



NetEase (NTES) 2020 Q1 Earnings Summary

May 2020

Sign Up For Additional Research From Evolution Media Capital



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NetEase Is Expanding Their Proven IP Through A Diversification Of Genres As Well As Geographies

INTERNATIONAL

- **Have new releases which will gain more brand recognition in the broader global markets, particularly in the U.S. and Europe**
 - Overseas revenue is slightly more than 10% of total game revenue, consistent with last year, but plan to strongly grow in the next 3 to 5 years
- **Remain at the forefront of Japan's top-grossing games chart, and user bases for both of their games are growing at a strong pace**
 - Integrated this successful experience and know-how into designs of other games, enhancing their ability to deliver popular titles to global audiences
 - At the end of 2019, began operating Invincible in Japan themselves, and saw a steady increase in its revenues in the first quarter

ONLINE GAMES

- **Games have become an event for family members in-house as they have more time to spend together to get joy and excitement**
 - Will focus more on R&D self-development of games that can create a bonding opportunity for family members as a whole going forward
- **The growth engine of NetEase games is their ability to continuously produce in-house and launch new game titles**
 - For the time being, their main concentration focus of new game development is tilted towards mobile games
 - Launch of new PC games will be opportunistic, but they do not have a regular agenda like they do with mobile games

TITLES

- **Harry Potter is a strong IP globally and are confident in their ability to convert this into an exciting game title, but it's too early to predict regulatory approval in China**
 - When the game is more advanced, will decide whether to do an overseas launch followed by domestic upon the approval, or a global simultaneous launch
- **As the first of younger IPs created in-house, goal for Onmyoji is to have an even deeper impact on their community of young users**
 - Have more exciting games in store based on the IP and just introduced 2 new spin-off games in brand-new genres

MUSIC

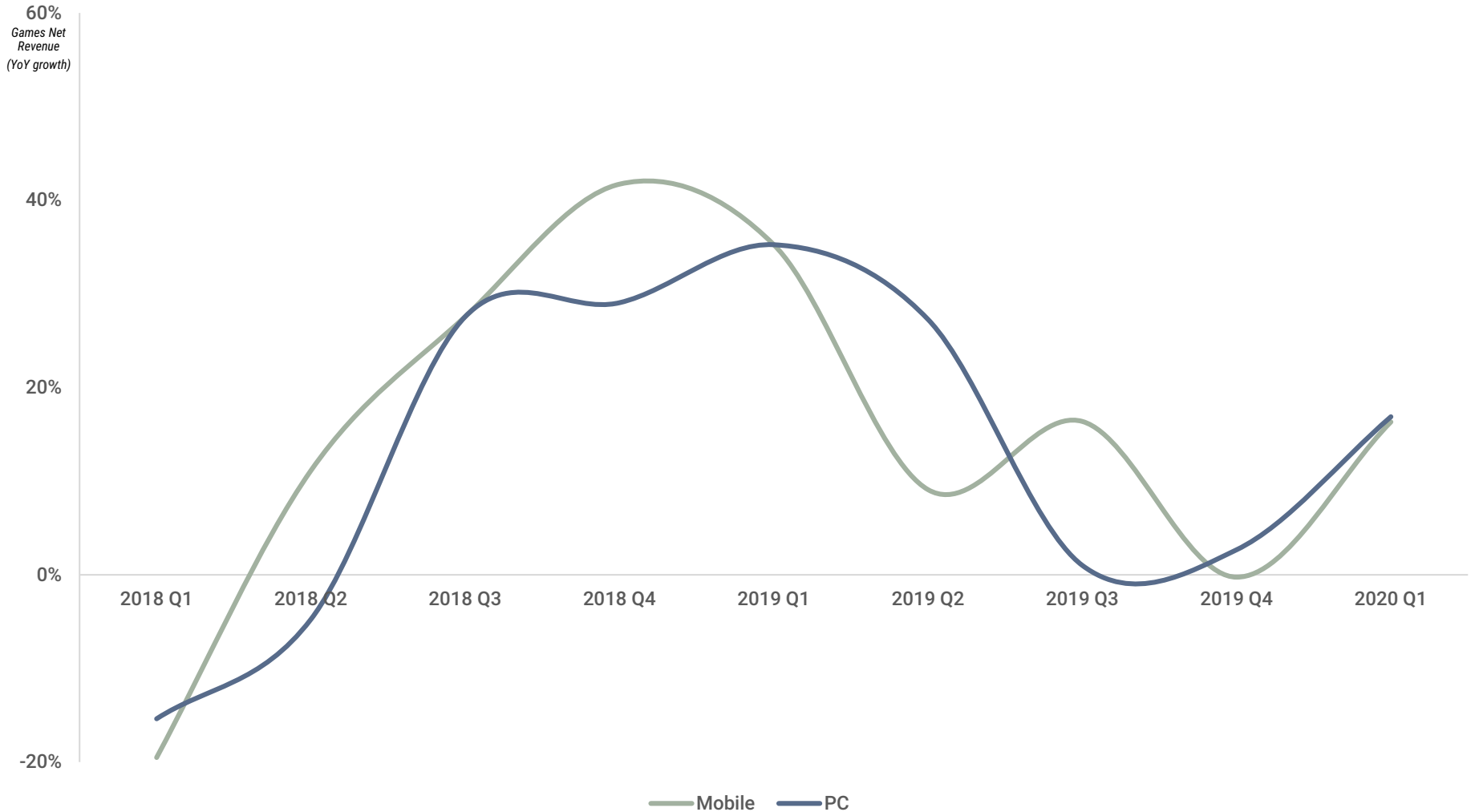
- **Will continue to make sensible investments in content and innovation to remain competitive in the exciting world of music**
 - Released several online live events that were particularly poignant during the pandemic and helped support independent musicians
 - Music platform's largest progression includes a newly launched karaoke offering for young people
- **Dedication to support independent musicians and native IPs are not mutually exclusive with collaboration with music labels**
 - Hope the whole industry in China can spend more effort and resources into promoting native IP, organic music from independent musicians

