

NetEase (NTES) 2019 Q2 Earnings Summary

August 2019

Sign Up For Additional Research From Evolution Media Capital



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NetEase Is Collaborating With Well-Established IP Owners To Expand Their Presence Outside Of China

ONLINE GAMES

- **Online games remain the cornerstone of the business and their flagship titles continue to provide solid support**
 - Diligently exploring and creating innovative new elements to games so they remain relevant to each generation of users
 - Held a number of esports tournaments, which helps boost user stickiness and drive continued revenue contribution for future periods
- **Expertise gained from operating these flagship titles over the long term has been deployed in developing newer games**
 - Growing a diverse portfolio of games has generated a solid fan base and the goal is to have a deeper impact on the vibrant community of users

INTERNATIONAL

- **Have been very active and open-minded for deeper collaboration with global premium game studios**
 - Working hard to make their popular games into a popular hit in the mainstream Western markets in North America and Europe
 - Gaining a much better understanding of Japanese users and their preferences, allowing them to better tailor games for that market
- **Focus on joint R&D development as a priority because that is where they see a lot of supplementary capabilities**
 - Goal is to leverage each other's competitive strengths to jointly develop premium content for global gamers

MUSIC

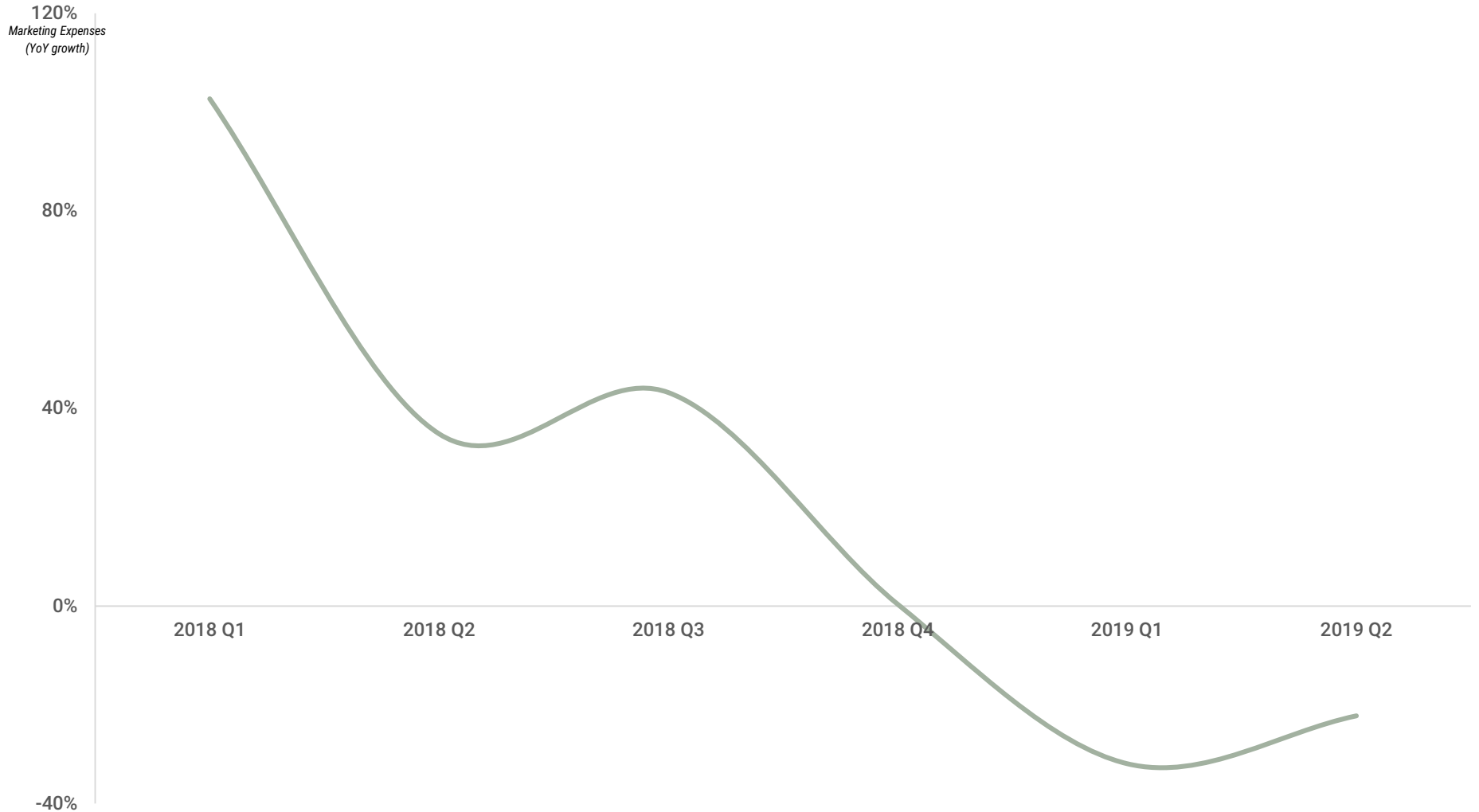
- **Continue to innovate and create a highly differentiated product with an unparalleled social experience on their music app**
 - Cloud Village is a music community that fosters discussion, creation and sharing and personalized expression around music
 - Will be more innovative and explore deeper monetization opportunities around these community interactive features
- **Key focus is to dedicate their platform and user outreach to promote independent musicians and independent music in China**
 - Advertising grows hand-in-hand as they are growing their user base and popularity amongst users

