



NetEase

21Q2 Investor Presentation

Investor Relations Department
August 31, 2021

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; potential changes in government regulations, or changes in the interpretation and implementation of government regulations, that could adversely affect the industries and geographical markets in which NetEase and its subsidiaries operate, including, among others, recently announced government initiatives in China to enhance supervision of overseas-listed, China-based companies and increase scrutiny of data security and cross-border data flow, as well as recent guidelines restricting certain activities in China’s education market; 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; 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.

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 June 30, 2021, NetEase had over 30,000 employees.

MARKET SNAPSHOT

In USD

\$60.1

Market Cap
(8/30/21)

3.4
billion

Shares Outstanding,
Diluted (2Q21)

\$0.82

Basic net income per ADS
(GAAP) (2Q21)

\$3.2
billion

Net Revenues
(2Q21)

\$549
million

Net income attributable to the
Company's shareholders (GAAP)
(2Q21)

\$16.7
billion

Cash, time deposits
and short-term investment
(6/30/21)

Note:

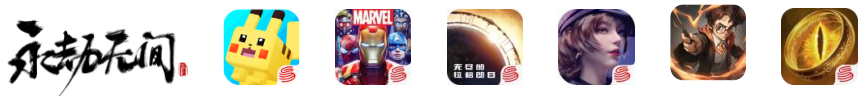
- 1 Market Cap is calculated using the closing price on NASDAQ; Our market cap is HK\$ 469.3 billion (\$ 60.3 billion) based on the closing price on the Hong Kong Stock Exchange.
- 2 Basic net income per ordinary share equals to US\$0.16, or HK\$1.24 (FX: 1 US\$= 7.77 HKD).

2Q21 and RECENT BUSINESS HIGHLIGHTS

1 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 leading game developers internationally



- Introduced *Naraka: Bladepoint*, our next-generation battle royale game in China and globally, which quickly became the best weekly seller on Steam following its global launch in August
- Added a number of new titles in 2Q and recently, including *Infinite Lagrange*, *Pokémon Quest*, *MARVEL Super War* and *Ace Racer*
- Flagship PC titles maintained remarkable longevity through periodic introductions of high-quality expansion packs
- Announced strong game development pipeline including: *Harry Potter: Magic Awakened* (*September 9 in China), and *The Lord of the Rings: Rise to War* (*September 23 globally)
- Other upcoming titles include *Diablo® Immortal™*, *Ghost World Chronicle*, *Nightmare Breaker*

2 Online Education

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



- Continued to explore new strategic opportunities in non-academic businesses such as STEAM courses, adult learning, and learning devices
- Introduced the Youdao Dictionary Pen K3 version to help children raise their interests and learning capabilities

