NetDragon Websoft Holdings Limited

Stock Code: 777 HK

2019 Annual Results Presentation

Apr 1, 2020

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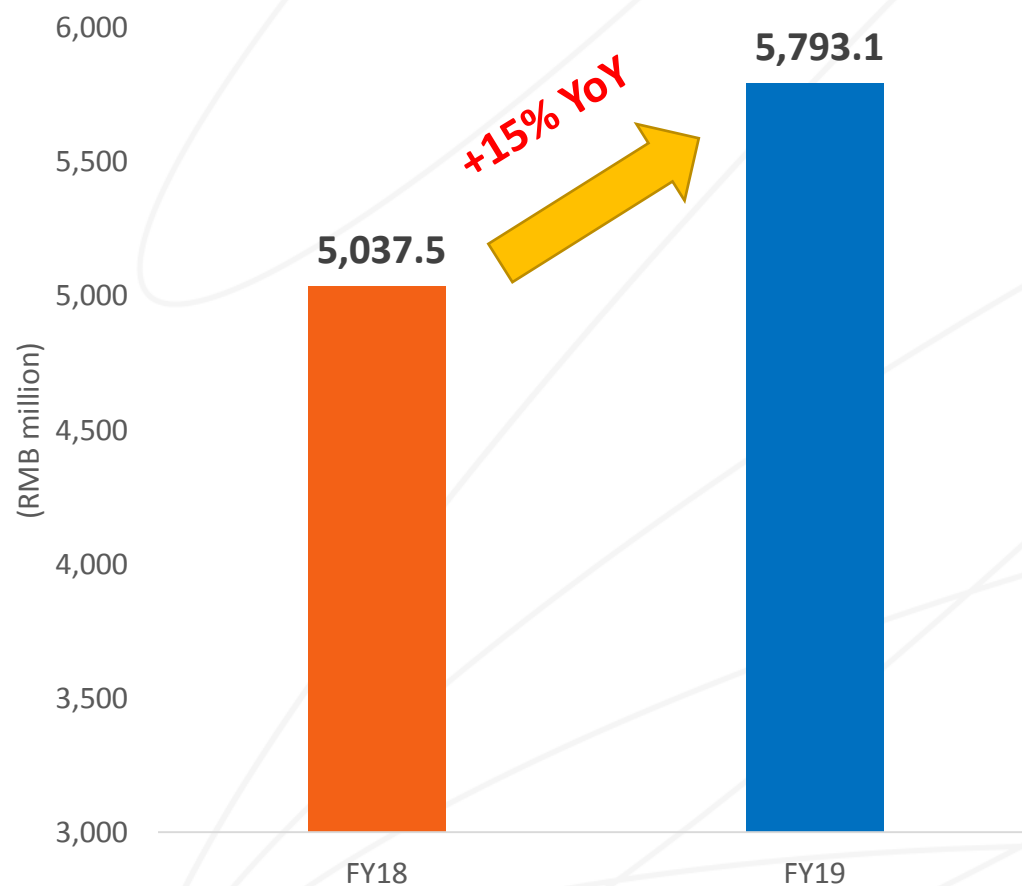
Opening Remarks
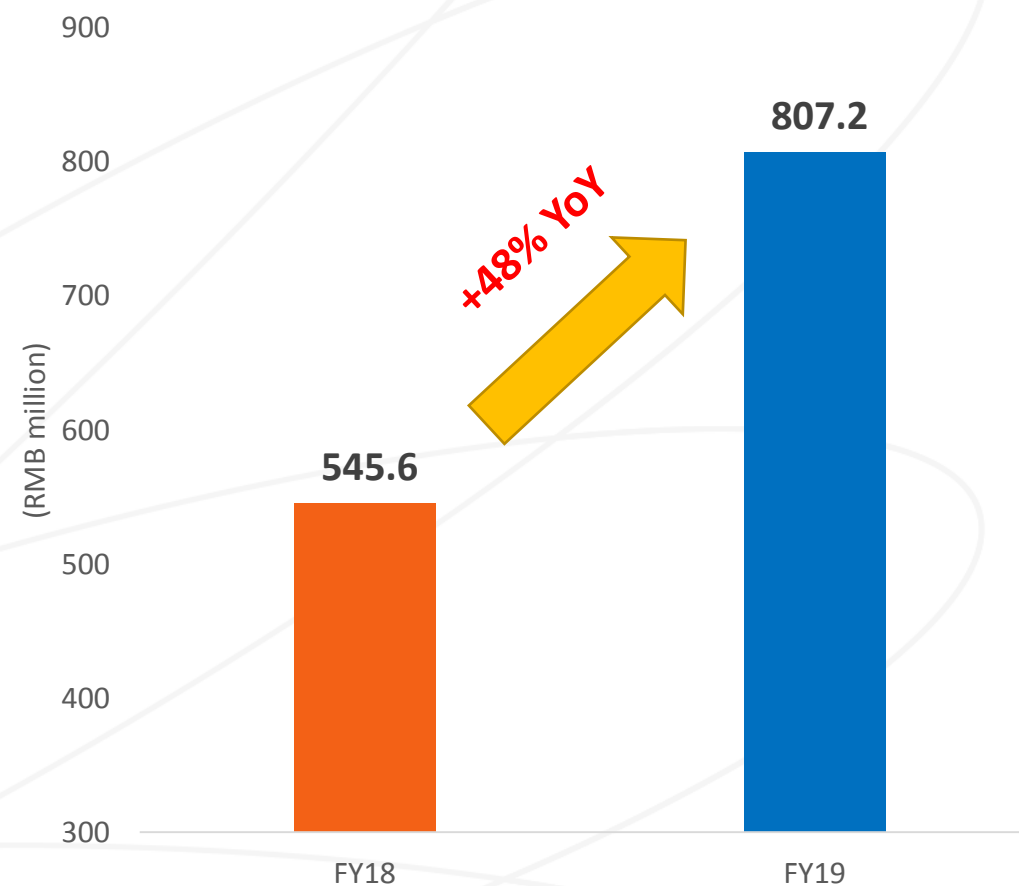
Dr. Simon Leung

Group Vice Chairman

Agenda

Topic	Speaker
2019 Highlights	Dr. Simon Leung, Group Vice Chairman
2019 Financials	Ben Yam, Group CFO
Gaming	Wang Song, Group Senior VP
Promethean	Vin Riera, Promethean CEO
Edmodo	Susan Kim, Edmodo CEO
2020 Outlook	Dr. Simon Leung, Group Vice Chairman
Q&A	

2019 Results

NetDragon

Revenue: RMB5,793.1 million

(RMB million)

6,000
5,500
5,000
4,500
4,000
3,500
3,000

5,037.5

+15% YoY

5,793.1

FY18   FY19

Net Profit: RMB807.2 million

(RMB million)

900
800
700
600
500
400
300

545.6

+48% YoY

807.2

FY18   FY19

2019 Highlights – Overall

- **Revenue at Record High +15% YoY**

- **Net Profit at Record High +48% YoY**

- **Continued Strong, Balanced Gaming Business Growth**

- **Promethean Maintained Global Market Leadership**

- **Implemented Country/District Strategy, e.g. Egypt**

- **Started Monetization Opportunities across our Platforms**

- **Increasing Full Year Dividends to HK$0.4/share in 2019 from HK$0.25/share in 2018**

