

Tencent 腾讯

***2020 Fourth Quarter and
Annual Results Presentation***

Mar 24, 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 RMB6.5249 for 4Q2020.

1. Overview

2. Strategy Review

3. Business Review

4. Financial Review

5. Q&A



2020 Business Highlights

Social

- Weixin *Video Accounts* facilitated public sharing of informative and educational content in video format
- *Mini Programs* deepened penetration in more use cases, with annual transaction volume more than doubling YoY
- We increased the stickiness of QQ young users by enriching community experiences and catering to entertainment and eLearning needs

Games

- Our worldwide online games revenue grew 36% YoY
- We expanded our user bases for major games (*Honour of Kings*, *Peacekeeper Elite*, *PUBG Mobile*, *League of Legends*) and launched successful new games (*Valorant*, *Moonlight Blade Mobile*, *Call of Duty Mobile*)

Content & Advertising

- We extended IP value across literature, anime, games, and long form video to generate unique and appealing content
- We became clear #1 in China video subscriptions market
- We integrated advertising platforms, strengthening Tencent's own properties and mobile ad network as preferred choices for advertisers

FinTech & Business Services

- Payment user engagement and commercial payment volume increased healthily
- Work closely with regulators and industry partners to deliver compliant FinTech products, while prioritising risk management over scale
- *Tencent Meeting* has become the largest standalone app for cloud conferencing in China
- Star Lake server and T-block technology enhanced Tencent Cloud Services' performance and cost efficiency

Financial Highlights

In billion RMB	4Q2020	YoY	QoQ	FY2020	YoY
Total Revenue	133.7	+26%	+7%	482.1	+28%
Value Added Services	67.0	+28%	-4%	264.2	+32%
Social Networks	27.9	+27%	-2%	108.1	+27%
Online Games	39.1	+29%	-6%	156.1	+36%
Online Advertising	24.7	+22%	+15%	82.3	+20%
Media	4.3	+8%	+19%	14.3	-8%
Social and Others	20.4	+25%	+15%	68.0	+29%
FinTech and Business Services	38.5	+29%	+16%	128.1	+26%
Others	3.5	+7%	+241%	7.5	-1%
Gross Profit	58.9	+28%	+4%	221.5	+32%
<u>Non-IFRS</u>					
Operating Profit	38.1	+26%	Stable	149.4	+30%
Operating Margin	28.5%	-0.2ppt	-1.9ppt	31.0%	+0.6ppt
Net Profit Attributable to Equity Holders	33.2	+30%	+3%	122.7	+30%

Key Services Update

Online Games

- #1 by users in China across PC and smart phone
- #1 globally by revenue

Long Form Video

- #1 by mobile DAU

News

- #1 news services by MAU

Music

- #1 music services provider

Literature

- #1 online content library and publisher

Weixin & WeChat

- #1 smart phone community
- MAU at 1,225m

QQ

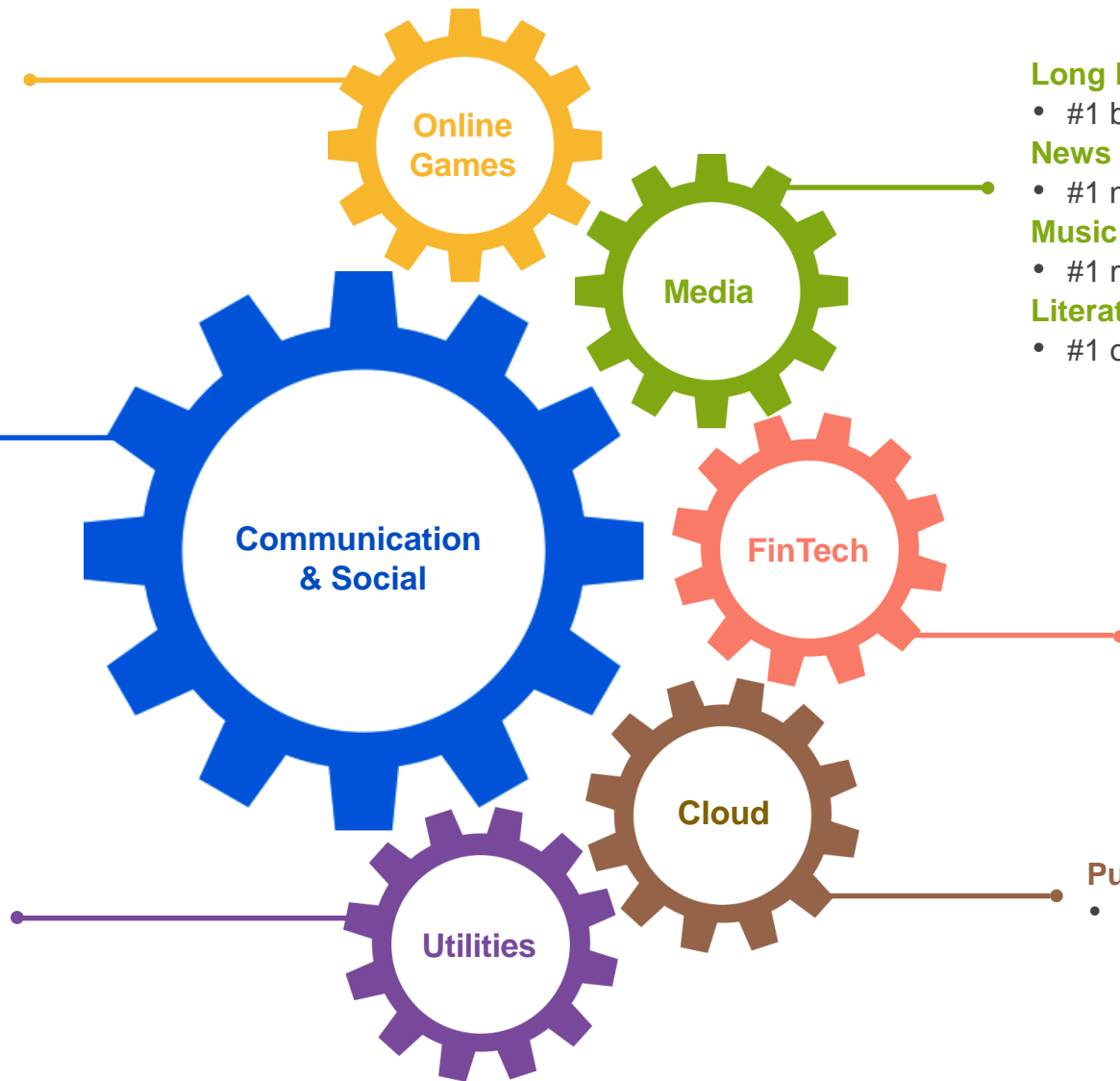
- QQ smart devices MAU at 595m

Mobile Browser

- #1 by MAU

Mobile Security

- #1 by MAU



Mobile Payment

- #1 by MAU & DAU

Public Cloud

- #2 service provider by revenue

* All rankings above refer to China market, unless otherwise stated. Company data as of December 31, 2020.

