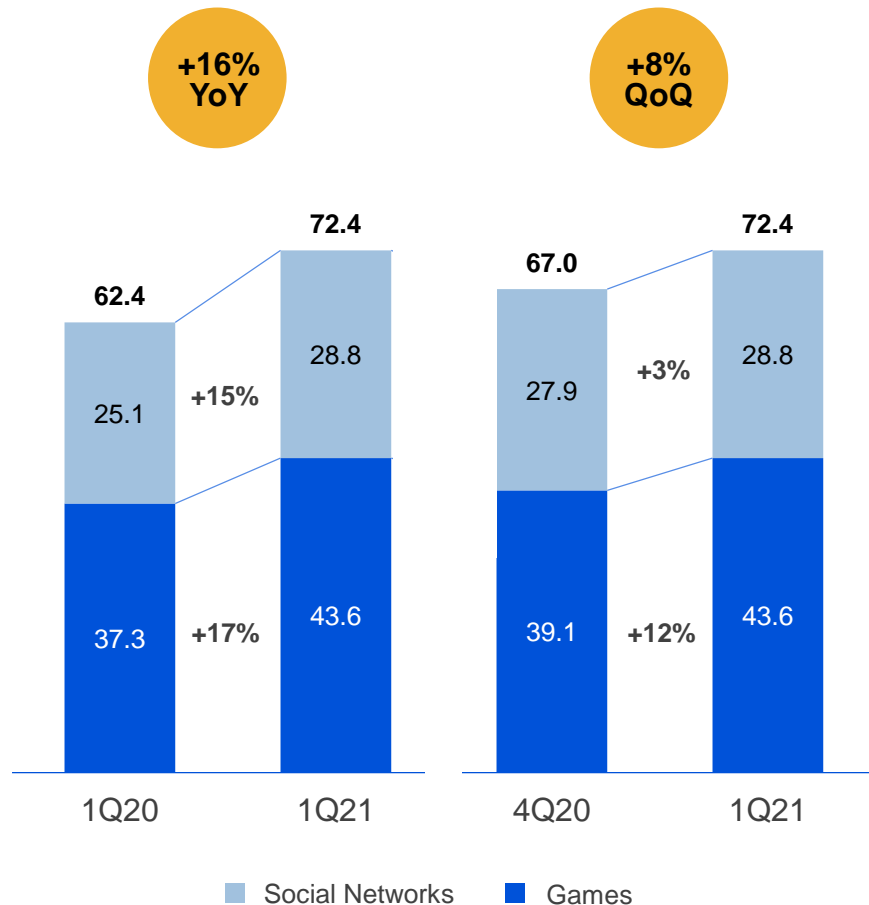
Revenue by Segment

In billion RMB



Value Added Services

In billion RMB



Social Networks

- Revenue was up 15% YoY on moderate growth of digital content subscriptions and in-game item sales
- Total VAS subscriptions grew 14% YoY to 226 million. Video subscriptions increased 12% YoY to 125 million, benefitting from adaptation of IPs into animated and live action drama series. Music subscriptions increased 43% YoY to 61 million, primarily driven by better content, effective marketing campaigns and an improved retention rate

Games

- Amid normalising user activity, online games revenue grew 17% YoY, driven by mobile games growth in China and higher contributions from international markets. Revenue was up 12% QoQ on seasonality in China
- Total mobile games revenue increased 19% YoY from a high base to RMB41.5 billion, benefitting from robust performance of *HoK*, *PUBG Mobile* and *Peacekeeper Elite*, in addition to new game releases
- PC client games revenue increased 1% YoY to RMB11.9 billion as contributions from *Valorant* and *Warframe*, as well as growth from *CrossFire*, offset *DnF* softness

*Total mobile games revenue includes mobile games revenue booked under Games and related game distribution/relationship revenue booked under Social Networks.