2019 Highlights – Gaming

- **Record High Revenue +39% YoY**

- **Mobile Games Revenue +47% YoY**

- **PC Games Revenue +38% YoY**

- **Broad-based Revenue Growth across all Major IPs**

- **Overseas Revenue +66% YoY**

- **Segmental Profit +51% YoY**

2019 Highlights – Learning

- **Overall Education Revenue +12% YoY ex-Russia**

- **Promethean**

  - **Interactive Flat Panel (IFP) Shipment +27% YoY ex-Russia**

  - **Launch of Elements Series, Foundation for Future Classroom SaaS Monetization**

  - **Strong Second Half with Significant HoH Revenue Growth**

  - **Continued Traction with Country Roll-out – Egypt MOE Project being Rolled Out**

- **Edmodo**

  - **DAU/WAU Increase amid Virus Outbreak – over 4M DAU currently with an increasing trend**

  - **Country-level Rollout with Egypt MOE Project Announced**

  - **Setting up for Monetization -- Soft Launched AskMo, Online Tutoring Service**
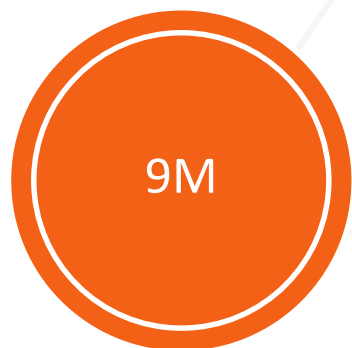
2019 Highlights – Learning (Cont'd)

- **China – Accelerating User Adoption and Moving to Monetization**

  - **101 Edu PPT (Classroom Coverage)**

    - **Achieved 1M+ Monthly Active Installations (Mostly Teachers)**

    - **Launching 2C Extension to reach Parents and Students**

  - **One Stop Learning (School + Home Coverage)**

    - **Achieved 5M MAU amid Virus Outbreak**

  - **SaaS Opportunity via Partnership with NCET* on Nationwide rollout of NCET VLAB, a Virtual Lab Platform**

  - **Promethean**

    - **Started Penetration via Multiple Tender Wins in Fuzhou**

    - **Established Go-to-Market Channels**

    - **Building Product Catered for China Market**

* National Center for Educational Technology （中央電化教育館）
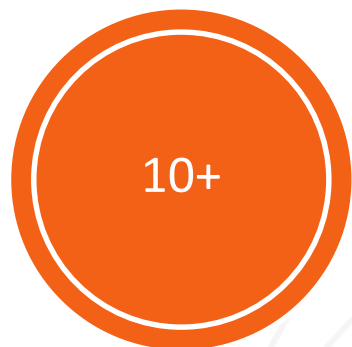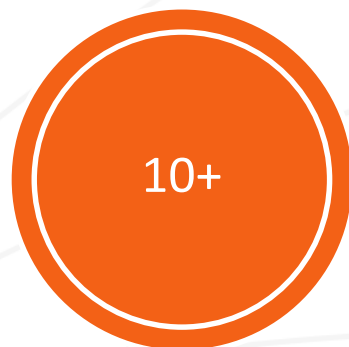
Operating Metrics
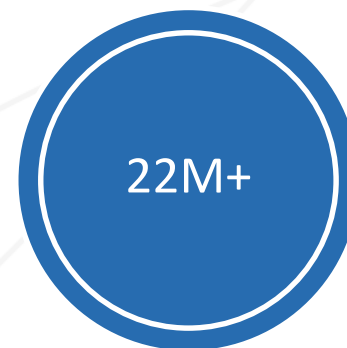
Gaming

9M	**2M**
MAU	DAU
10+	**10+**
Current Titles	Upcoming Titles

Learning

22M+	**5M+**
MAU	DAU
2M+	**190+**
Classrooms	Countries

Note: Data as of March 2020

NetDragon
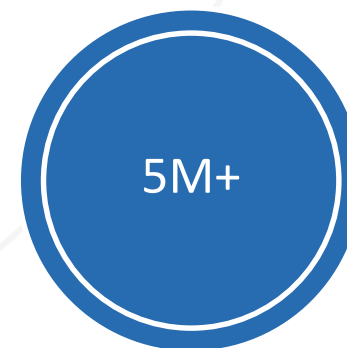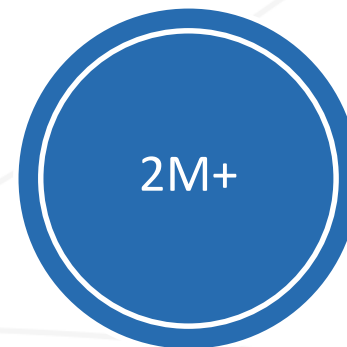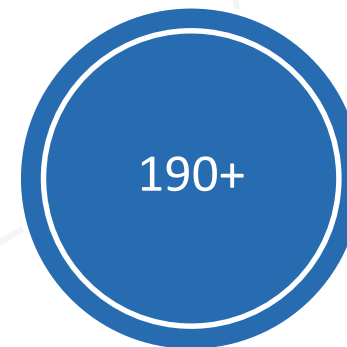
Financials

Ben Yam

Group CFO

Condensed Income Statement

(RMB million)	2019	2018	YoY
Revenue	**5,793.1**	5,037.5	+15.0%
Gaming	***3,299.6***	*2,367.4*	*+39.4%*
Education	***2,395.4***	*2,565.6*	*-6.6%*
Gross Profit	**3,855.3**	3,047.2	+26.5%
Selling & Marketing Expenses	**915.8**	697.9	+31.2%
as a % of Revenue	***15.8%***	*13.9%*	*+1.9 ppts*
Administrative Expenses	**883.1**	853.2	+3.5%
as a % of Revenue	***15.2%***	*16.9%*	*-1.7 ppts*
R&D Expenses	**1,075.4**	922.9	+16.5%
as a % of Revenue	***18.6%***	*18.3%*	*+0.3 ppts*
Net Profit attributable to Shareholders	**807.2**	545.6	+48.0%
EBITDA	**1,245.2**	832.5	+49.6%
Non-GAAP Operating Profit	**1,060.7**	651.8	+62.7%

Segmental Financial Highlights

(RMB million)	Education			Gaming		
	2019	2018	YoY	**2019**	2018	YoY
Revenue	**2,395.4**	2,565.6	-6.6%	**3,299.6**	2,367.4	+39.4%
Gross profit	**713.0**	766.1	-6.9%	**3,165.5**	2,262.4	+39.9%
Gross profit margin (%)	**29.8%**	29.9%	-0.1 ppts	**95.9%**	95.6%	+0.3 ppts
Core Segmental profit (loss)	**(524.5)**	(384.9)	+36.2%	**1,923.3**	1,271.6	+51.3%
Segmental operating expenses						
- Research and Development	**(491.3)**	(449.3)	+9.3%	**(557.6)**	(458.9)	+21.5%
- Selling and Marketing	**(508.1)**	(440.7)	+15.3%	**(385.9)**	(232.1)	+66.3%
- Administrative	**(254.9)**	(239.5)	+6.4%	**(306.4)**	(296.0)	+3.5%

Education

- **Revenue** up 12% YoY ex-Russia tender

- **Core Segmental Loss** increase is due to timing of Russia tender (phase 2 US$64M in 2018, phase 3 expected to initiate in 2020), US tariff on Promethean products, and consolidation of Edmodo for full year (vs 8 months last year)

Gaming

- **Revenue** up 39.4% YoY due to broad-based increase from all 3 major IPs

- **Selling and Marketing Expense** up 66.3% due to increase in marketing and promotional activities to drive growth