Implementing *Tech for Good*

Fighting COVID-19

- We facilitated digital distribution for healthcare, education and public services, and assisted business continuity with remote work, online collaboration and other digital tools
- *Mini Programs* and payment solutions facilitated consumer spending during the lockdown, and expedited digitalisation of offline retailers and brands after that

Charitable activities

- We provide charities with an efficient fundraising platform and technology for their digital upgrade
- *99 Giving Day* engaged over 18 million users and 10,000 charities, raising RMB3 billion during the three-day event

Digital inclusion

- We are bridging the digital divide for the elderly and the disadvantaged with *Weixin* and *QQ*
- Our initiative to facilitate rural vitalisation, *WeCounty*, connected over 16,000 villages and 2.5 million villagers

ESG*

- Move towards carbon neutrality by leveraging AI, big data and cloud computing to optimise energy efficiency
- Adhere to 'Privacy by Design' approach and protect user data with advanced security technologies
- Fulfill responsibilities towards teenage players with ongoing upgrade of Healthy Gameplay System

* ESG ratings: MSCI – BBB; Sustainalytics risk score – 24.8 (out of 100, the lower the better)

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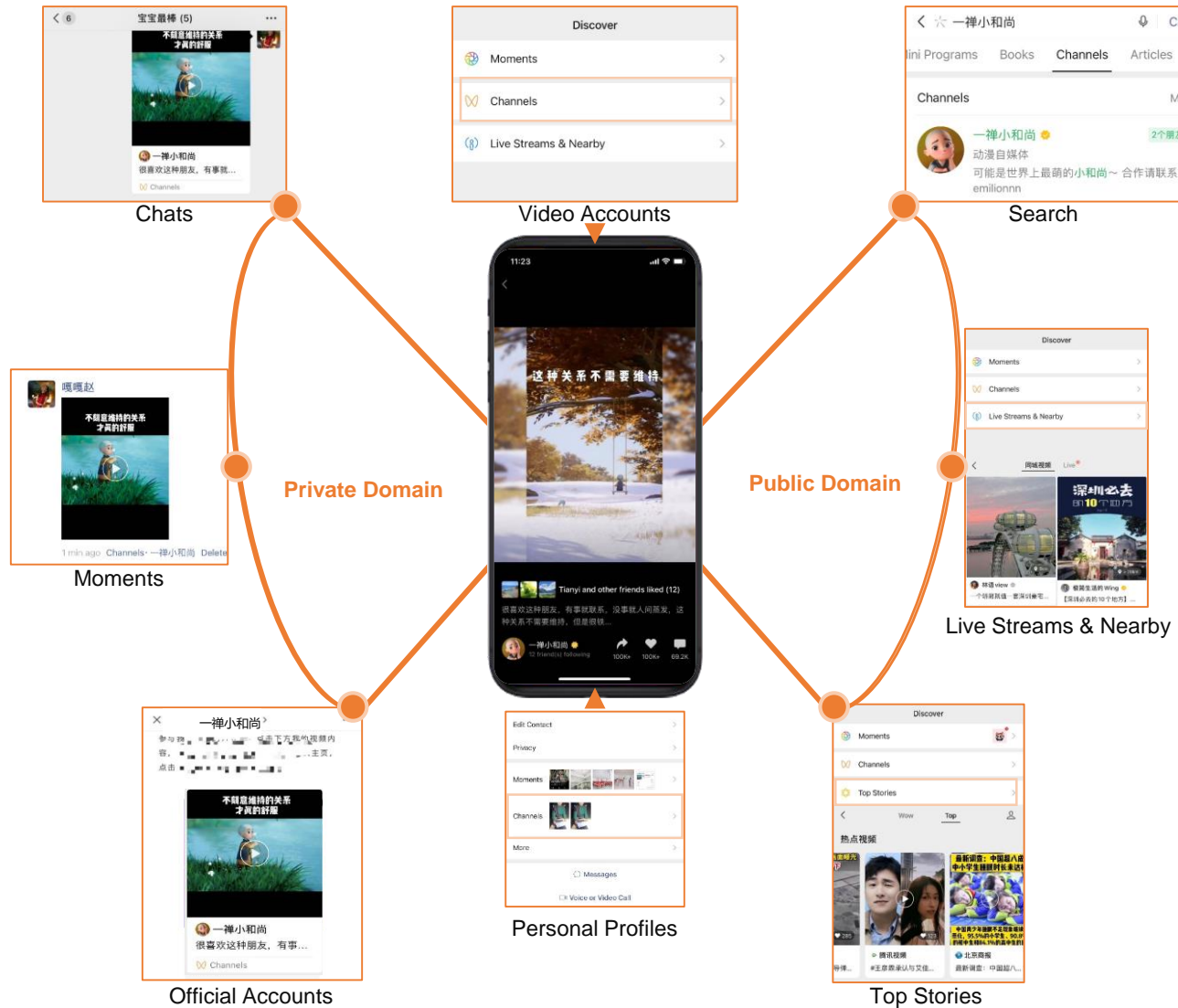


Innovation as a Key Driver

- Pursue continuous innovation to enhance our platforms with a focus on user experience
- Invest in transformative innovation and create new products to serve new user needs
- Most of these innovations took years of patient investment

- 1** **Communication and social:** started with mobile chat and added social networking, *Official Accounts*, payments, *Mini Programs* over the years; incubating *Video Accounts*
- 2** **Games:** develop new and exciting games internally and through partnerships; continuously innovate in game-tech
- 3** **SaaS:** achieved breakout growth in productivity and communication software
- 4** **HealthTech:** utilise our AI, *Mini Programs* and communication tools to solve industry pain points
- 5** **Ecosystem:** provide assistance to innovative companies to better serve users and enterprises

Weixin Video Accounts



- Videolisation is a major trend. Uploads and sharing of short video in *Weixin Moments* and chats have been increasing significantly
- Launched **Video Accounts** as a separate ID-based, short-form content creation platform to:
 - Enable video uploads and sharing to public audience, as well as live streaming
 - Aggregate content providers' digital assets within *Weixin*, supported by *Official Accounts* and *Mini Programs*, to reinforce branding and facilitate user engagement and transactions
 - Link public domain to private domain, providing unique channel for businesses to acquire and manage customers efficiently
- Composed of both informative and entertainment content, offered to users through social and algorithmic recommendations

Games



Most successful new PC game internationally in 2020

- Team based tactical shooter developed by Riot over 6 years
- Innovate in character abilities, environmental design and interactions, anti-cheating technologies



Moonlight Blade Mobile

Best performing new mobile MMORPG in China in 2020

- Proprietary engine developed for 10 years, providing realistic graphics, animations, and detailed character creation system
- Diversified gameplays incl. PvP, PvE, PvX, catering to multi-tier players



Call of Duty Mobile

Highest-DAU game launched in China in 2020

- Complementary to the franchise's console and PC versions
- Fast-paced and competitive first-person-shooting experience drew hardcore players



#1 mobile game in China since 2017; #1 globally since 2019

Honour of Kings

- Constantly enhancing game infrastructure, visual effects and gameplay
- Early adopter of next-generation rendering and high-dynamic-range(HDR) imaging technologies in China



Game AI

World-leading MOBA game AI

- First AI agent able to play full MOBA games with deep reinforcement learning
- 4-day testing in *Honour of Kings* attracted 50m participants
- Extending application to more genres



