

NetEase

# 2Q22 Investor Presentation

Investor Relations  
Aug 18, 2022

# SAFE HARBOR STATEMENT

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This announcement contains statements of a forward-looking nature. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “will,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates” and similar statements. In addition, statements that are not historical facts, including statements about NetEase’s strategies and business plans, its expectations regarding the growth of its business and its revenue and the quotations from management in this announcement are or contain forward-looking statements. NetEase may also make forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission (the “SEC”), in announcements made on the website of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”), in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including risks related to: the risk that the online game market will not continue to grow or that NetEase will not be able to maintain its position in that market in China or globally; the risk that COVID-19 or other health risks in China or globally could adversely affect the Company’s operations or financial results; risks associated with NetEase’s business and operating strategies and its ability to implement such strategies; NetEase’s ability to develop and manage its operations and business; competition for, among other things, capital, technology and skilled personnel; potential changes in government regulation that could adversely affect the industry and geographical markets in which NetEase operates, including, among others, initiatives to enhance supervision of companies listed on an overseas stock exchange and tighten scrutiny over data privacy and data security, as well as the risk that NetEase’s ADSs could be barred from trading in the United States as a result of the Holding Foreign Companies Accountable Act and the rules promulgated thereunder; the risk that NetEase may not be able to continuously develop new and creative online services or that NetEase will not be able to set, or follow in a timely manner, trends in the market; competition in NetEase’s existing and potential markets; and the risk that fluctuations in the value of the Renminbi with respect to other currencies could adversely affect NetEase’s business and financial results. Further information regarding these and other risks is included in NetEase’s filings with the SEC and announcements on the website of the Hong Kong Stock Exchange. NetEase does not undertake any obligation to update this forward-looking information, except as required under the applicable law.



# NetEase, Inc.

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Founded in 1997, NetEase, Inc. is a leading China-based internet technology company that develops and operates some of China's most popular and longest running mobile and PC games. Powered by industry-leading in-house R&D capabilities in China and globally, NetEase creates superior gaming experiences, inspires players and passionately delivers value for its thriving community worldwide. By infusing play with culture and education with technology, NetEase transforms gaming into a meaningful vehicle to build a more entertaining and enlightened world.

Beyond games, NetEase service offerings include its majority-controlled subsidiaries Youdao (NYSE: DAO), China's leading technology-focused intelligent learning company, and Cloud Music (HKEX: 9899), China's leading online music content community, as well as Yanxuan, NetEase's private label consumer lifestyle brand.

NetEase's ESG initiatives are among the best in the global media and entertainment industry, earning it a distinction as one of the S&P Global Industry Movers and an "A" rating from MSCI. For more information, please visit: <http://ir.netease.com/>.

# MARKET SNAPSHOT

In USD

\$60.2  
billion

Market Cap<sup>1</sup>  
(8/17/22)

3.3  
billion

Shares Outstanding,  
Diluted (2Q22)

\$1.21

Basic net income per ADS  
(GAAP) (2Q22)

\$3.5  
billion

Net revenues  
(2Q22)

\$790  
million

Net income attributable to the  
Company's shareholders (GAAP)  
(2Q22)

\$13.1  
billion

Cash position<sup>2</sup>  
(6/30/22)

A

MSCI ESG Rating<sup>3</sup>

Note:

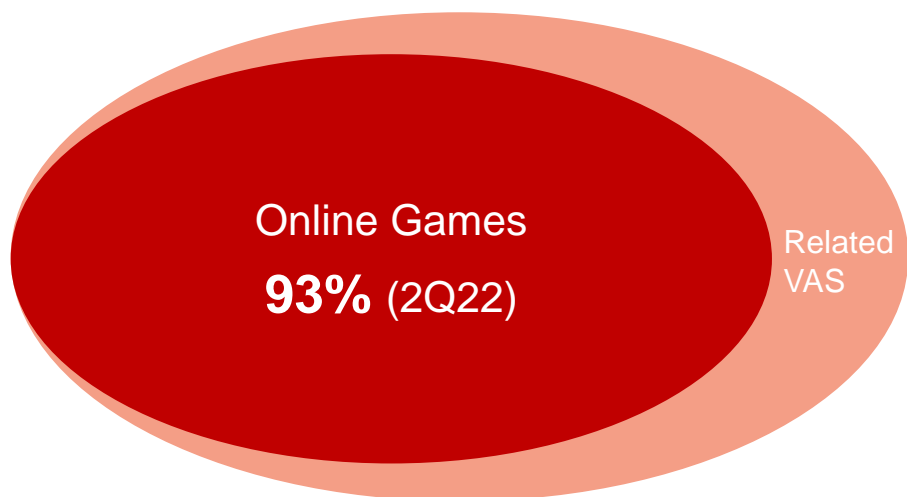
<sup>1</sup> Market Cap is calculated using the closing price on NASDAQ; Our market cap is HK\$473.9 billion (\$ 60.4 billion) based on the closing price on the Hong Kong Stock Exchange