- **Core Segmental Profit** up 51.3% YoY due to positive operating leverage
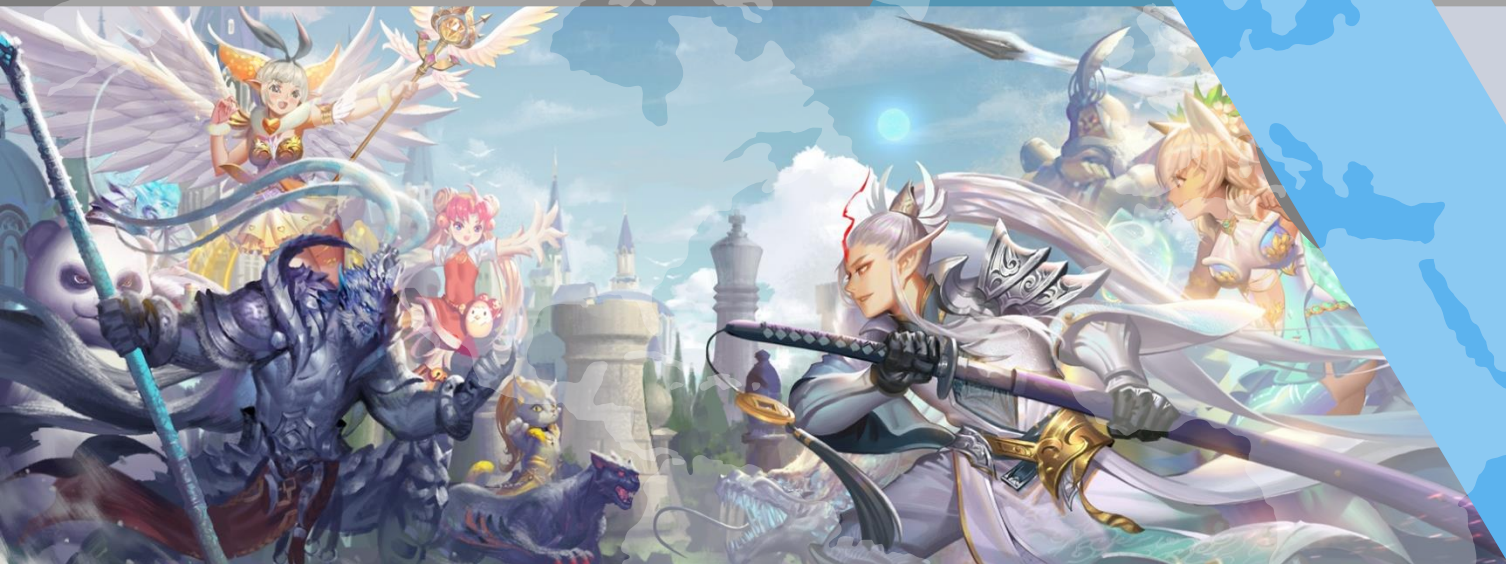
Gaming

Wang Song

Group Senior VP

NetDragon

2019 Gaming Business Highlights

- Revenue Growth in all 3 Major IPs – *Eudemons*, *Heroes Evolved* & *Conquer Online,*

  driven by:

  - Significant amount of "Return" Users

  - Vigorous Content Enhancement – Launched multiple Expansion Packs

  - New Playing Features, e.g. Auto Chess

  - IP Crossover Collaboration effect

- Strong Growth in Overseas Revenue

- 10+ Games in Pipeline – Under Development or in Testing Stage

2019 Gaming Review

1 **Domestic Popular Culture**

Inject new vitality into the brand, increase market exposure, and attract target audience participation via a combination of multiple themes including the Imperial Palace, the Jasmine Paste Cultural Heritage Project and Nezha IP Movie

2 **Cross-Industry Collaboration**

Collaborate with well-known brands such as Huawei, SF Express, Lauenstein, Happy Valley Shenzhen, etc. to increase media reporting and publicity, as well as *Eudemons'* brand awareness

3 **Pan-Entertainment Marketing**

Leverage public attention and topics to drive promotion effectiveness by combining in-game content with society's hot topics & celebrities, including collaboration with champion boxer Zou Shiming, China's champion rapper Yang Hesu, and well-known singer Wang Leehom

2019 Gaming Review
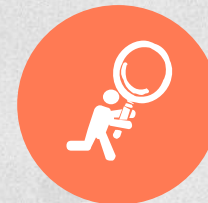
Fresh Versions

Launched multiple versions of new classes and new instances in 2019, increased user loyalty and engagement through marketing

Activity Maintenance

Introduced expansion packs with optimization and adjustment for existing "careers" to attract "old" players to come back, and to keep existing players engaged

User Retention

Introduced systems such as "Weapon Spirit", an advanced growth system to improve user cultivation goals and drive user stickiness

Monetization

Introduced cross-server card gameplays and new equipment cultivation to drive user spending with new line of cultivation and payment points

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IP Crossovers

Japanese Anime IP

OVERLORD

Chinese Anime IP

Rakshasa Street

Enhance brand value while engaging users

Increase revenue with high-value hero skins

2019 Gaming Review

Partner with Top Domestic Nijigen Platform

Vows of Heroes Partners with Bilibili

Official Launch in 2020 and Exclusively Published by Bilibili

2020 Gaming Strategy

- **Continue to Grow our Existing Games**

- **Launch New Games in the Pipeline**

- **Expand Overseas Market**

- **Continue to Implement our IP Strategy**

New Game Launch Plan

NetDragon

多人在線角色扮演 MMORPG	《魔域II》 *Eudemons II* (Open World MMO Mobile)	《終焉誓約》 *Vows of Heroes* (JRPG Mobile)	
戰爭策略模擬 SLG	*Heroes of Ages* (Real-Time Battle Strategic Mobile)	《英魂王座》 *Heroes Evolved Thrones* (TCG Battle Mobile)	*Legends of Ocean* (Grand Novel Strategic Mobile)
網頁遊戲/微端 HTML5	《魔域傳說H5》 *Eudemons Legends H5* (HTML5)	《決戰巨神峰》 *Battle of Giants* (HTML5)	

Expanding Gaming Portfolio Across all major IPs

Expand IP Portfolio, Strengthen Overseas Operation, Enhance Product Line, Drive Revenue & Profit Growth

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Eudemons IP

Eudemons Online

Eudemons Cross-Platform

Eudemons Pocket

Eudemons Online English

Eudemons Legends H5

Eudemons II

Eudemons Pocket 2.0

Conquer Online IP

Conquer Online

Conquer Online Pocket

Conquer Online English

Conquer Online Spanish

Conquer Online Arabic

Conquer Online Mobile

Heroes Evolved IP

Heroes Evolved

Heroes Evolved Mobile

Heroes Evolved English

Heroes Evolved Thrones

Heroes of Ages

Others

Vows of Heroes

Battle of Giants

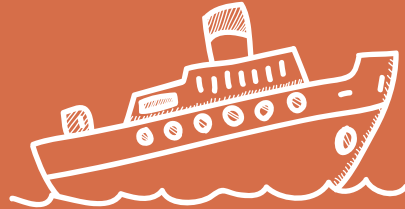Happy Pets Destiny

Cyber Legends

Endless Battle

Under Development

Overseas Expansion Strategy

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Strengthen Overseas Operation

Enhance R&D
Continue to enhance R&D team and product lines

Enter New Gaming Platform
Eudemons Online plans to enter *Steam* platform via data-interchange version to import users

Develop Overseas Channel
Expand overseas distribution channels, such as local Internet cafes, mobile phone app stores and other channels to increase user reach
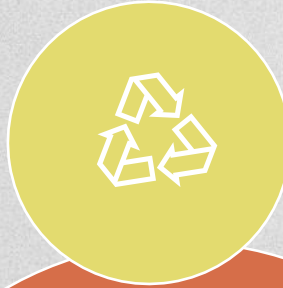
Join Tournaments
Heroes Evolved plans to join overseas online and offline tournaments, to enhance user activity and market exposure

