Tencent 腾讯

CORPORATE OVERVIEW

November 12, 2020
We Build Connections

For Users:
- Always connected
- Enjoy a wide range of content and entertainment offerings
- Access to a rich mix of services and transact at fingertips

For Enterprises:
- Access to a massive user base
- Advertise efficiently and strengthen CRM across platforms
- Facilitate transactions with online payment solutions
- Embrace digital upgrades

Daily services
Online education
Remote collaboration
Smart healthcare
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 1,213m

QQ
• QQ smart devices MAU at 617m

Communication & Social

Media

Mobile Payment
• #1 by MAU & DAU

FinTech

Cloud

Long Form 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 Browser
• #1 by MAU

Mobile Security
• #1 by MAU

Utilities

Public Cloud
• #2 service provider by revenue

* All rankings above refer to China market, unless otherwise stated. Company data as of Sep 30, 2020.
Largest Communication and Social Platforms in China

Weixin Pay
- Easy and secured online/offline transactions
- #1 mobile payment platform in China
- Over 1 billion average commercial transactions per day¹

Mini Programs
- Facilitate businesses to build digital presence and provide products, content and services within the Weixin ecosystem
- Over RMB800 billion annual transaction value¹

Official Accounts
- Allow individuals, media and businesses to share original content and engage with readers/customers
- Strengthen brand awareness and content management

Over 1.2 billion MAU²
Weixin/WeChat

617 million MAU²
QQ smart device

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1. As of December 31, 2019
2. As of September 30, 2020
Embracing the Industrial Internet

- Extend our “Connection” Strategy from connecting people to people, people to content and services, to connecting industries, consumers and business partners
- Customise smart industry solutions based on Tencent Cloud; leverage our high-DAU platforms and proprietary technologies to assist enterprises in digital transformation

### Smart Solutions
- Smart Retail
- Smart Healthcare
- Smart Education
- Smart Finance
- Smart Transportation

### High-DAU Platforms
- Weixin
- QQ
- Mini Programs
- Weixin Pay
- WeCom

### Technologies
- Security
- Autonomous Driving
- YouTu AI Lab
- Tencent AI Lab
- Big Data Analytics
- Location-based Services

### Infrastructure
- Comprehensive range of products and services (>280) on top of computing and storage
- Solid infrastructure in 27 regions and 56 availability zones
- Over 1 million paying customers

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1. As of September 30, 2020
2. As of December 31, 2019
Strengthening Ecosystem through Investments

Generate synergies with core businesses
• Partner with category leaders, allowing management attention and resources to focus on core platforms
• Expand IP portfolio including games, video, music and literature via upstream investments
• Broaden user reach and engagement via investments in vertical platforms

Capture emerging opportunities
• Enrich offerings to meet evolving user needs
• Strengthen enterprise-facing and enterprise-dependent services such as payment, advertising and cloud

Create value for investees
• Access to our large user base
• Share experience and provide infrastructure, technology and capital support
Our ESG Commitment and Approach

**Environment**
- **Energy consumption control:** maintain PUE at below 1.25 for data centres in low-altitude climate zone
- **Low-carbon operations:** deploy smart systems for air conditioning, water recycling and server cooling
- **Technology investment:** seek to address the global challenges for FEW (Food, Energy and Water)

**Social**
- **Privacy and data security:** adopt “Privacy by Design” concept and leverage security technologies to protect user data
- **Product responsibility:** ensure healthy online environment, e.g., Healthy Gameplay system and Tencent Guardian Project
- **Human capital:** promote a diverse and inclusive work environment; provide training via Tencent Academy
- **Charity:** support philanthropy and poverty alleviation via Tencent Foundation and dedicated platforms, e.g., WeCounty

**Governance**
- **Board:** committed to enhance diversity in gender, background, skills and expertise
- **Anti-corruption:** implement stringent and effective internal control and risk management, with Tencent’s Sunshine Code of Conduct, “Three Lines of Defence” model, and Anti-fraud and Whistleblowing policies
- **AML and sanctions:** apply group-level anti-money laundering and sanction policies

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Tencent website on **Corporate Social Responsibility**

1. Tencent was voted as one of the best employers in the PRC for 14 consecutive years since 2006 by Zhaopin.com and Institute of Social Science Survey, Peking University
2. Women In Tech series in our Tencent Perspective column introduce female role models for employees
3. Female Independent Non-executive Director, Professor Ke Yang, joined the Board and the Corporate Governance Committee in August 2019
1. Business Model

2. Financials
Our Business Model

- **VAS: Social Networks**
  - Fee-based revenue
  - Digital media subscriptions
  - Membership privileges
  - Virtual item sales

- **VAS: Online Games**
  - Fee-based revenue
  - Smart phone games
  - PC games

- **Online Advertising**
  - Traffic-based revenue
  - Social & Others Ads: Moments, Official Accounts, app store, browser and mobile ad network
  - Media Ads: news, video & music properties

- **FinTech and Business Services**
  - Transaction-based revenue
  - FinTech Services
  - Business Services
### Social Networks

#### Massive and engaged user base with network effects across our platforms

- **Communication and Social**
  - Weixin & WeChat
  - QQ

- **Media and digital content**
  - News
  - Online Music
  - Video
  - News Feeds
  - Live Broadcast
  - Online Literature

- **Utilities**
  - Mobile / PC Manager (Security)
  - QQ Browser
  - YingYongBao (App Store)

#### Multiple proven monetisation levers

- **Membership privileges**
  - Upgrade to paid membership to enjoy higher privileged services (on top of free basic services)

- **Digital content subscriptions**
  - Monthly subscription packages for digital media and content services
    - Total video subscriptions: 120 million
    - Total music subscriptions: 52 million