<sup>2</sup> Cash position refers to total cash and cash equivalents, current and non-current time deposits and restricted cash, as well as short-term investments balance, minus the outstanding balance of short-term and long-term loans

<sup>3</sup> The result is based on the latest update in November 2021

# GAMES AND RELATED VALUE-ADDED SERVICES

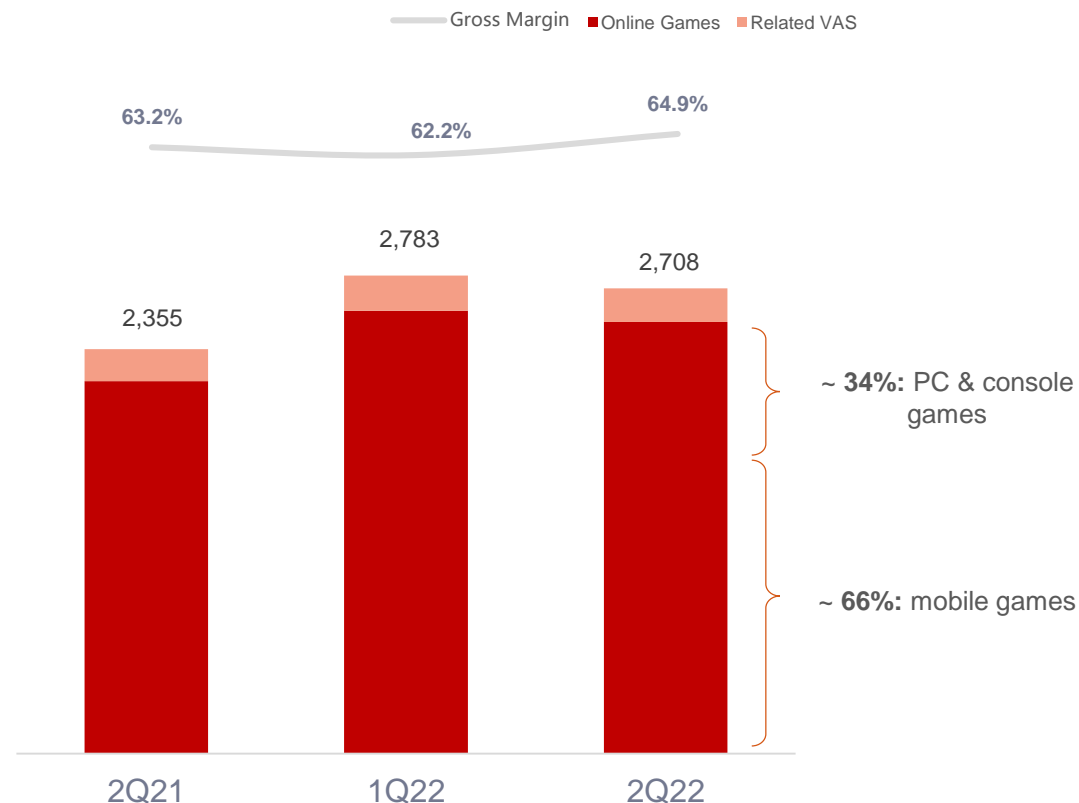
USD million



Definition of this segment has been changed to include related value-added services, such as NetEase CC Live streaming service, game-related merchandise and others