Cloud gaming service

Pioneer in cloud-based mobile and PC games

- START enables users to play massive multiplayer games on smart TV
- Over 100 cloud-based games available on XianYou platform, providing high quality experience across mobile devices

Communication and Productivity SaaS



WeCom

- Deepened integration with *Weixin* and connected to 400mn consumers that can be directly reached by enterprises
- Adopted by 5.5mn enterprises to serve customers externally and increase efficiency internally
- Introduced multiple cooperation models to grow partnerships with OA application vendors
- Leverage synergies with Tencent Cloud to increase market share in K-12 education



Tencent Meeting

- The most-used standalone app for cloud conferencing in China; total users exceeded 100mn
- Launched enterprise version and enhanced in-meeting capabilities
- Developed new solutions Rooms and Connector to enable compatibility with clients' existing devices
- Export our software knowhow in Audio & Video to upgrade hardware performance of vendors



Tencent Docs

- First mover in providing online solution to generate tables based on collaborative data entry
- Added AI-powered features such as optical character recognition and speech recognition input
- Strengthen integration with other software to expand use cases
- Total MAU surpassed 100mn, more than quadrupled YoY



Tencent Cloud

HealthTech

Tencent Health



All-in-one entry point for online healthcare services

- Increased users' mindshare by adding more COVID-19 related services; total active users exceeded 400mn
- Developed e-Card solutions to digitalise medical-related offline services

➤ Medical Insurance e-Certificate:

bundled with users' social basic medical insurance accounts to conduct mobile payment

➤ Electronic Health Card:

served as a health information management tool for users and their families



Tencent Medipedia



Reliable medical information source

- Top online medical content library with over 120k medical terms; page views and video views totaled over 7bn in 2020
- Optimized content review mechanism by combining AI technology and medical experts' efforts
- Enriched content formats from text, picture to short video and live streaming



Health Code



Most-used ePass for verifying health and travel status

- An easy entry point for people to get their ePass based on health information they filled in
- Facilitate people's efficient entry and exit into public areas nationwide
- Covered 1bn users; over 65bn total visits within a year



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Support Innovation through Investment in Partnerships

Consumer Internet

- Access to emerging opportunities arising from technological advancement and user behaviour changes
- Prioritize user value and product experience
- Focus on content, games, fintech services, eCommerce, O2O and education



Industrial Internet

- Build close partnerships with value chain players to support evolution of industrial Internet
- Leverage technologies to digitalise various sectors, such as education, healthcare, transportation, retail
- Connect users with more services in convenient and efficient manner

Principles

- Invest in high-quality management teams and best-in-class companies
- Support their independent growth and innovation
- Pursue synergies that are value-added to users
- Focus our internal resources on innovation within our core businesses

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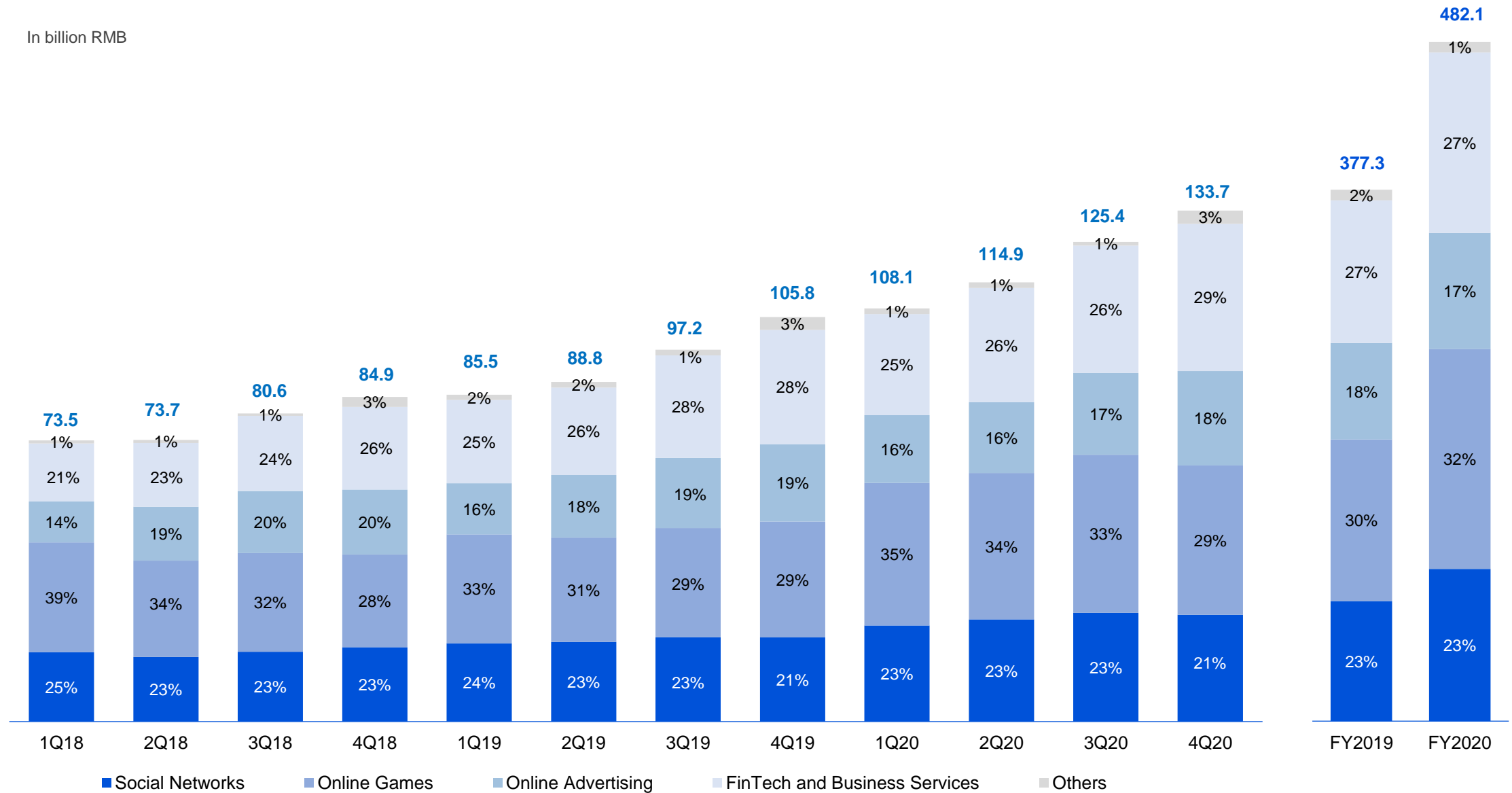
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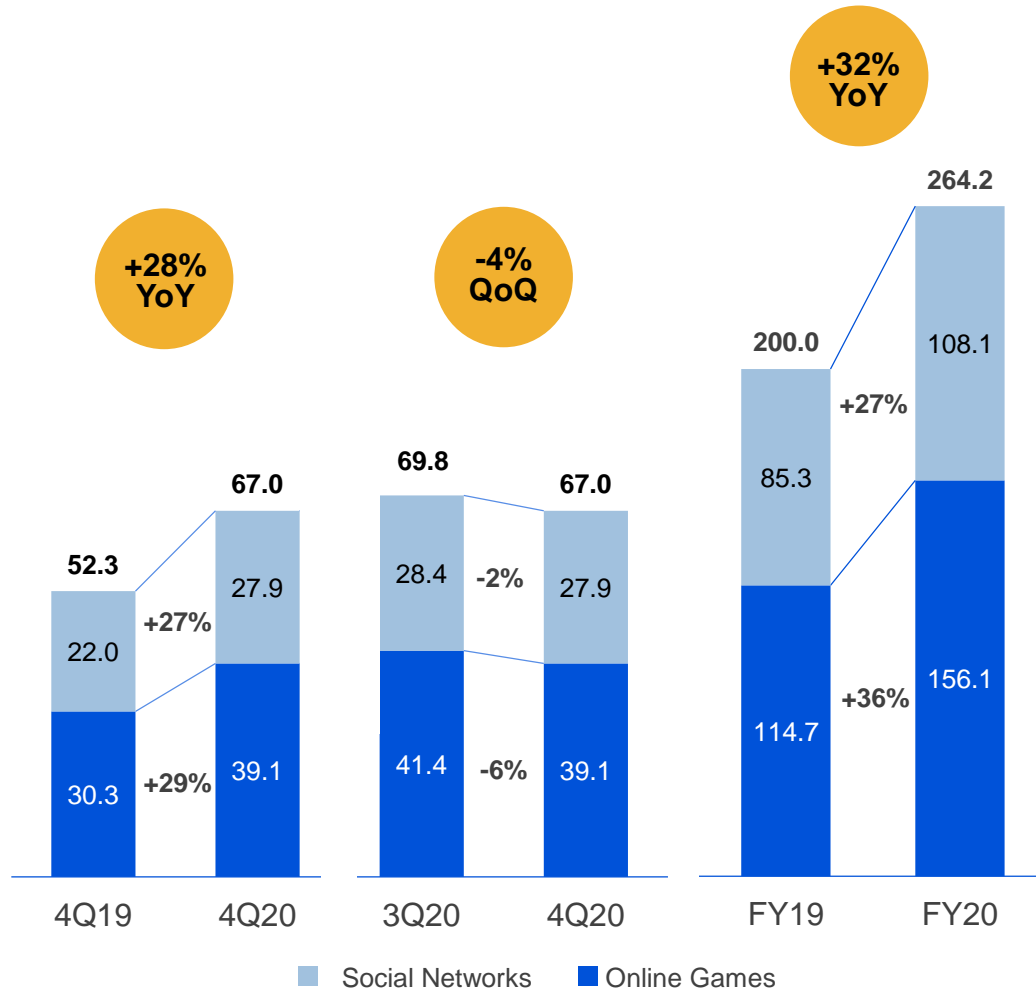
Revenue by Segment

