



**4Q 2020**

**Investor Presentation**



# SAFE HARBOR STATEMENT

This presentation 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; 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.

# COMPANY OVERVIEW



Founded in 1997, NetEase, Inc. is a leading China-based internet technology company that develops and operates some of China's most popular online PC and mobile games, and offers other innovative services, including online education, music streaming and a private label e-commerce platform.

NetEase, Inc. has been listed on NASDAQ since 2000 under the symbol (NASDAQ: NTES), and completed its dual listing on the Hong Kong Stock Exchange in June 2020 under the ticker (HK: 9999).

Its majority-owned education business, Youdao, has been listed on NYSE since October 2019 (NYSE: DAO).

As of December 31, 2020, NetEase had over 28,000 employees.

# MARKET SNAPSHOT

*In USD*

\$81.2  
billion

Market Cap<sup>1</sup>  
(2/24/21)

\$682  
million

ADS Outstanding,<sup>2</sup>  
Diluted  
(4Q20)

\$0.22

Basic net income per<sup>3</sup>  
ADS (GAAP) (4Q20)

\$3.0  
billion

Net Revenue  
(4Q20)

\$150  
million

Net income attributable to  
the Company's shareholders  
(GAAP) (4Q20)

\$15.3  
billion

Cash, time deposits  
and short-term investment  
(12/31/20)

Note:

1 Market Cap is calculated using the closing price on NASDAQ; Our market cap is HK\$ 620.2 billion (\$ 80.0 billion) based on the closing price on the Hong Kong Stock Exchange.

2 Total weighted average number of ordinary shares outstanding (diluted) is 3.4 billion as of December 31, 2020. Our ADSs each represents 5 ordinary shares.

3 Basic net income per ordinary share equals to US\$0.04, or HK\$0.31 (FX: 1 US\$= 7.75 HKD).

# BUSINESS OVERVIEW

## Online Games

- Leading developer and operator of self-developed PC and mobile games for internet users in China and internationally
- Operator of licensed games from Blizzard Entertainment, Mojang AB (a Microsoft subsidiary) and other leading game developers internationally

### Self-Developed Games



Fantasy Westward Journey (Mobile)



Westward Journey (Mobile)



Onmyoji series



Knives Out



Identity V



Fantasy Westward Journey



Westward Journey



Justice

### Licensed Games



World of Warcraft (Blizzard)



Diablo III (Blizzard)



Hearthstone (Blizzard)



Minecraft (Microsoft)

## Online Education

- Leading intelligent learning services operated by Youdao, our majority-controlled subsidiary dedicated to developing and using technologies to provide learning content, applications and solutions to users of all ages

### Learning Services



Youdao Premium Courses



China University MOOC



NetEase Cloud Classroom

### Learning Products



Youdao Dictionary



Youdao Translation



Youdao Dictionary Pen

## Innovative Businesses and Others



- Leading interactive music streaming service provider in China with more than 800 million registered users and over 200,000 independent musicians



- Leading service provider of private label e-commerce through Yanxuan, targeting middle-class consumers in China with a strong emphasis on quality of life



# 4Q20 and FY20 HIGHLIGHTS

## Online Games

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- A number of new games were introduced in China in 4Q, such as *For All Time*, *Unknown Future*, *Akasha Book*
- As the first game of 2021, *Revelation* mobile game launched in January quickly became a top-ranking title on the China's iOS grossing chart
- Strong performance from existing titles: *FWJ* and *WWJ* PC titles reached record revenues in 2020
- Overseas games also had a record year: *Knives Out*, *Life-After* and *Identity V* all had a record year in 2020
- Further enriched *Onmyoji* IP-based pan-entertainment productions with three spin-off games in MOBA, card and simulation genres to date
- A robust pipeline including *Infinite Lagrange*, *Harry Potter: Magic Awakened*, *The Lord of the Rings: Rise to War*, *Elysium of Legends*, *Nightmare Breaker*, *Ghost World Chronicle*, *Diablo® Immortal™* and *Pokémon Quest*

## Online Education

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- 4Q total revenues reached RMB1.1 billion
  - ✓ Net revenues from learning services grew by 199% YoY to RMB732 million
  - ✓ Net revenues from learning devices also grew significantly by 254% YoY to RMB237 million
- Achieved another quarter of positive operating cash flow of RMB129 million