## Games and Related Value-added Services Net Revenues and Gross Margin



Note:

1 US\$1.00 = RMB6.6981 on June 30, 2022. Same exchange rate is applied to all years for illustrative purpose

网易 NETEASE



# ONLINE GAMES

## PC & CONSOLE GAMES

### Flagship Self-Developed Titles

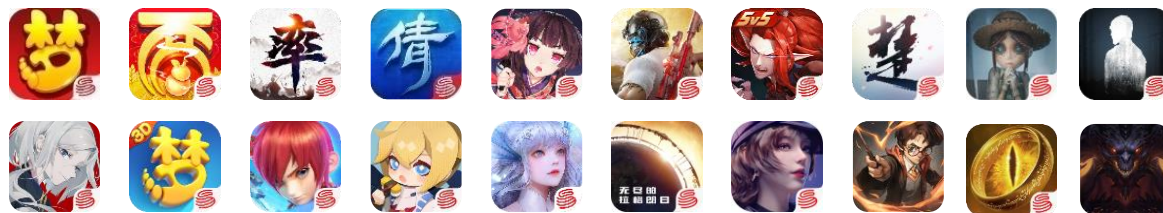


### Flagship Licensed Titles



## MOBILE GAMES

### Self-Developed Mobile Games



### Licensed Mobile Games From Overseas Developers



### Launching Mobile Games in Overseas Markets

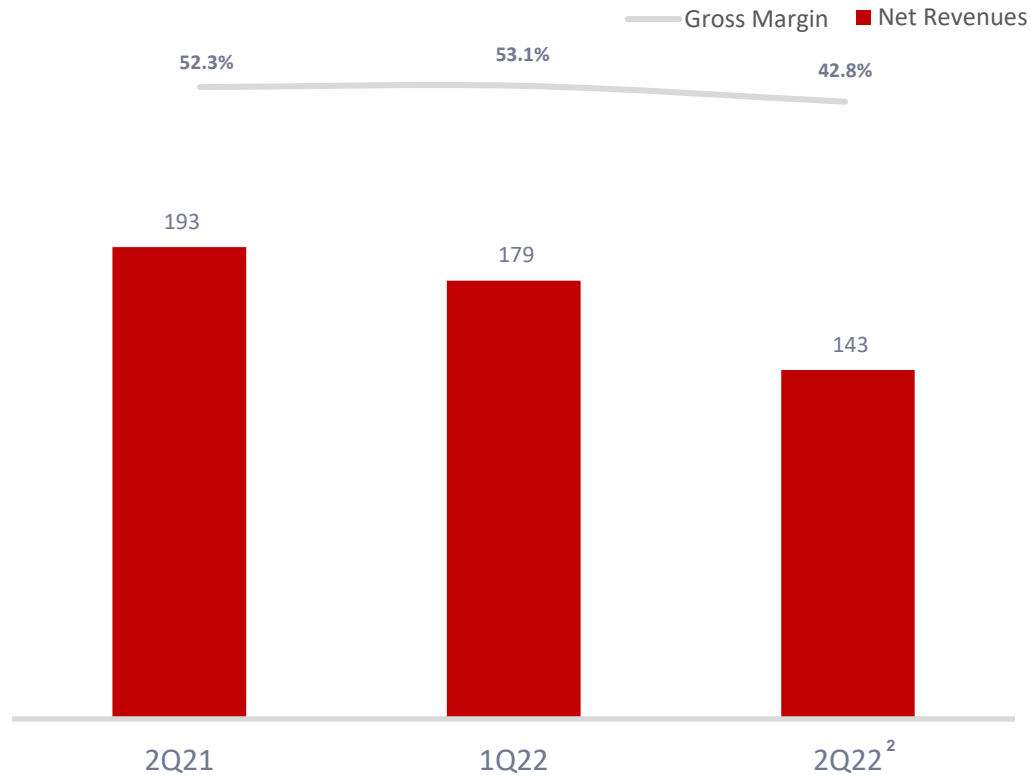


- **Naraka: Bladepoint**: 10 million copies sold worldwide within less than one year, and launched its Xbox version in June
- **Diablo® Immortal™**: made its debut in the global market and topped iOS download charts in multiple regions
- **Fantasy Westward Journey** series continue to grow after nearly two decades of operation
- **Identity V** and **Infinite Lagrange** continued their popularity with highly captivating content updates and creative marketing
- Pipeline: **Naraka: Bladepoint mobile**, **Justice mobile** and **Ghost World Chronicle**, as well as **Harry Potter: Magic Awakened** in international markets