International strategy will utilize partners to release titles and learn user behavior, before moving to self-publishing

Games

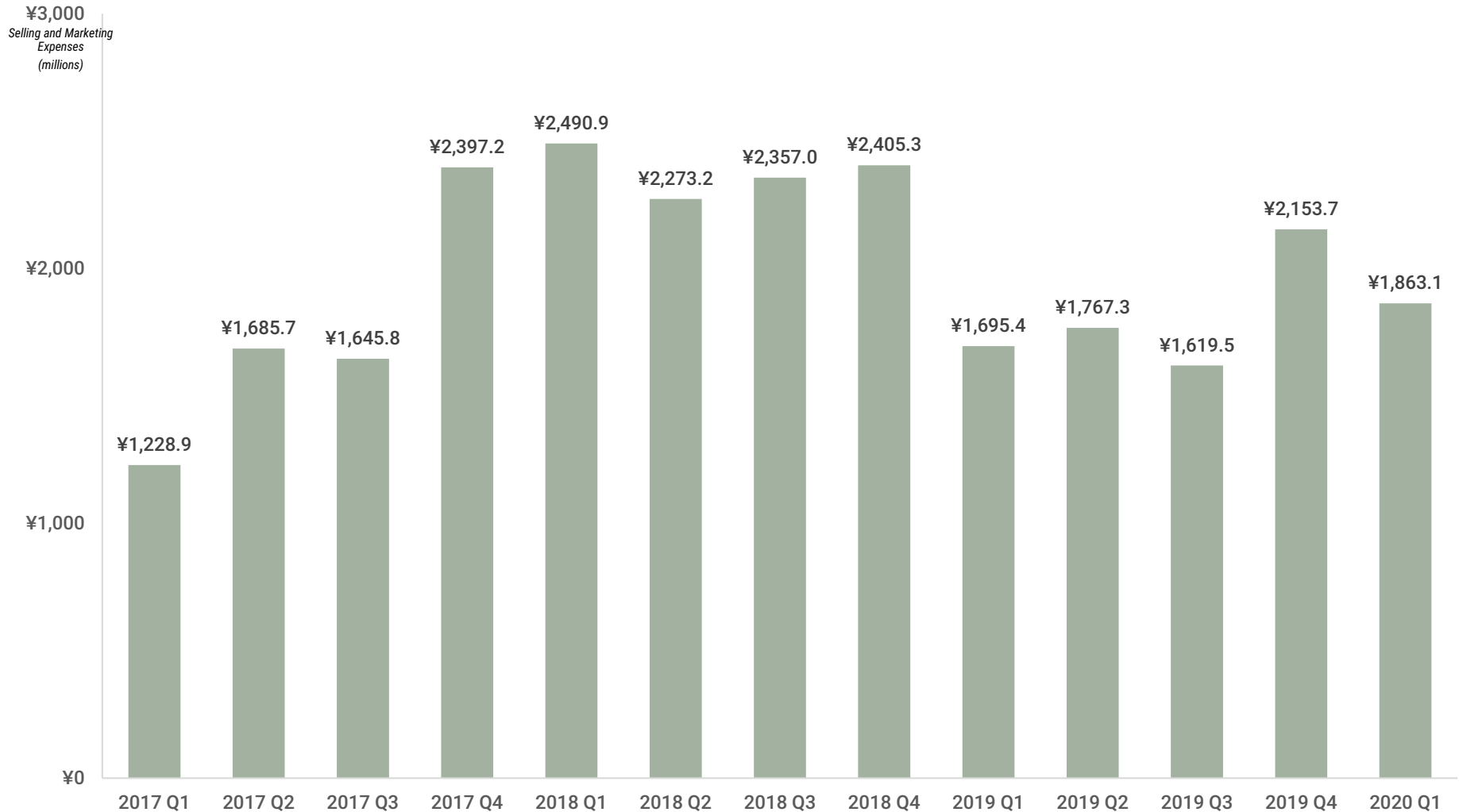


Despite The Closure Of Internet Cafes, PC And Console Games Saw A Surge In Usage During The Pandemic