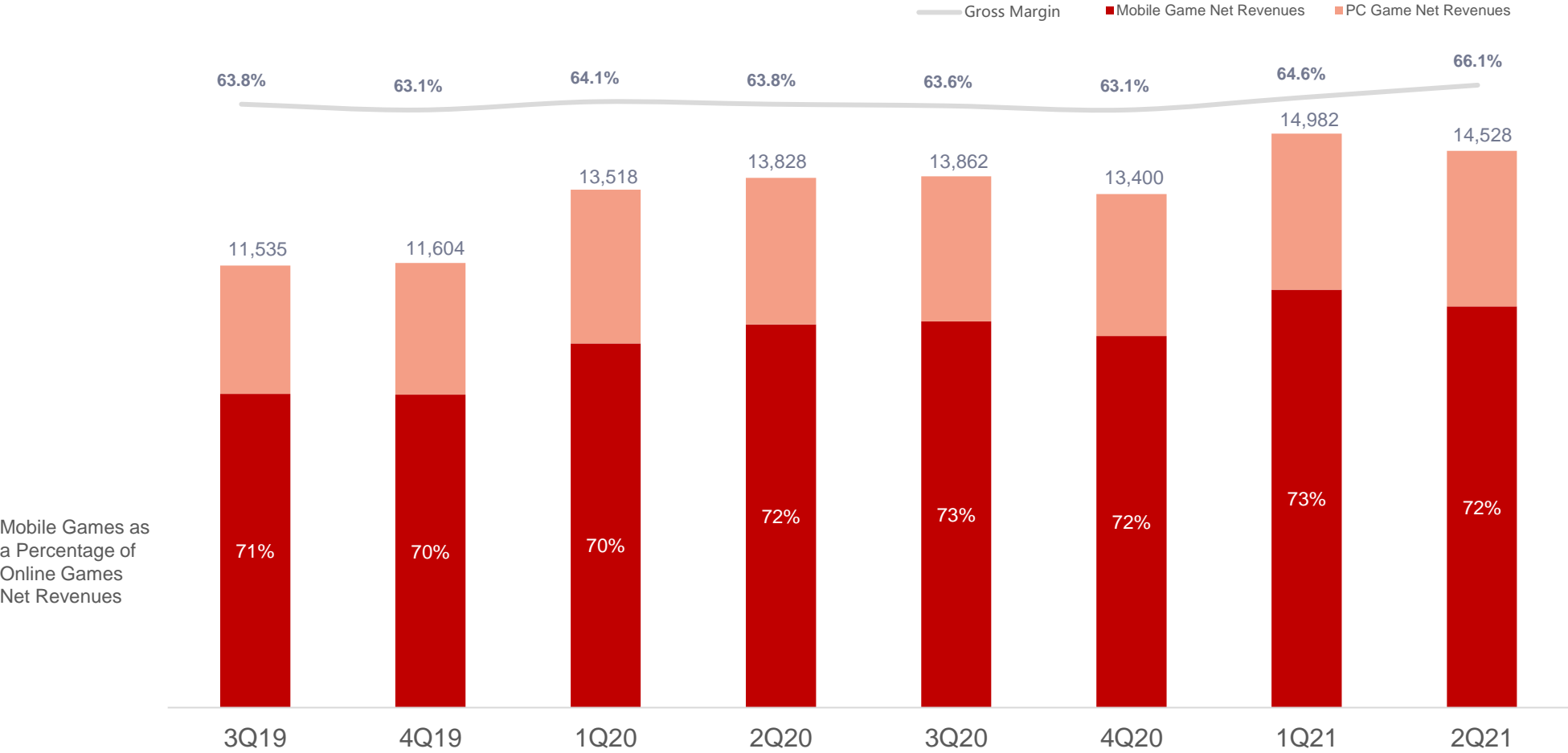
3 Innovative Businesses and Others



- **NetEase Cloud Music** achieved positive gross margin for the first time ever, and continued to maintain its user growth momentum
- DAU/MAU ratio remained above 30%, and our membership paying ratio almost doubled year-over-year
- **Yanxuan** further strengthened its brand image by introducing highly popular products and strictly controlling product quality

