



Tencent 腾讯

*2021 THIRD QUARTER
RESULTS PRESENTATION*

Nov 10, 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 RMB6.4854 for 3Q2021.

1. Overview

2. Business Review

3. Financial Review

4. Q&A



Financial Highlights

In billion RMB	3Q2021	3Q2020	YoY	2Q2021	QoQ
Total Revenue	142.4	125.4	+13.5%	138.3	+3.0%
Value Added Services	75.2	69.8	+7.7%	72.0	+4.4%
Social Networks	30.3	28.4	+6.8%	29.0	+4.3%
Domestic Games	33.6	31.9	+5.1%	32.1	+4.5%
International Games	11.3	9.5	+19.6%	10.9	+4.5%
Online Advertising	22.5	21.3	+5.4%	22.8	-1.5%
Media	3.5	3.6	-3.6%	3.3	+4.3%
Social and Others	19.0	17.7	+7.2%	19.5	-2.5%
FinTech and Business Services	43.3	33.3	+30.3%	41.9	+3.4%
Others	1.4	1.0	+30.2%	1.6	-11.0%
Gross Profit	62.7	56.6	+10.8%	62.7	Stable
<u>Non-IFRS</u>					
Operating Profit	40.8	38.1	+7.1%	42.8	-4.6%
Operating Margin	28.7%	30.4%	-1.7ppt	31.0%	-2.3ppt
Net Profit Attributable to Equity Holders	31.8	32.3	-1.7%	34.0	-6.7%

Starting 3Q21, we disclose revenue from Domestic Games and International Games as new sub-segments under VAS, reflecting the increasing scale of our international games business. For the purpose of preparing financial and operating information, 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

