



**3Q 2020**

**Investor Presentation**



# 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; 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; potential changes in government regulation that could adversely affect the industry and geographical markets in which NetEase operates; 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.

# COMPANY OVERVIEW



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 September 30, 2020, NetEase had over 26,000 employees.

# MARKET SNAPSHOT

*In USD*

\$59.1  
billion

Market Cap<sup>1</sup>  
(11/18/20)

686  
million

ADS Outstanding,<sup>2</sup>  
Diluted  
(3Q20)

\$0.65

Basic net income per<sup>3</sup>  
ADS (GAAP) (3Q20)

\$2.7  
billion

Net Revenue  
(3Q20)

\$442  
million

Net income attributable to  
the Company's shareholders  
(GAAP) (3Q20)

\$15.1  
billion

Cash, time deposits  
and short-term investment  
(09/30/20)

Note:

1 Market Cap is calculated using the closing price on NASDAQ; Our market cap is HK\$ 469.6 billion ( \$ 60.6 billion ) based on the closing price on the Hong Kong Stock Exchange.

2 Total weighted average number of ordinary shares outstanding (diluted) is 3,431 million as of September 30, 2020. Our ADSs each represents 5 ordinary shares.

3 Basic net income per ordinary share equals to US\$0.13, or HK\$1.01 (FX: 1 US\$= 7.75 HKD).

# BUSINESS OVERVIEW

## 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 Blizzard Entertainment, Mojang AB (a Microsoft subsidiary) and other leading game developers internationally.

### Self-Developed Games



Fantasy Westward Journey (Mobile)



Westward Journey (Mobile)



Onmyoji series



Knives Out



Identity V



Fantasy Westward Journey



Westward Journey



Justice

### Licensed Games



World of Warcraft (Blizzard)



Diablo III (Blizzard)



Hearthstone (Blizzard)



Minecraft (Microsoft)

## Online Education

- A leading intelligent learning service operated by Youdao, our majority-controlled subsidiary dedicated to developing and using technologies to provide learning content, applications and solutions to users of all ages.

### Learning Services



Youdao Premium Courses



China University MOOC



NetEase Cloud Classroom

### Learning Products



Youdao Dictionary



Youdao Translation



Youdao Dictionary Pen

## Innovative Businesses and Others



- Leading interactive music streaming service providers in China with more than 800 million registered users and over 200,000 independent musicians



- Leading service provider of private label e-commerce through Yanxuan, targeting middle-class consumers in China with a strong emphasis on quality of life;



# 20Q3 OPERATIONAL HIGHLIGHTS

## Online Games

---

- A number of new games were introduced in China, such as *Onmyoji: Yokai Koya*, *PES Club Manager*, *King of Hunters* and *For All Time*
- *EVE Echoes* and *MARVEL Duel* were introduced to overseas markets.
- Flagship PC titles remain to be impressively strong such as *FWJ*, *WWJ II* and *Justice*
- Lead the market through genre innovations with a number of mobile titles climbing up China's iOS grossing chart again in the past months including *Invincible*, *Onmyoji* and *Sky*
- Continued strength internationally, particularly in Japan
- A robust pipeline announced for the Chinese and global markets

## Online Education

---

- Gross billings from K-12 online courses accelerated by 369% year-over-year, with K-12 paid enrollments expanding to around 499,000.
- Net revenues of Youdao's learning devices also grew significantly by 289% year-over-year to RMB163 million, based largely on significantly increased sales of our Dictionary Pen 2 series.