ONLINE GAME SERVICES

Online Game Services Net Revenues and Gross Margin



ONLINE GAME SERVICES

PC GAMES

Flagship Self-Developed PC titles

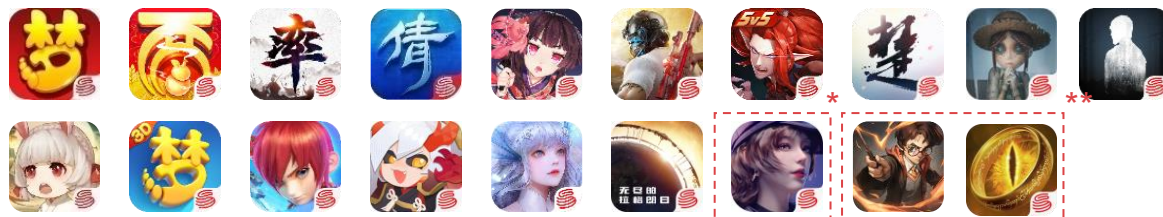


Flagship Licensed PC titles

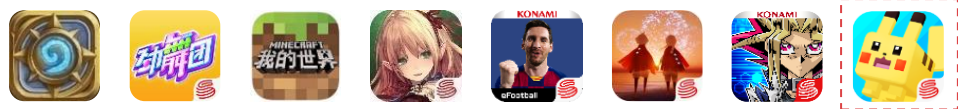


MOBILE GAMES

Self-Developed Mobile Games



Licensed Mobile Games From Overseas Developers



Launching Mobile Games in Overseas Markets

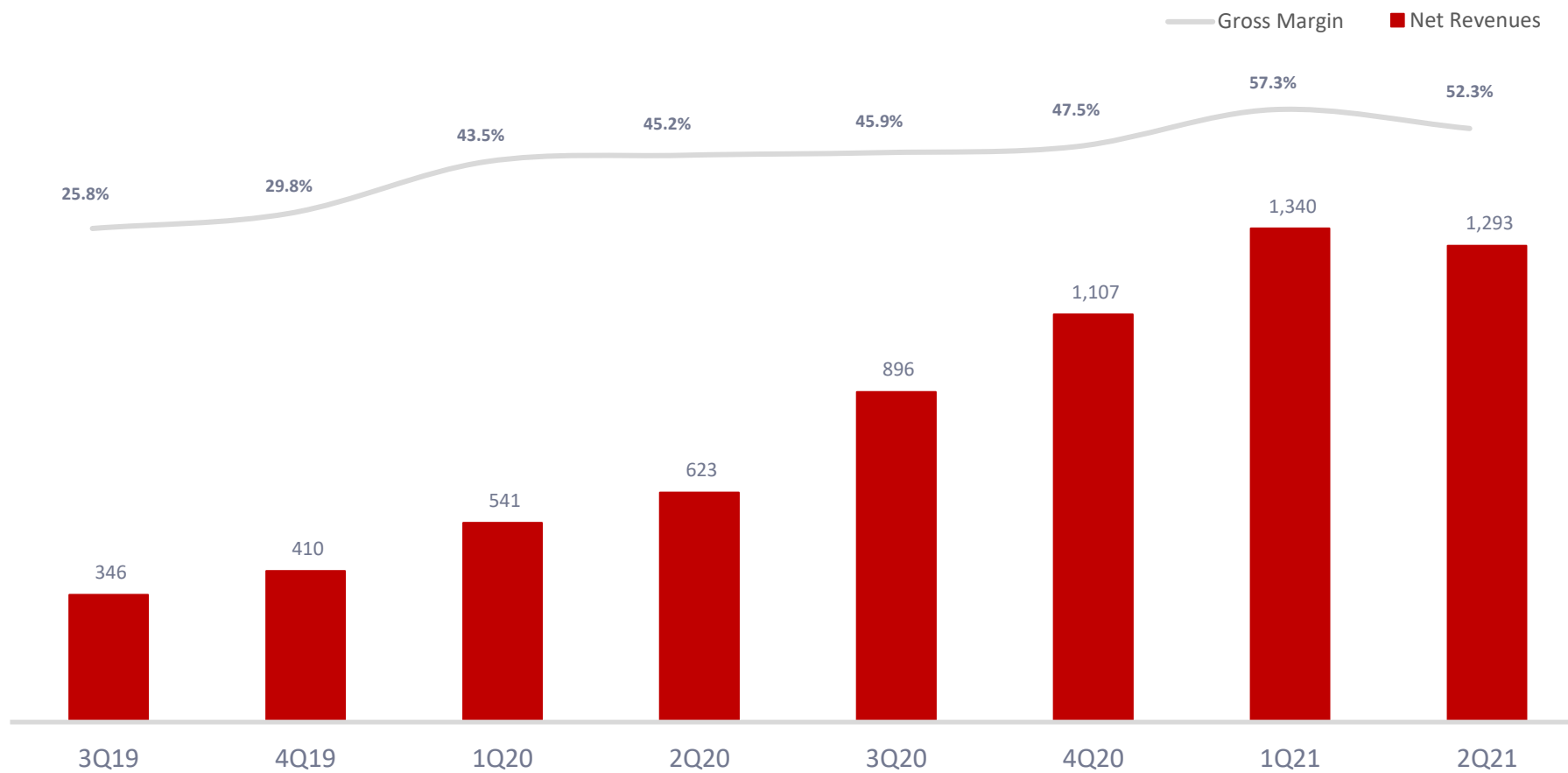


* PC games such as *Naraka: Bladepoint*, and mobile games such as *Infinite Lagrange*, *Pokémon Quest*, *MARVEL Super War* and *Ace Racer* were launched in 2Q21 and recently