# YOUDAO

USD million<sup>1</sup>

## Youdao Net Revenues and Gross Margin



**Achieved positive operating cash flow of RMB104 million, despite the challenges faced during the COVID resurgence and business transition**

- Total net revenues for Youdao were RMB956 million in the second quarter
- Released diversified new products to cover a broader range of learning scenarios, such as Youdao Smart Learning Pad, which has been sold out shortly after the distribution of the initial batch
- Continued to diversify the STEAM course offering in which it achieved sustainable growth, with gross billings expanding by more than nine-fold year-over-year. Some of the fastest growing courses include *Youdao Chess (有道国象)* and *Youdao Go (有道纵横)*

Note:

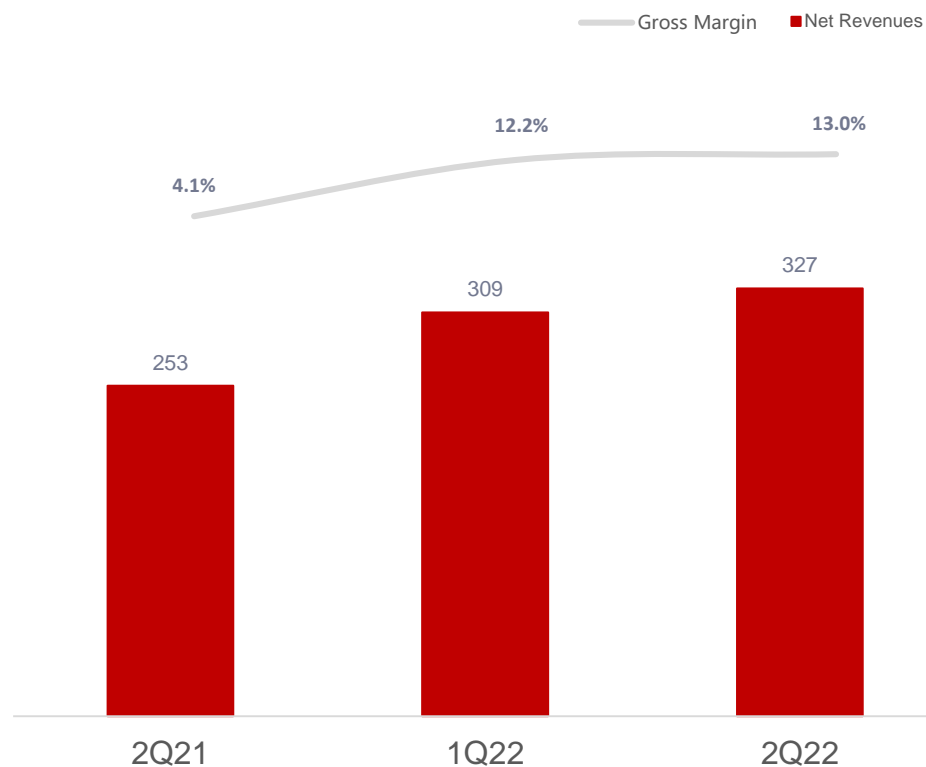
<sup>1</sup> US\$1.00 = RMB6.6981 on June 30, 2022. Same exchange rate is applied to all years for illustrative purpose

<sup>2</sup> The year-over-year decline of Youdao's net revenues was primarily due to the conclusion of Youdao's after-school tutoring services for academic subjects under China's compulsory education system

# CLOUD MUSIC

USD million<sup>1</sup>

## Cloud Music Net Revenues and Gross Margin



- Maintained strong growth in the second quarter despite macro-headwinds, with total revenues improving by 29% year-over-year to RMB2.2 billion
- Reached 182 million MAUs for our online music services, with the DAU/MAU ratio staying well above 30%
- Increased membership paying ratio to 21%
- Home to more than 500,000 registered independent artists, with 2.4 million music tracks created by them
- Enhanced our products and community features to bring premium experience to music lovers, including High Resolution Audio feature (高解析度音频) and a social networking App called MUS
- Added multiple licensing agreements with major overseas and domestic music labels, such as SM Entertainment, TF Entertainment and YG Entertainment