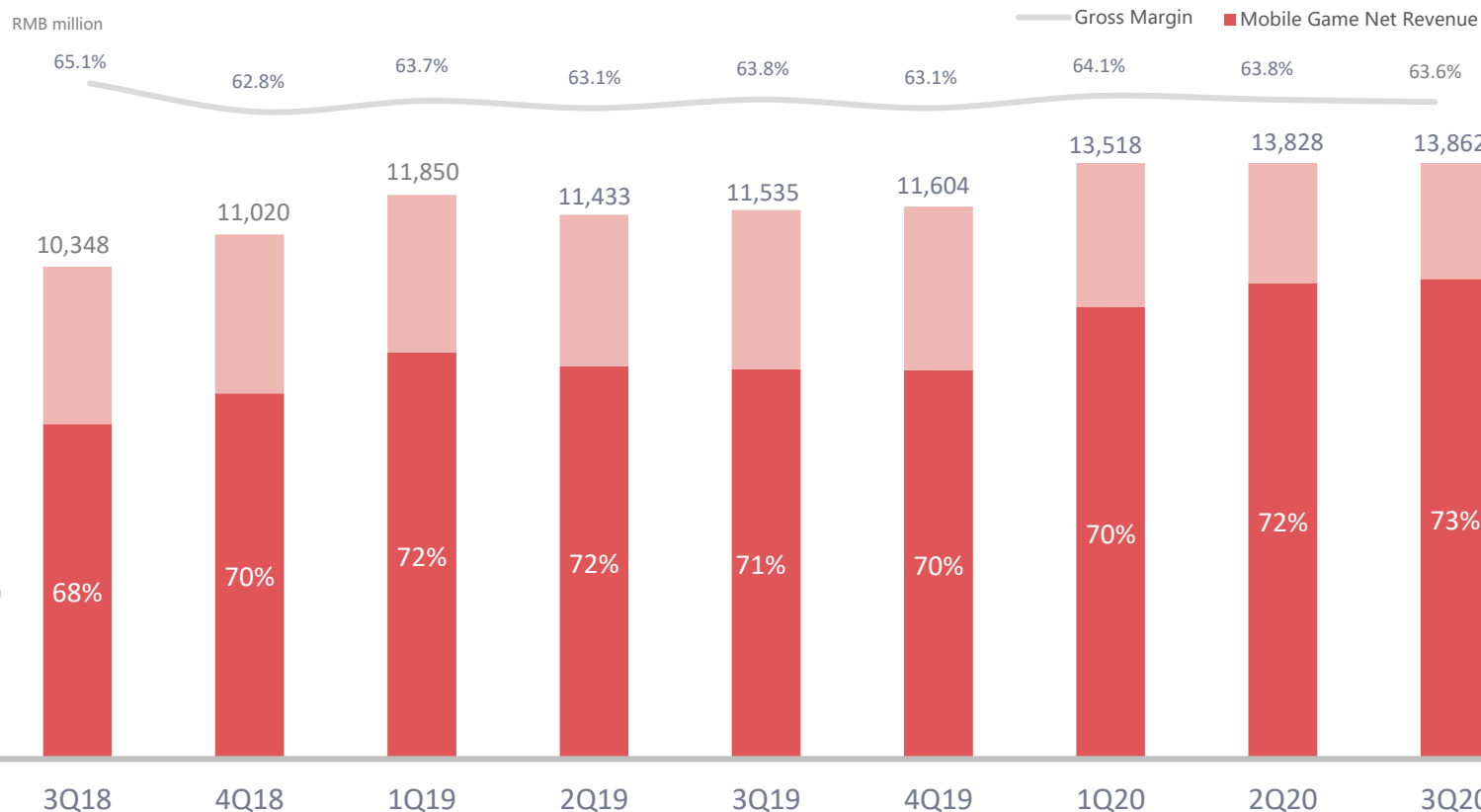
## Innovative Businesses and Others

---

- Significant growth in **NetEase Cloud Music** in terms of revenue and the number of paying users;
- Enriched music offerings through partnerships with worldwide music labels and original content from over 200,000 independent musicians
- Continued to establish **Yanxuan**'s name as the leading new consumer brand in China, as well as optimized its internal operating efficiencies