- **Virtual item sales**
  - Users buy virtual gifts to support their friends and favorite artists/hosts
  - In-game item sales

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1. As of September 30, 2020
## Online Games

### Clear leader in China
- #1 smart phone games publisher & developer with 52% market share in China on iOS (1)
- #1 PC games publisher & developer with 60% market share in China (1)

### Global Presence
- Business cooperation or equity investment with 8 out of top 10 game companies, expanding our global footprint
- Developed 5 of the top 10 smart phone games by MAU globally, together with our majority owned subsidiaries (2)

### Strong Development, Publishing & Operational Capabilities
- In-house developed titles gaining global popularity:
  - [Honour of Kings](#) #1 China smart phone game by DAU (3)
  - [Peacekeeper Elite](#) #2 China smart phone game by DAU (3)
  - [PUBG Mobile](#) #1 international smart phone game by DAU (4)
  - [League of Legends](#) #1 global top grossing PC game (5)

### Diversity of game portfolio
- Over 140 game titles (6)
- Multiple genres including battle arena, racing, strategy and tactical tournament

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1. According to iResearch and Analysys, market share based on revenues of public Chinese online game companies in 2019.
2. According to global MAU data from QuestMobile and App Annie, as of September 2020.
3. According to QuestMobile, as of September 2020.
4. According to App Annie, global ex China ranking by DAU as of September 2020.
5. According to Superdata, global grossing ranking as of September 2020.
Social and Others Advertising

Integrated ad platform to streamline placement across all inventories, and increase targeting as well as bidding efficiency

**In-feed ad**
Customised design for interaction in Qzone

**Rewarded video ad**
Get in-program rewards by watching ads on Mini Programs

**Location-based ad**
Bid for ad space in the “Mini Programs Nearby” list

**Promotion coupon ad**
Insert promotion coupons in Moments ads
**Media Advertising**

Integrated ad platform to streamline placement across all inventories, and increase targeting as well as bidding efficiency

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**Banner**
Embed image ads in apps to direct traffic to advertisers’ website

**In-feed / native video ads**
Integrate ads relevant to content feed to achieve higher click-throughs

**Video pre-roll**
Play video commercials before users’ selected programme

**Splash screen ads**
Show immersive full-screen vertical ads on the landing page
FinTech and Business Services

Widespread payment adoption provides opportunities for other FinTech services

- Take-rate on commercial transactions collected from merchants
- Cash withdrawal fee and credit card repayment charges collected from users

Weixin Pay

LiCaiTong  Weilidai  WeSure

- Fees and commissions from financial institution partners
  - LiCaiTong: wealth management platform offering high-quality financial products from partners; aggregated customer assets exceeded RMB800 billion1.
  - Weilidai: online lending product provided by WeBank
  - WeSure: insurance platform

Strong infrastructure and technology capabilities assist enterprises digitalisation

- Cloud services: usage-based billing or service fees on IaaS, PaaS, SaaS and technology solutions from enterprise customers
- Other business services: facilitate digital upgrades via WeCom, Tencent Meeting, etc.

Tencent Cloud  WeCom  Tencent Meeting

Smart Education  Smart Healthcare  Smart Retail

- Smart industry solutions: service fees from industry partners e.g., education, financial, healthcare, eCommerce, tourism, etc.

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1. In the fourth quarter of 2019
1. Business Model

2. Financials
Diversified Revenue Streams

In billion RMB

1. Effective from 10 Mar 2014, we have divested our B2C and C2C eCommerce marketplaces and deconsolidated such revenues
2. Others revenues for 1Q2015 include revenue from eCommerce transactions
3. From first quarter of 2019, we separately report the financials of FinTech and Business Services, with comparative figure in 2018 restated accordingly
4. Last twelve months as of September 30, 2020
Sustainable Cash Generation

Operating Cash Flow, Capital Expenditure Paid and Dividends Paid

In billion RMB

1. Capital expenditure paid includes purchase of property, plant and equipment, constructions in progress and investment properties, payments for land use rights and payments for intangible assets (excluding media content, game licenses and other contents). Dividends paid include dividends paid to both the Company’s shareholders and non-controlling interests.

2. In 2019, we have reclassified interest paid from operating to financing cash flows, with comparative figures restated since 2018.

3. Last twelve months as of September 30, 2020

Source: Company financial reports
Other Financial Metrics

**Total debt / Adjusted EBITDA**

- 2017: 1.4x
- 2018: 1.5x
- 2019: 1.5x
- LTM 2020: 1.5x

**Total debt / (Adjusted EBITDA – CAPEX paid)**

- 2017: 1.6x
- 2018: 1.9x
- 2019: 1.9x
- LTM 2020: 1.9x

**Adjusted EBITDA / Interest expense**

- 2017: 31.3x
- 2018: 24.1x
- 2019: 19.2x
- LTM 2020: 21.8x

**Total debt / Total capitalization**

- 2017: 32.3%
- 2018: 33.5%
- 2019: 31.1%
- LTM 2020: 28.6%

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**Fair value of shareholdings in listed investee companies, excluding subsidiaries:**

RMB890.7 billion (USD130.8 billion) as at September 30, 2020, compared to RMB726.2 billion (USD102.6 billion) as at June 30, 2020

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1. Total debt consists of borrowings and notes payable; Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses
2. Last twelve months as of June 30, 2020, same for the other three charts
3. Capital expenditure paid includes purchase of property, plant and equipment, constructions in progress and investment properties, payments for land use rights and payments for intangible assets (excluding media contents, game licences and other contents)
4. Total capitalization consists of total debt plus total equity (book value)
5. 3Q20 figures quoted in US dollars are based on the exchange rate of US$1 to RMB6.8101

Source: Company filings and disclosures