** *Nightmare Breaker*, *Harry Potter: Magic Awakened* and *The Lord of the Rings: Rise to War* will be launched in 3Q21

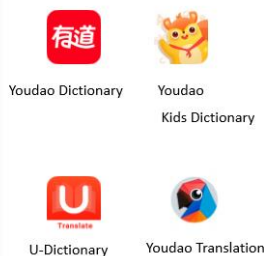
ONLINE EDUCATION

Youdao Net Revenues and Gross Margin

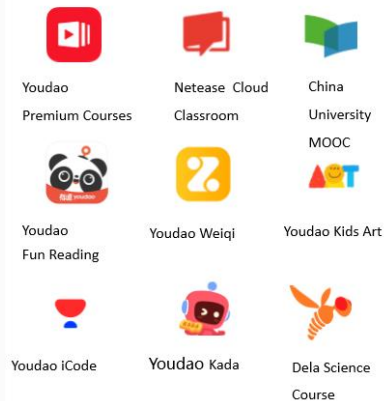


ONLINE EDUCATION HIGHLIGHTS

Learning Products



Online Courses



Smart Learning Devices

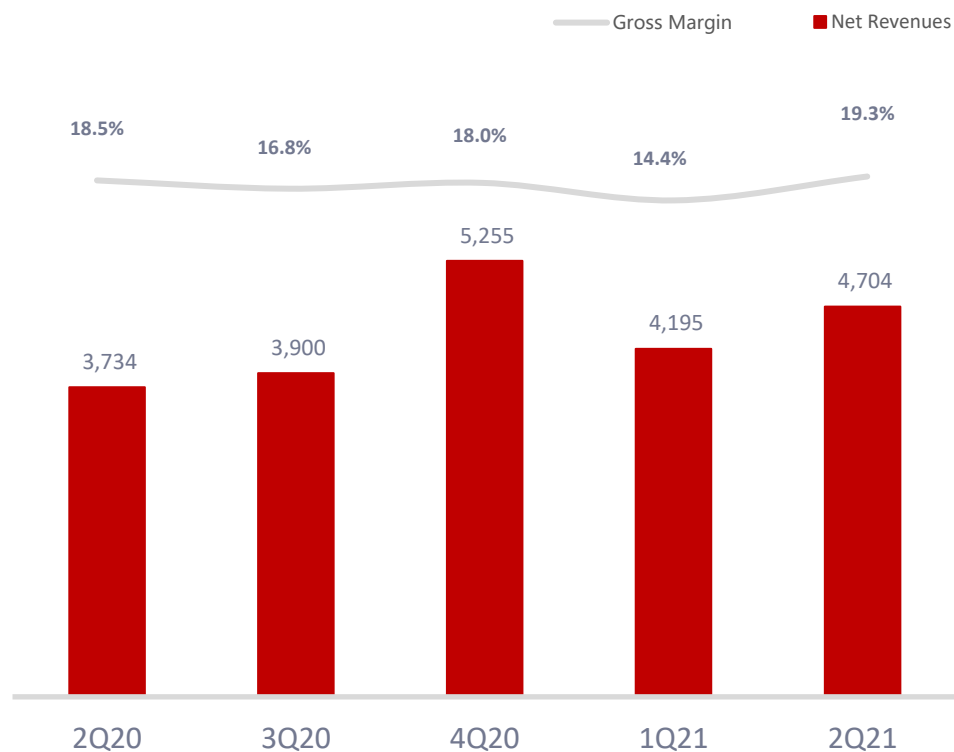


Continued to explore new strategic opportunities in non-academic businesses such as STEAM courses, adult learning, and learning devices