Social Networks

Weixin: building a vibrant content and service ecosystem

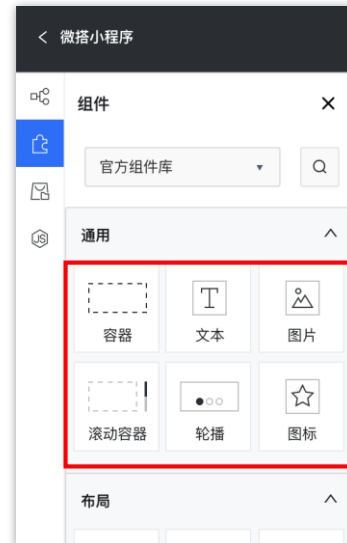
- Attract and cultivate *Video Accounts* content creators by providing customised onboarding services and ongoing operational support
- Increase *Mini Programs* penetration among SMEs with enriched capabilities
 - Low-code development platform enhances cost efficiency for long-tail *Mini Programs*
 - Provided more tools to assist system integrators; number of active *Mini Programs* served by system integrators more than tripled YoY



Weixin Video Accounts content creator community

Case studies and tutorials on best use of features and editing tools

Creator programs providing traffic and operational support



Low-code development platform

Drag-and-drop interface for Mini Programs development

QQ: leveraging technology to better appeal to young users

- Provide seamless experiences between instant messaging and games
 - Team up with QQ friends to jump into multi-player battles in games, and chat with in-game contacts via *Game Center*
 - Stay up-to-date with game events via *Mini Programs* and *Game Center*
- New leadership of QQ will pursue upgrade of technology, operations and content



QQ group

Game invite notification

Jump into game battles with one click



Message tab in QQ Game Center

Chat with in-game contacts

Games

- **Enhanced user engagement and consumption despite tough comparison**

- *HoK*: DAU and paying users reached record highs in Feb due to 1) expanded user community; 2) upgraded graphics and game experiences; and 3) appealing marketing campaigns with top-tier skin releases during Chinese New Year
- *PUBG Mobile*: reduced application file size and enhanced local operational expertise, expanding DAU in EMEA countries
- *LoL*: distributed bigger and better Lunar Revel content across platforms (PC and mobile) and game modes (core mode and *Teamfight Tactics*), increasing global revenue YoY

- **Cultivate emerging genres with new releases**

- *Komori Life* and *The Walnut Diary* ranked among China's top 10 life simulation mobile games by DAU* in April

- **Compelling games pipeline across various genres including Action, MOBA, RPG, Simulation, Strategy and Survival**

- China: *Dynasty Warriors Dominate*, *LoL Wild Rift*, *Mobile DnF*, *Joy of Life*, *Light and Night*
- International: *Warhammer 40,000: Darktide*, *Path of Exile 2*, *Alchemy Stars*, *Clash Quest*, *Don't Starve: Newhome*, *Undawn*