E-COMMERCE

- **Further optimized their internal structure, and enhanced their warehouse and logistics operations**
 - Continue to promote supply chain upgrade by helping manufacturers improve their design, reduce production costs and enhance efficiencies
- **Deepening collaborations with top-performing partners, allowing them to renegotiate better commercial terms and implement better controls over quality**
 - Becoming more selective with new product offerings and dedicating resources to top products with the highest repurchase rate and customer satisfaction rating

Cultivation of younger IP beyond games will enhance their recognition among the younger generation of gamers

Marketing Has Declined This Year After Regulatory Approvals Slowed Down The Release Of New Games

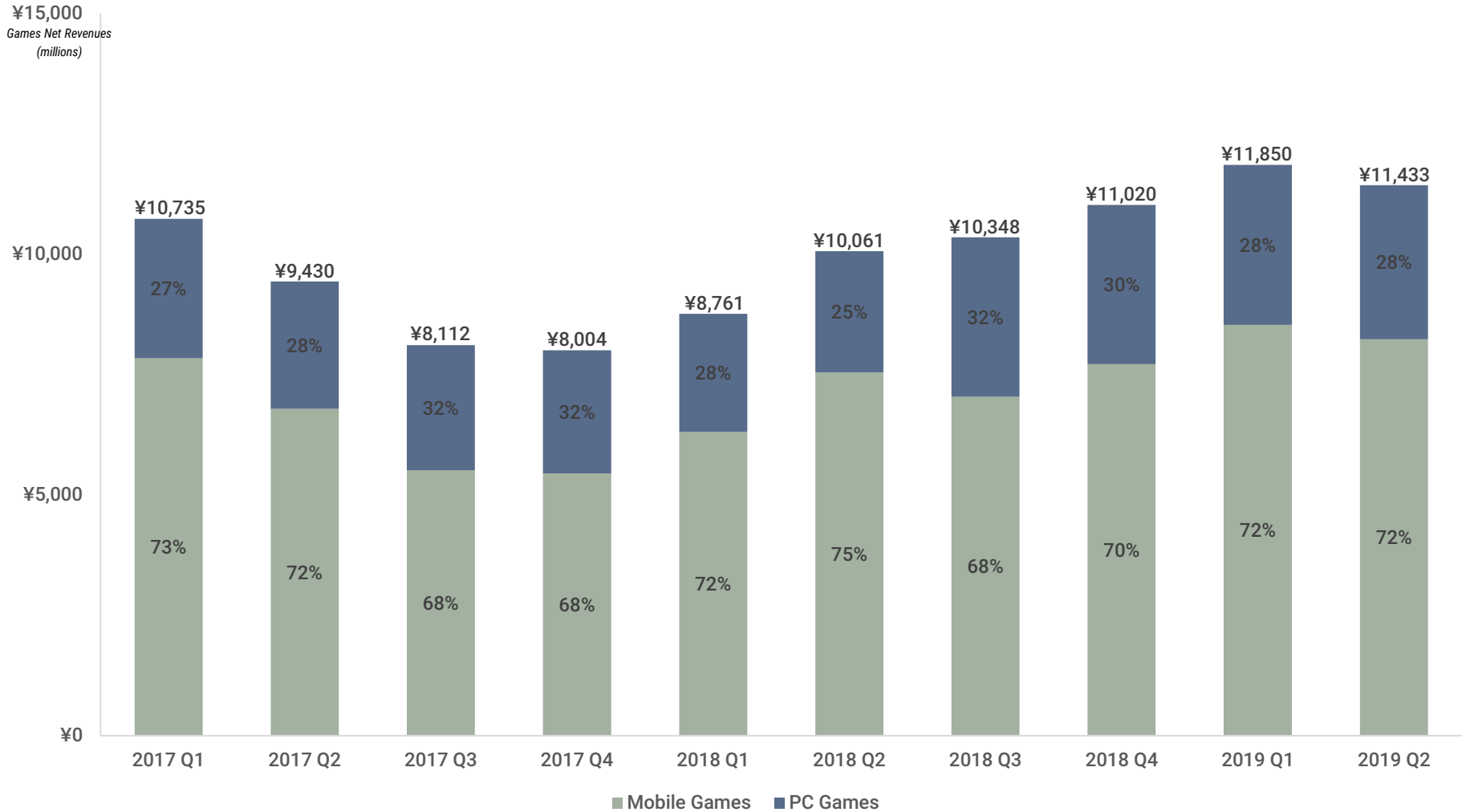


E-commerce marketing has declined as they focus on the quality of products over the quantity of goods sold