Expand Overseas Product Line
Vows of Heroes will gradually expand into Hong Kong, Macao, Taiwan, Japan, Korea as well as Southeast Asia markets
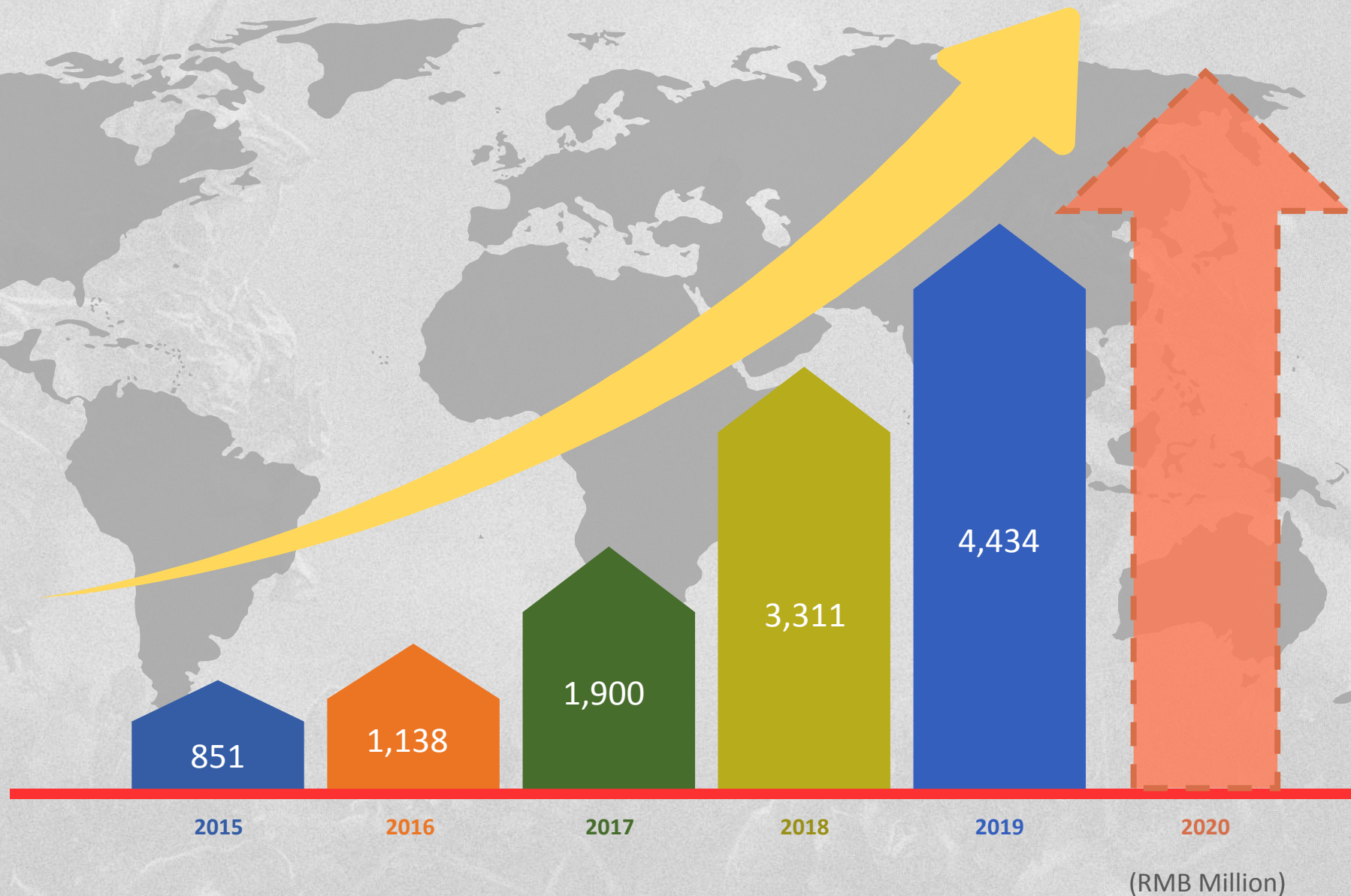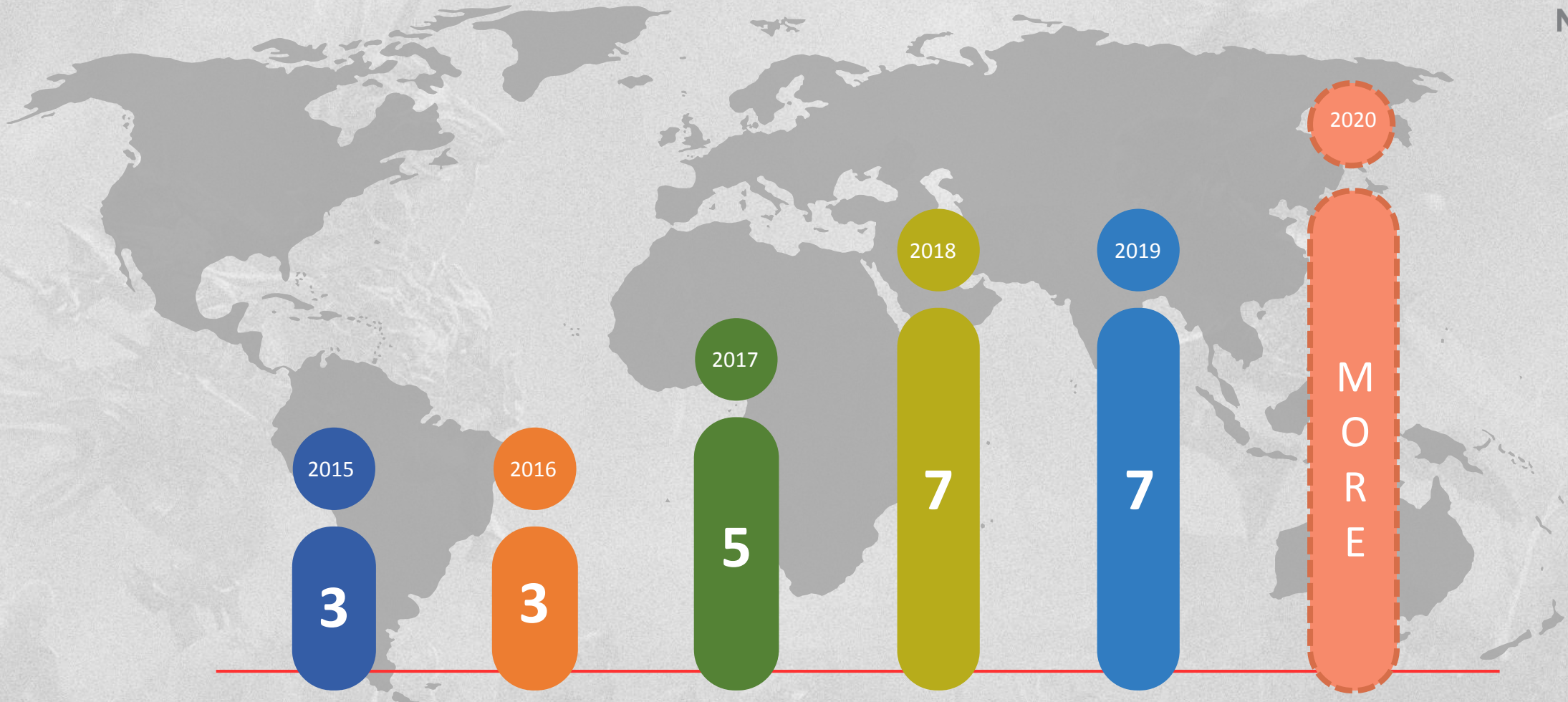
23

Our Long Term View – IP Strategy

- A single product (game) may have a ceiling

- When a product becomes an IP, the revenue ceiling will be broken

- When IP becomes a "model", there will be no revenue ceiling

Develop *Eudemons* IP, Drive Sustainable Growth of Gross Billings

NetDragon

Year	Value
2015	851
2016	1,138
2017	1,900
2018	3,311
2019	4,434
2020	

(RMB Million)

25

Expand Gaming Titles under *Eudemons* IP

2015 — 3
2016 — 3
2017 — 5
2018 — 7
2019 — 7
2020 — MORE

IP Strategy – Implementation

IP Fanfiction

IP Movies & TV Dramas

IP Peripheral Products

IP Development

IP Crossovers

IP World View Optimization

More Game IP Possibilities...

