

# Tencent Music Entertainment Group Investor Presentation

(NYSE: TME & HKEX: 1698)

March 2024



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01

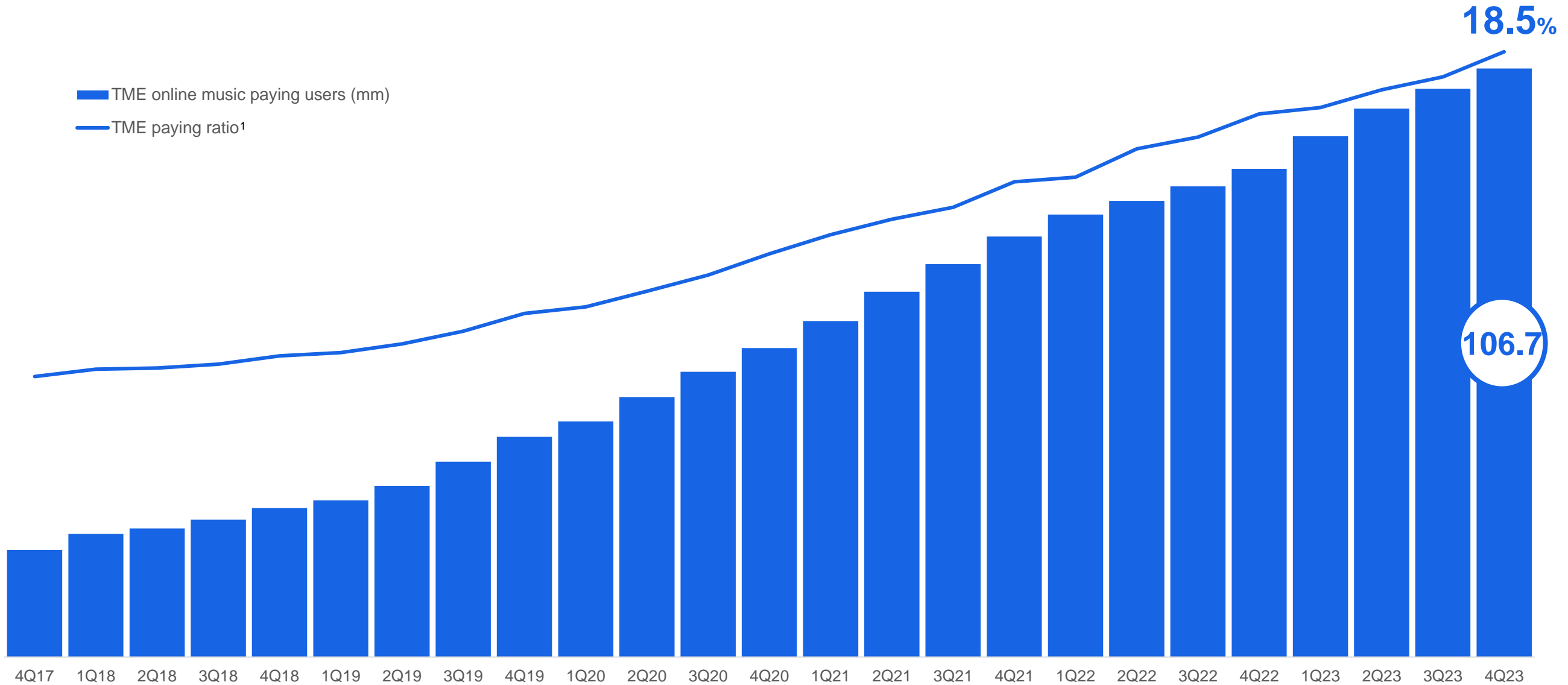
# COMPANY OVERVIEW



# Relentless Commitment to the Healthy Development of China's Online Music Industry

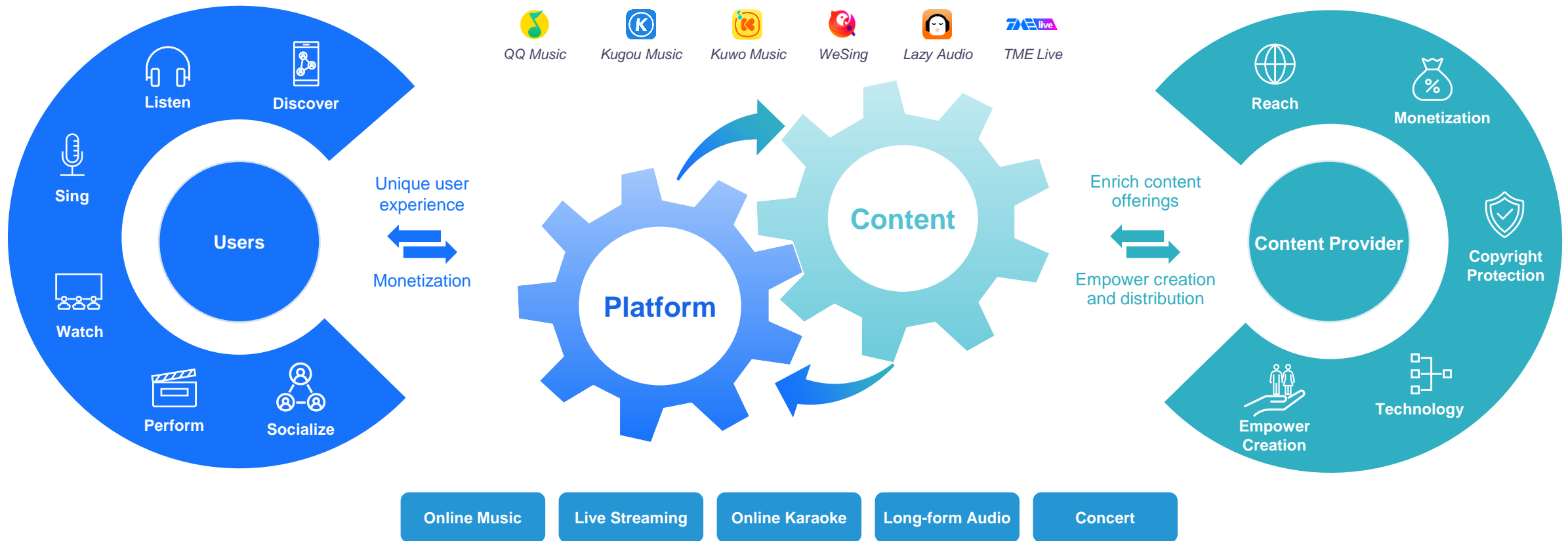


*High-quality content and services continuously driving paying user loyalty*



Note: 1. Paying ratio is calculated by dividing the number of online music paying users by online music MAUs.