# ONLINE GAME SERVICES

## Online Game Services Net Revenue and Gross Margin



Mobile Games as a Percentage of Online Games Net Revenue

# ONLINE GAMES 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



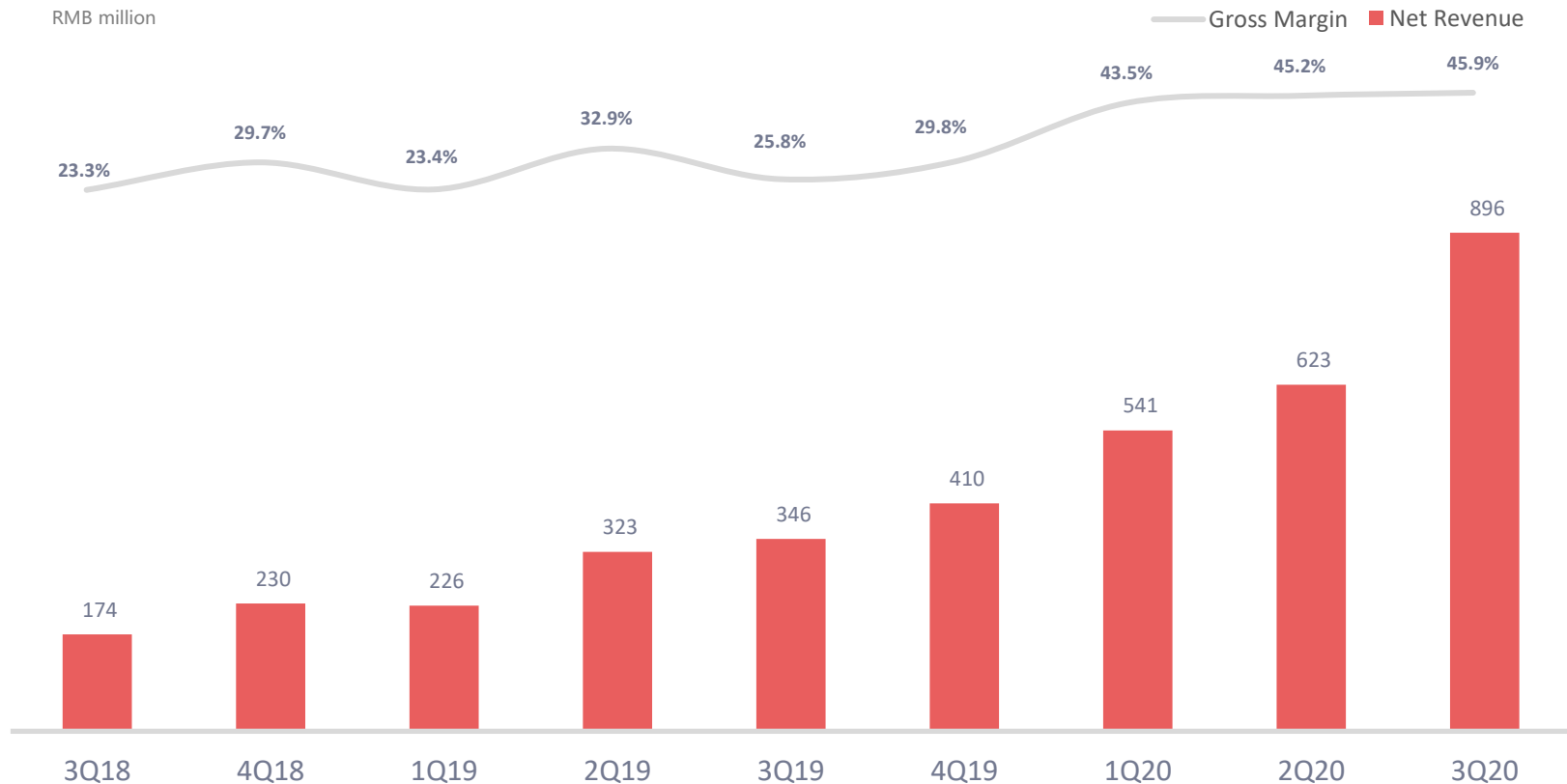
\* Onmyoji, Yokai Koya and For All Time were launched in Q3;