NetDragon

Promethean®

Vin Riera

Chief Executive Officer

FY19 Highlights

- V7 Elements Series and V7 software releases launched and well received in the market space

- Maintained our #1 Market Leadership in Education*

- 27% panel unit growth in total panel unit YoY ex-Moscow tender

- 12% revenue growth YoY (excluding Moscow tender in 2018, with phase 3 tender release planned in 2020)

- 20% revenue growth from 1H to 2H 2019, on the back of new v7 Elements Series launch

- Sales and Marketing efforts are building momentum

- First order for Corporate panels received in the US

- Large-scale tender opportunities picking up traction, with Egypt being our largest opportunity

* Global K-12 market, excluding China

Revenue Trend
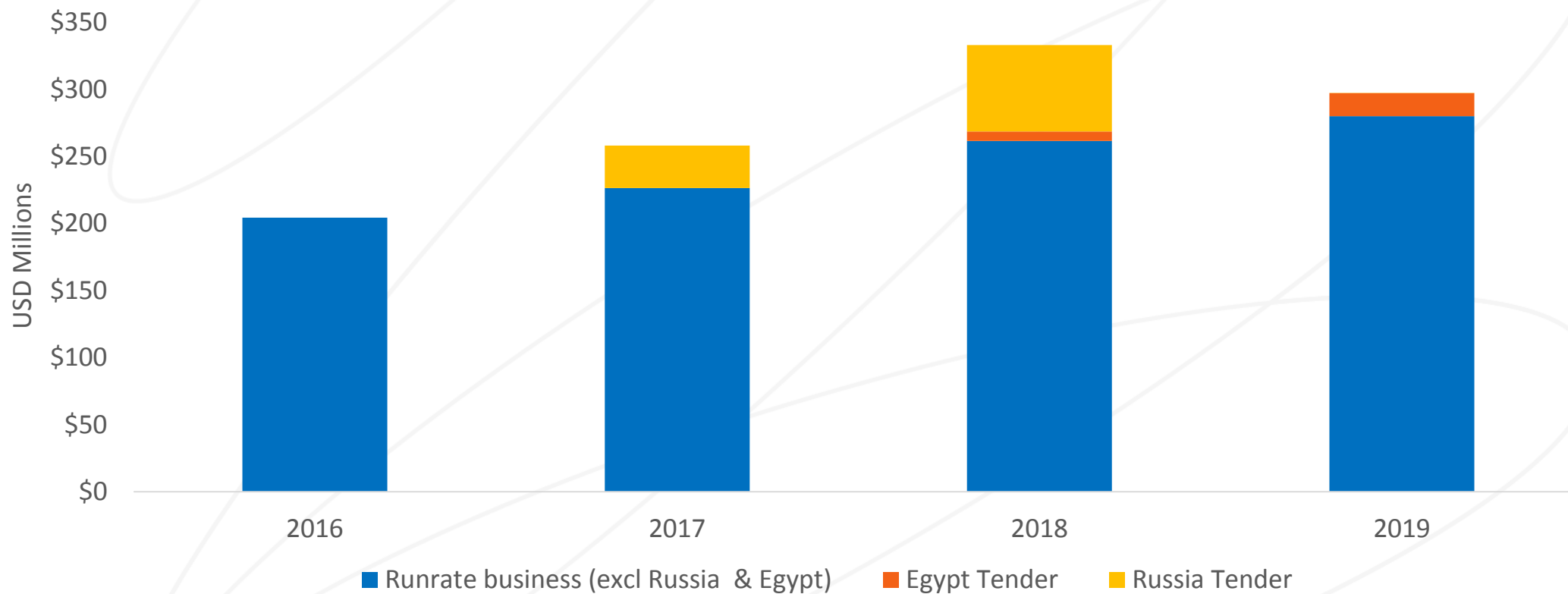
Russia Phase 3 tender release planned in 2020

30

Volume Trend

NetDragon
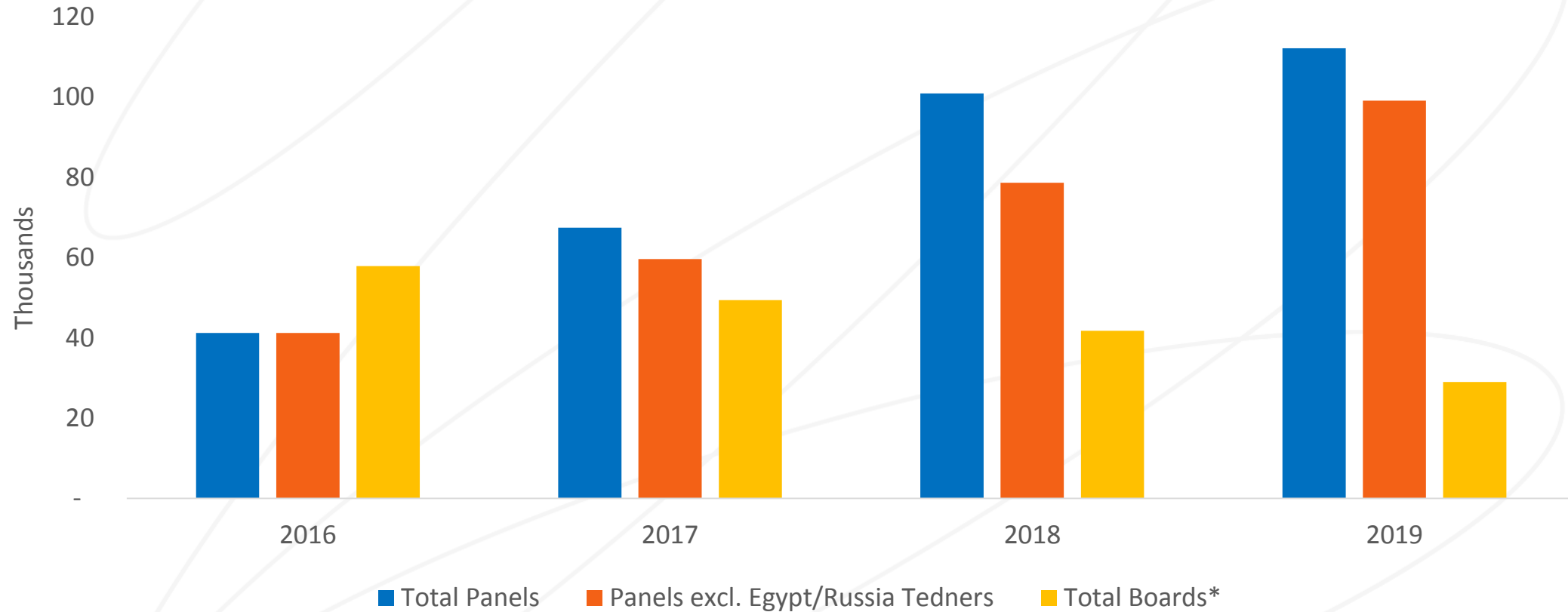
- **ASP of Panels is over 4 times vs Boards***
- **Market is phasing out boards and embracing panels**