# Our Dual Engine Content-and-Platform Strategy

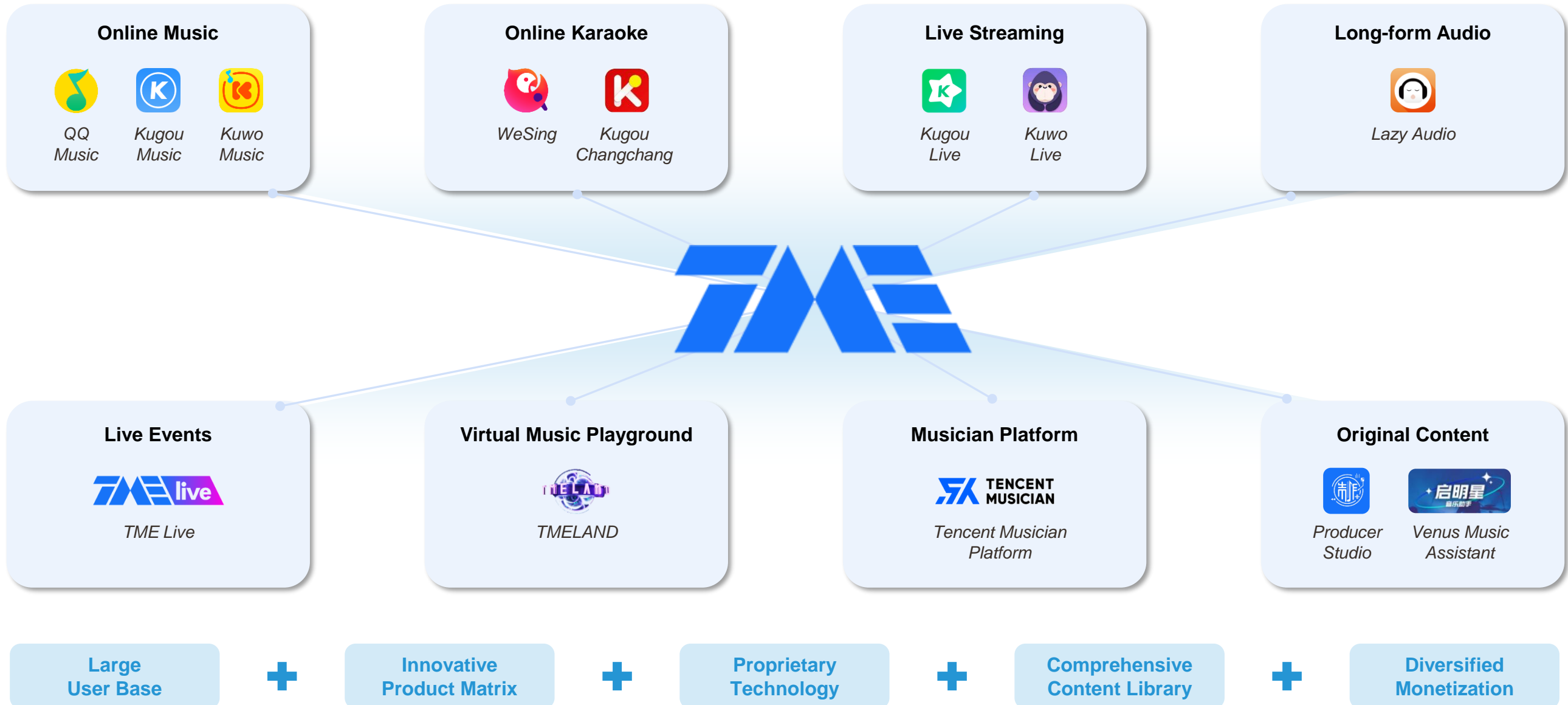


Create Endless Possibilities with Music and Technology

# All-in-one Online Music and Audio Entertainment Destination



## All-around suite of music and audio entertainment products and services



# Leading Online Music and Audio Entertainment Platform in China



## Leading Platform



**576mm**

Online music MAUs<sup>1</sup>

## Massive User Scale



**106.7mm**

Online music subscribers<sup>1</sup>

**20.6%**

YoY growth

## Extensive Content



**200mm+**

Total music & audio tracks<sup>3</sup>

## Innovative Technology



**Winner**

of the world-renowned MIREX global song recognition technology competition

## Strong Monetization



**RMB32.22bn**

Total cash, cash equivalents and term deposits<sup>4</sup>



**4 out of Top 5**

Music mobile apps in China<sup>1</sup>



**104mm**

Social entertainment mobile MAUs<sup>2</sup>



**480k+**

Number of indie musicians<sup>3</sup>



**World record**

in the MIREX song prediction technology competition



**RMB27.8bn**

LTM 2023<sup>5</sup> total revenues

**22.4%**

LTM 2023<sup>5</sup> adj. net margin

Note: 1. Four out of top five music mobile apps in terms of mobile MAUs in 2022; 2. In 4Q2023. For the definitions of the cited key operating metrics, please refer to the introduction section in the Company's 2022 20-F filed on April 25, 2023. Beginning in the first quarter of 2023, "online music MAUs" includes unique mobile and certain IoT devices. "Online music MAUs" for any given period (i) refers to the monthly average of the sum of the MAUs for that period; and (ii) includes QQ Music, Kugou Music, Kuwo Music and other music products, through which such product is accessed at least once in that month; duplicate access of different services by the same device is not eliminated from the calculation; 3. As of December 31, 2023; 4. As of December 31, 2023; 5. Last twelve months as of December 31, 2023.

02

## BUSINESS OVERVIEW







Labels

## Leading music library with diversified genres

- ✓ **Hundreds** of domestic and international music label partners<sup>1</sup> with **200mm+** music and audio tracks<sup>1</sup>
