

Tencent (TCEHY) 2020 Q2 Earnings Summary

August 2020

Sign Up For Additional Research From Evolution Media Capital



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Tencent Is Seeking More Clarity On A Potential Ban Of WeChat (But Not Their Other Businesses) In The U.S.

GAMING

- **Audience for games has structurally expanded, and saw uplift in time spent as well as monetization in their international games**
 - Their studios operate 17 game franchises which have each exceeded 10 million DAU in their operating histories
- **Over the last decade, there's been a lot more innovation around deploying virtual items in modern-day games**
 - The quality of virtual items that they are releasing now is drastically better than virtual items released 10, 5 or even 2 years ago
 - Continuing to introduce more value-added virtual items within existing games, including more crossover content with other brands

M&A

- **Strategy has always been to invest in up and coming companies which have innovative products and great management**
 - There will be different stages of the life cycle, and over time, there may be more synergistic ways to be working with these portfolio companies
- **Have a long-term strategic goal of developing international presence and are actually very patient about it**
 - Focus a lot on users, user experience and products, and that will include protecting the privacy as well as the security of data for our users
 - Work with local partners in each one of the countries that they have a presence in to create a win-win partnership with them

MINI PROGRAMS

- **Mini Program ecosystem is enabling advertisers to sustain relationships with their users in their own private domains**
 - Advertisers are effectively investing in long-term and loyal customer relationships, rather than just purchasing one-time transactions
- **Launched a free toolkit to empower SMBs with functions such as order management, after-sales services and live broadcast**
 - There are a lot of long-tail merchants who want to have a relatively standard set of tools so that they can engage with their customers
 - Continue to work with the larger retailers who want to have much more customization to get their Mini Programs up and running

