Tencent

2020 FIRST QUARTER RESULTS PRESENTATION

May 13, 2020
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This presentation also contains some unaudited non-IFRS financial measures which should be considered in addition to, but not as a substitute for, measures of the Company's financial performance prepared in accordance with IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies. The Company's management believes that the non-IFRS financial measures provide investors with useful supplementary information to assess the performance of the Company's core operations by excluding certain non-cash items and certain impact of acquisitions. For further explanation of our non-IFRS measures and reconciliations between our IFRS and non-IFRS results, please refer to our earnings announcement.

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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 RMB7.0851 for 1Q2020.
1. Overview

2. Business Review

3. Financial Review

4. Q&A
## Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>1Q2020</th>
<th>1Q2019</th>
<th>YoY</th>
<th>4Q2019</th>
<th>QoQ</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>108.1</td>
<td>85.5</td>
<td>+26.4%</td>
<td>105.8</td>
<td>+2.2%</td>
</tr>
<tr>
<td><strong>Value Added Services</strong></td>
<td>62.4</td>
<td>49.0</td>
<td>+27.5%</td>
<td>52.3</td>
<td>+19.3%</td>
</tr>
<tr>
<td>Social Networks</td>
<td>25.1</td>
<td>20.5</td>
<td>+22.8%</td>
<td>22.0</td>
<td>+14.1%</td>
</tr>
<tr>
<td>Online Games</td>
<td>37.3</td>
<td>28.5</td>
<td>+30.8%</td>
<td>30.3</td>
<td>+23.2%</td>
</tr>
<tr>
<td><strong>Online Advertising</strong></td>
<td>17.7</td>
<td>13.4</td>
<td>+32.4%</td>
<td>20.3</td>
<td>-12.4%</td>
</tr>
<tr>
<td>Media</td>
<td>3.1</td>
<td>3.5</td>
<td>-10.3%</td>
<td>4.0</td>
<td>-21.0%</td>
</tr>
<tr>
<td>Social and Others</td>
<td>14.6</td>
<td>9.9</td>
<td>+47.4%</td>
<td>16.3</td>
<td>-10.3%</td>
</tr>
<tr>
<td><strong>FinTech and Business Services</strong></td>
<td>26.5</td>
<td>21.8</td>
<td>+21.5%</td>
<td>29.9</td>
<td>-11.5%</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>1.5</td>
<td>1.3</td>
<td>+9.3%</td>
<td>3.3</td>
<td>-56.3%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>52.8</td>
<td>39.8</td>
<td>+32.6%</td>
<td>46.1</td>
<td>+14.5%</td>
</tr>
</tbody>
</table>

### Non-IFRS*:

<table>
<thead>
<tr>
<th></th>
<th>1Q2020</th>
<th>1Q2019</th>
<th>YoY</th>
<th>4Q2019</th>
<th>QoQ</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Profit</strong></td>
<td>35.6</td>
<td>28.5</td>
<td>+25.0%</td>
<td>30.3</td>
<td>+17.4%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>32.9%</td>
<td>33.3%</td>
<td>-0.4ppt</td>
<td>28.7%</td>
<td>+4.2ppt</td>
</tr>
<tr>
<td><strong>Net Profit Attributable to Equity Holders</strong></td>
<td>27.1</td>
<td>20.9</td>
<td>+29.4%</td>
<td>25.5</td>
<td>+6.3%</td>
</tr>
</tbody>
</table>

* Non-IFRS, formerly referred to as non-GAAP, is intended to reflect core earnings by excluding certain one-time and/or non-cash items.
Key Platforms Update

Online Games Platform
• #1 by users in China across PC and smart phone
• #1 globally by revenue

Weixin & WeChat
• #1 smart phone community
• MAU at 1,203m

QQ & Qzone
• QQ smart devices MAU at 694m
• Qzone smart devices MAU at 543m

Communication & Social

Video
• #1 by mobile DAU

News
• #1 news services by MAU

Music
• #1 music services platform

Literature
• #1 online content library and publishing platform

Mobile Payment
• #1 by MAU & DAU

Cloud
• #2 service provider by revenue

Utilities

App Store
• #1 by MAU

Mobile Security
• #1 by MAU

Mobile Browser
• #1 by MAU

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

* QQ smart devices MAU declined due to our continued efforts to proactively clean up accounts that engaged in spamming and bots activities
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Revenue by Segment

In billion RMB

* Starting 1Q19, we moved “FinTech and Business Services” revenues out of the Others segment to form a new segment.
Value Added Services

In billion RMB

**Social Networks**
- Strong item sales from smart phone games drove revenue growth both YoY and QoQ
- Total VAS subscriptions increased 19% YoY to 197 million, due to popular self-commissioned drama and Chinese anime series, an expanding paid music library and more user time spent online. Video subscriptions rose 26% YoY to 112 million and music subscriptions grew 50% YoY to 43 million.