- ✓ **Head-start period** partnerships with top domestic and overseas labels and artists
- ✓ **Various trendy genres** including Chinese ancient style, Hip-hop, J-POP, K-POP, ACG, EDM; and diverse **music verticals** such as gaming, classical, and electronic music
- ✓ **Largest Dolby Atmos** music library, offering users a more **immersive** listening experience, available on mobile, in-car, and PC platforms.



Content Production

## Advanced technology-driven production capabilities

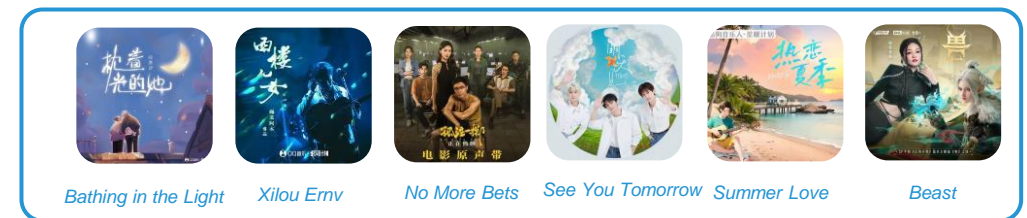
- ✓ Proprietary technology and deep understanding of music trends to systematically and efficiently **create, evaluate and promote** music
- ✓ **Cooperation with well-known IPs** across various entertainment verticals at home and abroad
- ✓ **AIGC** tools & **full-suite** of resources and services for efficient original content production



Tencent Musician Platform

## Cultivate and empower indie musicians & original music

- ✓ **One-stop platform** to empower musicians with comprehensive resources and services as well as holistic support ranging from online and offline promotions to diverse monetization avenues
- ✓ Rich variety of **creation scenarios** and opportunities to explore social and cultural values through music
- ✓ **More expansive and vibrant musician ecosystem** co-built with Weixin to widen artists' exposure



Promotional Capabilities

## Integrated internal and external promotion resources

- ✓ **Broader Tencent ecosystem** for music promotion
- ✓ **Varied promotional channels** such as variety shows, films, videos and performance events
- ✓ **Partner with popular brands** to host sponsored music festival
- ✓ **Utilized LLMs** to better promote and distribute new songs, identifying the content that resonates most with users.



Note: 1. As of December 31, 2023.

# Our Platform: Listen, Watch, Sing and Play

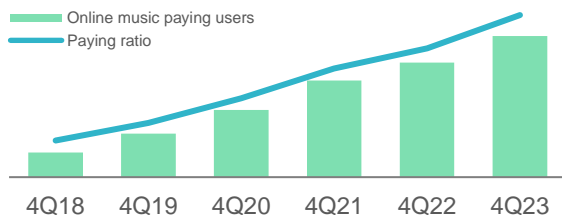


Product matrix caters to the varying needs of music consumers



Long-form audio: leading IP + radio drama, to enhance overall user engagement

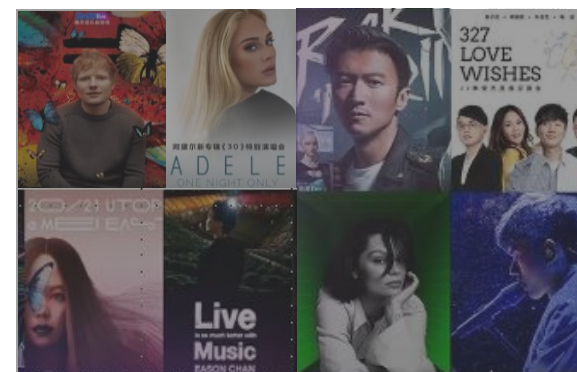
Music subscriptions exhibit robust growth momentum and potential