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 1,263m

QQ

- QQ mobile devices MAU at 574m

Mobile Browser

- #1 by MAU

Mobile Security

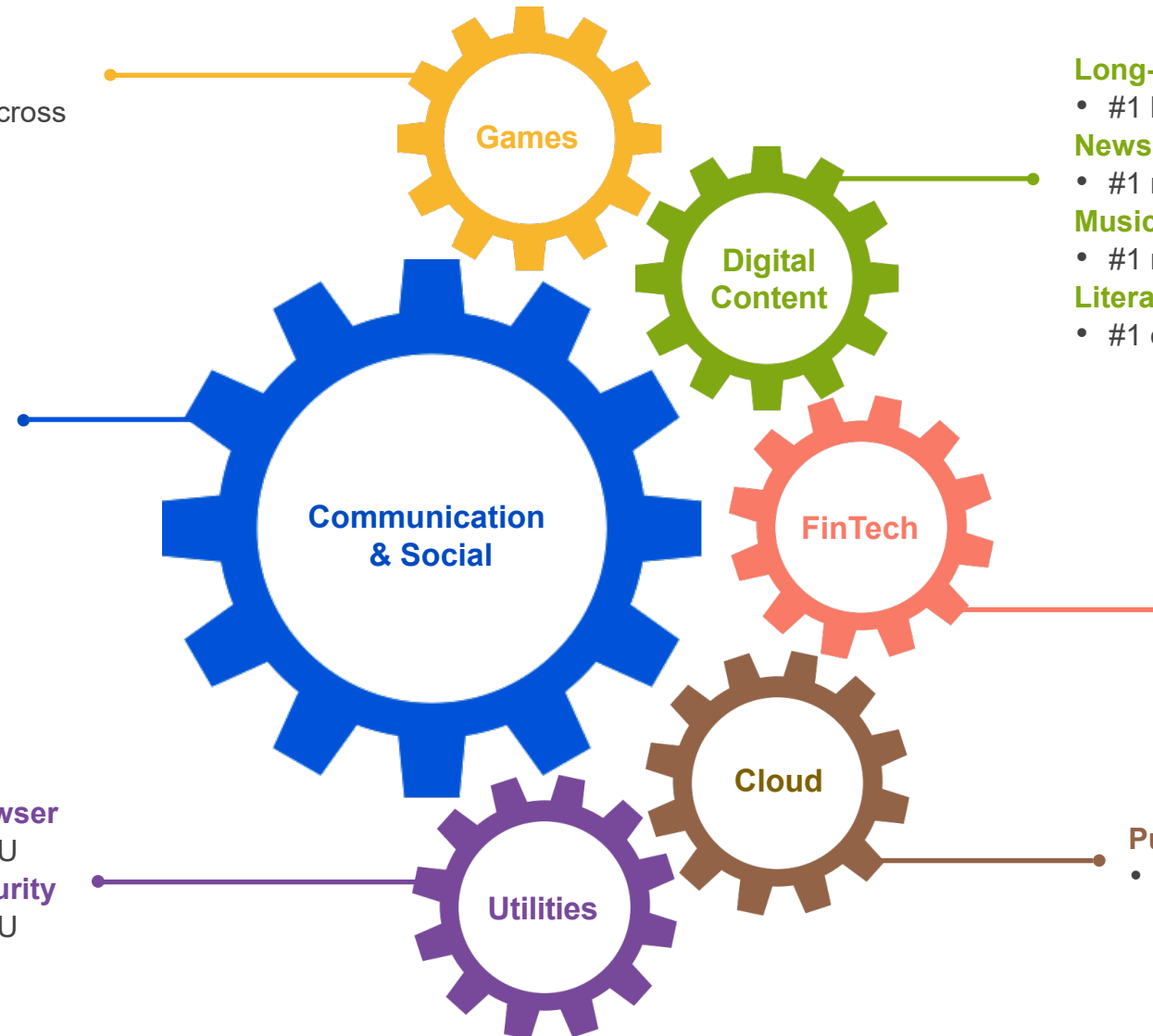
- #1 by MAU

Mobile Payment

- #1 by MAU & DAU

Public Cloud

- #2 service provider by revenue



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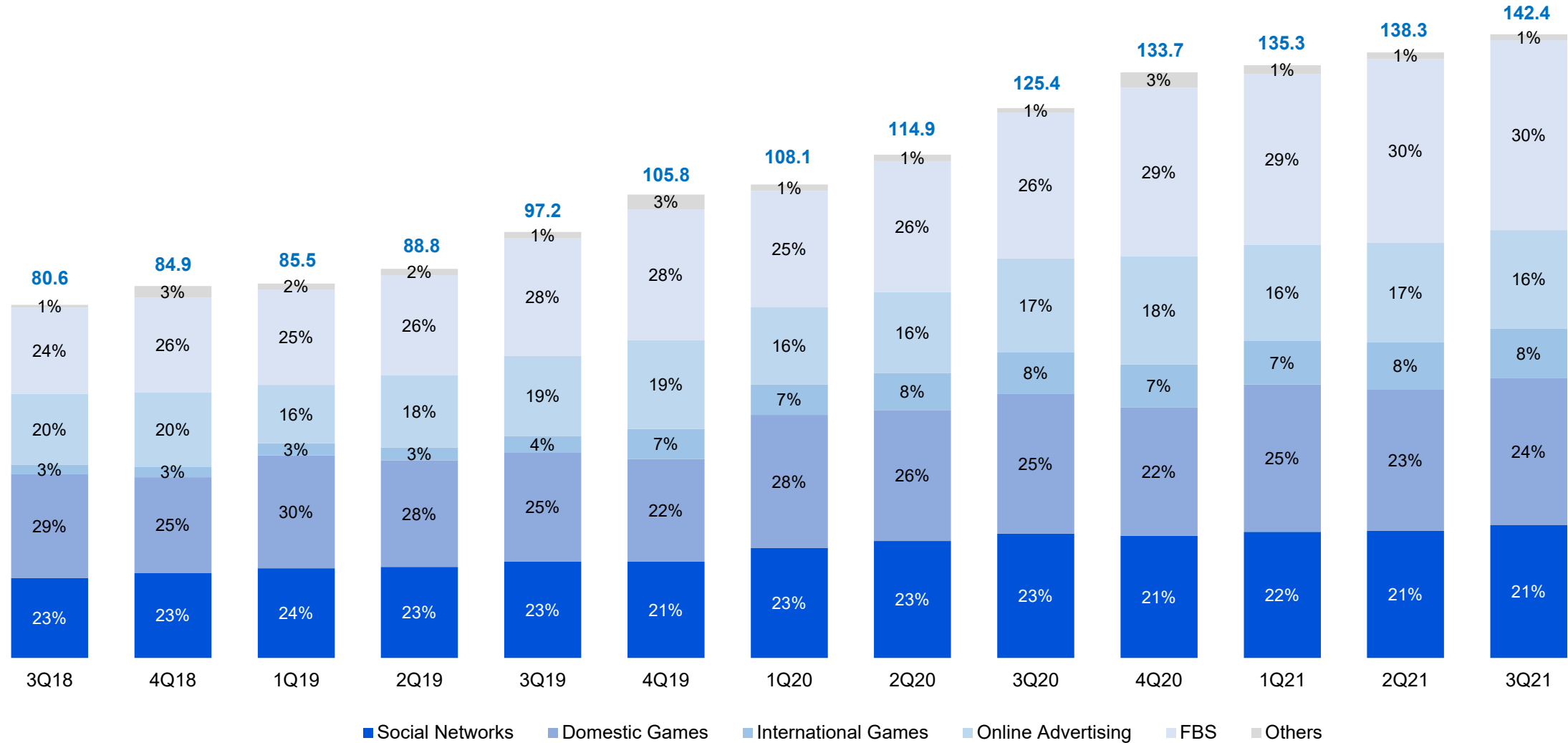
3. Financial Review