- Advanced the STEAM courses with strong forward momentum, and launched more products such as advanced level courses of Youdao Go (有道围棋)
- Launched an upgraded version of the Practical English course to provide adult users with more immersive and effective learning experiences
- Net revenues of leaning devices reached RMB206 million, increasing 139% year-over-year, and released the Dictionary Pen K3 designed to be more friendly to elementary school and pre-K kids, more affordable, and supportive of learning arithmetic in addition to English and Chinese.

INNOVATIVE BUSINESSES AND OTHERS

Innovative Businesses and Others Net Revenues and Gross Margin



NetEase Cloud
Music



NetEase Media



NetEase Yanxuan

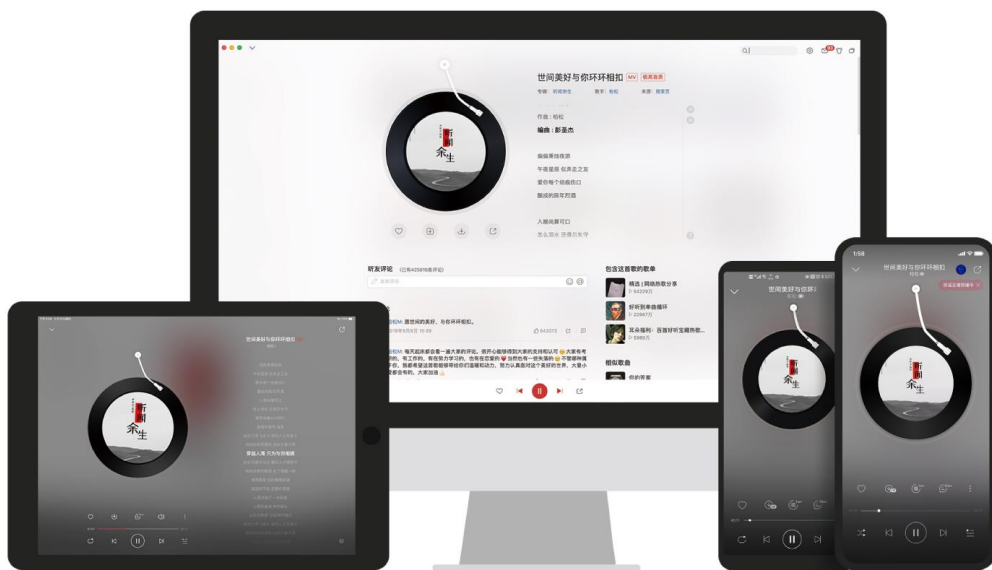


NetEase E-mail



NetEase CC

INNOVATIVE BUSINESSES AND OTHERS



NetEase Cloud Music

- Achieved positive gross margin for the first time ever, marking a new milestone with our music operations
- Almost doubled the membership paying ratio owing to our advanced social networking functions and promotions like 88VIP
- Maintained strong user growth momentum over the past quarters, despite an industry-wide slowdown
- Continued constant innovation and product improvement, and our newly-launched function “*playlist sharing (共享歌单)*” has been well received by the users

INNOVATIVE BUSINESSES AND OTHERS



NetEase Yanxuan

- Our private label consumer brand, targeting young professionals in China with a strong emphasis on quality of life
- Introduced highly popular products, with proprietary award-winning product designs and strictly controlled product quality
- Partnered with major channels including Taobao, Tmall and JD, and topped JD's household daily sales list during the June 18 promotion period