106.7mm  
18.5%  
4Q23 Online music paying users and paying ratio

**Listen**  
Innovative and nimble features to elevate listening experience

**Watch**  
Makes music content more visually memorable



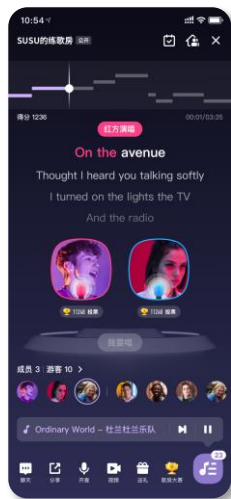
TME Live integrates offline concerts with online live streaming experience

63  
2023 Online and offline concerts



Collaborate with **Wexin Video Accounts** to create vibrant music ecosystem and strengthen promotion capabilities

Leading **online karaoke** social community with enriched real-time interaction scenarios & recording and singing optimization features to offer unique and engaging experience



Virtual karaoke rooms to sing & chat with friends



Vocal Producer



Sound optimization feature

**Sing**  
From singing to multi-dimensional performance

**Play**  
New ways to interact virtually

## Music Pets



**AI music companion:** Xiaoqin, along with other specific virtual DJs for each genre, brings interactive and fun experience with newly added music recommendation feature



Engaging **song guessing** function built upon listening experience

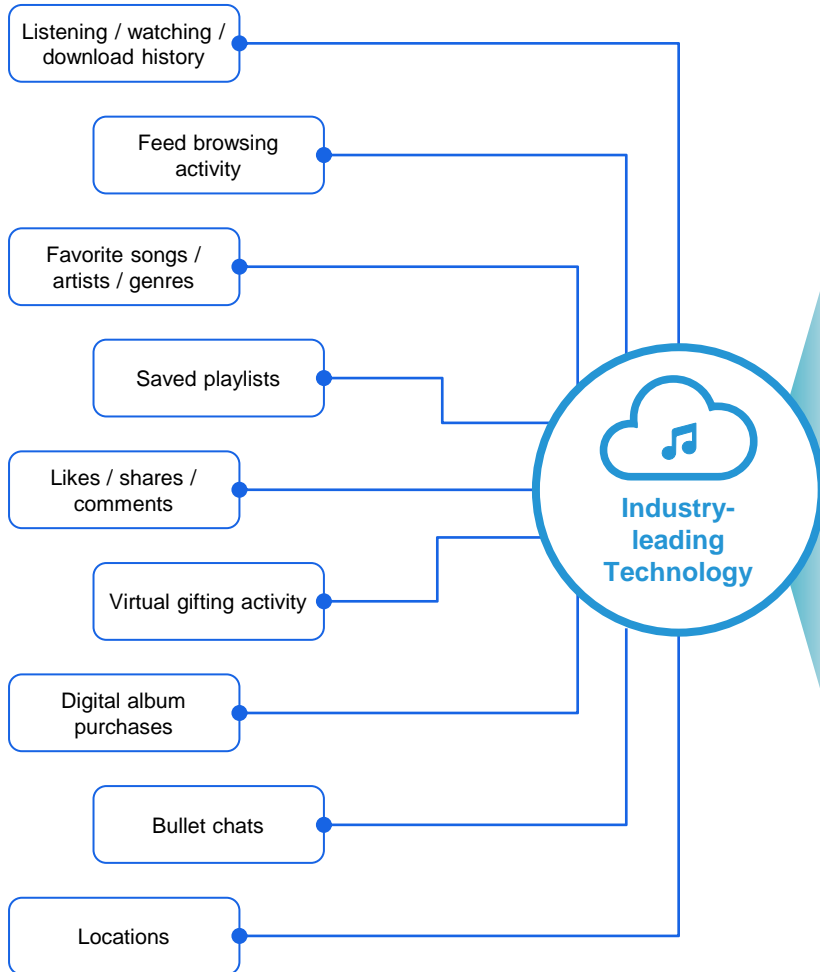




Data

Technology

Value Propositions

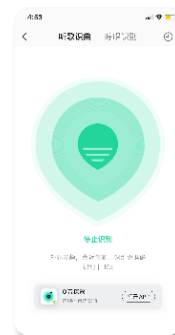


## Data Analytics and Prediction



- ✓ Algorithms and multi-dimensional data insights, recommending music based on users' music tastes
- ✓ Targeted promotion system based on real-time data analysis, helping artists and songs reach the right audience
- ✓ Proprietary PDM predictive model at each key stage of the music production process, enabling creators to quickly make decisions

## Song Recognition



- ✓ Identify songs by playing song track samples or short videos
- ✓ Award-winning technology: winner of MIREX' 2020 global song recognition technology competition; New world record in MIREX 2020 song prediction technology competition
- ✓ Facilitate user content discovery and searching
- ✓ QQ Music's Quick Listen mode: chorus-focused content discovery feature
- ✓ Kugou Music 12.0: featuring fast discovery of multiple song covers