**Online Games**
- Revenue grew 31% YoY, driven by more active users and higher paying ratio during stay-at-home period. Consumption will normalize as users return to work.
- Total smart phone games revenue* grew 64% YoY and 33% QoQ to RMB34.8 billion, primarily driven by more playing time in our game franchise.
- PC client games revenue decreased 15% YoY to RMB11.8 billion, due to temporary closure of internet cafés and soft *DnF* performance. Revenue increased 14% QoQ on favourable seasonality.

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* Total smart phone games revenue includes smart phone games revenue booked under Online Games and related platform revenue booked under Social Networks.
VAS - Social Networks

Communication: Weixin and QQ’s respective total daily messages and time spent up double digits YoY

Functionalities: cater to evolving user needs in verticals

• eLearning: new customisable QQ group toolbar allows teachers to place relevant Mini Programs in online class groups; and virtual study room prototype enables students to experience communal study time

• Healthcare services: connected Weixin users with medical professionals in private or group chats, initiated via Tencent Health mini program or access point embedded in Weixin Pay

• Remote presentation: extended QQ’s screen sharing function in video calls from PC to mobile

Daily services: increased penetration in offline use cases, boosting Weixin Mini Programs DAU to over 400 million

• Accelerated digital distribution for offline services, especially grocery shopping and municipal services

• Assisted local governments and merchants in disseminating eVouchers to expedite recovery in consumption, particularly for retailers and restaurants
VAS – Online Games

In China, best-in-class game content captured incremental entertainment demand

• Smart phone games total DAU grew strongly during stay-at-home period

• Honor of Kings: upgraded game engine enhances audio and visual quality, enabling attractive content such as Five-Mountain themed skins; new location-based teamplay system encouraged more user interactions

• Peacekeeper Elite: successful collaboration with Rocket Girls 101 drove user engagement to new high and demonstrated our cross-IP synergy

Internationally, strengthened capabilities in operation and content

• PUBG Mobile: tailored operations regionally and celebrated second anniversary with multiple appealing in-game events in March

• League of Legends: launch of Teamfight Tactics mobile app and accompanying Set 3 release contributed to higher user retention and extended playing time

• Brawl Stars: high-cadence content updates and optimized player-matching mechanism

Compelling games pipeline

• China: Chess Rush, The Outcast, Brawl Stars releases scheduled by mid-June

• International: mobile RPG CODE:D Blood achieved initial success since its release in Japan on April 9; PC tactical shooter Valorant started closed-beta test in Europe and North America on April 7 and became the most viewed title on Twitch in its first month
Overall

- 1Q20 revenue grew 32% YoY, as consumers spent more time on our apps and we delivered attractive ROIs to advertisers. Revenue decreased QoQ due to weak seasonality
- Games, Internet services and online education ad revenue increased during stay-at-home period. FMCG, auto and travel ads were adversely impacted by budget cuts
- During the rest of 2020, we expect industry headwinds to include: 1) consumers normalizing time-spent online, 2) online services advertisers adjusting budgets and 3) multinational brands reducing their spending significantly

Social & Others Ad

- Ad impressions increased, particularly on Moments, partly due to stay-at-home behavior
- Mobile ad network revenue expanded on more traffic and higher eCPMs, with video ads representing over one-third of ad impressions

Media Ad

- Sponsorship ad revenue declined YoY and QoQ due to budget cuts, delays in variety shows and suspension of NBA games
- In-feed ad revenue increased YoY and QoQ across video and news properties, driven by popularity of several drama series, and demand for reliable news and information during pandemic
FinTech and Business Services

In billion RMB

FinTech Services

- Revenue decreased sequentially as payment activities reduced during stay-at-home period and the Chinese New Year, but margins were stable due to diversified revenue streams and marketing cost control; revenue generated from commercial payments and other FinTech businesses increased YoY.
- For the last week of April, average daily commercial transactions value recovered to late 2019 levels.
- Wealth management aggregated customer assets increased YoY and QoQ.
- WeiLiDai’s loan book remained healthy due to prudent risk management.