HoK: top-selling skin released during Chinese New Year



Komori Life: simulation of countryside lifestyle

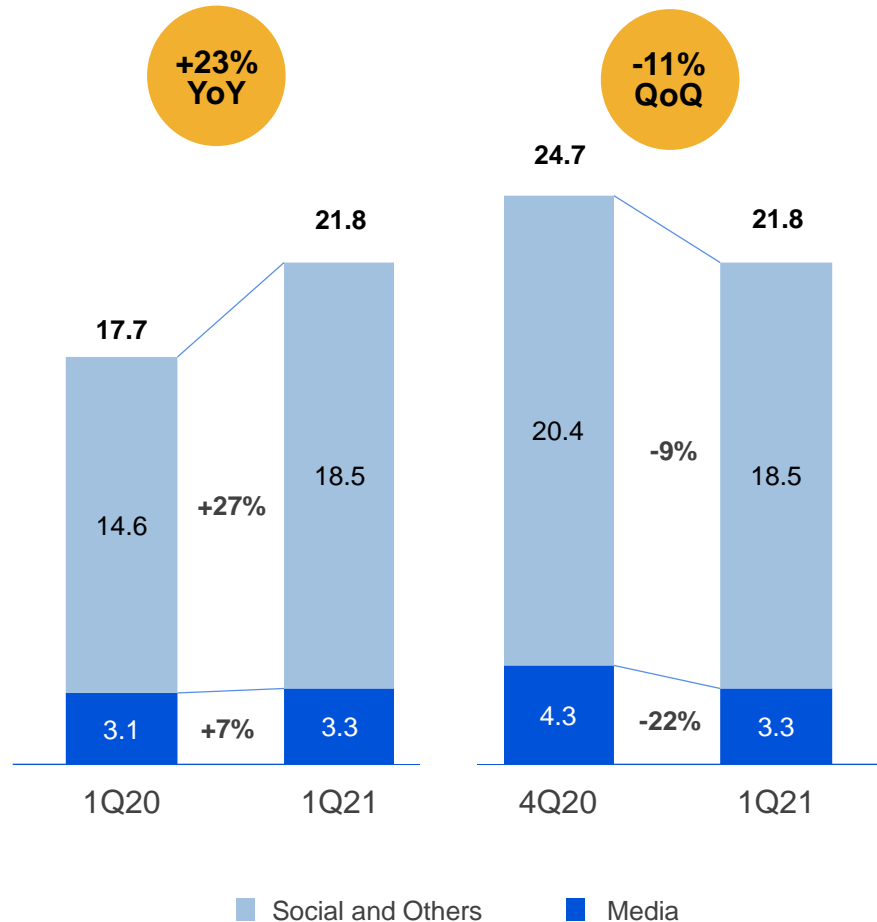


Undawn: open-world survival PC/mobile game by Lightspeed and Quantum

*Source: QuestMobile

Online Advertising

In billion RMB



Overall

- Revenue grew 23% YoY, underpinned by 1) higher ad spend from eCommerce platforms and education verticals; 2) FMCG and auto-related ad revenue growth primarily due to economic recovery; and 3) Bitauto consolidation
- We enhanced transaction capabilities of our ad properties and marketing solutions for key industries, delivering higher ROIs for advertisers
- For the rest of 2021, industry uncertainties include K-12 education regulations and video content release schedule

Social & Others Ad

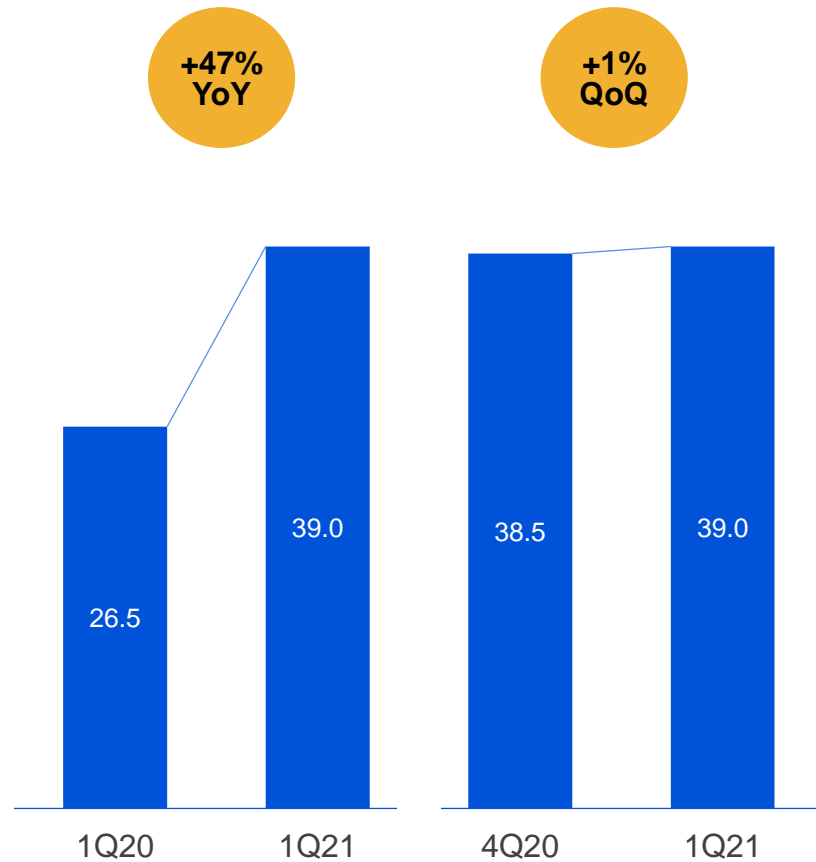
- *Moments*' impressions and revenue increased, driven by additional ad loads; more advertisers adopted *Mini Programs* as landing pages, demonstrating growing recognition of Weixin as a transaction-generating environment
- Mobile ad network revenue grew rapidly, reflecting increased video ad inventories; games, online reading and tools were the key inventory drivers