Note:

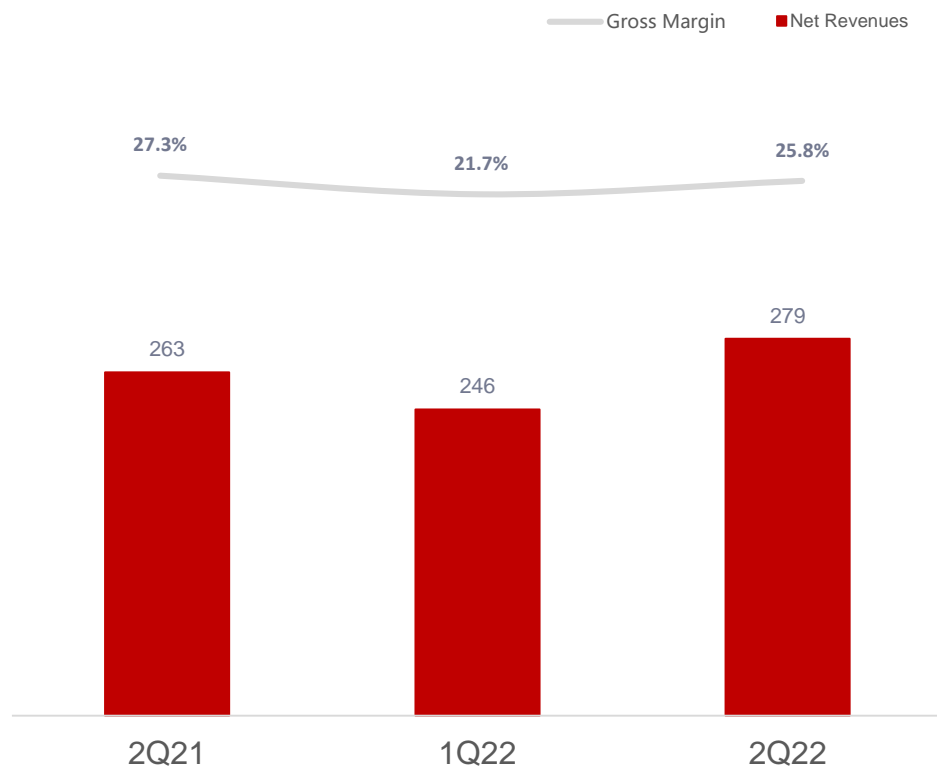
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# INNOVATIVE BUSINESSES AND OTHERS

USD million<sup>1</sup>

## Innovative Businesses and Others Net Revenues and Gross Margin



## NetEase Yanxuan

- Leading private label consumer lifestyle brand in China
- Successively launched a variety of popular products in the second quarter, such as handmade vinegar and ergonomic chairs



## Internet Media

- www.163.com is one of China's most visited Internet portals, with strong user diversity, reach and stickiness
- Mobile News App is one of the most popular news apps in China



## E-mail Services

- China's leading e-mail service provider since 1997
- Nearly 500 million annual active users as of June 30, 2022