In billion RMB



Value Added Services

In billion RMB



Social Networks

- Live streaming services and in-game item sales drove 4Q20 revenue up YoY. Sequentially, growth from digital content services was offset by decline of in-game item sales
- Total VAS subscriptions grew 22% YoY to 219 million. Video subscriptions increased 17% YoY to 123 million, driven by self-commissioned animated series, deepened cooperation with channel partners and expanded OTT user base. Music subscriptions grew 40% YoY to 56 million due to improved user retention and paywall strategy

Online Games

- 4Q20 revenue grew 29% YoY, driven by more smart phone game users and increased paying penetration. Revenue was down 6% QoQ due to normalised user activity and seasonality
- Total smart phone games revenue* grew 41% YoY to RMB36.7 billion, driven by in-house key titles such as *Peacekeeper Elite*, *HoK*, *PUBG Mobile* and new title *Moonlight Blade Mobile*
- PC client games revenue decreased 1% YoY to RMB10.2 billion as *DnF* softness offset growth from *LoL* and *Valorant*

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

Social Networks - Weixin

Major version upgrades assist individuals and enterprises to strengthen digital presence

Share knowledge-based videos with public audience:

- Users can create *Video Accounts* for disseminating informative content to public audience, alongside sharing content with friends privately
- Link *Official Accounts*, *Mini Programs* with *Video Accounts*, broadening reach for content creators

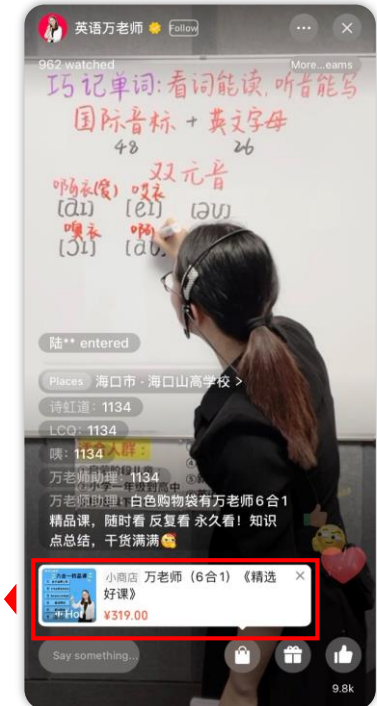
Real-time interaction: enable live streaming to broaden information sharing channels and facilitate one-to-many user interactions

More lively expressions: launch *Status* for users to share current emotions/thoughts and connect with like-minded friends; add expressive animated emojis in chat



Video Accounts post

Link to Official Accounts article

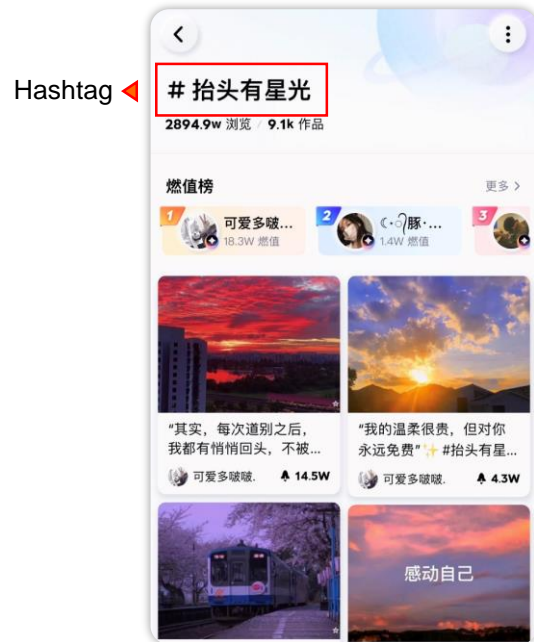


Link to Mini Stores

Video Accounts live streaming

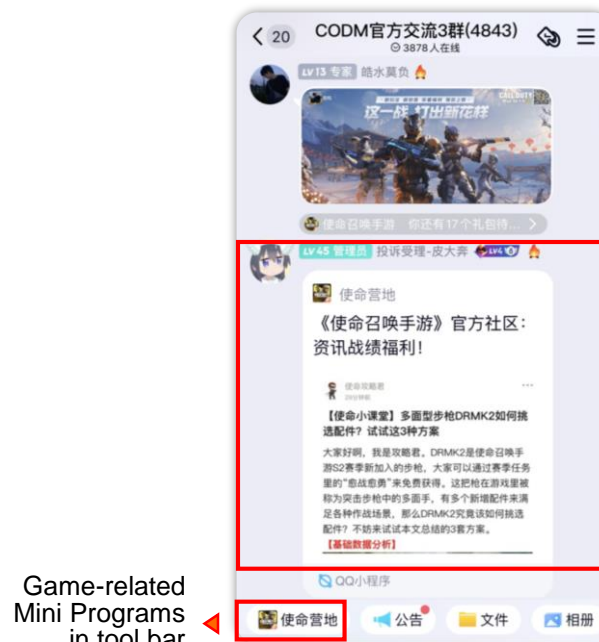
Social Networks - QQ

Enhance interactive experience within vertical communities



Content Communities

Mini World daily user engagement increased as we introduced *Hashtag* and initiated topics that resonate with Generation Z