## Superior Sound Quality and Effects



- ✓ Optimized sound quality and effects: Dolby Surround Sound, Adaptive Sound Adjustment, etc.
- ✓ Premium Sound series: QQMUSIC AUDIO, Premium Master Tape, Premium Surround Sound and Premium Sound Quality 2.0, enhancing sound clarity and expressiveness
- ✓ Proprietary sound effects: panoramic, DJ mode, super bass, acoustic clear voice, 4D vibe and many others, Viper Panoramic Surround Sound

## AI Capabilities & AIGC Tools



- ✓ AI reading technology
- ✓ Lingyin Engine and Lyrasinger Engine: patented AI-based voice synthesis technology
- ✓ Muse Engine: enable automated large-scale music poster production
- ✓ Virtual performers: LUCY (鹿晓希), Xiaoqin (小琴), Shanbao (扇宝) and Anko (安可)
- ✓ Venus: introduced zero-shot AI-powered music production tool
- ✓ AIGC-empowered virtual gifts and functions for live streaming
- ✓ Vocal Producer: create AI-generated music content in multiple languages
- ✓ LLMs to better promote and distribute new songs

Note: 1. MIREX (Music Information Retrieval Evaluation eXchange) is a community-based formal evaluation framework coordinated and managed by the International Music Information Retrieval System Evaluation Laboratory (IMIRSEL) at the University of Illinois at Urbana-Champaign.

# Our Diverse Monetization Opportunities



Strong growth of online music paying users driven by premium content and services

## Subscription

## Advertising

## Multi-faceted Models

### Premium Membership



Mobile

### Super VIP Membership



IoT

### Innovative and Diverse Ad Formats



Ad-supported mode

Sponsored music events

Long-form audio

Digital albums

Artist merchandise

Copyright licensing

...continue to innovate service models

## Leading music-centric live streaming platform in collaboration with online music services



### Organic Traffic

### Music Content Enrichment

### Artist Discovery

### Monetization



#### Virtual Interactive Offerings

- ✓ Virtual idol cultivation and AI companion creation
- ✓ AIGC-empowered features, e.g. automatically analyzing and providing personalized advice based on users' singing on WeSing



#### Overseas Expansion

- ✓ Replicate successful domestic operational experiences in overseas markets
- ✓ ROI-focused M&A strategy