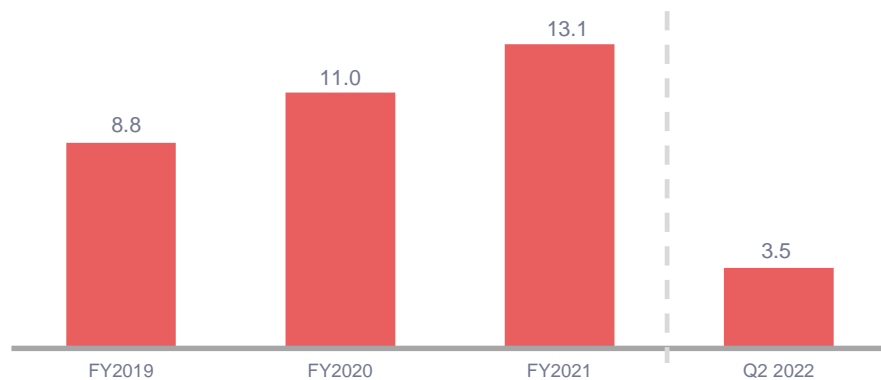
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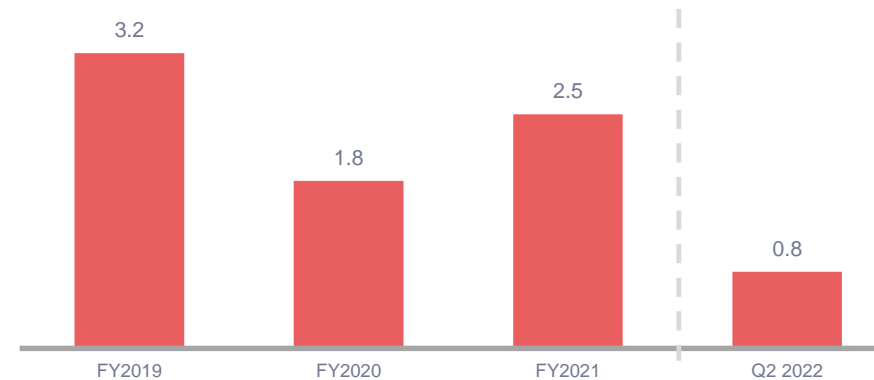
# FINANCIAL HIGHLIGHTS

USD billion <sup>1</sup>

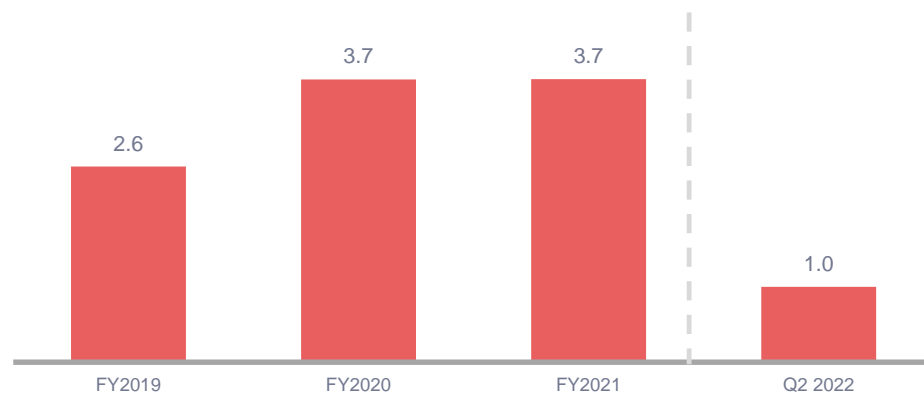
## Net Revenues



## Net Income Attributable to Shareholders (GAAP)



## Operating Cash Flow



## Value Returned to Shareholders

US\$	FY2019	FY2020	FY2021	Q2 2022
<b>Dividend per ADS (declared)</b>	\$1.378	\$0.784	\$1.170	\$0.360
<b>Total Dividends (declared) <sup>2</sup></b>	\$1,334 m	\$515 m	\$777 m	\$236 m
<b>Share Buyback (mn)</b>	\$0.2 m	\$1,625 m	\$1,974 m	\$330 m