\*\* Marvel Duel and EVE Echoes were launched in Q3

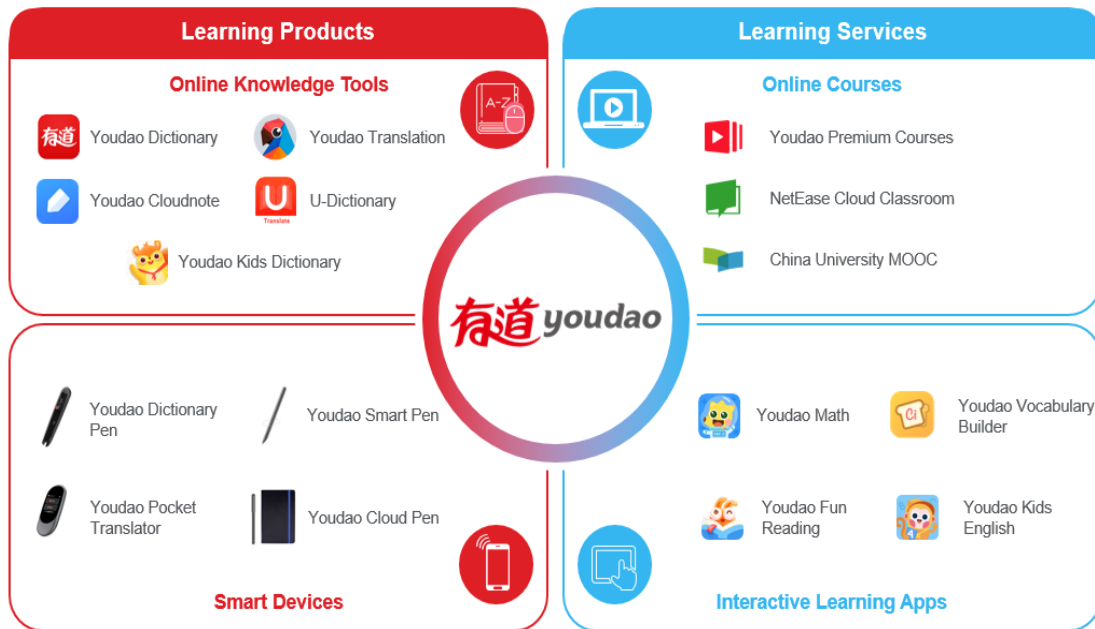


# ONLINE EDUCATION

## Youdao Net Revenue and Gross Margin



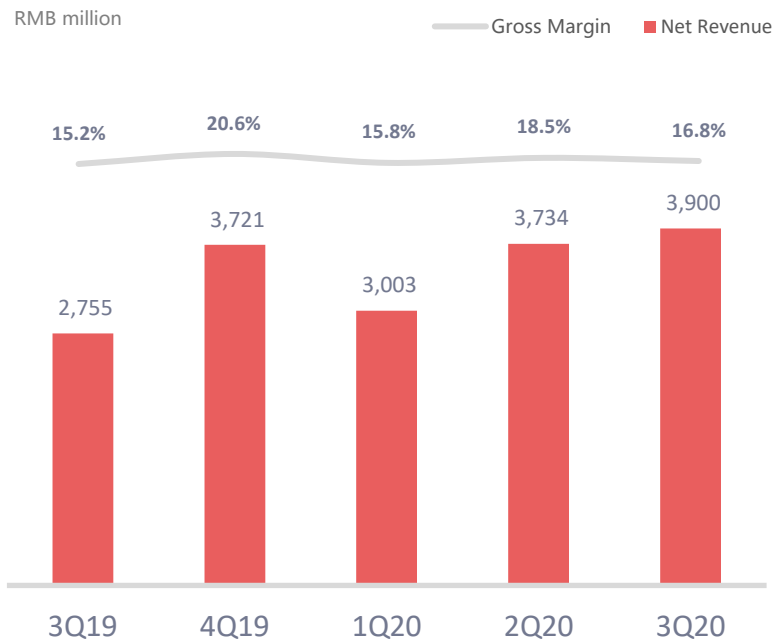
# ONLINE EDUCATION HIGHLIGHTS



- Youdao's net revenues grew by 159% YoY to RMB 896 million.
- Gross billings from online courses accelerated by 228% YoY, supported by our large-scale marketing and branding initiatives.
- Gross billings in our K-12 segment reached a record high RMB 676 million, up 369% YoY, with K-12 paid enrollments expanding to around 499,000.
- Net revenues of learning devices achieved significant growth of around 300% YoY, due to significantly increased sales of our Dictionary Pen 2 series.

# INNOVATIVE BUSINESSES AND OTHERS

## Innovative Businesses and Others Net Revenue and Gross Margin



NetEase  
Cloud Music



NetEase Yanxuan



NetEase E-mail



NetEase Media



NetEase CC

網易 **NETEASE**  
www.163.com

# INNOVATIVE BUSINESSES AND OTHERS



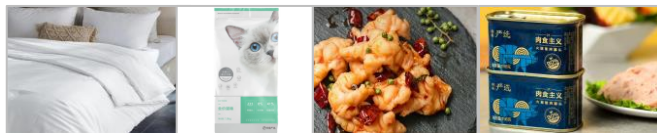
## NetEase Cloud Music

- Significant growth in terms of revenue and the number of paying users