03

# FINANCIAL HIGHLIGHTS





## Monetization

**RMB10.7**

4Q23 Online music monthly ARPPU<sup>1</sup>

Record high, with 7 consecutive quarters of sequential growth

**RMB3.42bn**

**45.3% YoY+**

4Q23 Subscription revenue

## Profitability

**38.3%**

**5.3ppt YoY+**

4Q23 Gross margin

**RMB1.68bn**

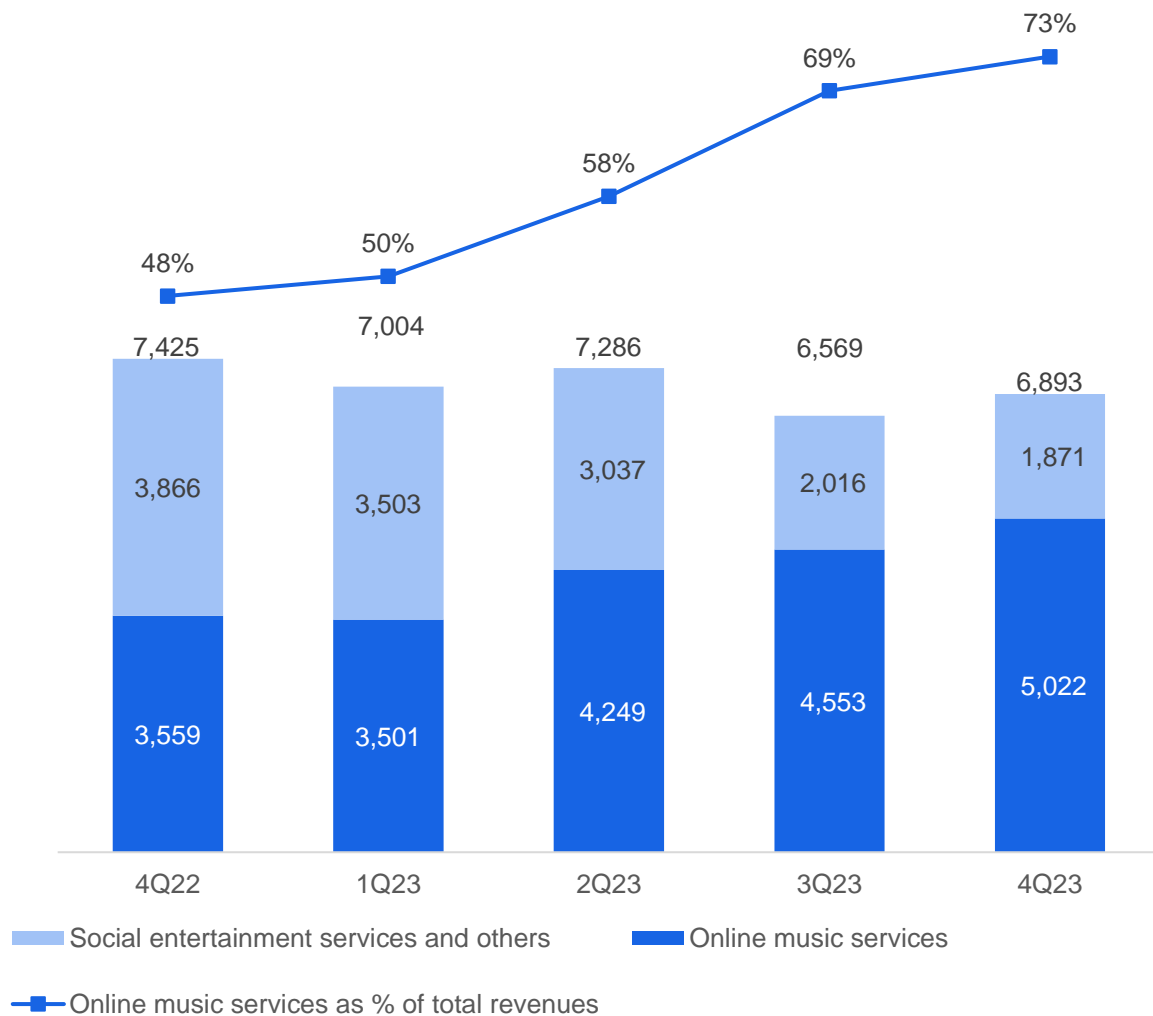
**12.5% YoY+**

4Q23 Non-IFRS net profit



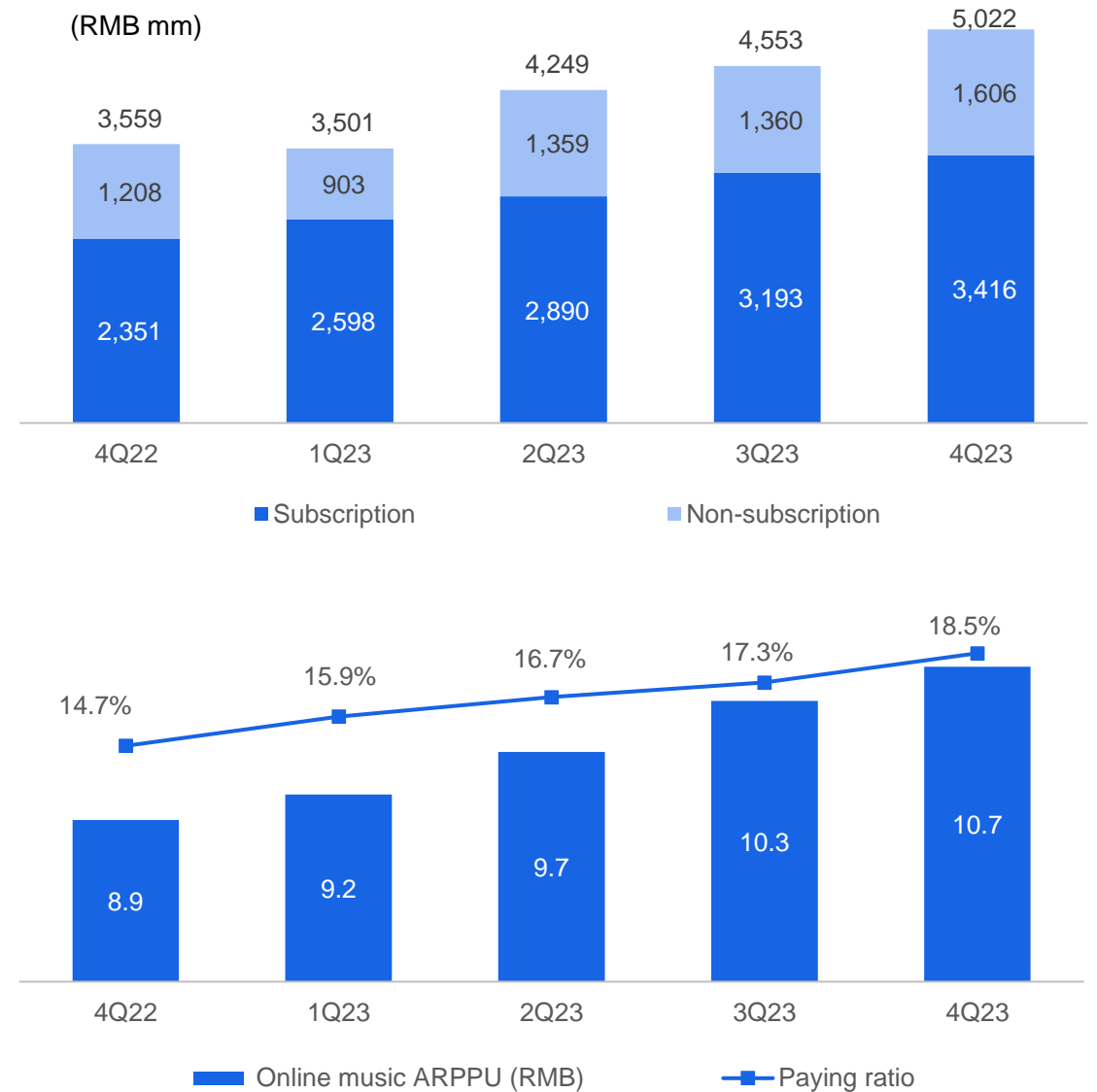
## Robust online music revenue performance

Total Revenues  
(RMB mm)



## Subscription as a key growth driver

Online Music Revenues  
(RMB mm)