Legend: ■ Total Panels ■ Panels excl. Egypt/Russia Tedners ■ Total Boards*

* Refers to projector-based interactive white boards

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Promethean's Global Leadership

#2 in Canada

#1 in UK&I (combined)

#1 in the US

#1 in France, Germany, Spain, Portugal and Italy

#1 in Vietnam

#1 in Egypt

#1 in Australia & New Zealand
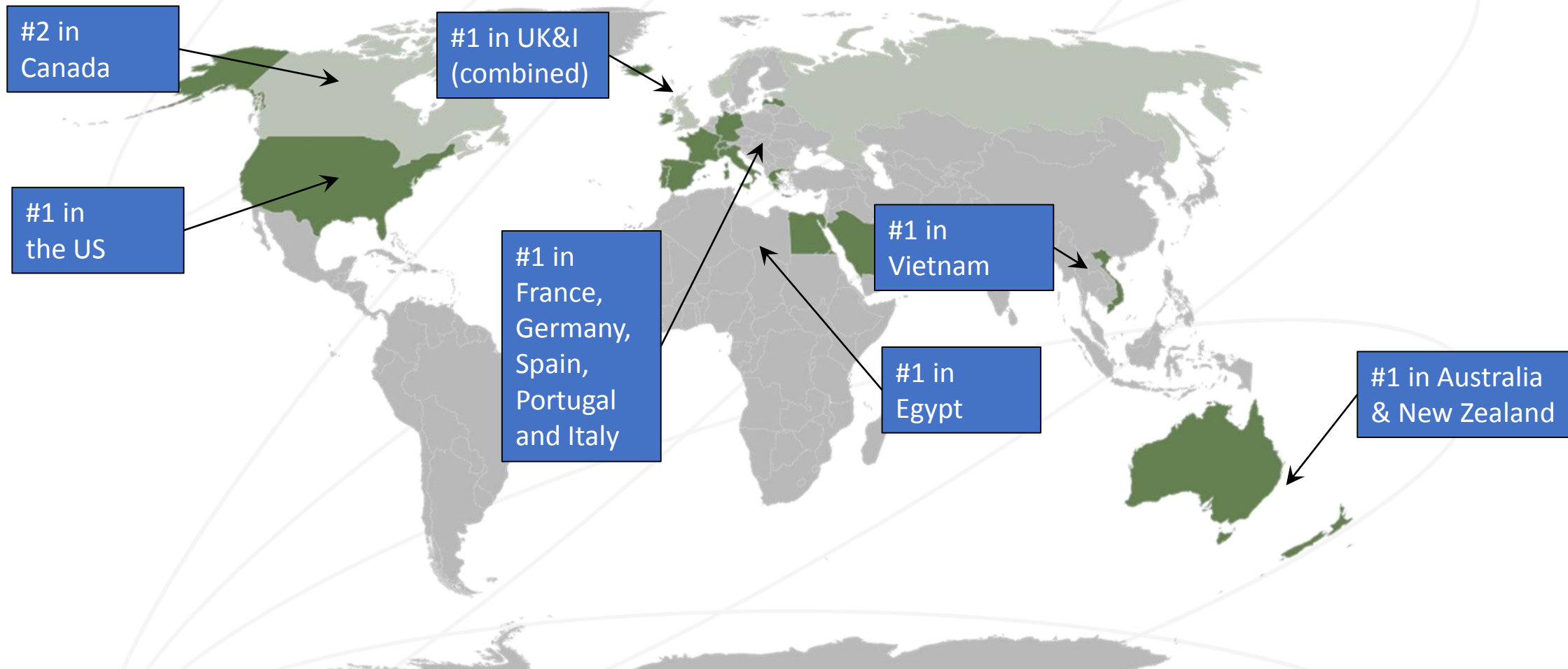
Large Untapped Addressable Market

- 43M classrooms / teaching spaces globally

- 31% market penetration globally

- Significant opportunities in Emerging Markets

- Core markets in US and Europe expected to

  grow at 9% to 27% per year in next 5 years

Global Classroom Penetration of Interactive Displays

0.00%
5.00%
10.00%
20.00%
30.00%
40.00%
50.00%
60.00%
80.00%
100.00%

2023

# NetDragon "Intelligent Classrooms"

- **Why?**
  - Extremely quick, scalable solution to expand classrooms country-wide and leapfrog high quality education to the K12 population

- **What?**
  - Durable, cost-effective, modular structures
  - Supplied "flat-packed" in standard shipping container
  - Rapid local assembly in < 3 days vs. months to build a school
  - Equipped with NetDragon education technologies

- **Status**
  - MOU signed in 2019 to deploy 265,000 Intelligent Classrooms
  - 100 pilot Intelligent Classrooms currently being deployed in Egypt
  - Open opportunities in Egypt, Sudan, Lebanon, Pakistan, Iraq, Uzbekistan
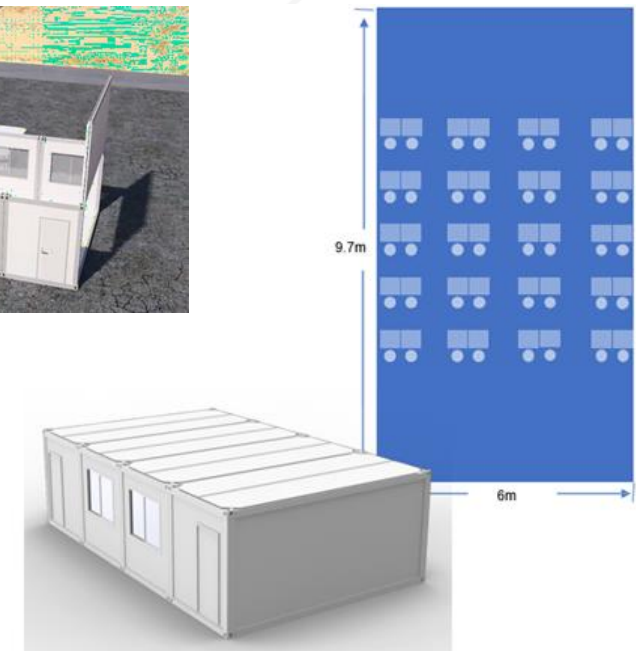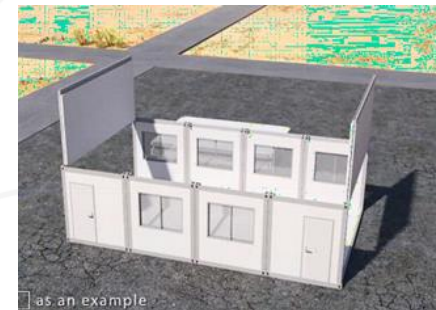
edmodo

