

Tencent (TCEHY) 2019 Q2 Earnings Summary

August 2019

Sign Up For Additional Research From Evolution Media Capital



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Tencent Is Leveraging Their Gaming Expertise To Expand Into New Genres And Reach New Audiences

GAMES

- **In the early stages of implementing season passes for several key titles, contributing to paying propensity within those games**
 - Season pass spending is largely complementary to the existing item sales model and also enhances player activity
- **There's already a lot of competitors in the gaming sector, and this industry has always thrived on having a lot of competition**
 - They welcome new entrants because to some extent they can bring in new ideas and that is how the gaming industry can expand
 - Have the unique advantage of leveraging the strong network effects of their existing games, especially when it's coupled with their social network

LONG-FORM CONTENT

- **High-quality content provides users with stimulation in a way that is difficult for user generated content to match**
 - Mini videos have captured significant time, but it is mostly additive to internet time spent rather than taking time away from high-quality content
 - Repurposing high-quality content to produce video clips and highlights for mini videos, contributing to the rapid growth in short video consumption
- **Finding different ways to establish a stronger relationship with the content providers as opposed to just a mercantile relationship**
 - Helping content developers understand how the platform works so they can become more popular within the user base

NBA DEAL

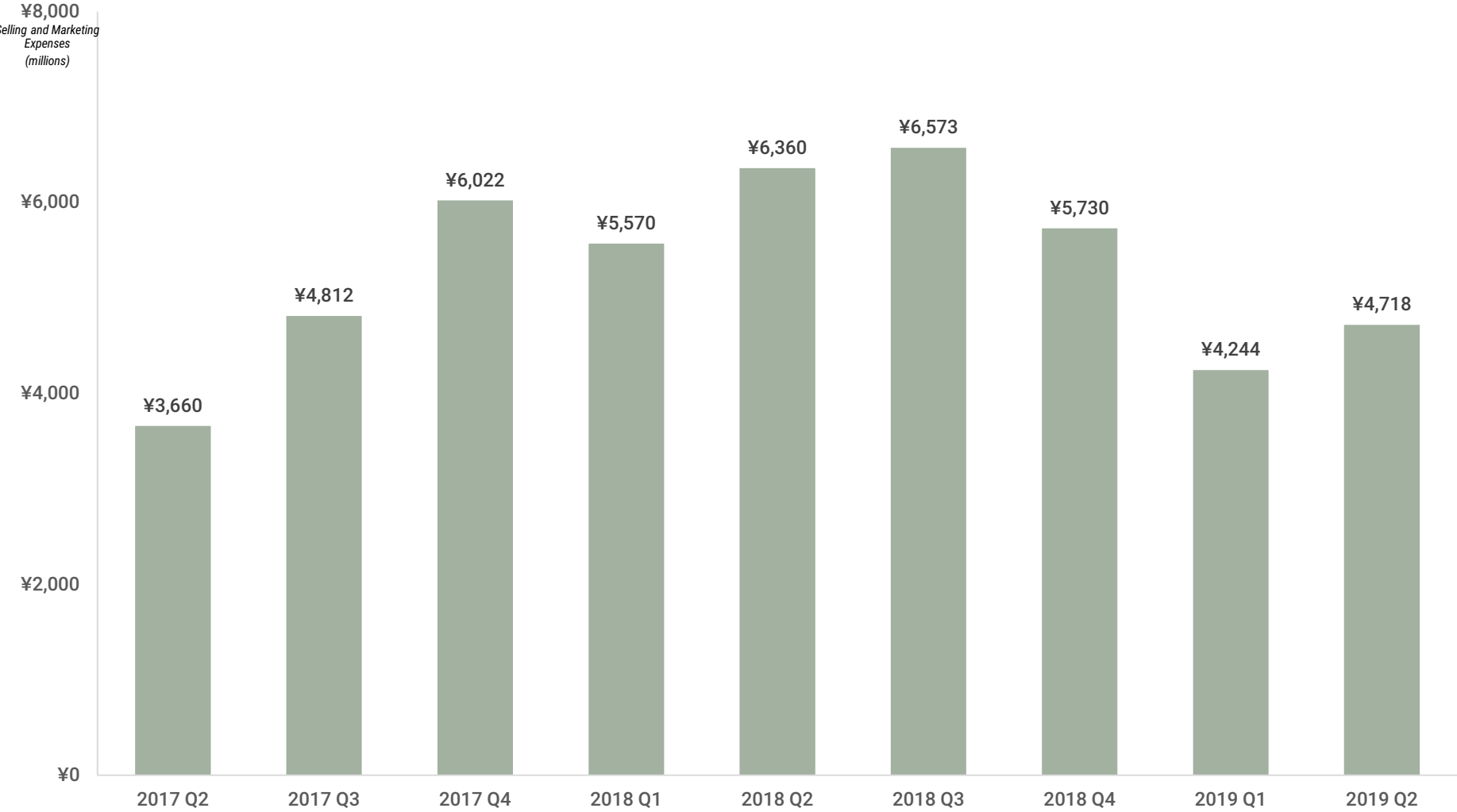
- **Extended and deepened their exclusive relationship with the NBA, the most-watched professional sports league in China**
 - Since 2015, have tripled full season audience to 490 million viewers and its average per game live streaming audience to 3.7 million viewers
- **Increased fan engagement and monetization capability for the NBA, while also reinforcing the strength of Tencent Sports**
 - Innovatively packaging NBA content across high-DAU platforms and live streaming, video on demand, short and mini video formats
 - Enriching NBA VIP membership benefits, including club merchandise, and will develop NBA-branded mobile games and Esports events