Game Communities

Launched joint promotions and celebrity eSports events with popular games, encouraging user interactions in interest groups and *Mini Programs*



Learning Communities

Partnered with educational institutions to offer quiz challenges and Q&A services, providing interactive learning experiences

Online Games - China

- MOBA: *HoK* released biggest-ever update in Jan which enhanced its visual effects with minimal performance overhead, enabling more compelling content and game experience in future
- Shooter: *Call of Duty Mobile* drew hardcore players with fast-paced and competitive FPS experience since its launch in Dec, complementing *Peacekeeper Elite* and *CrossFire Mobile* within the genre
- MMORPG: *Moonlight Blade Mobile* resonated with young players through its distinctive oriental style and semi-sandbox open world, ranking #1 MMORPG in iOS top grossing chart* in 4Q20
- Consoles: distributed 1 million Nintendo Switch by end 2020 and published a dozen popular Switch titles
- Implement Healthy Gameplay System to protect teenagers; players aged under 18 accounted for 6.0% of grossing, in which 3.2% was from players aged under 16



before upgrade

Honour of Kings upgraded visual effect



Call of Duty Mobile multiplayer mode

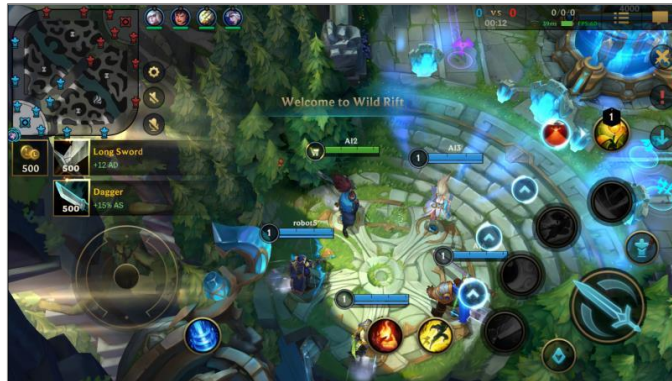


Moonlight Blade Mobile
in-game animation

*Source: AppAnnie

Online Games - International

- Revenue grew 43% YoY to RMB9.8 billion
- *LoL*: World Championship Finals set record viewership for PC games eSports; mobile version *Wild Rift* expanded its franchise user base
- *PUBG Mobile*: ranked as the most popular smart phone game by MAU* for the second consecutive year; operated the most viewed eSports tournament* of mobile games
- Collaborate with renowned console game & anime IPs, e.g., Call of Duty, Saint Seiya, Pokémon, to capture worldwide attention
- Invest in PC and console studios, e.g., Digital Extremes, Fatshark, Klei Entertainment, which are leaders in emerging genres



LoL Wild Rift



PUBG Mobile Global Championship

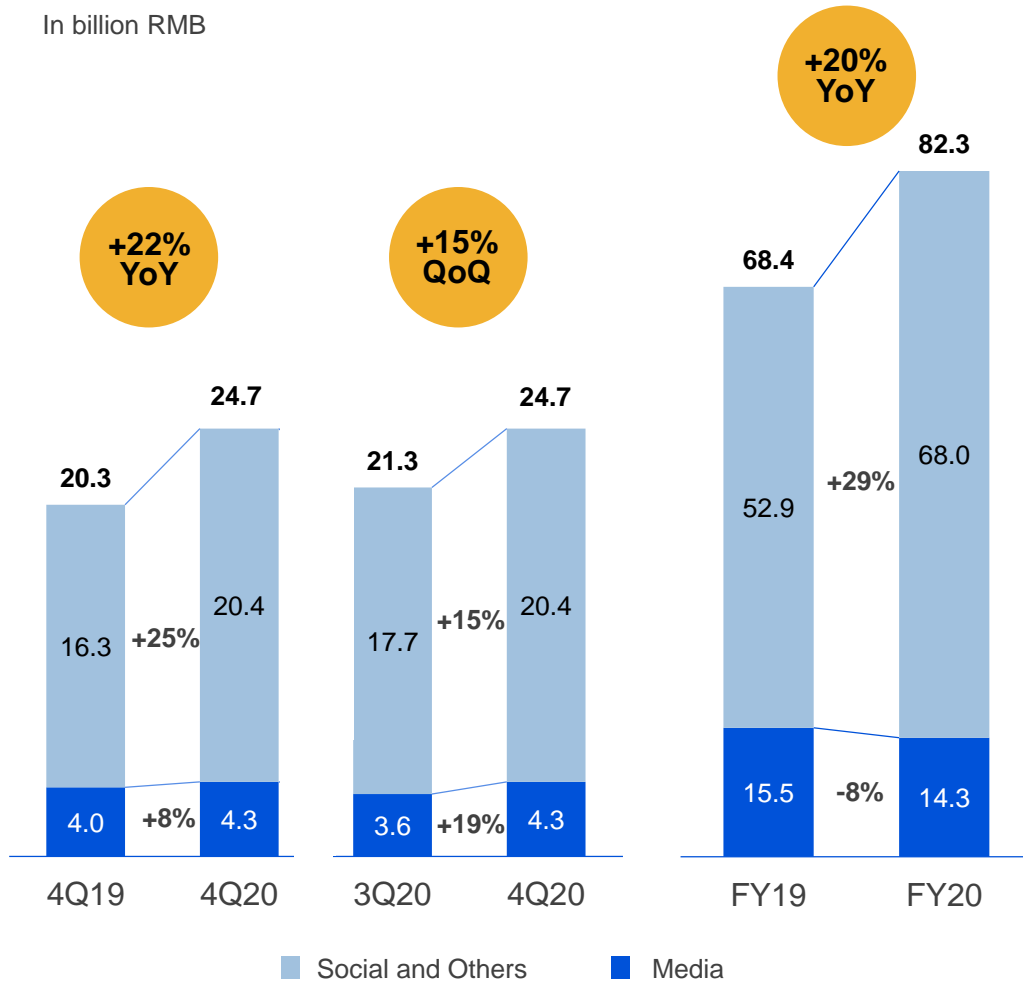


Klei Entertainment x Tencent:
Don't Starve Newhome

*Source: AppAnnie, Esports Charts

Online Advertising

In billion RMB



Overall

- 4Q20 revenue increased 22% YoY, bolstered by spending of education, eCommerce platforms and FMCG advertisers; auto-related ad revenue benefitted from car sales recovery and Bitauto consolidation