Susan Kim

Chief Executive Officer

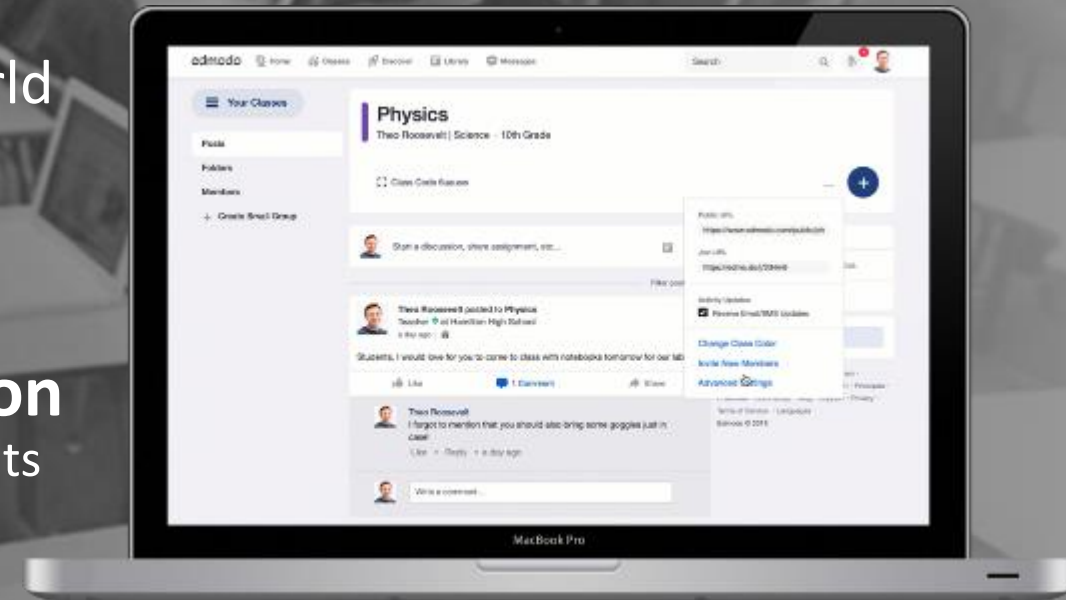# Online Learning Platform Extends Beyond the Classroom

NetDragon

edmodo
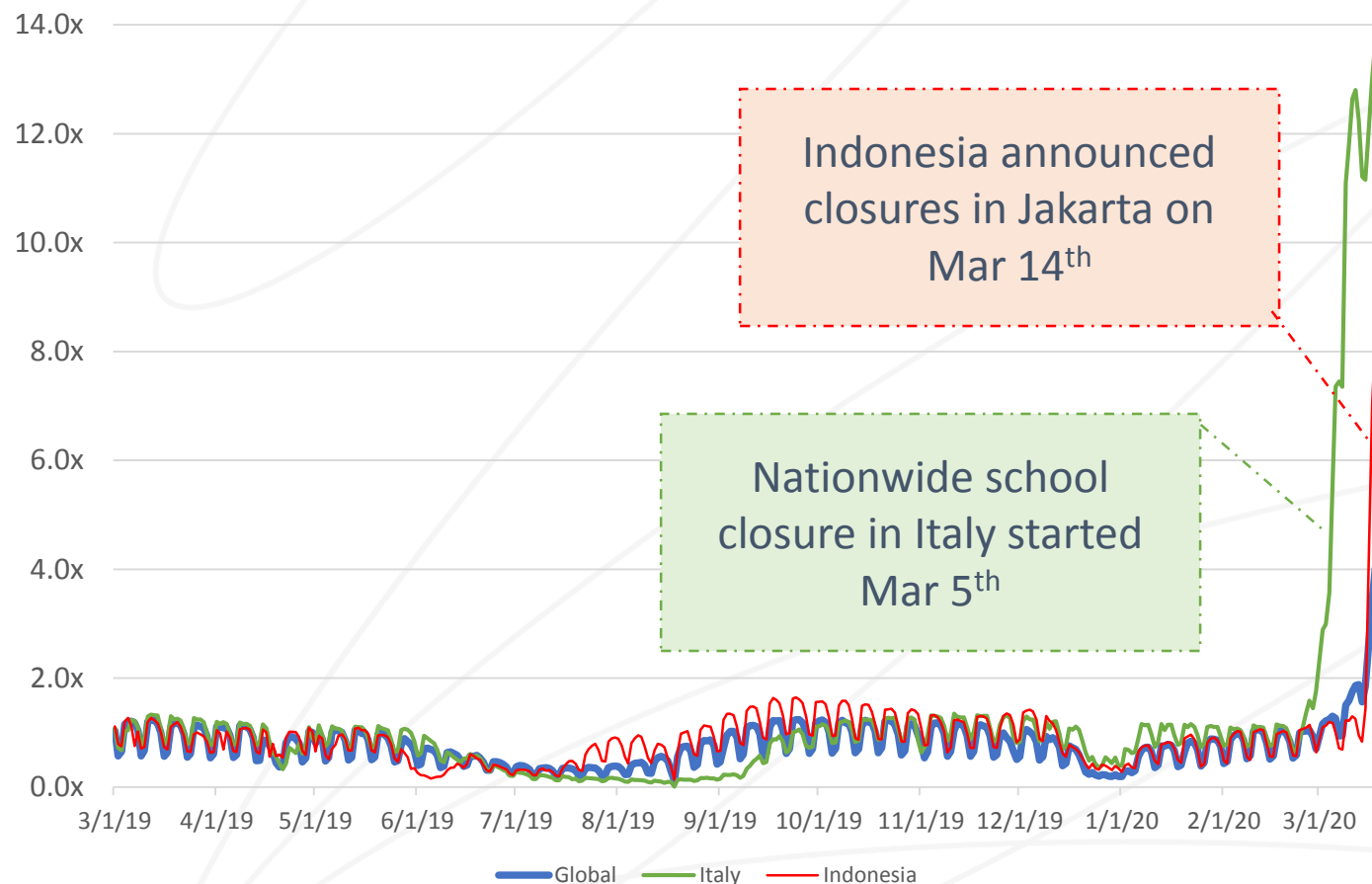
Connecting educators and learners around the world

192
Countries

400 Thousand
Schools

100 Million
Reg. Accounts

Opportunities Created by COVID-19

NetDragon

DAU versus Baseline Level (last 12 months thru Mar-20th)

Indonesia announced closures in Jakarta on Mar 14th

Nationwide school closure in Italy started Mar 5th

— Global — Italy — Indonesia

Italy: 1M+ new users, and DAU is **~14x** the level from prior year

Indonesia: **~9x** increase in traffic and indicative of trends in SE Asia

Globally: DAU approaching **4M**, and continues to rise with more countries facing school closures

UNESCO

Recommended Edmodo for distance learning

Doing Our Part to Work With Governments & School Administrators Amidst the Crisis

Action Steps Taken

- Working with **governments** – eg. Egypt, and more to come

- **Leveraging community** of ambassadors and ECTs to onboard new users

- Partnership with **large telcos** to drive large-scale user adoption (Indonesia, Philippines, Egypt…)

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edmodo

Selected as designated online learning platform for Egypt's K12 system

- Rolling out to **22M** students & 1M+ teachers

- Provide support for distance learning during school suspension, and enhance learning thereafter

"…well positioned to be able to support distance learning, and the **rapid implementation of Edmodo** as the platform, to ensure that teachers, students and parents can collaborate and learn during this period."