Media Ad

- YoY revenue growth was primarily driven by increased ad inventory and eCPM across music apps
- Self-commissioned variety shows such as *Chuang 2021* and *Roast Season 5* helped sponsorship ad revenue

FinTech and Business Services

In billion RMB



FinTech Services

- YoY revenue growth was higher than previous quarter due to stay-at-home impact in 1Q20 and increasing mobile payment usage in China
- Commercial payment volume was up modestly QoQ due to offline transactions increase as people travelled less and consumed more during the Chinese New Year holiday. Growth in retail and dining services offset the seasonal decline in eCommerce

Business Services

- Revenue grew healthily YoY, benefiting from resumed project deployment and robust demand of enterprise software and online video customers
- PaaS and SaaS revenue contribution increased, driven by security and communication PaaS, as well as CRM SaaS
- SaaS partner ecosystem expanded rapidly. Launched *Enterprise App Connector*, enabling unified login accounts and data flow across various SaaS tools - SaaS providers use *Connector* to develop and deliver products more efficiently; enterprise clients use *Connector* to better integrate multiple software solutions

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Income Statement

In million RMB	1Q2021	1Q2020	YoY	4Q2020	QoQ
Revenues	135,303	108,065	+25%	133,669	+1%
COPS	(72,668)	(55,271)	+31%	(74,788)	-3%
Gross profit	62,635	52,794	+19%	58,881	+6%
Interest income	1,614	1,636	-1%	1,708	-6%
Other gains, net	19,521	4,037	+384%	32,936	-41%
Operating expenses	(27,497)	(21,207)	+30%	(29,812)	-8%
Operating profit	56,273	37,260	+51%	63,713	-12%
Finance costs, net	(1,367)	(1,684)	-19%	(2,253)	-39%
Share of profit/(loss) of associates & JVs	1,348	(281)	N.A	1,618	-17%
Income tax expense	(7,246)	(5,892)	+23%	(3,709)	+95%
Net profit	49,008	29,403	+67%	59,369	-17%
Net profit attributable to equity holders	47,767	28,896	+65%	59,302	-19%
Diluted EPS in RMB	4.917	2.999	+64%	6.112	-20%
Non-IFRS:					
Operating Profit	42,758	35,575	+20%	38,084	+12%
Net profit attributable to equity holders	33,118	27,079	+22%	33,207	Stable
Diluted EPS in RMB	3.415	2.817	+21%	3.413	Stable

Non-IFRS Adjustments

In million RMB	IFRS 1Q2021	SBC	Net (gains)/ losses from investee companies ¹	Amortisation of intangible assets	Impairment provision ²	Tax effect ³	Non-IFRS 1Q2021	YoY change	QoQ change
Operating profit	56,273	3,704	(18,331)	1,062	50	-	42,758	+20%	+12%
Net profit	49,008	5,036	(22,231)	2,699	178	(187)	34,503	+23%	Stable
Net profit attributable to equity holders	47,767	4,855	(21,829)	2,352	178	(205)	33,118	+22%	Stable
Operating margin	41.6%						31.6%	-1.3ppt	+3.1ppt
Net margin	36.2%						25.5%	-0.4ppt	-0.3ppt