Social & Others Ad

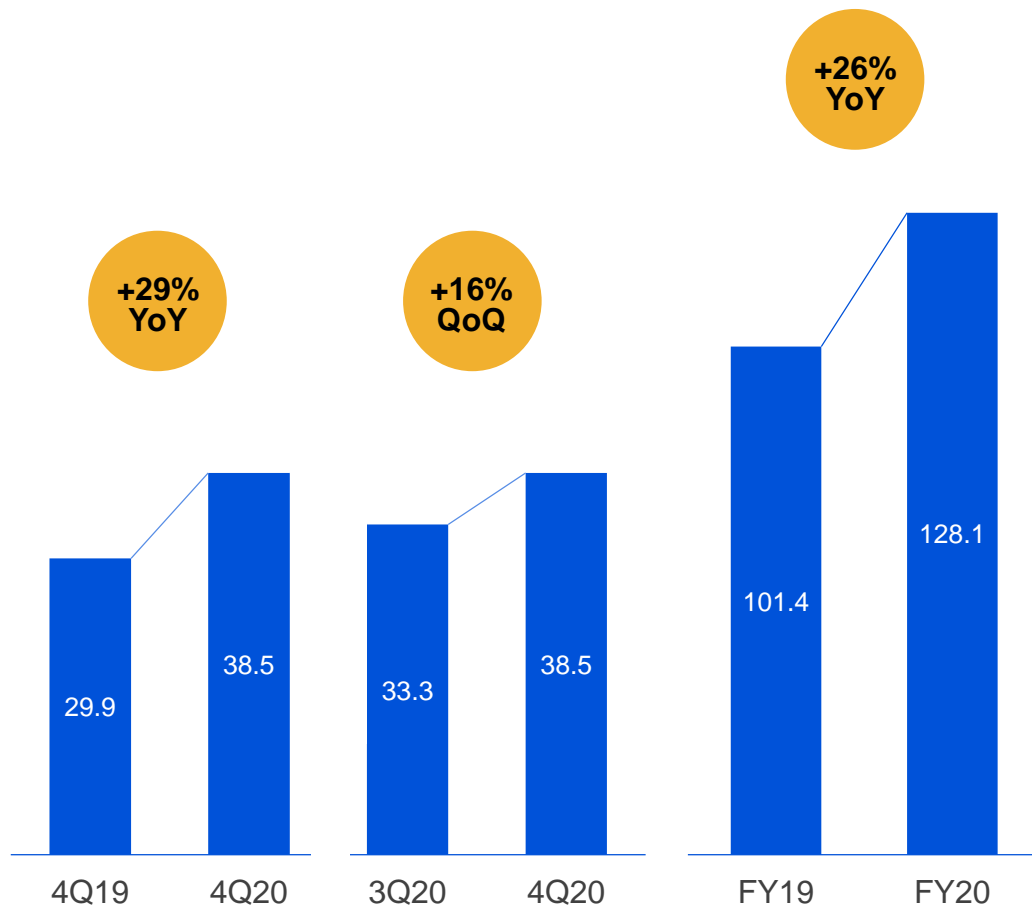
- *Moments* revenue maintained solid growth as performance-oriented advertisers linked their ads to *Mini Programs* to boost sales conversion
- In-game ad revenue on our mobile ad network more than doubled YoY, largely from 3rd party game companies, as well as Internet services

Media Ad

- Generated positive YoY and QoQ revenue growth, reflecting increased video ad revenue and music properties monetisation
- Sponsorship ad revenue grew YoY and QoQ due to popular drama series

FinTech and Business Services

In billion RMB



FinTech Services

- Continual shifts in consumer and merchant behaviour increased demand for our payment and wealth management services, driving 4Q20 revenue growth YoY and QoQ
- Total payment volume grew healthily YoY and commercial take-rates remained stable. Increased adoption in verticals, including retail, public services and groceries, boosting DAU and number of transactions
- Wealth management aggregated customer assets increased robustly YoY. Focus on investor education and helping users identify quality products

Business Services

- Expanded customer base in key verticals and robust demand for PaaS contributed to YoY revenue growth in 4Q20; we also deployed more on-premise projects during the quarter
- Developed new generation *Star Lake SA3* server architecture which is powered by the latest AMD EPYC processors, enhancing AI, security, storage and network capabilities with better energy efficiency
- *Tencent Meeting* enterprise version penetrated key accounts in energy, healthcare and education industries; new conference room solutions *Tencent Meeting Rooms* and *Connector* are compatible with users' existing A/V equipment and facilitate high-quality real-time communication

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Income Statement

In million RMB	4Q2020	YoY	QoQ	FY2020	YoY
Revenues	133,669	+26%	+7%	482,064	+28%
COPS	(74,788)	+25%	+9%	(260,532)	+24%
Gross profit	58,881	+28%	+4%	221,532	+32%
Interest income	1,708	+8%	-8%	6,957	+10%
Other gains, net	32,936	+807%	+185%	57,131	+190%
Operating expenses	(29,812)	+31%	+14%	(101,383)	+35%
Operating profit	63,713	+123%	+45%	184,237	+55%
Finance costs, net	(2,253)	-19%	+16%	(7,887)	+4%
Share of profit of associates & JVs	1,618	N.A.	-38%	3,672	N.A.
Income tax expense	(3,709)	+74%	-35%	(19,897)	+47%
Net profit	59,369	+165%	+53%	160,125	+67%
Net profit attributable to equity holders	59,302	+175%	+54%	159,847	+71%
Diluted EPS in RMB	6.112	+172%	+54%	16.523	+71%
Non-IFRS:					
Net profit attributable to equity holders	33,207	+30%	+3%	122,742	+30%
Diluted EPS in RMB	3.413	+29%	+3%	12.689	+30%

Non-IFRS Adjustments

In million RMB	IFRS 4Q2020	SBC	Net (gains)/ losses from investee companies ¹	Amortisation of intangible assets	Impairment provision ²	Tax effect ³	Non-IFRS 4Q2020	YoY change	QoQ change	Non-IFRS FY2020	YoY change
Operating profit	63,713	3,744	(34,652)	885	4,394	-	38,084	+26%	Stable	149,404	+30%
Net profit	59,369	4,896	(36,149)	2,260	4,407	(329)	34,454	+29%	+3%	126,983	+30%
Net profit attributable to equity holders	59,302	4,735	(36,928)	1,926	4,407	(235)	33,207	+30%	+3%	122,742	+30%
Operating margin	47.7%						28.5%	-0.2ppt	-1.9ppt	31.0%	+0.6ppt
Net margin	44.4%						25.8%	+0.6ppt	-0.8ppt	26.3%	+0.4ppt