## Innovative Businesses and Others

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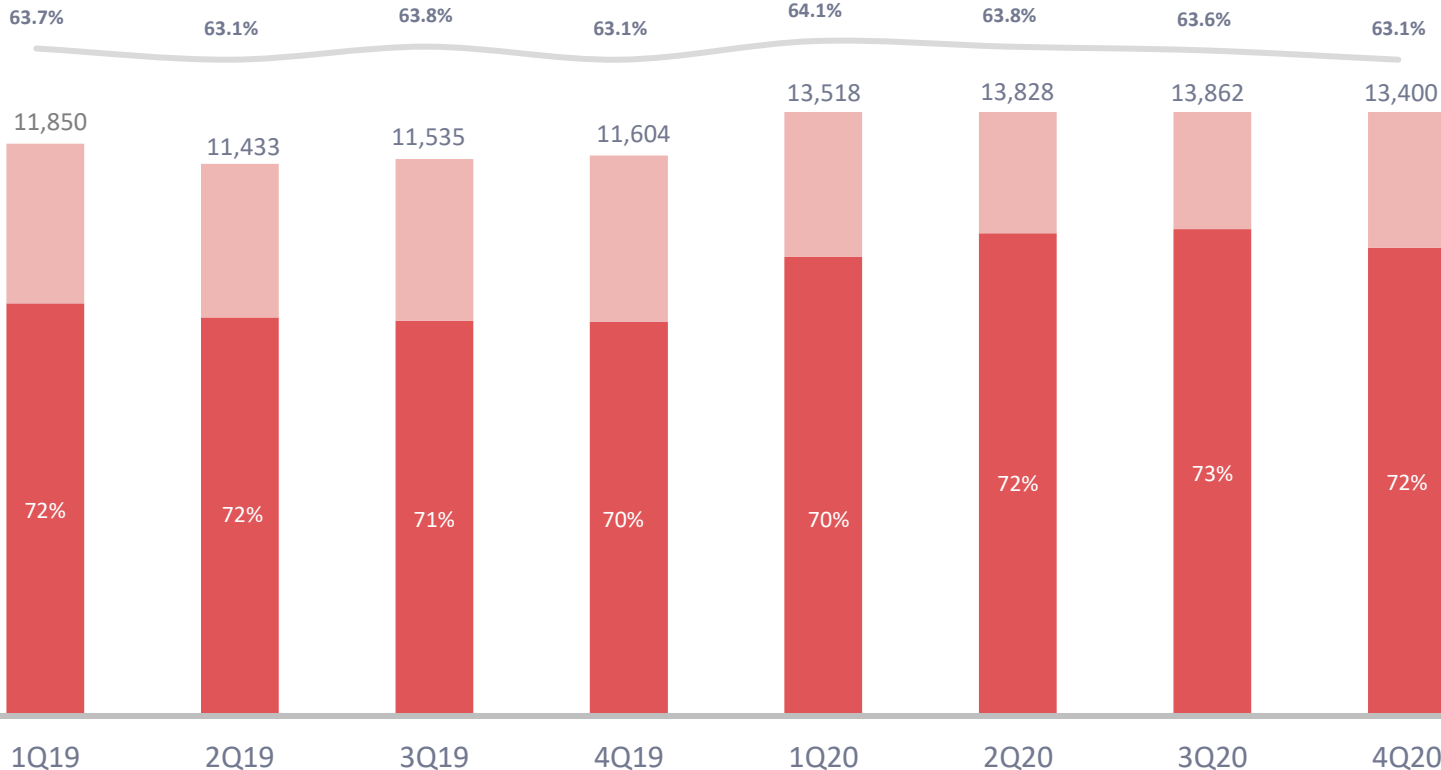
- **NetEase Cloud Music** achieved strong growth, and continued to see margin improvement as it scales further
- Home to over 200,000 independent musicians and over 800 million registered users through product innovation and musicians empowerment
- Continued to establish **Yanxuan**'s name as the leading new consumer brand in China by improving product offerings and user experience