Games



Over 10% Of Game Revenue Comes From Overseas, And They Are Looking To Further Expand Internationally

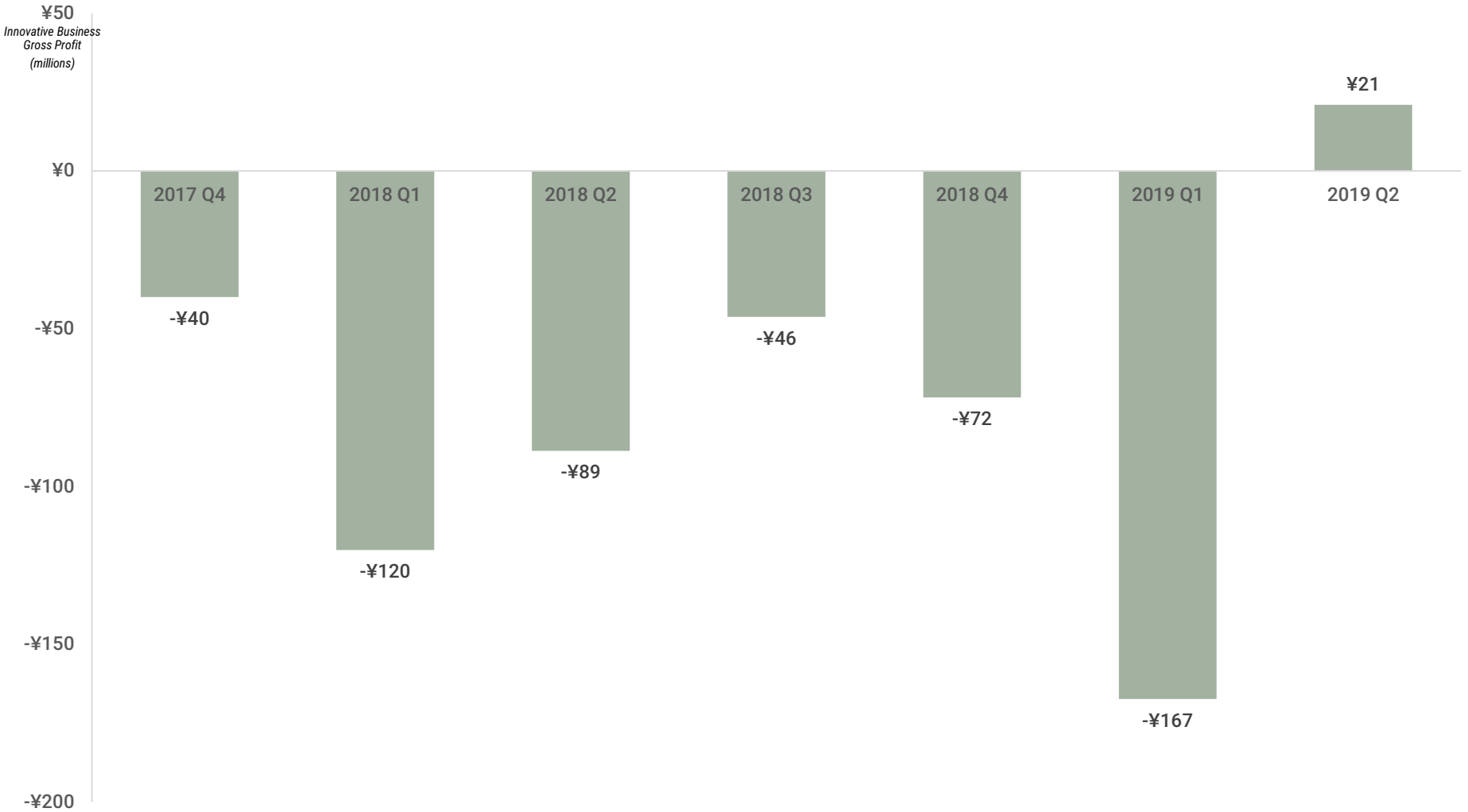


Esports investment in Shanghai is not just a stadium, but an R&D center for developing new Esports relevant content



Innovative Business

With Over 800M Users On Their Music App, The Focus Has Shifted Towards Monetizing Their Engagement



In an evolving internet market, content is king, and innovation is necessary to grow within the online education industry