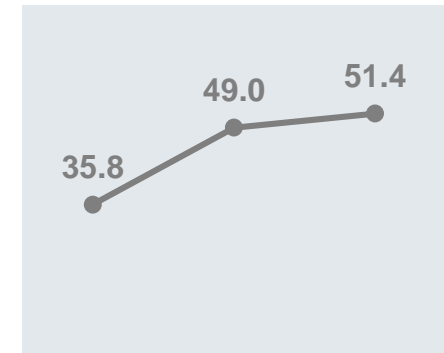
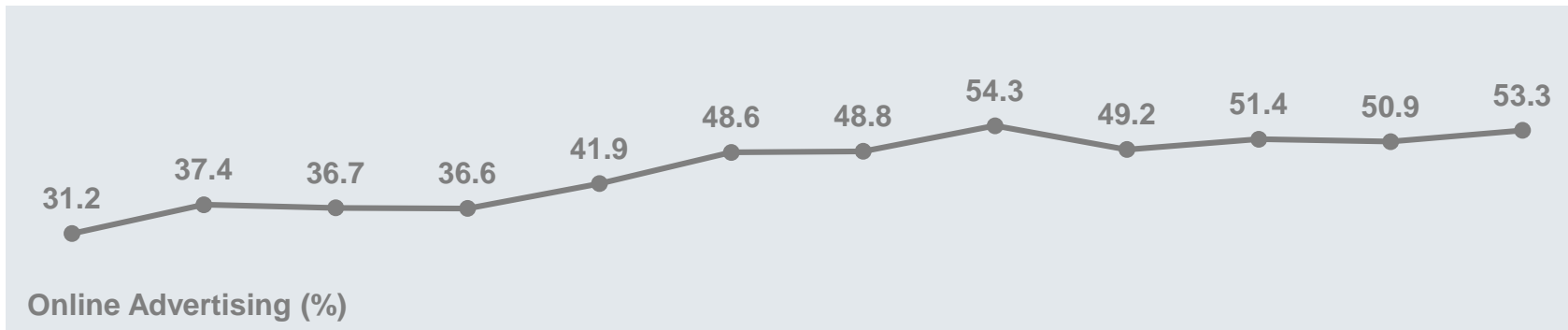
Note:

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.

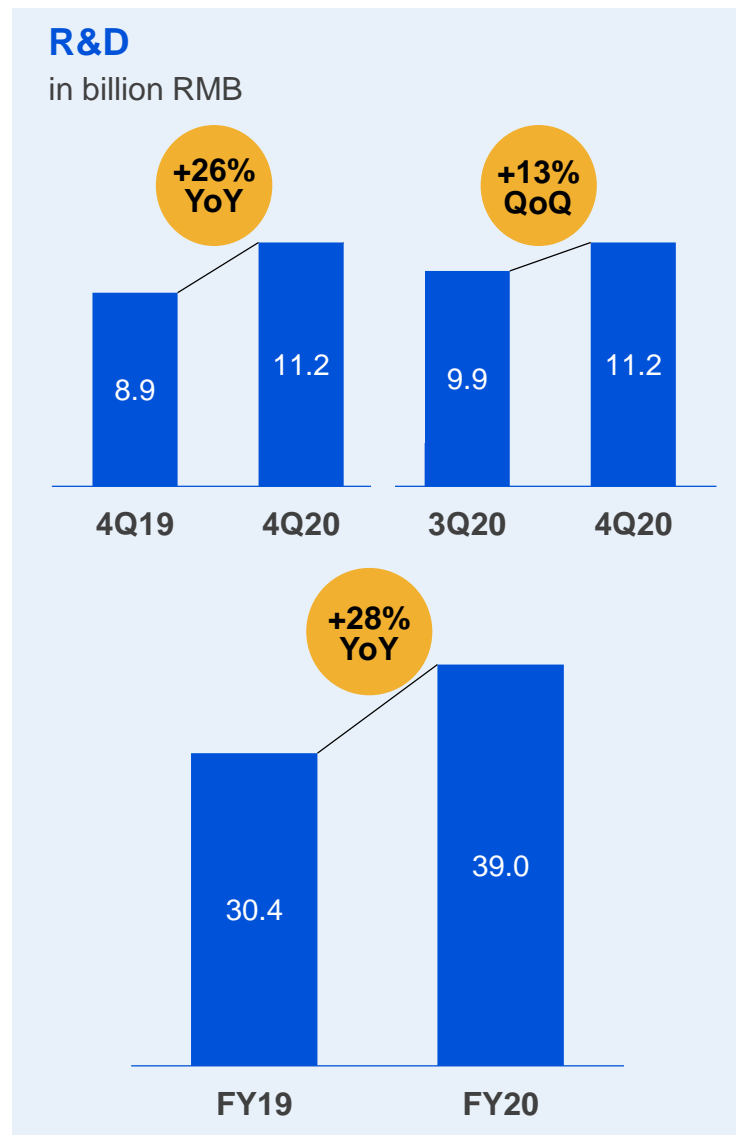
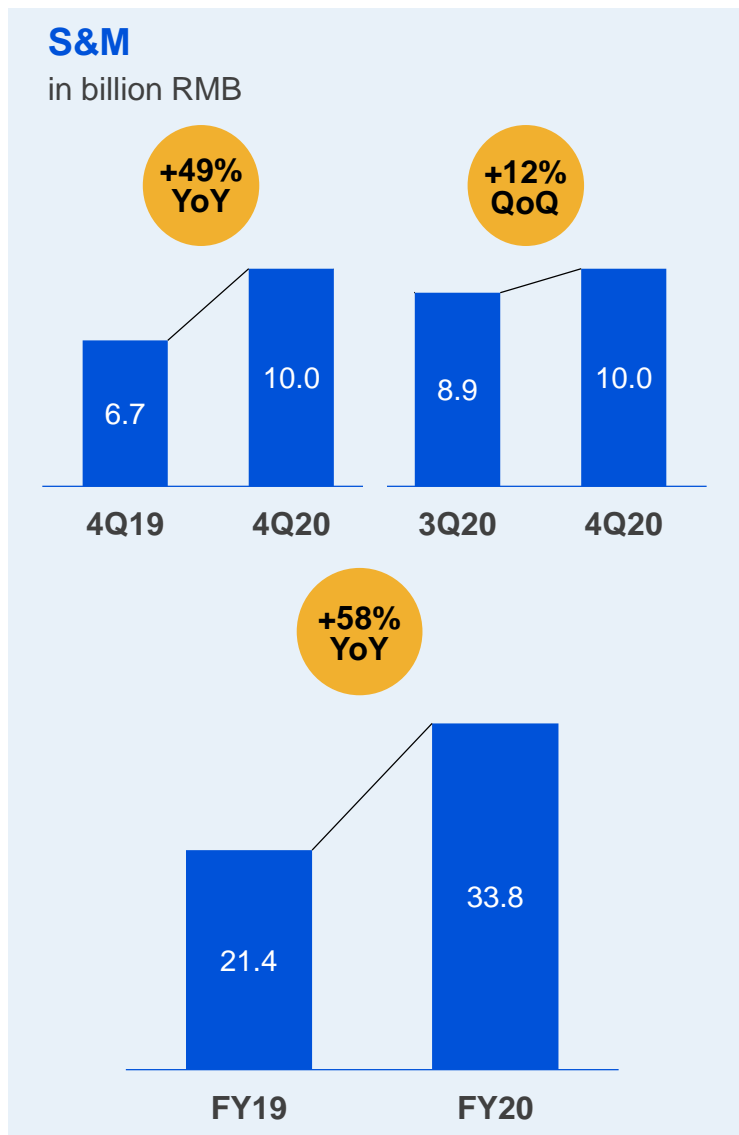
Segment Gross Margin