# ONLINE GAME SERVICES

## Online Game Services Net Revenue and Gross Margin

RMB million

— Gross Margin   ■ PC Game Net Revenue   ■ Mobile Game Net Revenue



Mobile Games as a Percentage of Online Games Net Revenue

# ONLINE GAMES SERVICES

## PC GAMES

### Flagship Self-Developed PC titles

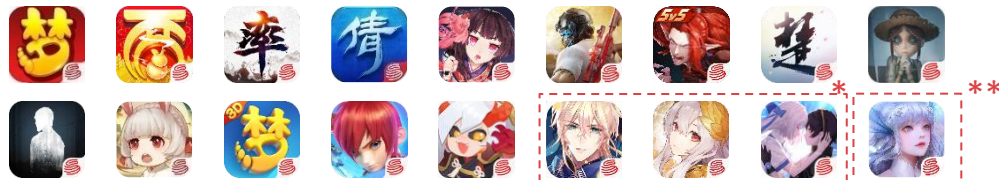


### Flagship Licensed PC titles

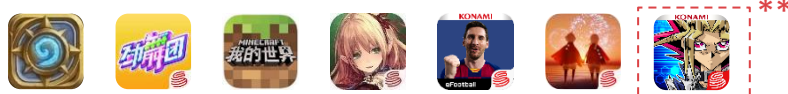


## MOBILE GAMES

### Self-Developed Mobile Games



### Licensed Mobile Games From Overseas Developers



### Launching Mobile Games in Overseas Markets



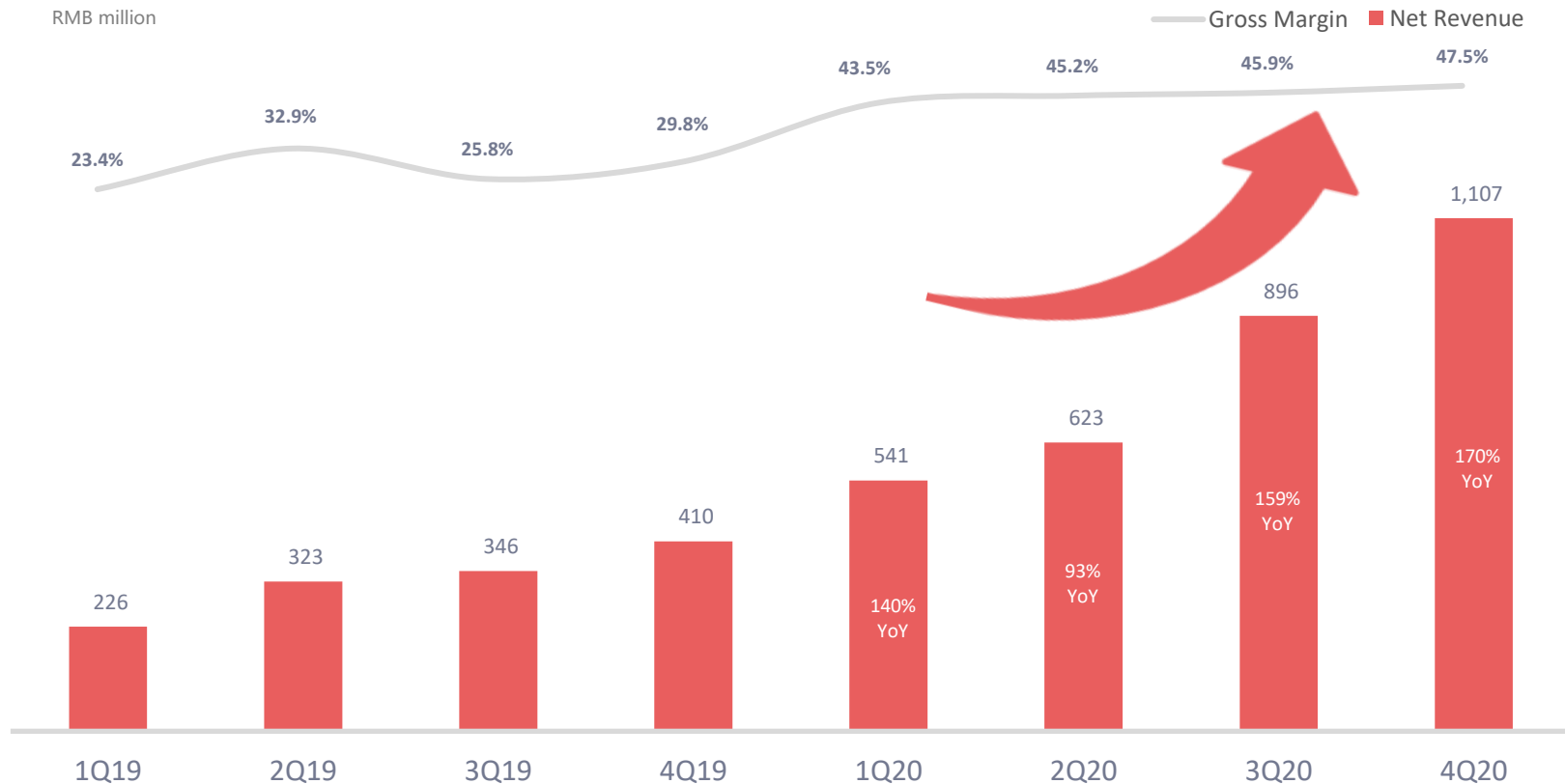
\* For All Time, Unknown Future and Akasha Book were launched in 4Q20