4. Q&A



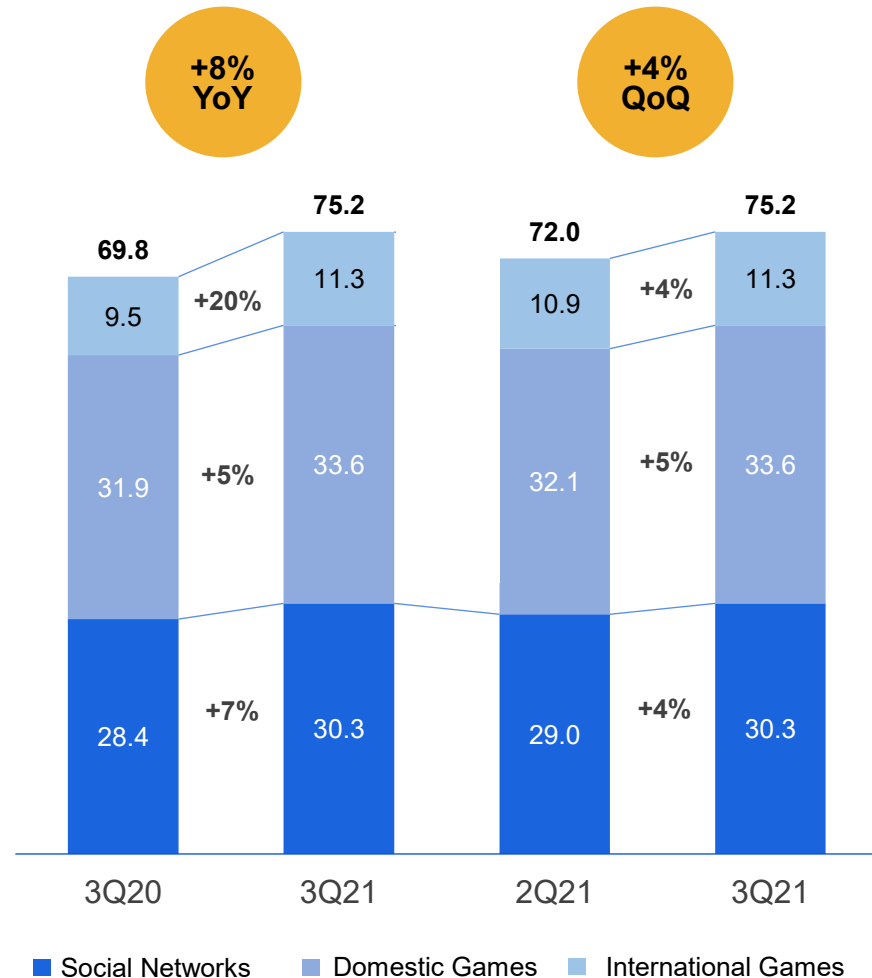
Revenue by Segment

In billion RMB



Value Added Services

In billion RMB



Social Networks

- Revenue grew 7% YoY, with relatively rapid growth from video and music subscriptions, and moderate growth from live streaming and in-game item sales
- Total VAS subscriptions grew 10% YoY to 235 million. Video subscriptions increased 8% YoY to 129 million, driven by popular drama series – *Crime Crackdown* and *You Are My Glory* ranked #1 & #2 industry-wide* in the quarter. Music subscriptions increased 38% YoY to 71 million, as more users are attracted by TME’s enhanced music streaming experience

Domestic Games

- Revenue grew 5% YoY to RMB 33.6 billion, driven by *HoK*, *Call of Duty Mobile* and *Moonlight Blade Mobile*. Sequential revenue growth was due to seasonal activities in *Peacekeeper Elite* and *DnF*

International Games

- Revenue grew 20% YoY to RMB11.3 billion, or 28% in constant currency, due to robust performance of *Valorant* and *Clash of Clans*

* Source: Enlightent, by video views across all online platforms in China for 3Q21

** Mobile games VAS revenue grew 9% YoY to RMB42.5 billion. PC client games revenue increased 1% YoY to RMB 11.7 billion

Social Networks

Weixin: strengthening content and commerce ecosystems

- Fostering *Video Accounts* content – leveraging resources in *Official Accounts*, sports coverage and games to drive video consumption
- Deepening *Mini Programs* penetration – increased adoption across industries including restaurants, retailing and transportation; number of active *Mini Programs* increased by over 40% YoY
- Integrated *WeCom* with *Mini Programs* – enabled interactions between individual salespeople and customers, driving sales in retailers' private domains



Tokyo 2020 Olympic Games in Video Accounts

Connect customers with salespeople via WeCom



Watsons' Mini Programs

QQ: stepping up interactive technologies

- Enhanced video and AI technologies to facilitate creative and efficient content production, driving UGC activities
- Customised AR tools for festivals and landmarks, adding more engaging experiences for interactions with physical world
- Provided cross-screen interactive effects in video call for more entertaining shared experiences



Camera effect utilising real-time motion capture



Animated 3D overlay customised for the Temple of Heaven in Beijing

Domestic Games

Full compliance with new regulations to reduce minors' game time

- Users aged under 18 can only play games between 8-9pm on Fridays, Saturdays, Sundays and statutory holidays since 1st Sep 2021
- Subsequently, users aged under 18 accounted for: 1) 0.7% of our Domestic Games time spent in Sep 2021, down from 6.4% in Sep 2020; 2) 1.1% of our Domestic Games grossing receipts in Sep 2021, down from 4.8% in Sep 2020
- Industry-leading efforts in combatting minors' usage of adult accounts: 1) upgraded our screening system to identify misused adult accounts; and 2) proactively assist authorities in cracking down on illegal account transactions