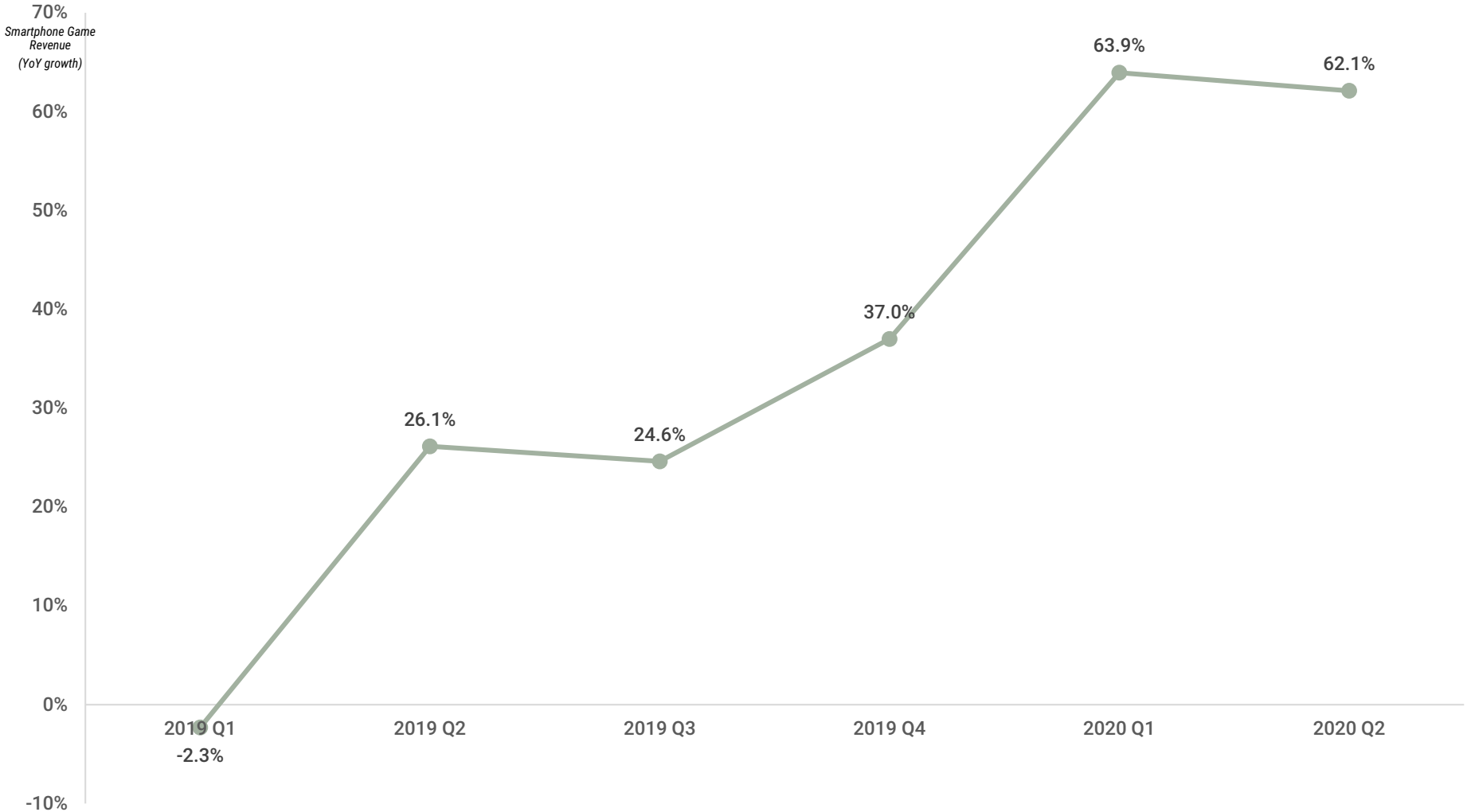
ADVERTISING

- **Ad network is extremely competitive and fast growing and is a proof point that their ad technology is increasingly best-in-class**
 - Over 40% of the revenue in ad networks is actually video format, where the pricing is substantially higher
- **Launched an integrated advertising platform, where advertisers can efficiently place advertisements across all of their inventory**
 - Reinforces long-term competitiveness in performance advertising by enhancing bidding efficiency and providing smarter targeting
 - Have runway for growth as their share of time spent in China Internet is around 40%, while their share of advertising spend in is under 14%

The goal of Weixin is not to aggregate services to increase time spent, but to add features that add utility for users

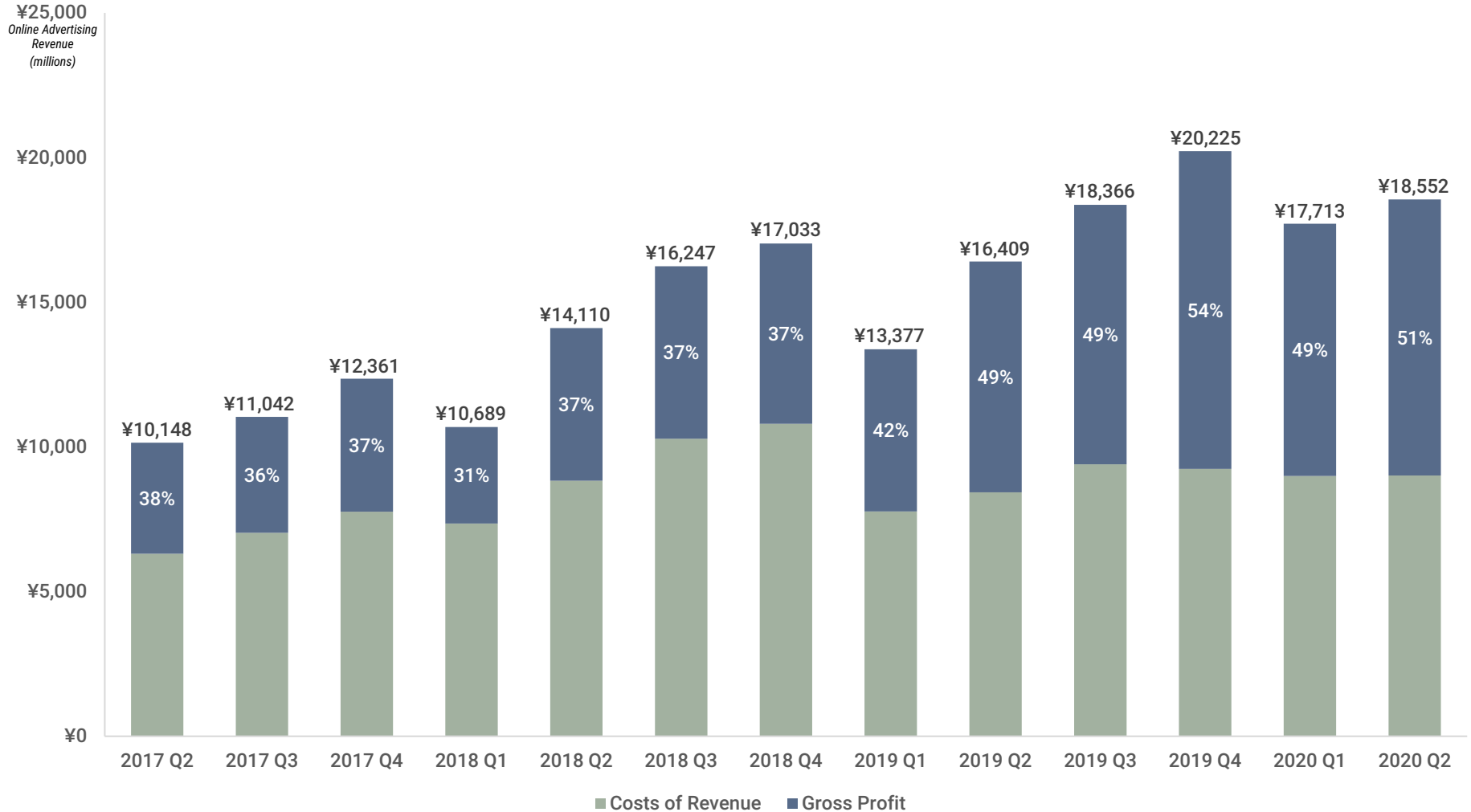
Smartphone Games

In China, Gameplay Has Normalized With Users Returning To Work, But Is Still Up Noticeably From Last Year