M&A

- **Amount of capital and the rate of investment has slowed quite notably after an unusually rapid pace in the first half of 2018**
 - For the past decade, have been quite active investing in upstream content, including game studios, TV production businesses, literature and music
 - Have become more active in frontier opportunities, particularly enterprise software, financial technology and education technology
- **As the internet transforms more aspects of everyday life, they can play a larger role in helping that transformation**
 - Sometimes it is with partners, and in some instances, it makes sense to form an equity relationship to deepen and institutionalize the relationship

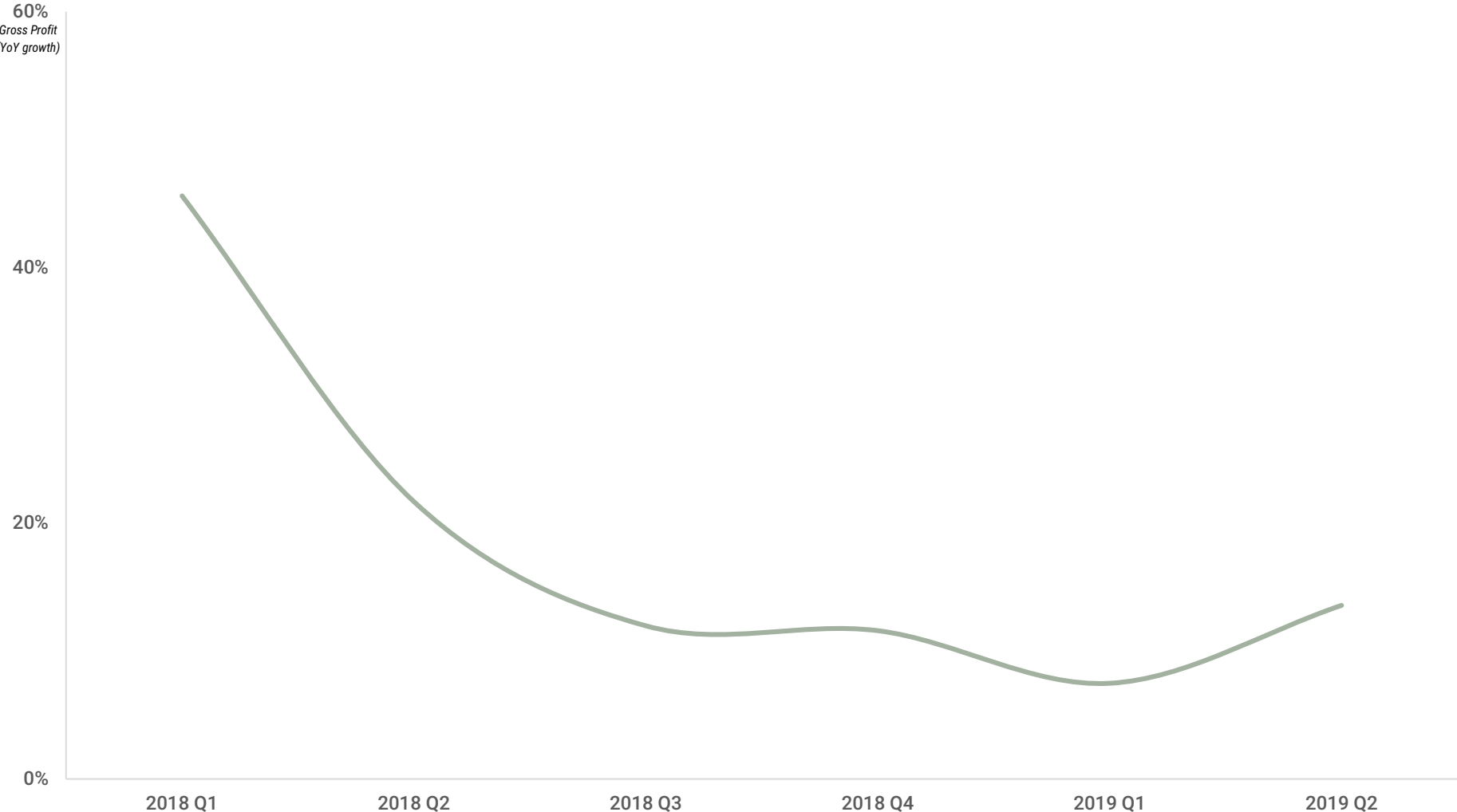
Advertising business faces near-term challenges due to the increasing supply of inventory across the industry