Bringing to life Chinese culture



Digitalised Chinese cultural heritage into a series of popular *HoK* skins, transmitting provincial arts and traditions to a wider audience

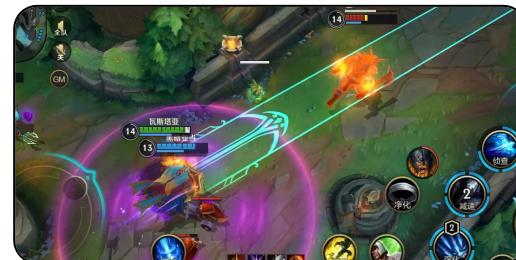


HoK skins based on provincial arts and traditions

Expanding PC franchise to mobile



Successful launch of *Wild Rift* reactivated and enlarged *LoL* user base; ranked #2 among all mobile games in Oct 2021 by DAU*



Wild Rift extended authentic LoL PC experience

Invigorating niche genre



Introduced PvE and co-op gameplay in auto-chess game *Fight of The Golden Spatula*, which is the second most popular new game launched year-to-date by DAU* behind *Wild Rift*



Fight of The Golden Spatula x co-op gameplay

* Source: QuestMobile (iOS and Android)

International Games



Increasing investment in talents and leading studios

- Scaling up China-based studio groups, especially Timi and Lightspeed & Quantum, with new hires globally
- Ramping up big multi-hit international studios such as Riot and Supercell
- Acquiring and nurturing specialist genre-leading studios, such as Digital Extremes, GGG and Fatshark, with knowhow, technology and funding

Strengthening global IP portfolio

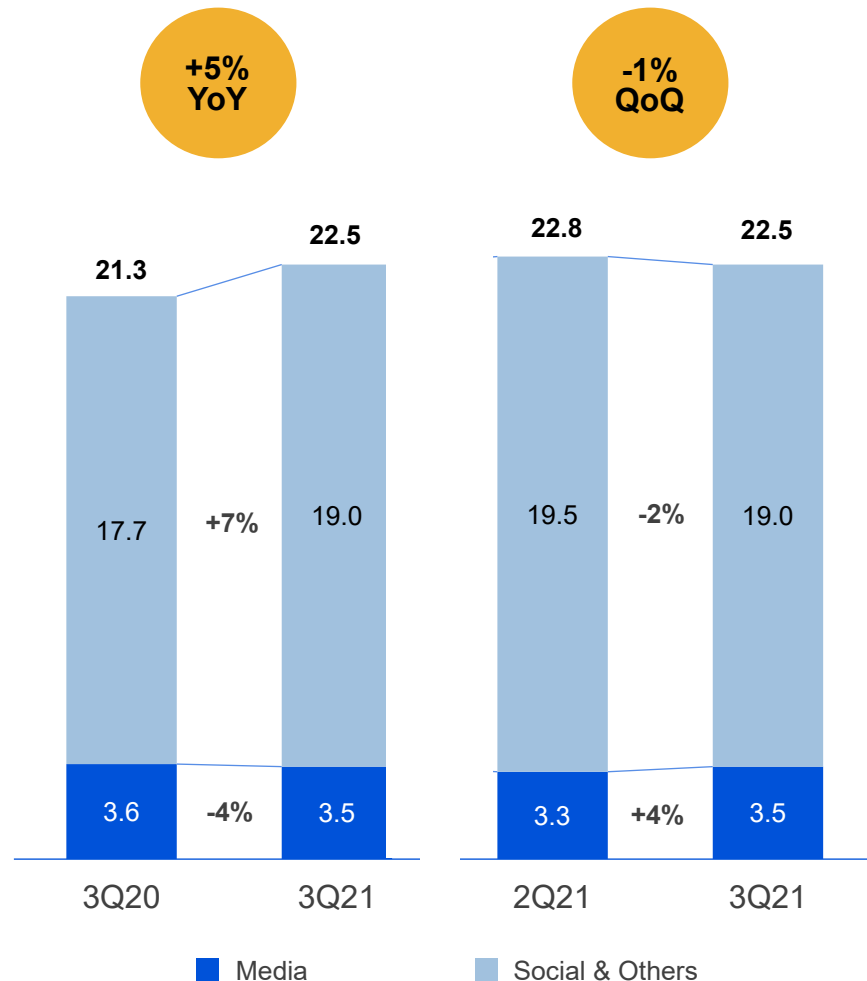
- Extending globally recognised own IPs to mobile and multiple genres, e.g., *LoL*, *Clash*, *HoK*
- Creating new IPs, e.g., *Valorant*, *Brawl Stars*
- Developing and operating popular mobile games in partnership with IP owners, e.g., *PUBG Mobile*, *Call of Duty Mobile*, *Pokémon UNITE*

Building up publishing and operational capabilities

- Expanding local teams to enhance publishing capabilities in multiple regions
- Stepping up marketing efforts and eSports operations to foster player communities