\*\* Revelation Mobile and Yu-Gi-Oh! Duel Links were launched in 1Q21

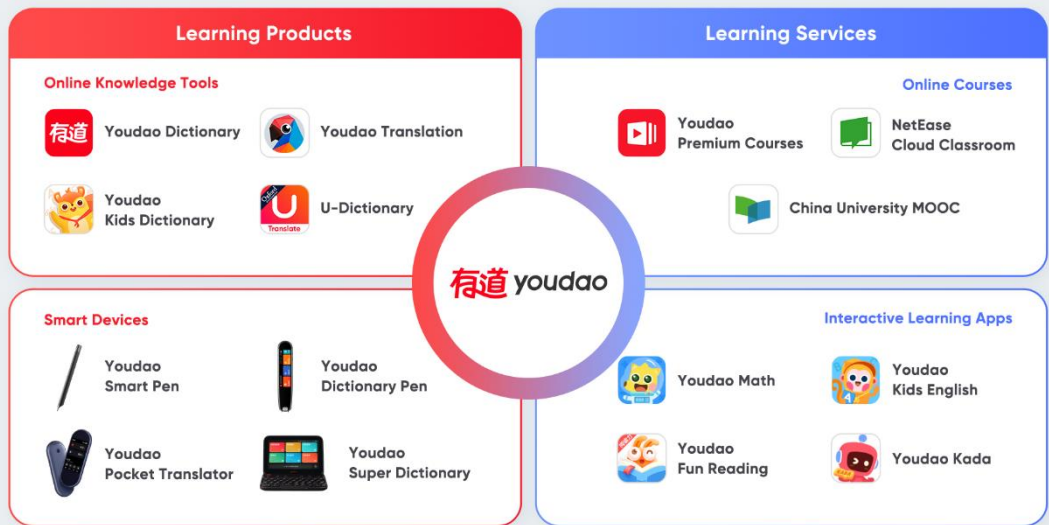


# ONLINE EDUCATION

## Youdao Net Revenue and Gross Margin



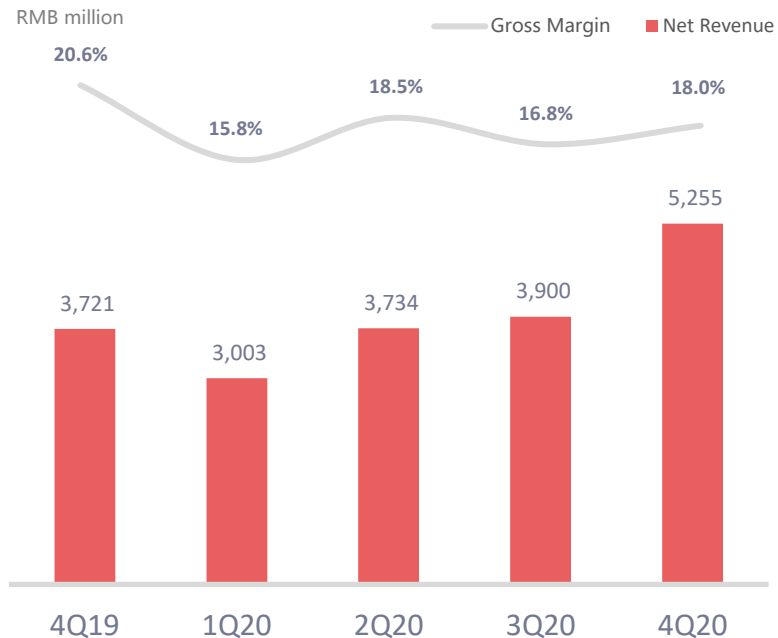
# ONLINE EDUCATION HIGHLIGHTS



- Gross billings from online courses in 4Q increased by 223% YoY to RMB1.1 billion, driven by the rapid growth across all segments
- Growth from our K-12 segment reached a record high RMB767 million in gross billings in 4Q, up 355% YoY, with K-12 paid enrollments expanding to over 659,000
- Continued to expand our high quality servicing team, which now comprises 214 instructors and 3,786 tutors
- Released Youdao Dictionary Pen 3.0 in December 2020, featuring the “Tap and Check” (超快点查) and the “Interactive Reading” (互动点读) functions

# INNOVATIVE BUSINESSES AND OTHERS

## Innovative Businesses and Others Net Revenue and Gross Margin



NetEase  
Cloud Music



NetEase Yanxuan



NetEase E-mail



NetEase Media



NetEase CC



# INNOVATIVE BUSINESSES AND OTHERS



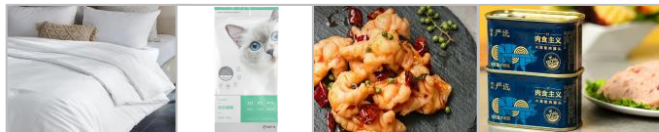
## NetEase Cloud Music

- Achieved strong growth in all three forms: membership, live broadcast and advertising, and continue to see margin improvement as we scale up