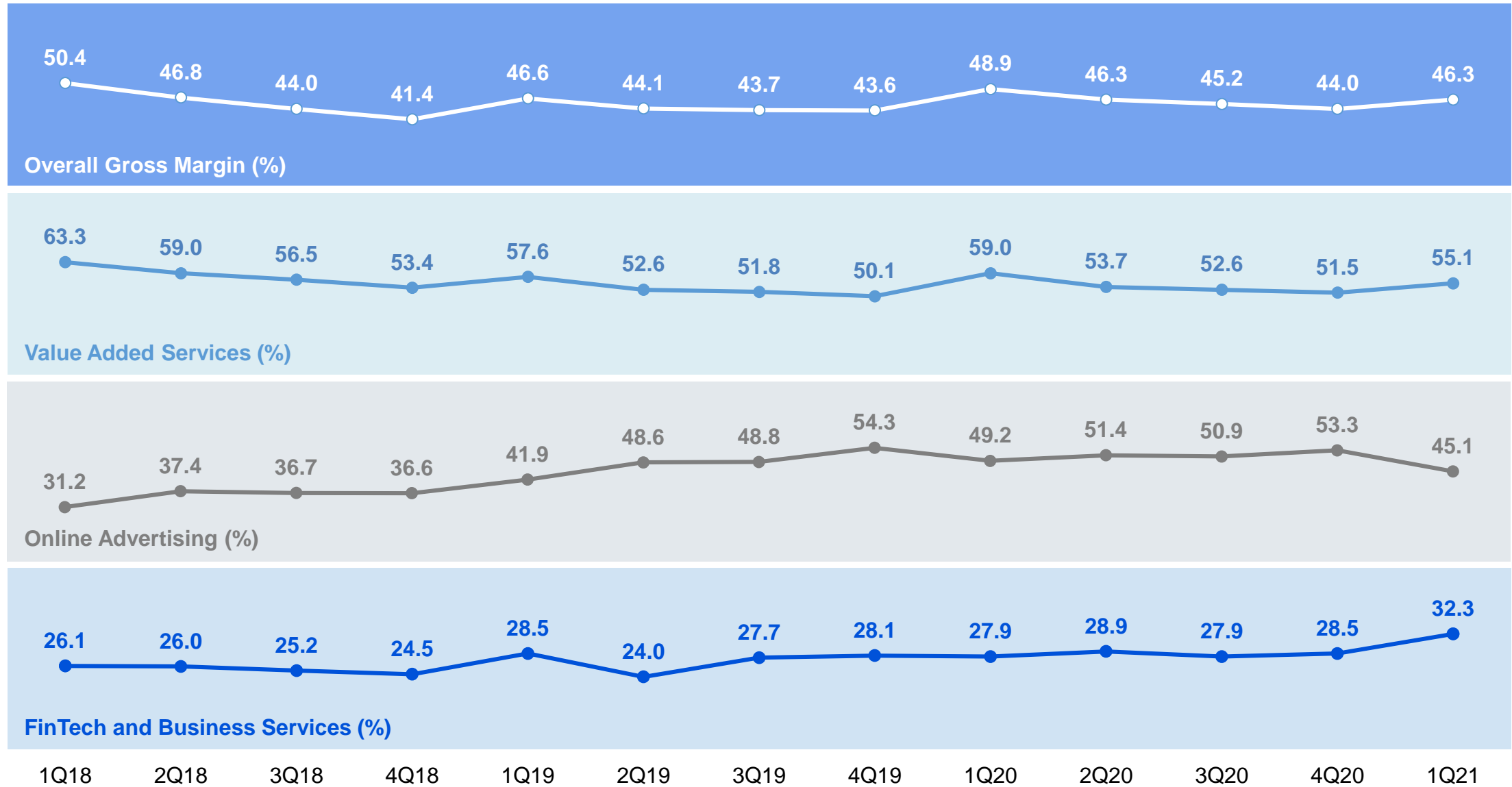
Note:

¹Including 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.