Online Advertising

In billion RMB



Overall

- Revenue growth slowed to 5% YoY due to weakness in education, insurance and games sectors. Consumer staples, Internet services and automobile sectors remained resilient, but overall bidding density reduced
- Ad pricing may remain soft for several quarters due to macro challenges and regulations affecting certain key ad sectors
- Ad industry should adjust and rebase during 2022, and then resume growth from new base as secular trends reassert themselves

Social & Others

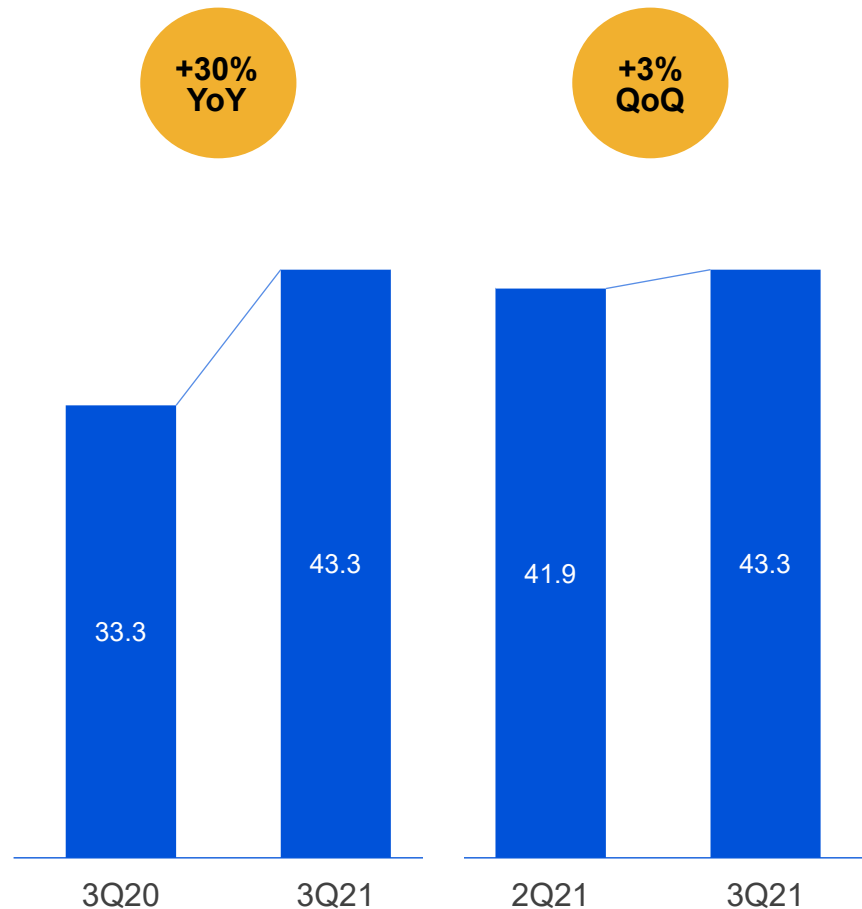
- Enhancing quality of sales leads – *WeCom* enables advertisers to connect users with salespeople in ads' landing pages
- Driving sales conversion – more retailers and eCommerce merchants link *Moments* and *Official Accounts* ads to their *Mini Programs* as landing pages

Media

- Lower revenue on Tencent News app, but streaming of top-tier drama series (e.g., *You Are My Glory*), variety shows (e.g., *Rock & Roast Season 4*) and the Tokyo 2020 Olympic Games captured higher sponsorship spending from brand advertisers on Tencent Video app

FinTech and Business Services

In billion RMB



FinTech Services

- YoY revenue growth was mainly driven by increased commercial payment volume, with healthy growth in categories such as groceries, apparel, and transportation. Commercial daily active users and per user transactions increased
- Offline commercial payment volume YoY growth moderated due to control measures against COVID-19 resurgence in certain provinces
- Deepened co-operation with UnionPay to develop new payment and service interconnection scenarios through its Cloud QuickPass app

Business Services

- Revenue grew healthily YoY, benefitting from increased digitalisation of traditional industries and videolisation of Internet industry
- Our CRM SaaS solution *Tencent QiDian* has helped over one million enterprises to enhance cost efficiency in customer services. We won more contracts to serve medium and large-scale enterprises, e.g., Dell, SF Express, Siemens
- Our PaaS solution *TDSQL* database has been adopted by 3,000+ clients from finance, public services and telecom verticals, etc. Within financial vertical, we serve six out of top ten banks in China, and increased penetration in core systems of financial institutions, demonstrating our capabilities in data security, reliability and consistency