- Dr. Tarek Shawki (Minister of Education)
Mar. 19, 2020

Addressing the Needs of the Market
During and Beyond this Current Crisis

NetDragon

Needs of Educators and Students

- **Immediate** solution for online platform to deal with the sudden school disruptions

- **Communications** between administrators, teachers, students/parents

- **Distance learning solutions**, across wide range of bandwidth environments

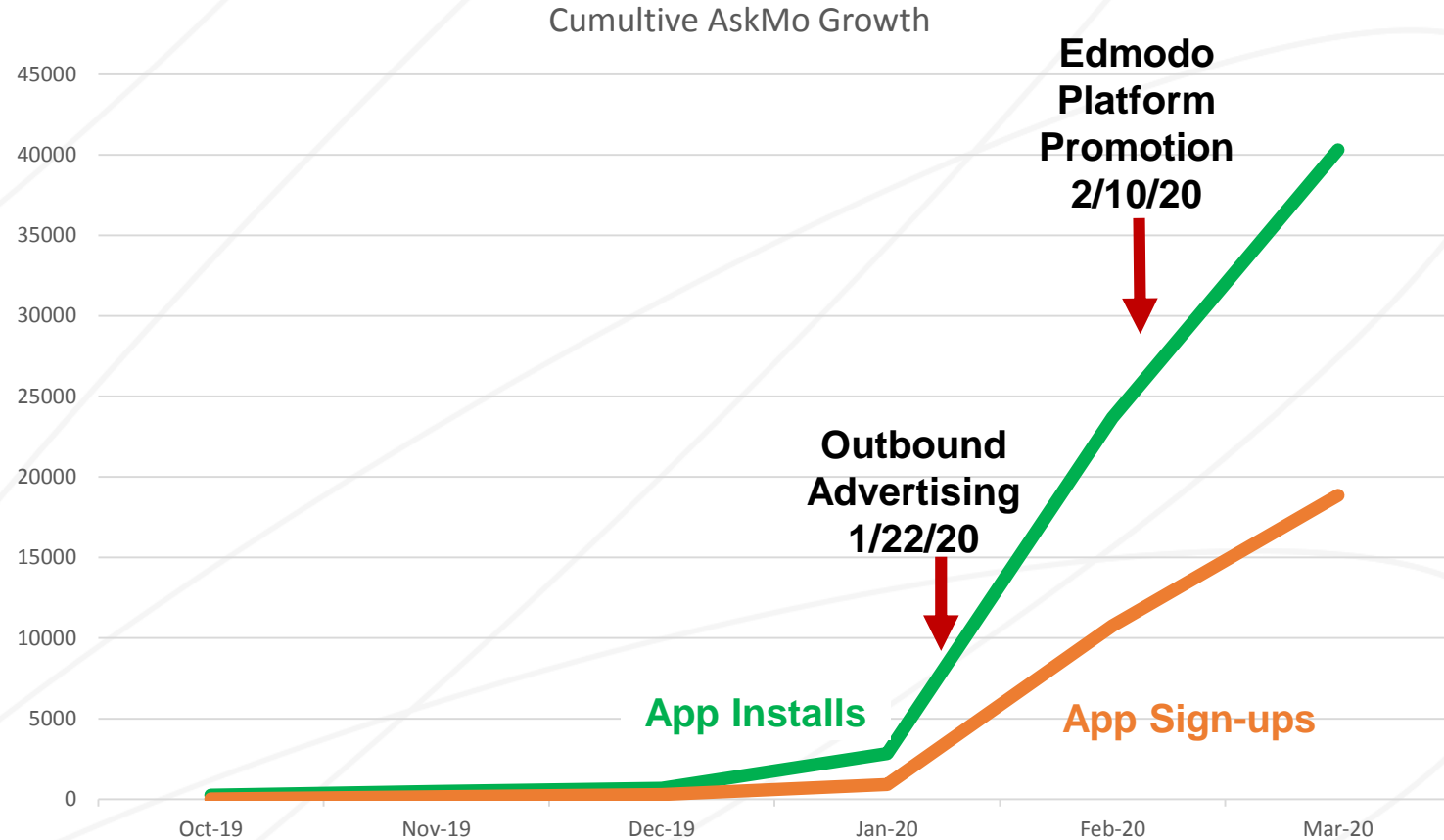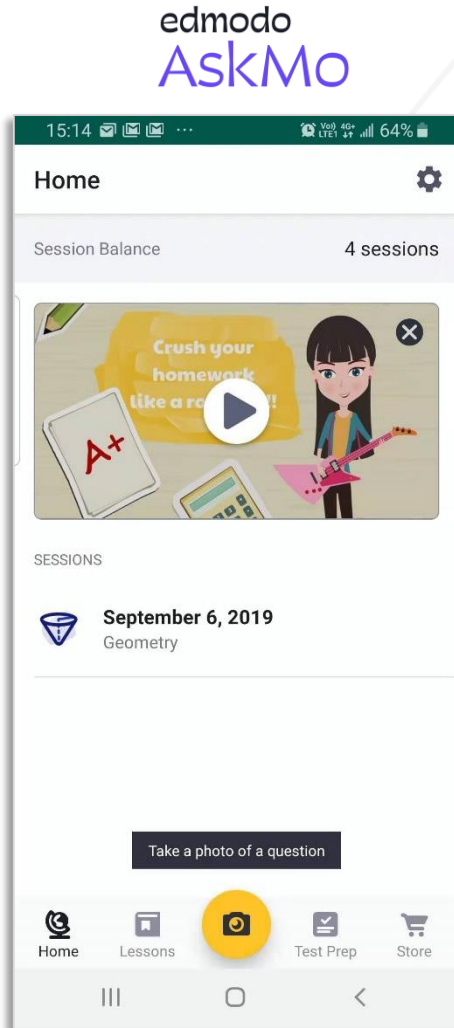- **Online resources** assessible to students learning from home

Our Major Initiatives

- **Streamlined onboarding** & bulk-upload support to governments

- **Enhancements to core classroom management** and messaging tools

- **Virtual (online) classes** with video & virtual whiteboard

- **Online tutoring services & content integration** with partners

Quickly act on high-impact initiatives during this crisis, and lay foundation for sustained growth

Our Initial Tutoring Product off to a Promising Start

Cumultive AskMo Growth

Edmodo
Platform
Promotion
2/10/20

Outbound
Advertising
1/22/20

App Installs

App Sign-ups

40,000 App Installs	**19,000** Accounts Created	**7,800** Completed Sessions
4:09 Min Daily Time on App	**26%** WAU/MAU	**$1.70** Blended CPI

* Data as of Mar 23, 2020

Goals & Areas of Focus for 2020

- **Successful implementation of Egypt & other top-down deployments of Edmodo**
  - Accelerated onboarding and training
  - Integrate with local content library

- **Development and fast-iteration of new product features to address current needs**
  - Virtual (online) classrooms
  - Gamified & social learning to enhance home learning experience

- **Edmodo for Organizations & Governments**
  - Admin reporting and analytics
  - Tools to facilitate training and professional development

- **Continued development of online tutoring product line**
  - Live audio, video + virtual whiteboard

Outlook

Dr. Simon Leung

Group Vice Chairman

2020 Outlook

- **Gaming**

  - **Expecting to continue delivering sustainable growth**

  - **Executing plan to maximize IP value**

  - **Strong Pipeline with 6 New Games Approved with License**

- **Learning**

  - **Continued Growth in Core Markets**

  - **Building on Traction in Emerging Market Tenders**

  - **Executing "Country Strategy"**

  - **Setting up Edmodo for Content Monetization**

  - **Promethean Penetration in China**

 - **Building China User Scale to Critical Mass for Monetization**

2020 Outlook – COVID-19 Impact

Promethean

- Timing impact of new orders post Q1
- Demand is not perishable, expecting strong pickup post-virus
- US$13B out of stimulus package in the US going into education

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edmodo

- Huge increase in traffic as countries deal with school disruption
- Opening for "top-down" deals as governments need solutions
- Expansion of use cases & creating stickiness
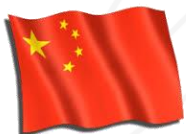
- Surge in traffic – 5M MAU for One Stop Learning, 20x increase
- Creating new use case for 101 Edu PPT with distant teaching
- Accelerating our user acquisition

Q&A

Investor Relations Contact
ir@netdragon.com

NetDragon