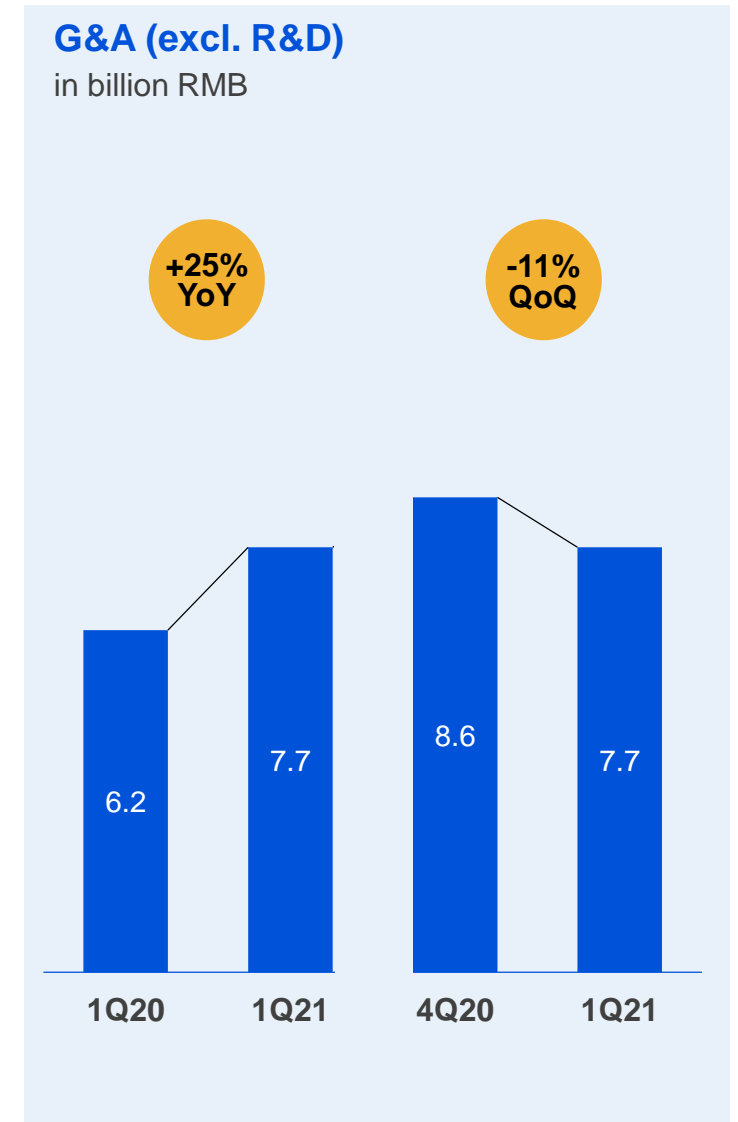
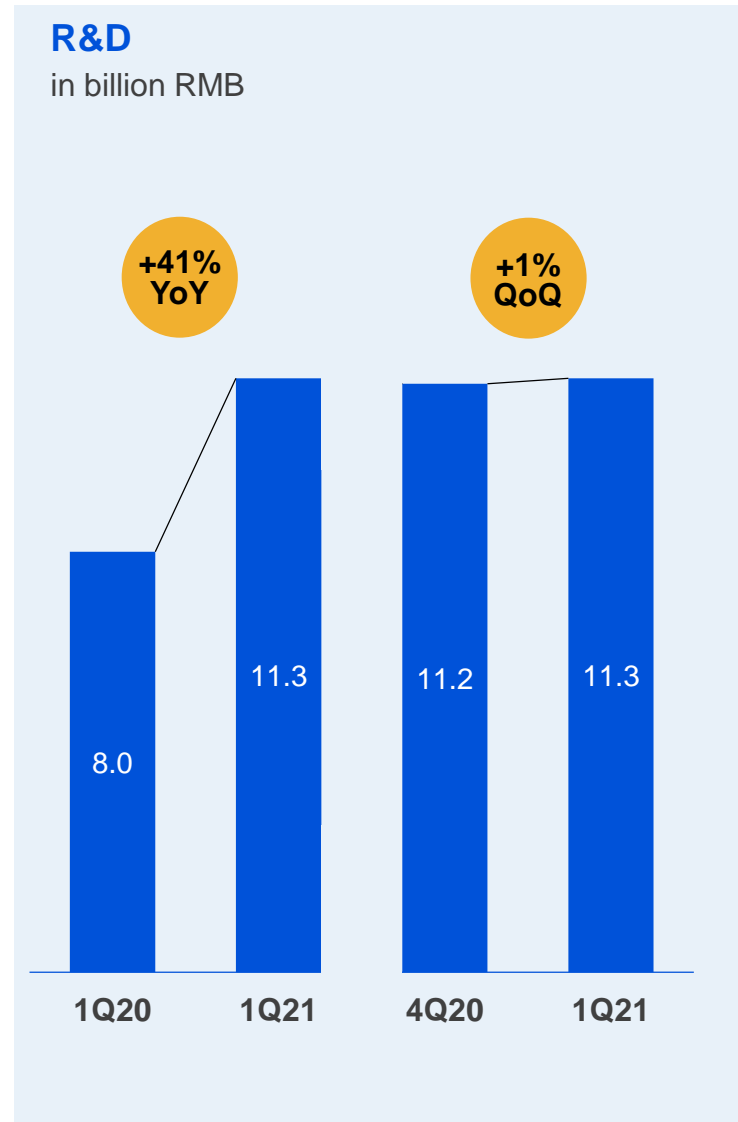
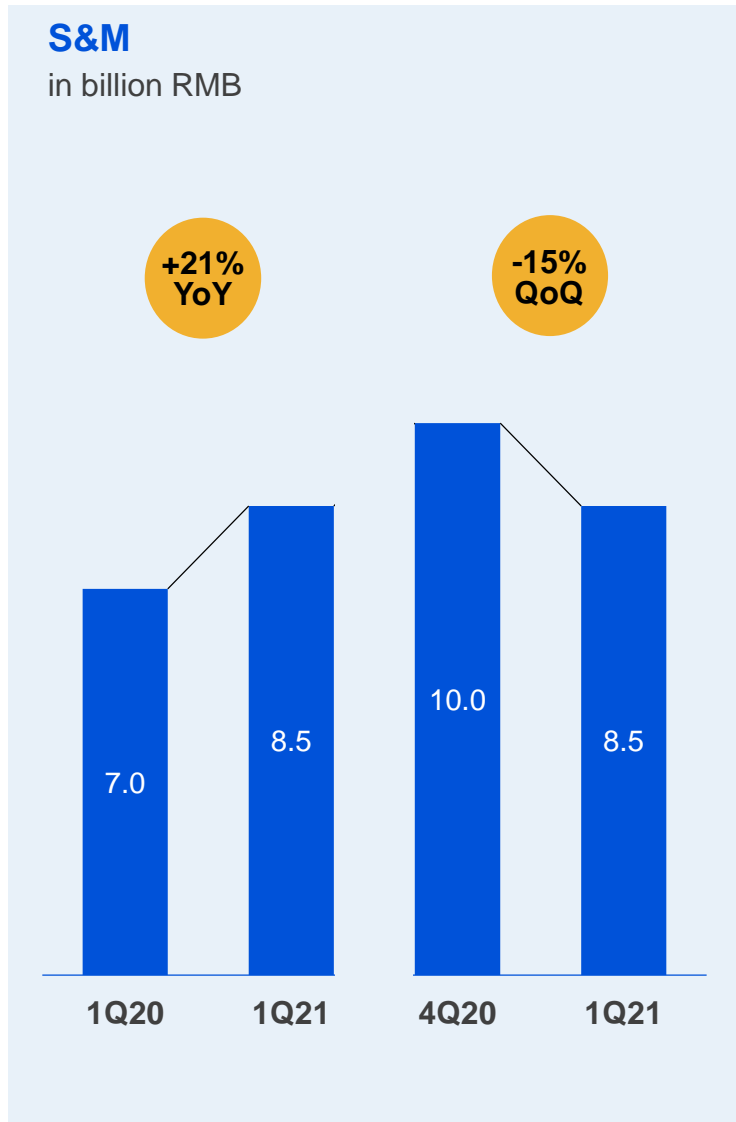
²Impairment provisions for associates, joint ventures, goodwill and other intangible assets arising from acquisitions.