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

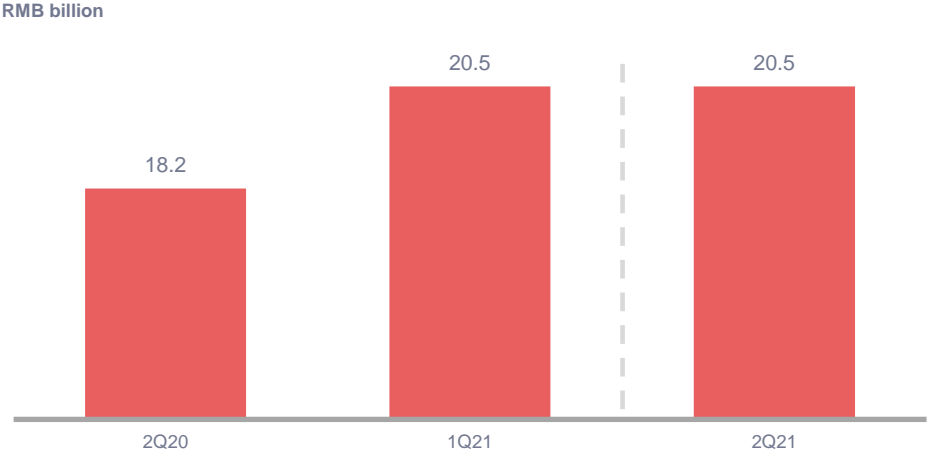
E-mail Services



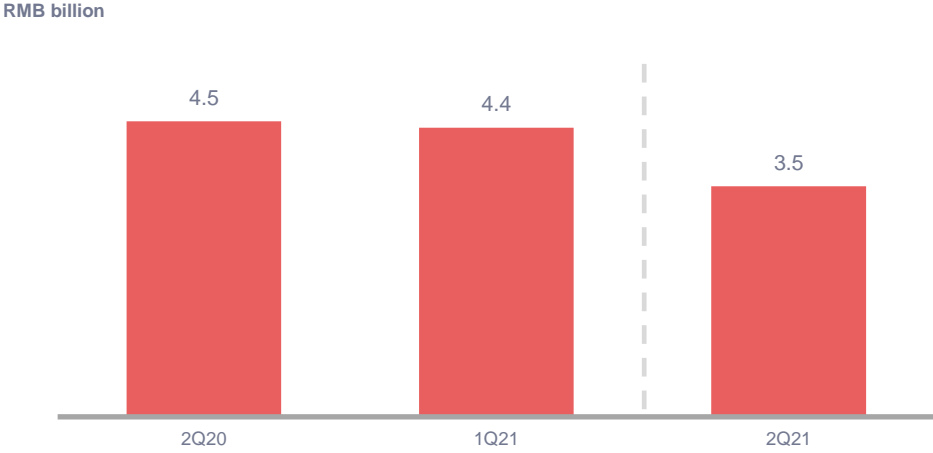
- China's leading e-mail service provider since 1997
- Around 550 million annual active users as of June 30, 2021

FINANCIAL HIGHLIGHTS

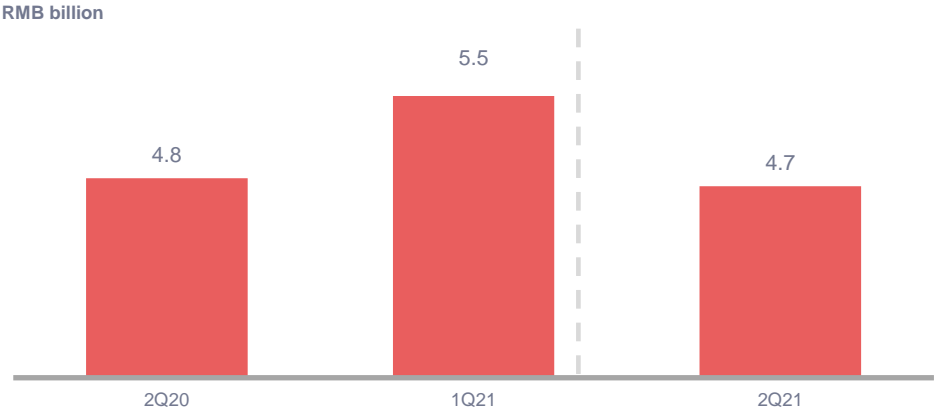
Net Revenues



Net Income attributable to shareholders (GAAP)