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Income Statement

In billion RMB	3Q2021	3Q2020	YoY	2Q2021	QoQ
Revenue	142.4	125.4	+13.5%	138.3	+3.0%
COPS	(79.7)	(68.8)	+15.7%	(75.6)	+5.4%
Gross profit	62.7	56.6	+10.8%	62.7	Stable
Interest income	1.7	1.9	-8.6%	1.6	+4.5%
Other gains, net	23.0	11.6	+99.0%	20.8	+10.7%
Operating expenses	(34.3)	(26.1)	+31.4%	(32.6)	+5.0%
Operating profit	53.1	44.0	+20.9%	52.5	+1.2%
Finance costs, net	(1.9)	(2.0)	Stable	(1.9)	Stable
Share of (loss)/profit of associates & JVs	(5.7)	2.6	N/A	(3.9)	+47.0%
Income tax expense	(5.4)	(5.7)	-5.0%	(3.7)	+48.7%
Net profit	40.1	38.9	+3.0%	43.0	-6.8%
Net profit attributable to equity holders	39.5	38.5	+2.5%	42.6	-7.2%
Diluted EPS in RMB	4.074	3.964	+2.8%	4.387	-7.1%
Non-IFRS					
Operating Profit	40.8	38.1	+7.1%	42.8	-4.6%
Net profit attributable to equity holders	31.8	32.3	-1.7%	34.0	-6.7%
Diluted EPS in RMB	3.269	3.314	-1.4%	3.504	-6.7%

Non-IFRS Adjustments

In billion RMB	IFRS 3Q2021	SBC	Net (gains)/ losses from investee companies ¹	Amortisation of intangible assets	Impairment provisions ²	Others ³	Tax effect	Non-IFRS 3Q2021	YoY change	QoQ change
Operating profit	53.1	6.7	(26.6)	1.1	6.4	0.1	-	40.8	+7.1%	-4.6%
Net profit	40.1	10.2	(26.8)	3.1	6.5	0.1	(0.6)	32.5	-2.4%	-7.5%
Net profit attributable to equity holders	39.5	10.1	(26.5)	2.7	6.5	0.1	(0.6)	31.8	-1.7%	-6.7%
Operating margin	37.3%							28.7%	-1.7ppt	-2.3ppt
Net margin	28.1%							22.8%	-3.8ppt	-2.6ppt

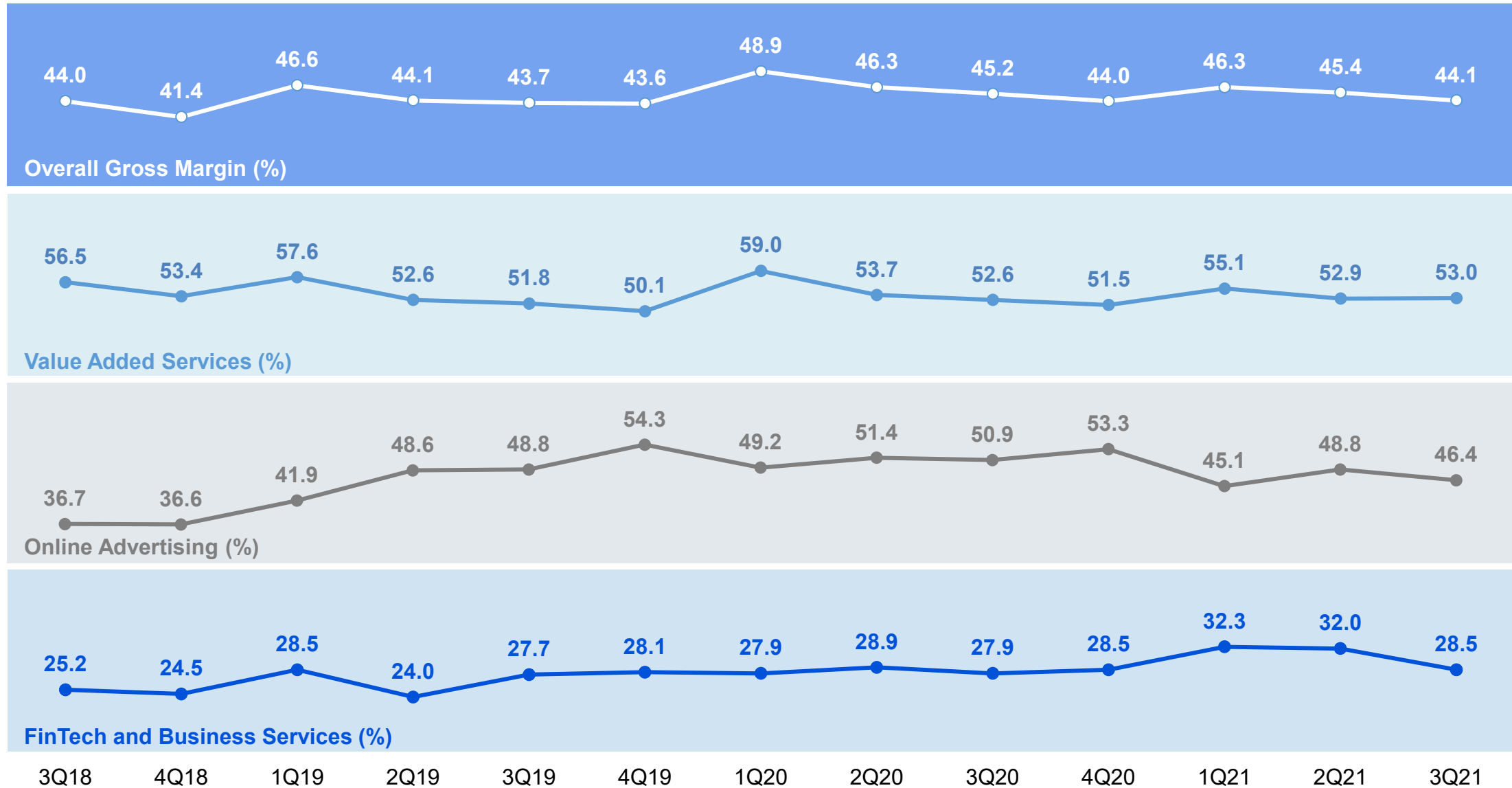
Note:

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.