- Home to over 200,000 independent musicians and over 800 million registered users, of which 90% or more are post-90's or younger
- Launched Cloud Music version 8.0 in November 2020, bringing our young users elevated personalized experiences
- Enriched our content library in 2020 through copyright agreements with leading labels, such as Studio Ghibli, Rock Records, UMG and BMG



## NetEase Yanxuan

- Our innovative private label consumer brand, targeting young professionals in China with a strong emphasis on quality of life
- Launched a number of super-popular products with annual sales exceeding 100 million RMB that revolve around users' needs, such as household products, personal care, food and pet supplies
- Continued to attract more membership subscriptions in 2020 with the right content and product offerings, and provide them with better benefits and shopping experience



# INNOVATIVE BUSINESSES AND OTHERS

## 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

## Live Streaming



- CC live streaming platform offers various live streaming content with a primary focus on games

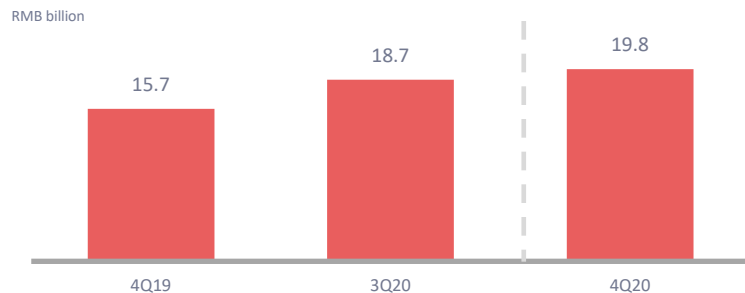
## E-mail Services



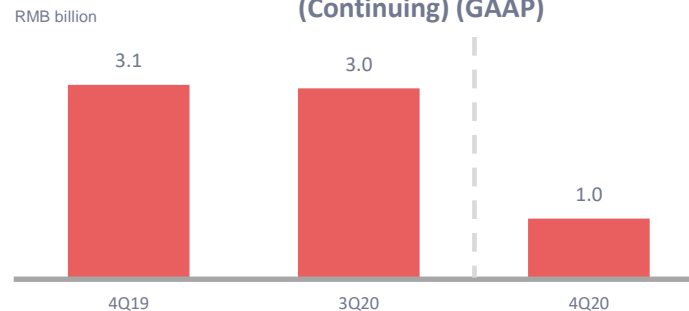
- China's leading e-mail service provider since 1997
- Around 595 million annual active users as of December 31, 2020