Marketing Expenses Have Grown Slightly As The Government Has Resumed The Licensing Of New Games



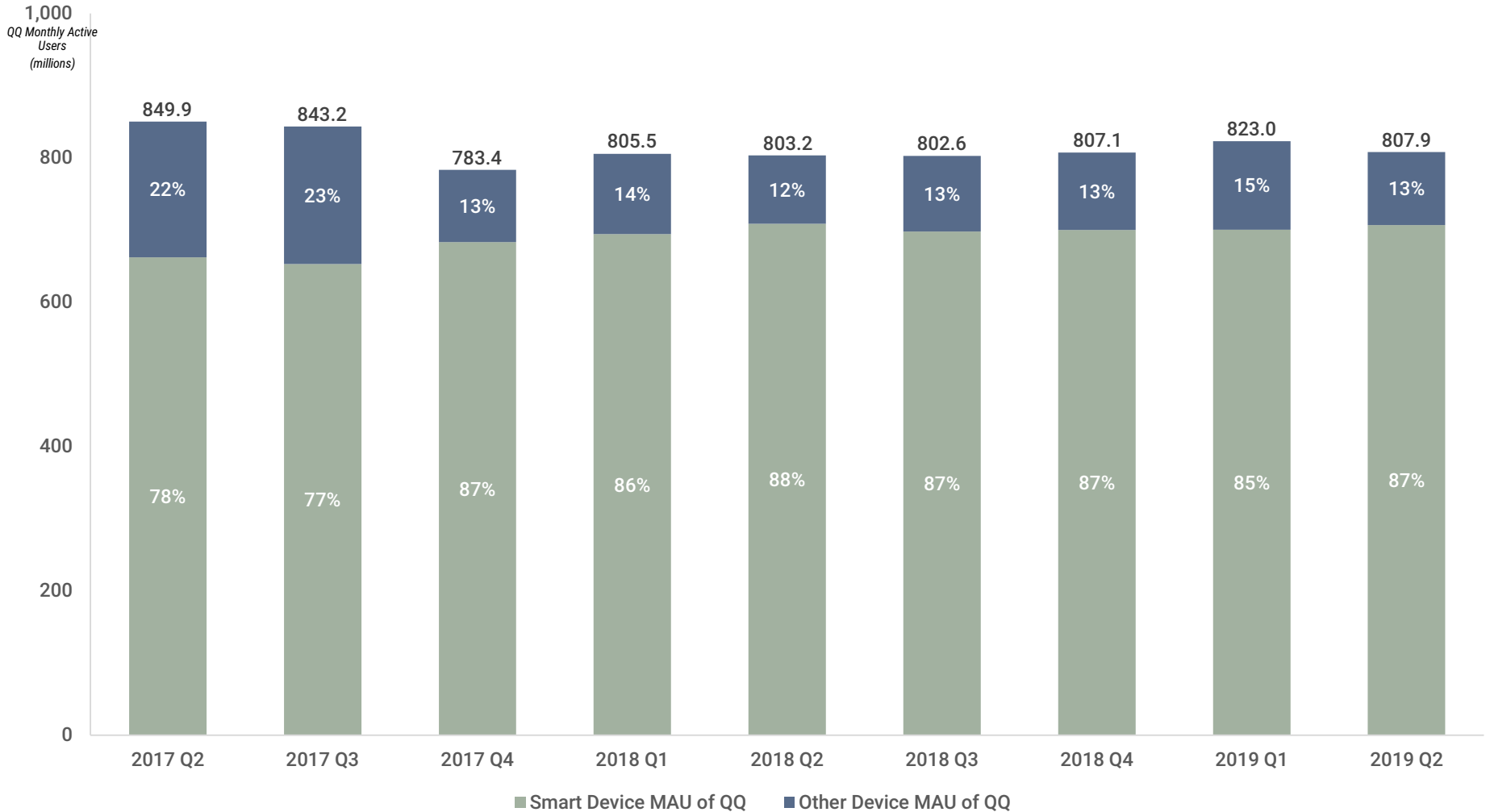
There is more active monitoring of marketing budgets and ROI to ensure they are spending effectively and efficiently

Diversified Revenue Mix Has Allowed Them To Grow Even When Some Segments Are Underperforming



Cloud business is rapidly expanding and there is a focus on enhancing their small and medium enterprise client base

As Active User Growth Flatlines, High Quality Content Can Boost The Time Spent Within Their Ecosystem



Majority of short-form content on the platform is user generated so there are minimal costs for that engagement driver