Operating Cash Flow



Value Returned to Shareholders

| US\$ | 2020FY | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 |
|-----------------------------------|-----------|---------|---------|---------|---------|---------|
| Dividend per ADS | \$0.784 | \$0.297 | \$0.195 | \$0.060 | \$0.300 | \$0.240 |
| Dividend paid (during the period) | \$624 m | \$158 m | \$203 m | \$132 m | \$40 m | \$198 m |
| Share Buyback (during the period) | \$1,625 m | \$414 m | \$355 m | \$514 m | \$330 m | \$359 m |

BALANCE SHEET SUMMARY

| | 2020 | 2021 | |
|--|-------------|-----------------------------|-----------------------------|
| in millions | Dec 31, RMB | June 30, RMB (Unaudited) | June 30, USD (Unaudited) |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 9,117 | 9,936 | 1,539 |
| Time deposits | 71,079 | 75,702 | 11,725 |
| Other current assets | 27,635 | 30,321 | 4,696 |
| Total current assets | 107,831 | 115,959 | 17,960 |
| Property, equipment and software, net | 4,555 | 4,694 | 727 |
| Other non-current assets | 29,489 | 34,204 | 5,297 |
| Total assets | 141,875 | 154,857 | 23,984 |
| LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS & SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Deferred revenue | 10,945 | 11,365 | 1,760 |
| Other current liabilities | 35,798 | 42,977 | 6,656 |
| Total current liabilities | 46,743 | 54,342 | 8,416 |
| Total liabilities | 48,081 | 56,342 | 8,726 |
| Redeemable noncontrolling interests | 10,796 | 11,092 | 1,718 |
| Total shareholders' equity | 82,998 | 87,423 | 13,540 |
| Total liabilities, redeemable noncontrolling interests and shareholders' equity | 141,875 | 154,857 | 23,984 |

INCOME STATEMENT SUMMARY

| | 2Q20 | 1Q21 | 2Q21 | 2Q21 | QoQ | YoY |
|--|--------|-------------|-------------|-------------|-------------|-------------|
| in millions except per ADS data & percentage data | RMB | RMB | RMB | USD | Change | Change |
| | | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Total net revenue: | 18,185 | 20,517 | 20,525 | 3,179 | 0.04% | 12.9% |
| <i>Online game services</i> | 13,828 | 14,982 | 14,528 | 2,250 | -3.0% | 5.1% |
| <i>Youdao</i> | 623 | 1,340 | 1,293 | 200 | -3.5% | 107.5% |
| <i>Innovative businesses and others</i> | 3,734 | 4,195 | 4,704 | 728 | 12.1% | 26.0% |
| Gross profit | 9,792 | 11,053 | 11,190 | 1,733 | 1.2% | 14.3% |
| Gross profit margin | 53.8% | 53.9% | 54.5% | 54.5% | | |
| Operating profit | 4,170 | 4,276 | 3,758 | 582 | -12.1% | -9.9% |
| Operating profit margin | 22.9% | 20.8% | 18.3% | 18.3% | | |
| Net income attributable to the Company's shareholders | 4,538 | 4,439 | 3,542 | 549 | -20.2% | -21.9% |
| Diluted net income per ADS | ¥6.92 | ¥6.53 | ¥5.23 | \$0.81 | -19.9% | -24.4% |

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

THANK YOU

網易 NETEASE