- Successful collaboration with Alibaba and their 88 VIP program
- Secured more direct partnerships with leading record labels such as UMG and BMG
- Continued expansion of our original music library, and is now home to over 200,000 independent musicians



## NetEase Yanxuan

- Our innovative private label e-commerce business, targeting middle-class consumers in China with a strong emphasis on quality of life
- A leading new consumer brand in China by consistently creating compelling and popular merchandise such as cat foods, blue-tooth earphones and ergonomic chairs in Q3
- Continued improvement in operating efficiencies through strict management in all stages of products cycle, memberships, and supply chain management



# INNOVATIVE BUSINESSES AND OTHERS

## Internet Media



- [www.163.com](http://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

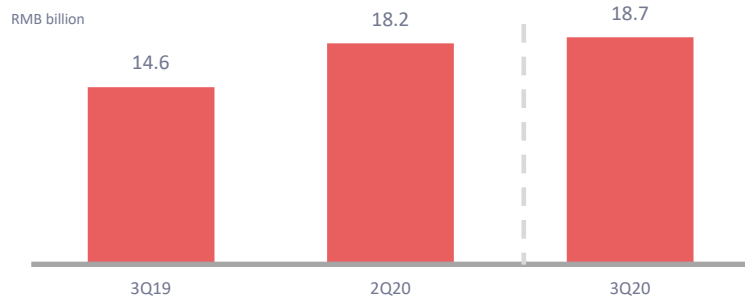
## E-mail Services



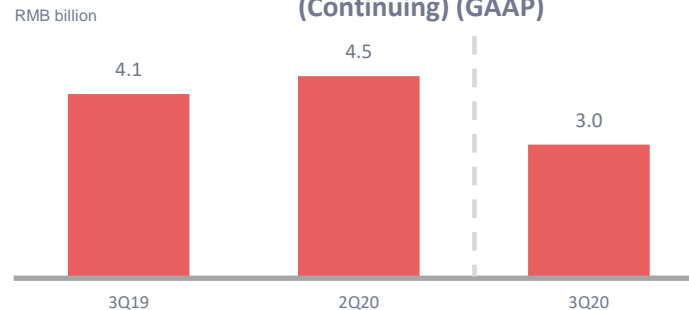
- China's leading e-mail service provider since 1997
- Around 595 million annual active users as of September 30, 2020