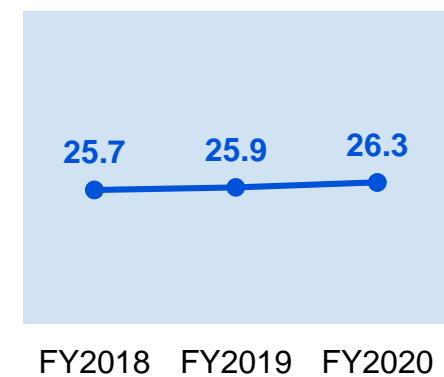
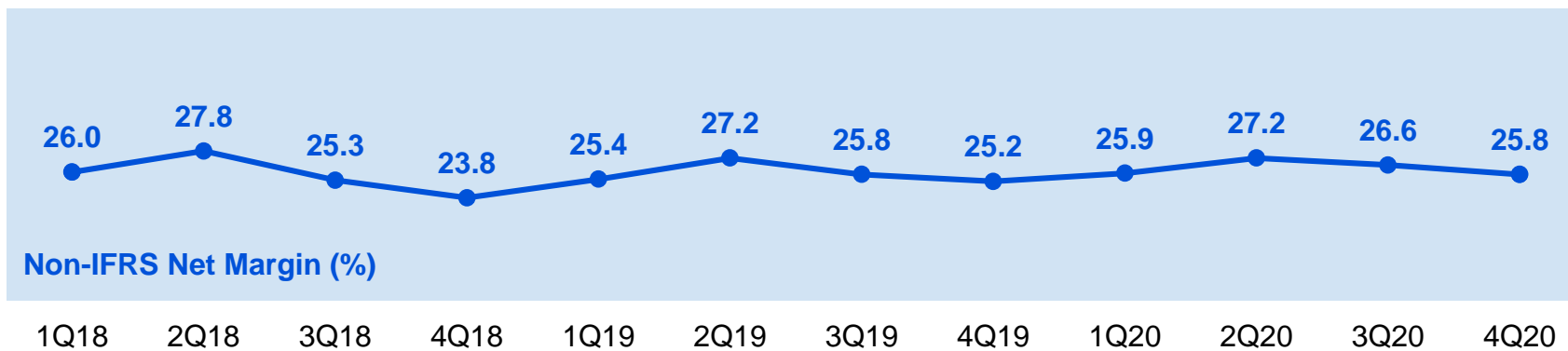
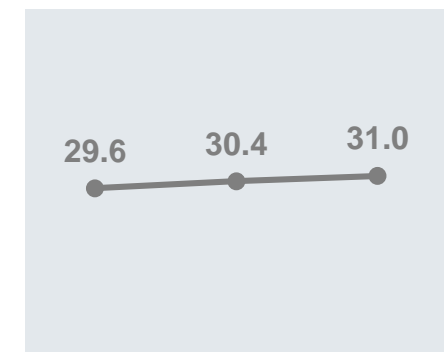
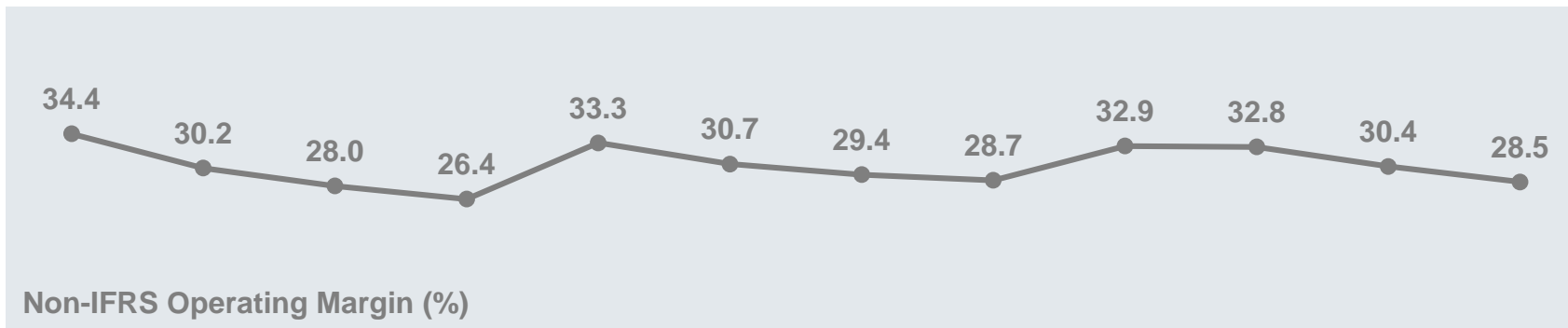
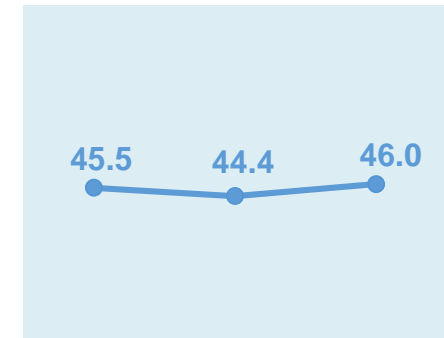
1Q18 2Q18 3Q18 4Q18 1Q19 2Q19 3Q19 4Q19 1Q20 2Q20 3Q20 4Q20

FY2018 FY2019 FY2020

Operating Expenses



Margin Ratios



EPS and Annual Dividend

RMB	4Q2020				FY2020			
	IFRS	YoY	Non-IFRS	YoY	IFRS	YoY	Non-IFRS	YoY
Basic EPS	6.240	+174%	3.494	+30%	16.844	+71%	12.934	+30%
Diluted EPS	6.112	+172%	3.413	+29%	16.523	+71%	12.689	+30%

**Subject to shareholders' approval at the AGM on May 20, 2021,
proposed 2020 annual dividend of HKD1.60 per share**

CAPEX, FCF and Cash Position

RMB million	4Q2020	YoY	QoQ	FY2020	YoY
Operating CAPEX	8,031	+13%	+3%	29,569	+44%
Non-operating CAPEX	1,628	-83%	+81%	4,391	-63%
Total CAPEX	9,659	-43%	+11%	33,960	+5%
Operating Cash Flow	48,866	-3%	+5%	194,119	+31%
Less: CAPEX Paid	(12,266)	-3%	+17%	(40,961)	+45%
Payments for media content	(7,778)	+32%	+14%	(25,638)	-11%
Payments for lease liabilities	(1,158)	+56%	+2%	(4,068)	+41%
Free Cash Flow¹	27,664	-11%	-2%	123,452	+39%
Total Cash	259,507	+26%	-2%	259,507	+26%
Less: Total Debt	(248,444)	+13%	-4%	(248,444)	+13%
Net Cash	11,063	N.A.	+74%	11,063	N.A.

Fair value of our shareholdings in listed investee companies, excluding subsidiaries, was approximately RMB 1,205 billion (USD 185 billion) as at December 31, 2020, compared to RMB891 billion (USD131 billion) as at Sep 30, 2020

¹ Starting from 2020, free cash flow was adjusted by subtracting payments for media content and lease liabilities, in addition to subtracting payments for capital expenditure from the operating cash flow. Comparative figures were restated.

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Thank you!



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