³Income tax effects of non-IFRS adjustments.

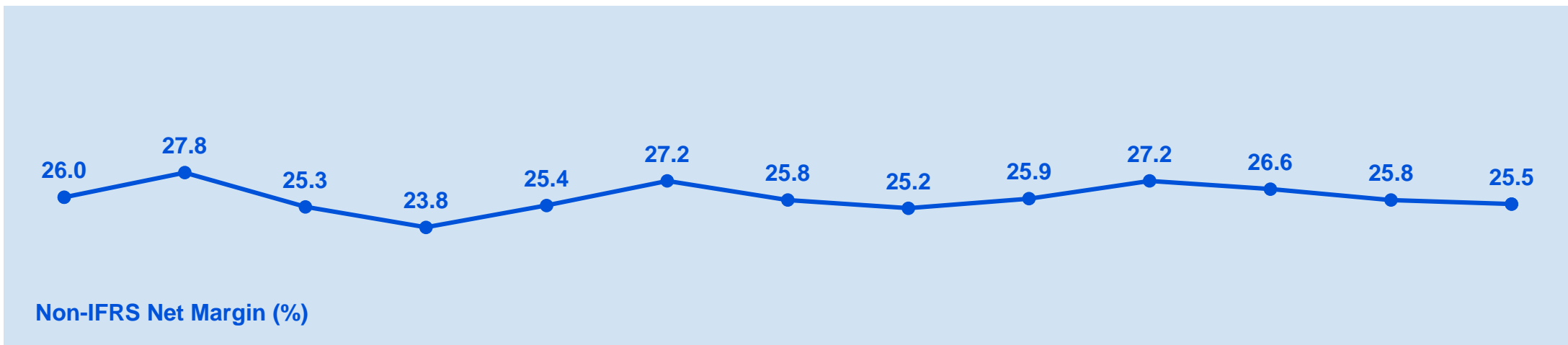
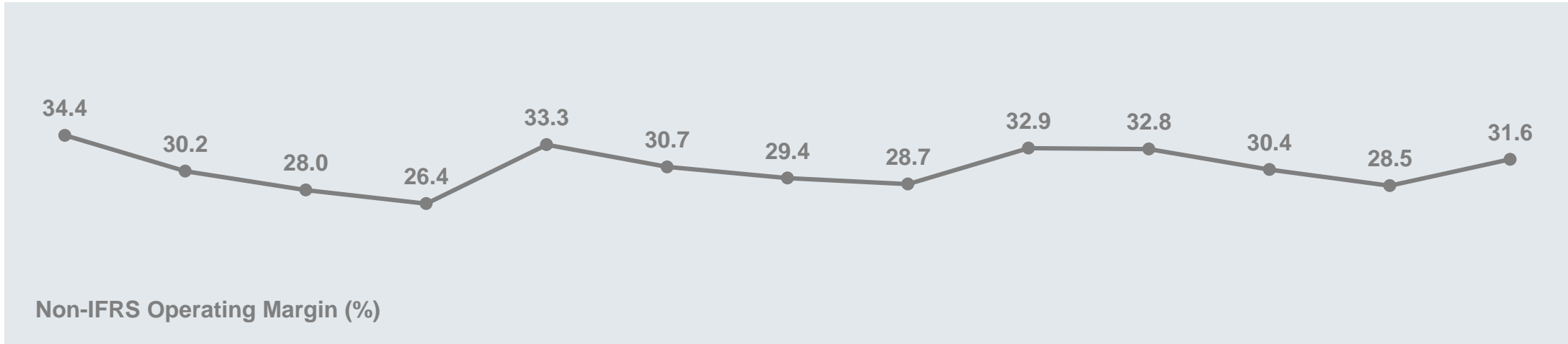
Gross Margins



Operating Expenses



Non-IFRS Margin Ratios



1Q18 2Q18 3Q18 4Q18 1Q19 2Q19 3Q19 4Q19 1Q20 2Q20 3Q20 4Q20 1Q21

CAPEX, FCF and Cash Position

RMB million	1Q2021	1Q2020	YoY	4Q2020	QoQ
Operating CAPEX	6,581	5,469	+20%	8,031	-18%
Non-operating CAPEX	1,153	682	+69%	1,628	-29%
Total CAPEX	7,734	6,151	+26%	9,659	-20%
Operating Cash Flow	51,004	54,661	-7%	48,866	+4%
Less: CAPEX Paid	(9,052)	(9,442)	-4%	(12,266)	-26%
Payments for media content	(7,572)	(5,185)	+46%	(7,778)	-3%
Payments for lease liabilities	(1,136)	(824)	+38%	(1,158)	-2%
Free Cash Flow	33,244	39,210	-15%	27,664	+20%
Total Cash	258,818	220,584	+17%	259,507	Stable
Less: Total Debt	(253,237)	(226,300)	+12%	(248,444)	+2%
Net Cash/(Debt)	5,581	(5,716)	N.A.	11,063	-50%

Fair value of our shareholdings in listed investee companies, excluding subsidiaries, was approximately RMB1,362 billion (USD207 billion) as at Mar 31, 2021, compared to RMB1,205 billion (USD185 billion) as at Dec 31, 2020 and RMB410 billion (USD58 billion) as at Mar 31, 2020

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Tencent Holdings Limited

2021 First Quarter Results Presentation

Thank you!



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