# FINANCIAL HIGHLIGHTS

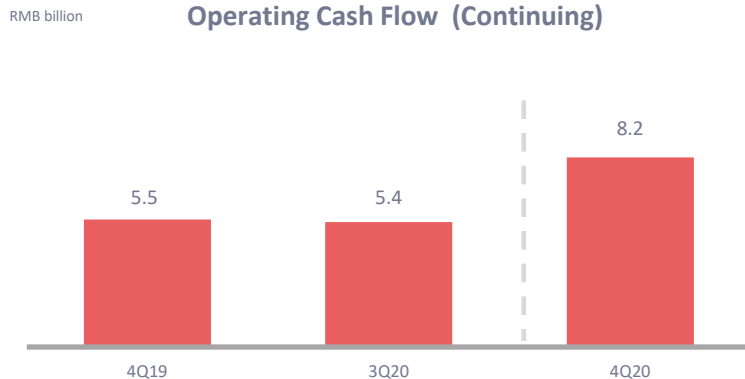
## Net Revenue



## Net Income attributable to shareholders (Continuing) (GAAP)



## Operating Cash Flow (Continuing)



## Value Returned to Shareholders

US\$	2019FY	4Q19	1Q20	2Q20	3Q20	4Q20
Dividend per ADS	\$2.068	\$0.204	\$0.232	\$0.297	\$0.195	\$0.06
Dividend paid (during the period)	\$1,270 m	\$990 m	\$131 m	\$158 m	\$203 m	\$132 m
Share Buyback (during the period)	\$0.2 m	\$0	\$341.9m	\$413.8m	\$355.4m	\$508.8m

# BALANCE SHEET SUMMARY

in millions	2019	2020	
	Dec 31, RMB	Dec 31, RMB (Unaudited)	Dec 31, USD (Unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	3,246	9,117	1,397
Time deposits	53,487	71,079	10,893
Other current assets	28,372	27,635	4,236
Total current assets	85,105	107,831	16,526
Property, equipment and software, net	4,622	4,555	698
Other non-current assets	22,397	29,489	4,519
Total assets	112,124	141,875	21,743
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS &amp; SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Deferred revenue	8,602	10,945	1,677
Other current liabilities	29,641	35,798	5,487
Total current liabilities	38,243	46,743	7,164
Total liabilities	39,083	48,081	7,369
Redeemable Noncontrolling Interests	10,448	10,796	1,654
Total shareholders' equity	62,593	82,998	12,720
Total liabilities, redeemable noncontrolling interests and shareholders' equity	112,124	141,875	21,743

# INCOME STATEMENT SUMMARY

	4Q19	3Q20	4Q20	4Q20	QoQ	YoY
in millions except per ADS data & percentage data	RMB	RMB	RMB	USD	Change	Change
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Total net revenue:</b>	15,735	18,658	19,762	3,029	5.9%	25.6%
<i>Online game services</i>	11,605	13,862	13,400	2,054	-3.3%	15.5%
<i>Youdao</i>	410	896	1,107	170	23.5%	169.7%
<i>Innovative businesses and others</i>	3,720	3,900	5,255	805	34.7%	41.3%
<b>Gross profit</b>	8,210	9,886	9,928	1,521	0.4%	20.9%
<b>Gross profit margin</b>	52.2%	53.0%	50.2%	50.2%		
<b>Operating profit</b>	2,976	2,870	3,012	462	4.9%	1.2%
<b>Operating profit margin</b>	18.9%	15.4%	15.2%	15.2%		
<b>Net income from continuing operations attributable to the Company's shareholders</b>	3,054	2,998	976	150	-67.4%	-68.0%
<b>Diluted earnings per ADS (Continuing operations)</b>	¥4.67	¥4.37	¥1.43	\$0.22	-67.3%	-69.4%

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



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**THANK YOU**