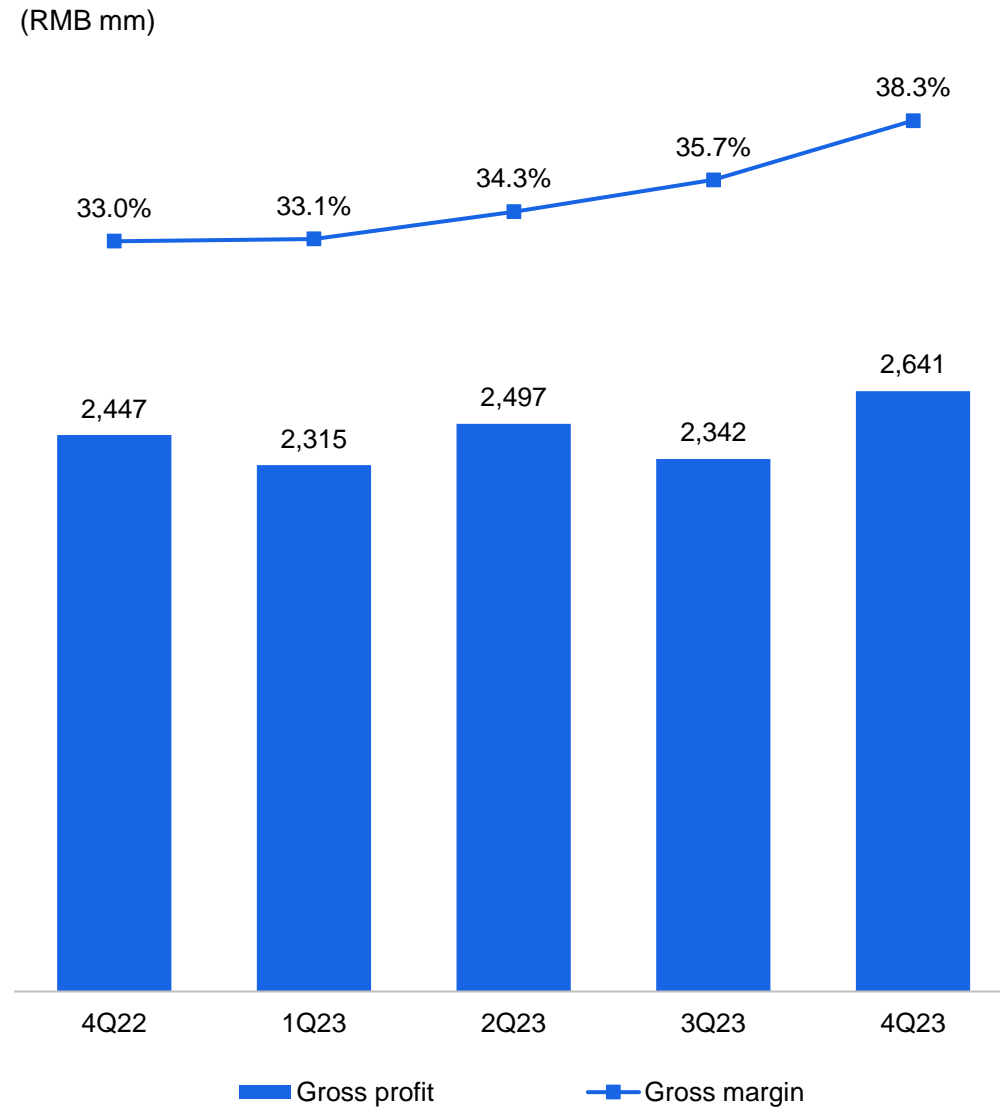




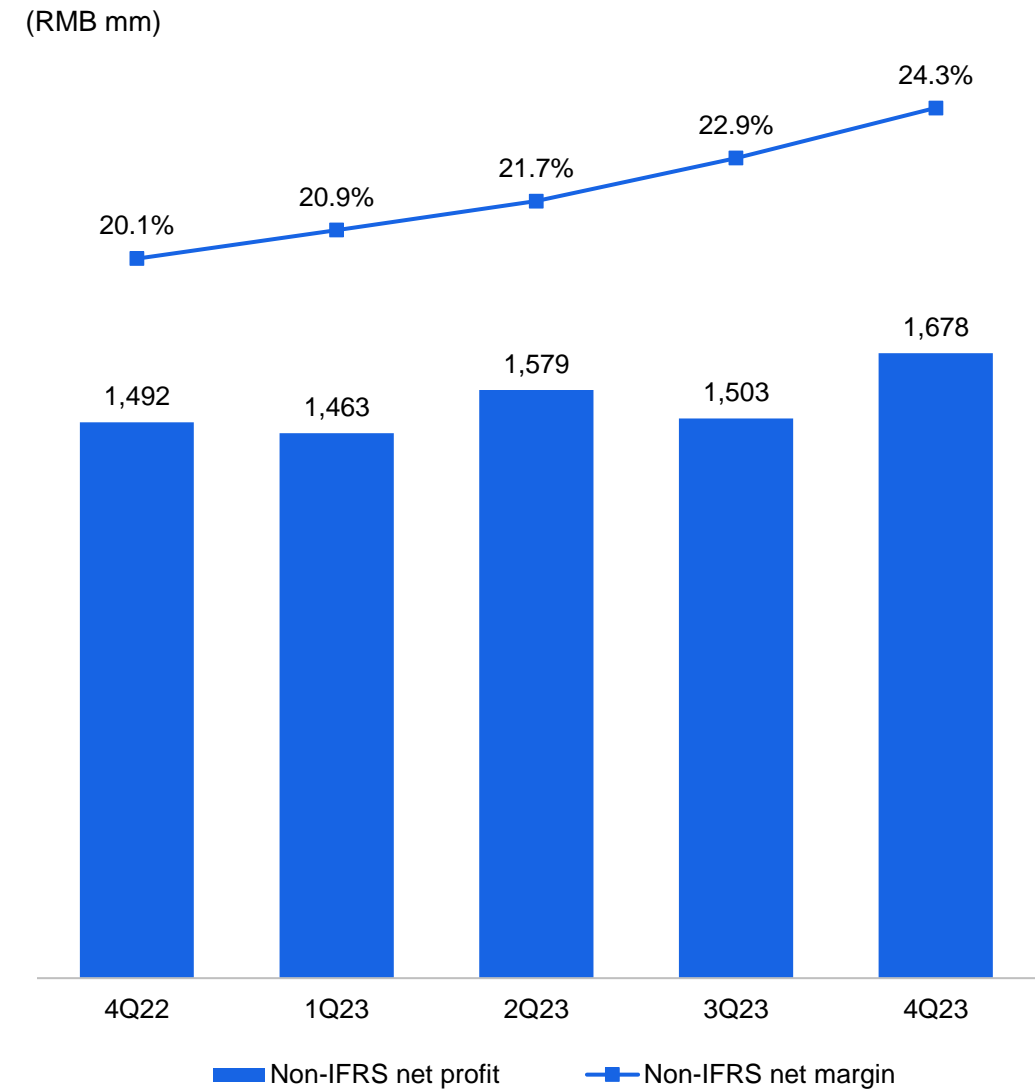
# Expanded Gross Margin and Healthy Profitability



## Gross profit and margin



## Non-IFRS net profit<sup>1</sup> and margin



Note: 1. For non-IFRS net profit, please refer to the appendix for reconciliation details.



## Strong cash position & cash generation ability

**RMB32.22bn**

Cash and cash equivalents, term deposits<sup>1</sup>

**RMB1.98bn**

Operating cash flow<sup>2</sup>

## Equity investments

**RMB6.54bn**

Financial assets at fair value through other comprehensive income<sup>1</sup>

**RMB4.27bn**

Investments accounted for using equity method<sup>1</sup>

## Share count

**1.57bn**

ADSs used in computing diluted earnings per ADS<sup>2</sup>

## Unaudited Non-IFRS Financial Measure

	Three Months Ended December 31			Year Ended December 31		
	2022	2023		2022	2023	
	RMB	RMB	US\$	RMB	RMB	US\$
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	(in millions, except per share data)			(in millions, except per share data)		
<b>Profit for the period/year</b>	1,205	1,409	198	3,839	5,220	735
Adjustments:						
Amortization of intangible and other assets arising from business acquisitions or combinations*	126	111	16	498	445	63
Share-based compensation	178	183	26	834	736	104
Gains from investments**	-	23	3	(141)	(7)	(1)
Income tax effects***	(17)	(48)	(7)	(123)	(171)	(24)
<b>Non-IFRS Net Profit</b>	<b>1,492</b>	<b>1,678</b>	<b>236</b>	<b>4,907</b>	<b>6,223</b>	<b>876</b>
<b>Attributable to:</b>						
Equity holders of the Company	1,438	1,575	222	4,745	5,923	834
Non-controlling interests	54	103	15	162	300	42