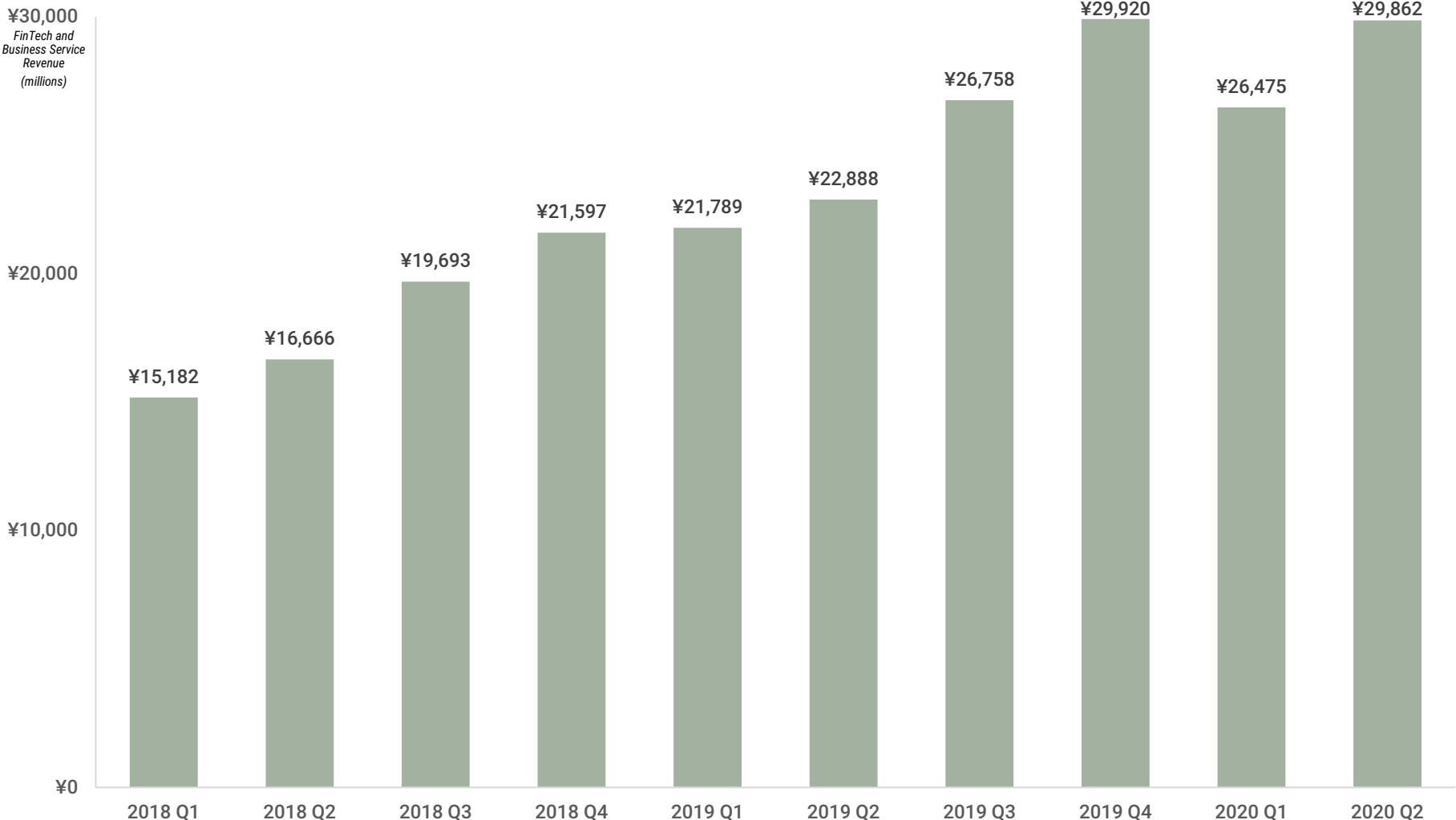
Developers have been able to adopt cutting edge technology that can support a massive number of concurrent players

Ad Network Enables Growth Of SMBs Who Wouldn't Be Able To Build Out Their Own Direct Ad Sales Force



The demand for brand advertising has remained weak this past quarter as the macro environment remains challenging

In The Past Year, Consumers Increased Online Engagement, But Business Are Just Starting Their Digitization



While project deployment has been limited this year, they've been able to sign major contracts in emerging verticals