Legacy PC titles will be supported with continual updates, but the new game development will be centered around mobile

Gross Marketing Expenses Will Go Up As They Increase Their Release Of New Titles Around The World

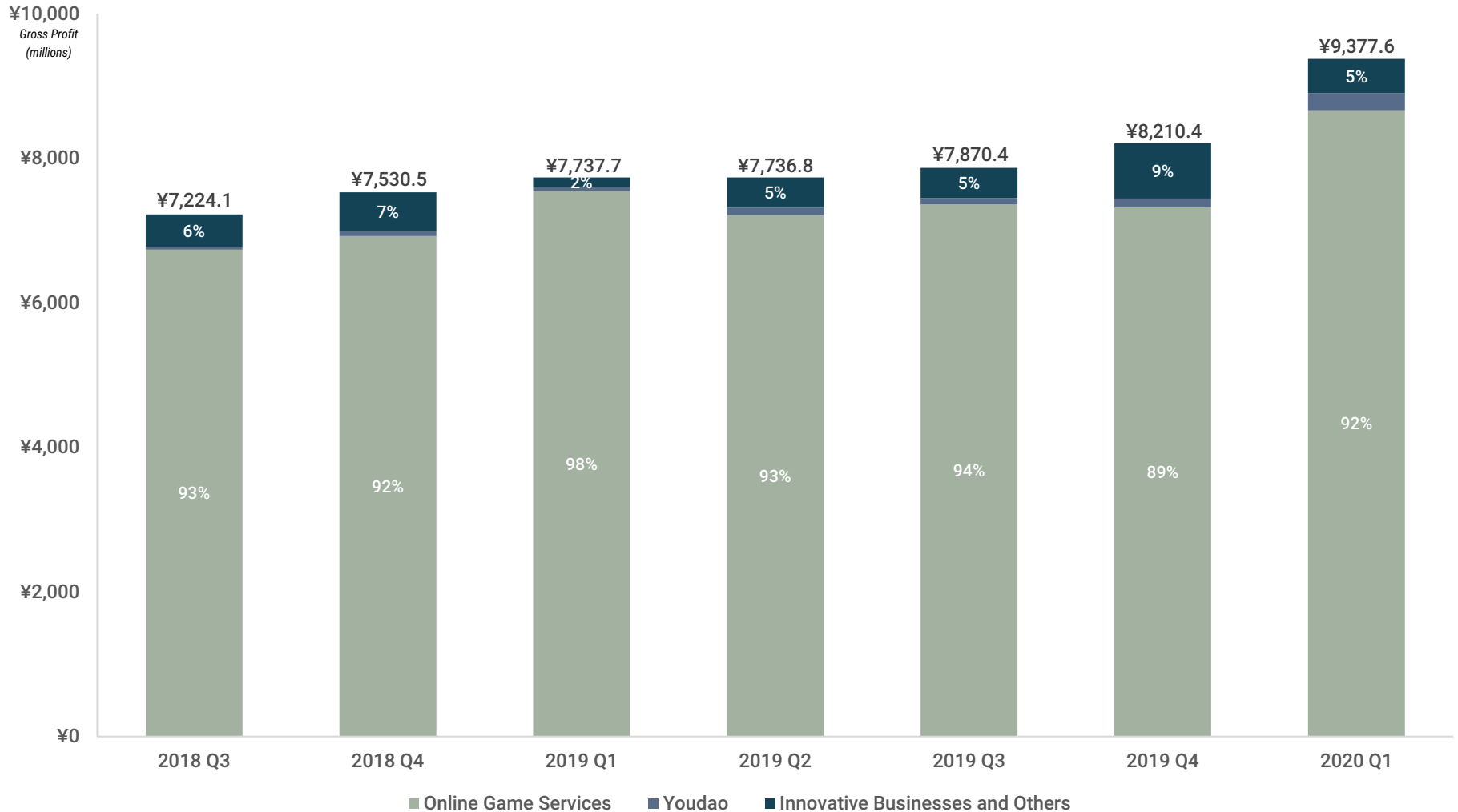


There is a greater emphasis on measuring return generation to ensure they are promoting their games efficiently

Gross Profit



Music Margins Will Expand As They Continue Diversify Their Revenue Streams Through New Features



Increased adoption rates of online education during the pandemic should accelerate long-term trends of the service