³Including expenses incurred in establishing certain social responsibility initiatives.

Gross Margins



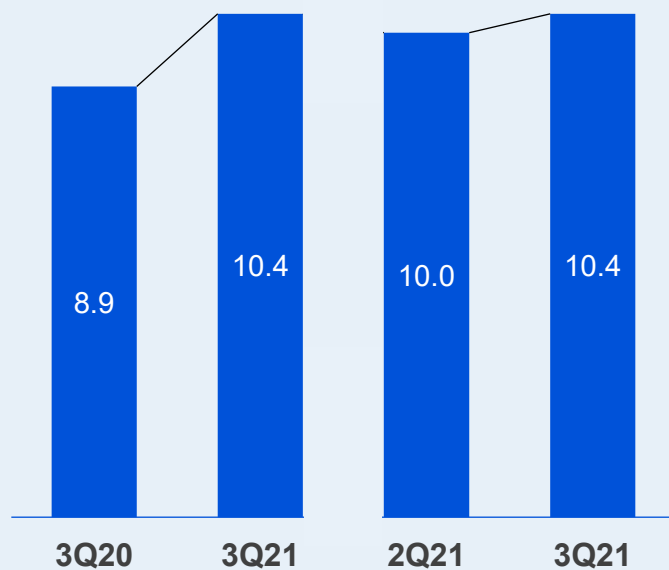
Operating Expenses

S&M

in billion RMB

+17%
YoY

+4%
QoQ



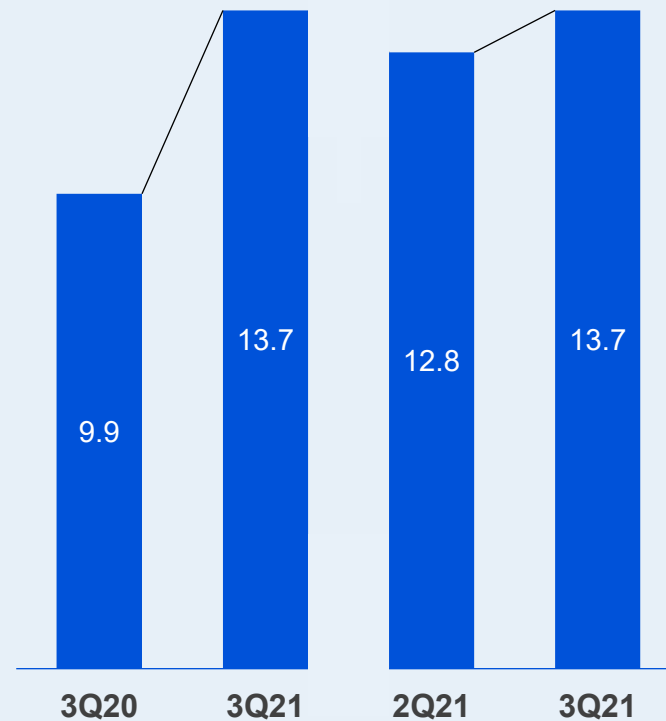
*S&M increased by 15% YoY and 4% QoQ excl. SBC

R&D

in billion RMB

+39%
YoY

+7%
QoQ



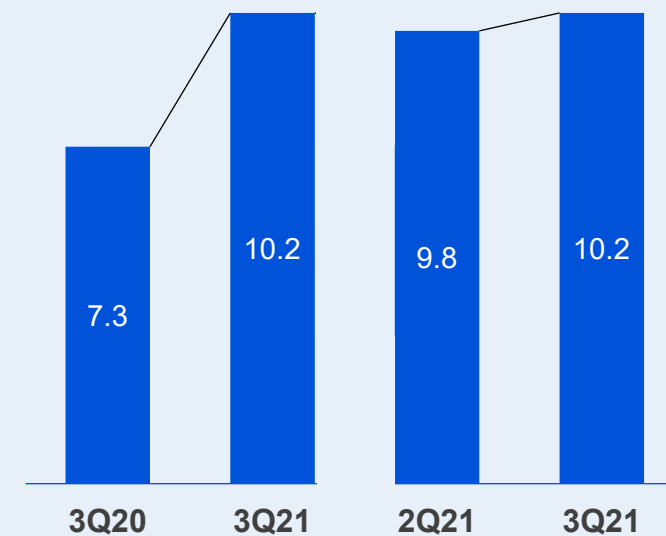
*R&D increased by 29% YoY and 5% QoQ excl. SBC