Business Services

- Project deployment and new accounts acquisition were delayed due to pandemic, causing sequential revenue decline; we expect industry to remain challenging in the short term, but may see accelerated adoption of cloud services from offline industries and public sectors longer term.
- Tencent Meeting: became the leading video conference app in China with breakout success; enhanced security and released functions to facilitate discussion and conference management; launched international version VooV Meeting.
- WeChat Work: signed up a large number of key accounts, especially in retail, education and public sectors, driving DAU to grow significantly.
3. Financial Review
## Income Statement

<table>
<thead>
<tr>
<th></th>
<th>1Q2020</th>
<th>1Q2019</th>
<th>YoY</th>
<th>4Q2019</th>
<th>QoQ</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>108,065</td>
<td>85,465</td>
<td>+26%</td>
<td>105,767</td>
<td>+2%</td>
</tr>
<tr>
<td><strong>COPS</strong></td>
<td>(55,271)</td>
<td>(45,645)</td>
<td>+21%</td>
<td>(59,659)</td>
<td>-7%</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>52,794</td>
<td>39,820</td>
<td>+33%</td>
<td>46,108</td>
<td>+15%</td>
</tr>
<tr>
<td><strong>Interest income</strong></td>
<td>1,636</td>
<td>1,408</td>
<td>+16%</td>
<td>1,580</td>
<td>+4%</td>
</tr>
<tr>
<td><strong>Other gains, net</strong></td>
<td>4,037</td>
<td>11,089</td>
<td>-64%</td>
<td>3,630</td>
<td>+11%</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>(21,207)</td>
<td>(15,575)</td>
<td>+36%</td>
<td>(22,714)</td>
<td>-7%</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>37,260</td>
<td>36,742</td>
<td>+1%</td>
<td>28,604</td>
<td>+30%</td>
</tr>
<tr>
<td><strong>Finance costs, net</strong></td>
<td>(1,684)</td>
<td>(1,117)</td>
<td>+51%</td>
<td>(2,767)</td>
<td>-39%</td>
</tr>
<tr>
<td><strong>Share of losses of associates &amp; JV</strong></td>
<td>(281)</td>
<td>(2,957)</td>
<td>-90%</td>
<td>(1,328)</td>
<td>-79%</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td>(5,892)</td>
<td>(4,812)</td>
<td>+22%</td>
<td>(2,137)</td>
<td>+176%</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>29,403</td>
<td>27,856</td>
<td>+6%</td>
<td>22,372</td>
<td>+31%</td>
</tr>
<tr>
<td><strong>Net profit attributable to equity holders</strong></td>
<td>28,896</td>
<td>27,210</td>
<td>+6%</td>
<td>21,582</td>
<td>+34%</td>
</tr>
<tr>
<td><strong>Diluted EPS in RMB</strong></td>
<td>2.999</td>
<td>2.844</td>
<td>+5%</td>
<td>2.248</td>
<td>+33%</td>
</tr>
</tbody>
</table>

**Non-IFRS:**

| **Net profit attributable to equity holders** | 27,079     | 20,930     | +29% | 25,484     | +6%  |
| **Diluted EPS in RMB**                   | 2.817      | 2.187      | +29% | 2.643      | +7%  |
## Non-IFRS Adjustments

<table>
<thead>
<tr>
<th>In million RMB</th>
<th>IFRS 1Q2020</th>
<th>SBC</th>
<th>Net (gains)/losses from investee companies</th>
<th>Amortisation of intangible assets</th>
<th>Impairment provision/(reversal)</th>
<th>Tax effect</th>
<th>Non-IFRS 1Q2020</th>
<th>YoY change</th>
<th>QoQ change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>37,260</td>
<td>3,435</td>
<td>(5,272)</td>
<td>639</td>
<td>(487)</td>
<td>-</td>
<td>35,755</td>
<td>25%</td>
<td>17%</td>
</tr>
<tr>
<td>Net profit</td>
<td>29,403</td>
<td>4,198</td>
<td>(6,992)</td>
<td>1,572</td>
<td>(18)</td>
<td>(179)</td>
<td>27,984</td>
<td>29%</td>
<td>5%</td>
</tr>
<tr>
<td>Net profit attributable to equity holders</td>
<td>28,896</td>
<td>3,957</td>
<td>(6,976)</td>
<td>1,338</td>
<td>(18)</td>
<td>(118)</td>
<td>27,079</td>
<td>29%</td>
<td>6%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>34.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>32.9%</td>
<td>-0.4ppt</td>
<td>4.2ppt</td>
</tr>
<tr>
<td>Net margin</td>
<td>27.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25.9%</td>
<td>0.5ppt</td>
<td>0.7ppt</td>
</tr>
</tbody>
</table>