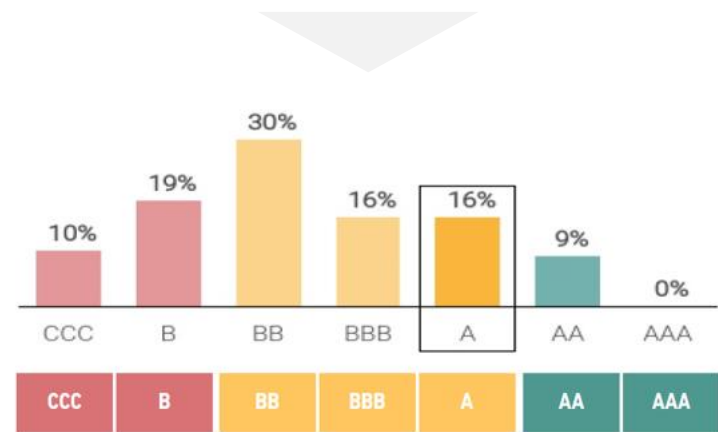
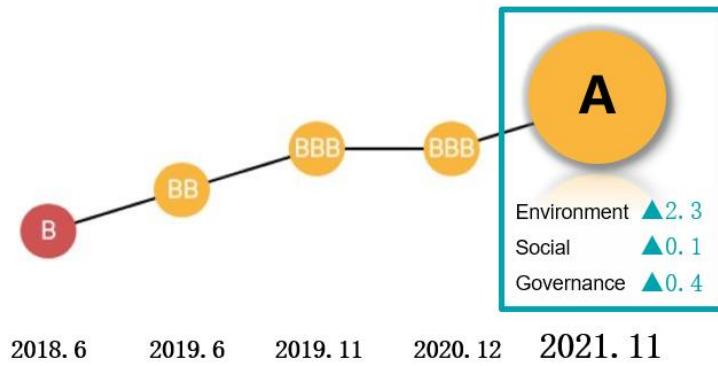
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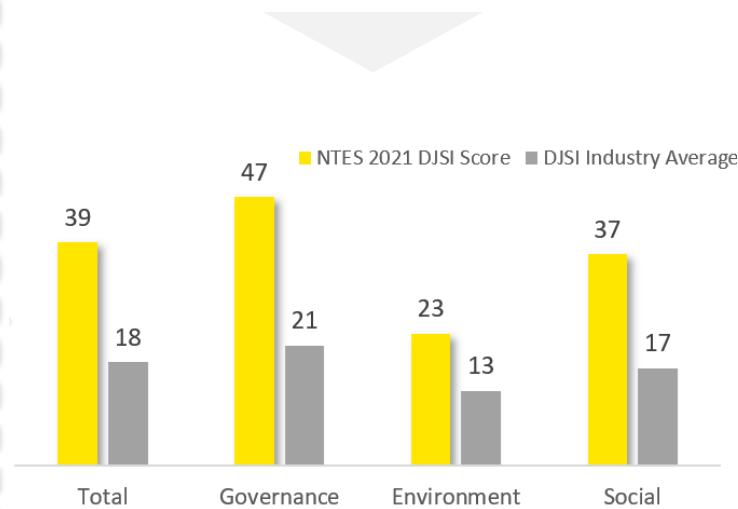
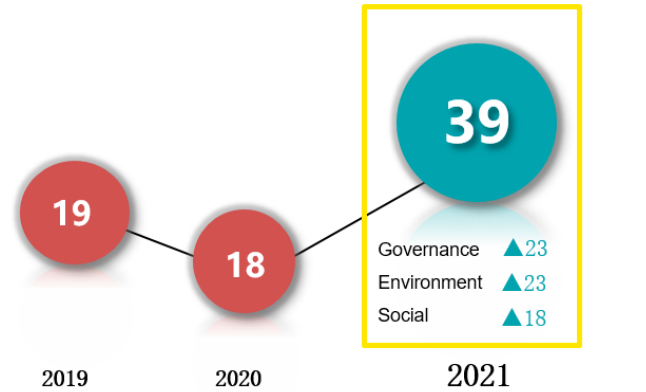
<sup>2</sup> Total Dividends (declared) equals to Dividend per ADS (declared) multiplied by each quarter's corresponding Weighted average number of ADS outstanding, basic