G&A (excl. R&D)

in billion RMB

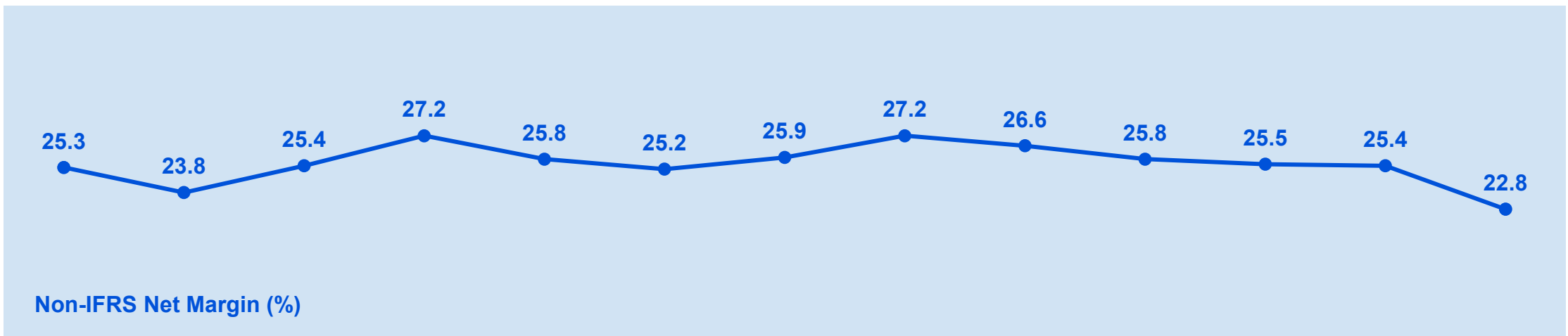
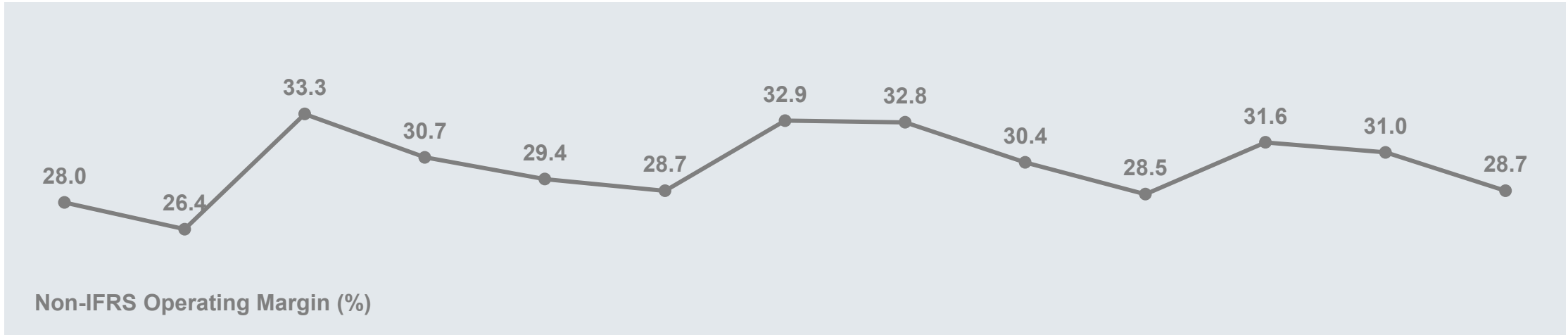
+39%
YoY

+3%
QoQ



*G&A (excl. R&D) increased by 23% YoY and 7% QoQ excl. SBC

Non-IFRS Margin Ratios



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

CAPEX, FCF and Cash Position

In billion RMB	3Q2021	3Q2020	YoY	2Q2021	QoQ
Operating CAPEX	5.6	7.8	-28.0%	5.9	-4.7%
Non-operating CAPEX	1.5	0.9	+61.6%	1.0	+38%
Total CAPEX	7.1	8.7	-18.7%	6.9	+1.8%
Operating Cash Flow	40.9	46.5	-11.9%	32.0	+28.3%
Less: CAPEX Paid	(7.5)	(10.5)	-27.6%	(7.1)	+6.4%
Payments for media content	(8.0)	(6.8)	+18.7%	(6.4)	+26.8%
Payments for lease liabilities	(1.3)	(1.1)	+11.7%	(1.2)	+4.6%
Free Cash Flow	24.1	28.1	-14.3%	17.3	+39.7%
Total Cash	289.5	265.9	+8.9%	255.2	+13.4%
Less: Total Debt	(315.6)	(259.5)	+21.6%	(276.2)	+14.3%
Net (Debt)/Cash	(26.1)	6.4	N/A	(21.0)	+24.7%

- **As at 30 Sep 2021, the fair value of our shareholdings* in listed investee companies (excluding subsidiaries) was approximately RMB1.2 trillion (USD185 billion)**
- **Repurchased approximately 5.6 million shares with an aggregated cost of RMB2.2 billion (USD334 million) during 3Q21**

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

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Tencent Holdings Limited

2021 Third Quarter Results Presentation

Thank you!



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