# FINANCIAL HIGHLIGHTS

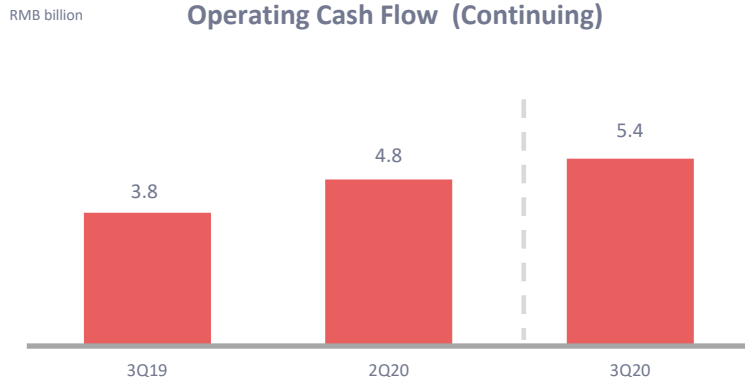
## Net Revenue



## Net Income attributable to shareholders (Continuing) (GAAP)



## Operating Cash Flow (Continuing)



## Value Returned to Shareholders

US\$	2019FY	3Q19	4Q19	1Q20	2Q20	3Q20
Dividend per ADS	\$2.068	\$1.518	\$0.204	\$0.232	\$0.297	\$0.195
Dividend paid (during the period)	\$1,270 m	\$129 m	\$990 m	\$131 m	\$158 m	\$203 m
Share Buyback (during the period)	\$0.2 m	\$0.2m	\$0	\$341.9m	\$413.8m	\$355.4m

# BALANCE SHEET SUMMARY

	2019		2020
in millions	Dec 31, RMB	Sep 30, RMB (Unaudited)	Sep 30, USD (Unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	3,246	6,466	952
Time deposits	53,487	79,639	11,730
Other current assets	28,372	27,660	4,074
Total current assets	85,105	113,765	16,756
Property, equipment and software	4,622	4,439	654
Other non-current assets	22,397	26,528	3,907
Total assets	112,124	144,732	21,317
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS &amp; SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Deferred revenue	8,602	10,376	1,528
Other current liabilities	29,641	36,553	5,384
Total current liabilities	38,243	46,929	6,912
Total liabilities	39,083	47,977	7,066
Redeemable Noncontrolling Interests	10,448	10,661	1,570
Total shareholders' equity	62,593	86,094	12,681
Total liabilities and shareholders' equity	112,124	144,732	21,317

# INCOME STATEMENT SUMMARY

	3Q19	2Q20	3Q20	3Q20	QoQ	YoY
in millions except per ADS data	RMB	RMB	RMB	USD	Change	Change
			(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Total net revenues:</b>	14,636	18,185	18,658	2,748	2.6%	27.5%
<i>Online game services</i>	11,535	13,828	13,862	2,042	0.2%	20.2%
<i>Youdao</i>	346	623	896	132	43.8%	159.0%
<i>Innovative businesses and others</i>	2,755	3,734	3,900	574	4.4%	41.6%
<b>Gross profit</b>	7,870	9,792	9,886	1,456	1.0%	25.6%
<b>Gross profit margin</b>	53.8%	53.8%	53.0%	53.0%		
<b>Operating profit</b>	3,335	4,170	2,870	423	-31.2%	-13.9%
<b>Operating profit margin</b>	22.8%	22.9%	15.4%	15.4%		
<b>Net income from continuing operations attributable to the Company's shareholders</b>	4,134	4,538	2,998	442	-33.9%	-27.5%
<b>Diluted earnings per ADS (Continuing operations)</b>	¥6.35	¥6.92	¥4.37	\$0.64	-36.8%	-31.2%

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



# CONTACT US

## **Margaret Shi**

NetEase, Inc.

E-mail: [ir@service.netease.com](mailto:ir@service.netease.com)

Tel: (+86) 571-8985-3378

Twitter: [https://twitter.com/NetEase\\_Global](https://twitter.com/NetEase_Global)

## **Brandi Piacente**

The Piacente Group, Inc.

E-mail: [netease@thepiacentegroup.com](mailto:netease@thepiacentegroup.com)

Tel: (+1) 212-481-2050

**THANK YOU**