**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 investees.

2 Impairment provision/(reversal) for associates, joint ventures and intangible assets arising from acquisitions.

3 Income tax effects of non-IFRS adjustments.
Operating Expenses

S&M
in billion RMB

<table>
<thead>
<tr>
<th></th>
<th>1Q19</th>
<th>1Q20</th>
<th>4Q19</th>
<th>1Q20</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;M</td>
<td>4.2</td>
<td>7.0</td>
<td>6.7</td>
<td>7.0</td>
</tr>
</tbody>
</table>

+66% YoY
+5% QoQ

G&A (incl. R&D)
in billion RMB

<table>
<thead>
<tr>
<th></th>
<th>1Q19</th>
<th>1Q20</th>
<th>4Q19</th>
<th>1Q20</th>
</tr>
</thead>
<tbody>
<tr>
<td>G&amp;A</td>
<td>11.3</td>
<td>14.2</td>
<td>6.5</td>
<td>8.0</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>4.8</td>
<td>6.2</td>
<td>6.5</td>
<td>8.0</td>
</tr>
</tbody>
</table>

+25% YoY
+27% QoQ
-12% QoQ

+66% YoY
+23% QoQ
+10% QoQ
Margin Ratios

IFRS Gross Margin (%)

Non-IFRS Operating Margin (%)

Non-IFRS Net Margin (%)
## CAPEX, FCF and Cash Position

<table>
<thead>
<tr>
<th></th>
<th>In million RMB</th>
<th>1Q2020</th>
<th>1Q2019</th>
<th>YoY</th>
<th>4Q2019</th>
<th>QoQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating CAPEX</td>
<td></td>
<td>5,469</td>
<td>3,870</td>
<td>41%</td>
<td>7,080</td>
<td>-23%</td>
</tr>
<tr>
<td>Non-operating CAPEX</td>
<td></td>
<td>682</td>
<td>636</td>
<td>7%</td>
<td>9,789</td>
<td>-93%</td>
</tr>
<tr>
<td><strong>Total CAPEX</strong></td>
<td></td>
<td>6,151</td>
<td>4,506</td>
<td>37%</td>
<td>16,869</td>
<td>-64%</td>
</tr>
<tr>
<td>Operating Cash Flow</td>
<td></td>
<td>54,661</td>
<td>28,799</td>
<td>90%</td>
<td>50,604</td>
<td>8%</td>
</tr>
<tr>
<td>Less: CAPEX Paid</td>
<td></td>
<td>(9,442)</td>
<td>(4,866)</td>
<td>94%</td>
<td>(12,708)</td>
<td>-26%</td>
</tr>
<tr>
<td>Payments for media content</td>
<td></td>
<td>(5,185)</td>
<td>(6,483)</td>
<td>-20%</td>
<td>(5,902)</td>
<td>-12%</td>
</tr>
<tr>
<td>Payments for lease liabilities</td>
<td></td>
<td>(824)</td>
<td>(627)</td>
<td>31%</td>
<td>(743)</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Free Cash Flow</strong></td>
<td></td>
<td>39,210</td>
<td>16,823</td>
<td>133%</td>
<td>31,251</td>
<td>25%</td>
</tr>
<tr>
<td>Total Cash</td>
<td></td>
<td>220,584</td>
<td>174,677</td>
<td>26%</td>
<td>205,261</td>
<td>7%</td>
</tr>
<tr>
<td>Less: Total Debt</td>
<td></td>
<td>(226,300)</td>
<td>(184,272)</td>
<td>23%</td>
<td>(220,813)</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Net Debt</strong></td>
<td></td>
<td>(5,716)</td>
<td>(9,595)</td>
<td>Improved 40%</td>
<td>(15,552)</td>
<td>Improved 63%</td>
</tr>
</tbody>
</table>

Fair value of our shareholdings in listed investee companies, excluding subsidiaries, was approximately RMB410.3 billion (USD57.9 billion) as at March 31, 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. Restated free cash flow was RMB12,553 million in 2Q2019 and RMB28,093 million in 3Q2019, respectively.
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2020 First Quarter Results Presentation

Thank you!

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