# ESG PERFORMANCE

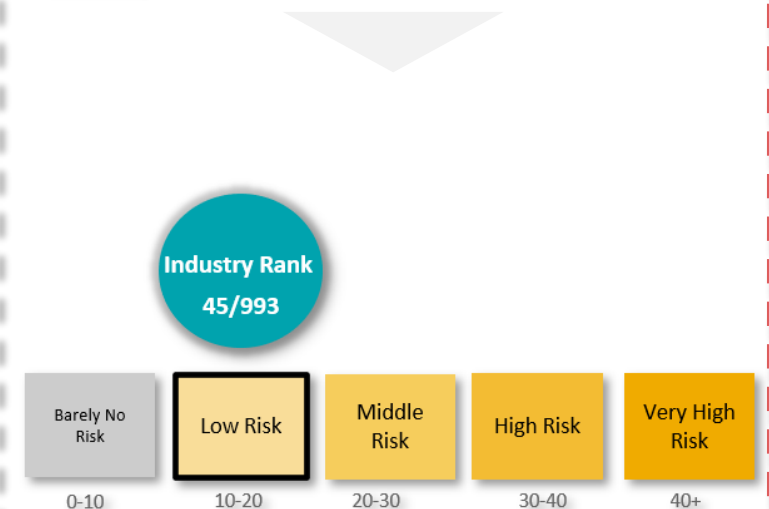
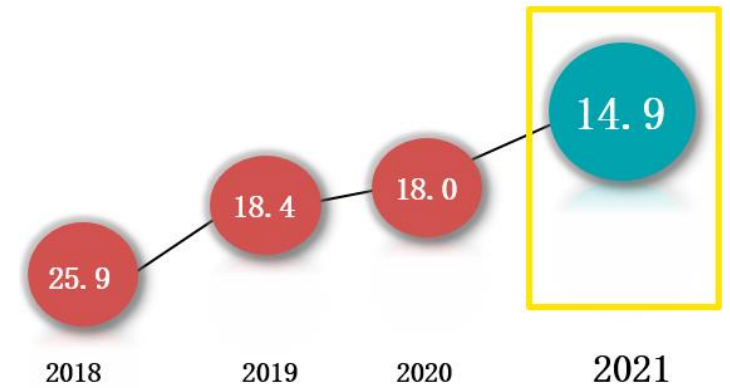
## MSCI Ratings



## DJSI (Dow Jones Sustainability Index) Ratings



## Sustainalytics Ratings



# BALANCE SHEET SUMMARY

	2021	2022	
in millions	Dec 31, RMB	June 30, RMB (Unaudited)	June 30, USD (Unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	14,498	16,462	2,458
Time deposits	70,755	84,917	12,678
Other current assets	27,867	26,630	3,975
Total current assets	113,120	128,009	19,111
Property, equipment and software, net	5,434	6,022	899
Other non-current assets	35,090	34,149	5,099
Total assets	153,644	168,180	25,109
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS &amp; SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Contract liabilities	12,133	12,317	1,839
Other current liabilities	38,368	45,128	6,737
Total current liabilities	50,501	57,445	8,576
Total liabilities	54,220	63,273	9,446
Redeemable noncontrolling interests	145	143	21
Total shareholders' equity	99,279	104,764	15,642
Total liabilities, redeemable noncontrolling interests and shareholders' equity	153,644	168,180	25,109

# INCOME STATEMENT SUMMARY

	2Q21	1Q22	2Q22	2Q22	QoQ	YoY
in millions except per ADS data & percentage data	RMB	RMB	RMB	USD	Change	Change
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Total net revenues:</b>	20,525	23,556	23,159	3,458	-1.7%	12.8%
<i>Games and related value-added services</i>	15,775	18,642	18,140	2,708	-2.7%	15.0%
<i>Youdao</i>	1,293	1,201	956	143	-20.4%	-26.1%
<i>Cloud Music</i>	1,693	2,067	2,192	327	6.0%	29.5%
<i>Innovative businesses and others</i>	1,764	1,646	1,871	280	13.7%	6.1%
<b>Gross profit</b>	11,190	12,836	12,941	1,932	0.8%	15.6%
<b>Gross profit margin</b>	54.5%	54.5%	55.9%	55.9%		
<b>Operating profit</b>	3,758	5,507	4,946	738	-10.2%	31.6%
<b>Operating profit margin</b>	18.3%	23.4%	21.4%	21.4%		
<b>Net income attributable to the Company's shareholders</b>	3,542	4,394	5,291	790	20.4%	49.4%
<b>Diluted net income per ADS</b>	¥5.23	¥6.63	¥8.00	\$1.19	20.7%	53.0%

Note:  
All percentages are calculated based on numbers in millions except per ADS data



**THANK YOU**

網易 NETEASE