<b>Earnings per share for Class A and Class B ordinary shares</b>						
Basic	0.46	0.51	0.07	1.48	1.90	0.27
Diluted	0.45	0.50	0.07	1.47	1.87	0.26
<b>Earnings per ADS (2 Class A shares equal to 1 ADS)</b>						
Basic	0.92	1.02	0.14	2.96	3.79	0.53
Diluted	0.91	1.00	0.14	2.93	3.74	0.53
<b>Shares used in earnings per Class A and Class B ordinary share computation:</b>						
Basic	3,142,973,505	3,103,386,279	3,103,386,279	3,203,995,973	3,121,653,686	3,121,653,686
Diluted	3,175,415,350	3,145,485,054	3,145,485,054	3,234,507,356	3,168,386,031	3,168,386,031
<b>ADS used in earnings per ADS computation</b>						
Basic	1,571,486,752	1,551,693,140	1,551,693,140	1,601,997,986	1,560,826,843	1,560,826,843
Diluted	1,587,707,675	1,572,742,527	1,572,742,527	1,617,253,678	1,584,193,016	1,584,193,016

\* Represents the amortization of identifiable assets, including intangible assets such as domain name, trademark, copyrights, supplier resources, corporate customer relationships and non-compete agreement etc., and fair value adjustment on music content (i.e., signed contracts obtained for the rights to access to the music contents for which the amount was amortized over the contract period), resulting from business acquisitions or combination

\*\* Including the net gains on deemed disposals/disposals of investments, fair value changes arising from investments, impairment provision of investments and other expenses in relation to equity transactions of investments

\*\*\* Represents the income tax effects of Non-IFRS adjustments

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**THANK YOU!**