



NetDragon Websoft Holdings Limited

Stock Code: 777 HK

2023 Interim Earnings Presentation

August 31, 2023

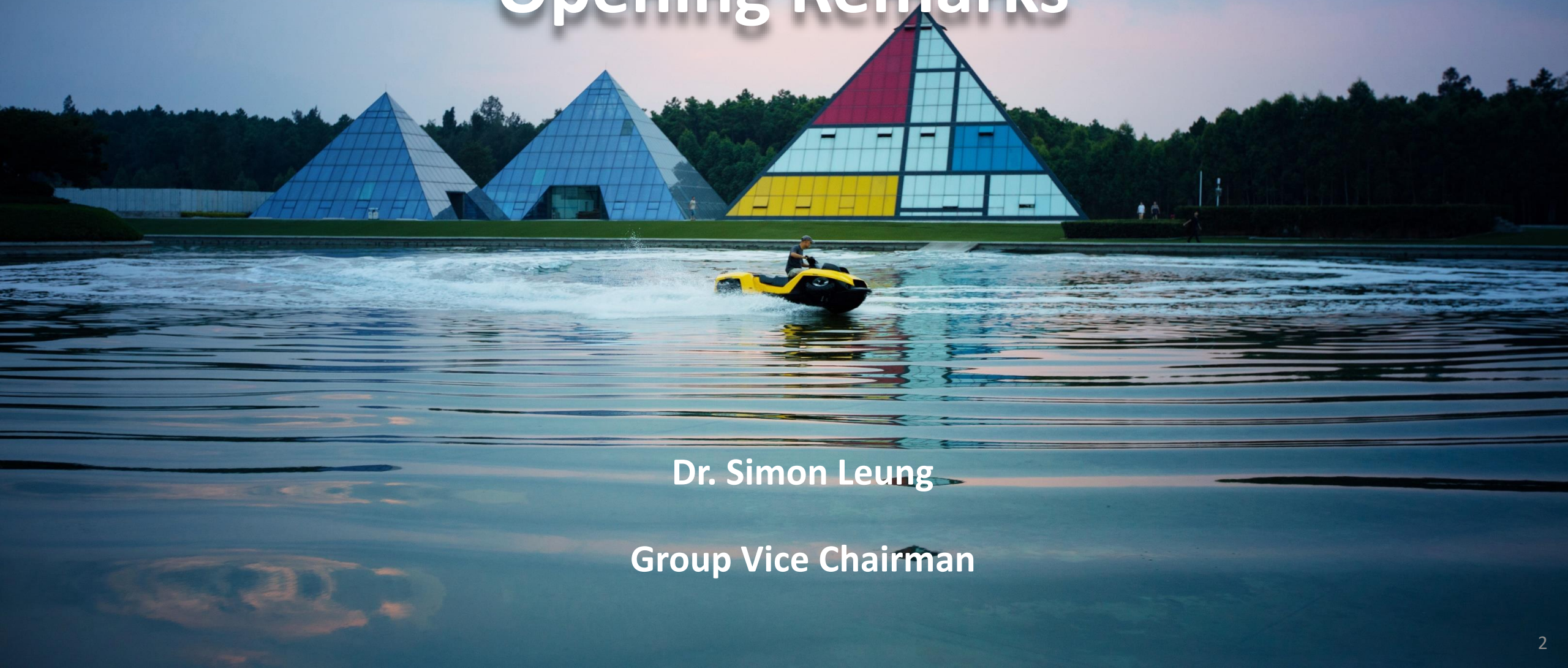
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Opening Remarks



Dr. Simon Leung

Group Vice Chairman

Agenda

Topic	Speaker
1H23 Highlights	Dr. Simon Leung, Group Vice Chairman
1H23 Financials	Ben Yam, Group CFO
Gaming	Lin Chen, Group Senior VP
Education	Dr. Simon Leung, Group Vice Chairman
Outlook	Dr. Simon Leung, Group Vice Chairman
Q&A	

Key Highlights



Education

- Industry entered into a digestion year after the COVID demand surge
- Maintained global market leadership
- Launched ActivPanel LX targeting the value segment, addressing >40% of the market
- Signed merger agreement with Gravitas Education Holdings in April to spinoff our overseas education business in NYSE (deal closing in progress)



Gaming

- Capitalized on gamers' resurgence in spending as China entered post COVID new era
- Achieved revenue growth of 8% YoY, 16% HoH
- Remained focus on executing our multi-pronged strategy:
 - ✓ Driving consistent revenue growth of our existing games
 - ✓ Investing in R&D to expand pipeline
 - ✓ Adopting innovative technologies

Financial Highlights

Ben Yam

Group CFO

Key Financial Highlights

(RMB million)	1H23	1H22	YoY
Revenue	3,681	4,240	-13.2%
Gaming	1,920	1,776	+8.1%
Education	1,720	2,410	-28.6%
Gross Profit	2,287	2,323	-1.5%
Selling & Marketing Expenses	443	442	+0.2%
as % of Revenue	12.0%	10.4%	+1.6 ppts
Administrative Expenses	570	464	+22.8%
as % of Revenue	15.5%	10.9%	+4.6 ppts
R&D Expenses	641	586	+9.4%
as % of Revenue	17.4%	13.8%	+3.6 ppts
EBITDA	916	878	+4.3%
Operating Profit	699	745	-6.1%
Profit Attributable to Owners of the Company	500	565	-11.5%
Operating Cash Flow	457	480	-4.8%
Cash and Bank Balance	4,173	3,903	+6.9%

Segmental Financial Highlights

(RMB million)	Education			Gaming		
	1H23	1H22	YoY	1H23	1H22	YoY
Revenue	1,720	2,410	-28.6%	1,920	1,776	+8.1%
Gross profit	419	610	-31.3%	1,858	1,699	+9.4%
Gross profit margin (%)	24.4%	25.3%	-1.0 pts	96.8%	95.7%	+1.1 pts
Core segmental profit (loss)	(249)	(36)	-591.7%	1,094	1,006	+8.7%
Segmental operating expenses						
- Research and Development	(225)	(226)	-0.4%	(411)	(353)	+16.4%
- Selling and Marketing	(238)	(252)	-5.6%	(187)	(188)	-0.5%
- Administrative	(192)	(177)	+8.5%	(156)	(152)	+2.6%

Education

- **Gross margin** dropped by 1.0 pts YoY, but went up on a HoH basis with 3.7 pts increase vs 2H 2022
- **Core segmental loss** increased due to lower revenue and gross profits, while our business overhead was largely flat (total segmental operating expense increased by 0.1% YoY)

Gaming

- **Revenue** increased by 8.1% YoY, driven by various in-game events, content updates and innovative game-play
- **Core segmental profit** increased by 8.7% YoY due to higher gross profits from revenue increase, and higher gross margin % attributed to optimized management of our server costs



Gaming

LIN Chen

Group Senior Vice President

Gaming business back on growth trajectory

+8.1%

YoY ↑

Total Revenue

Overall growth exceeding industry average growth*

+4.0%

YoY ↑

Overseas Revenue

Maintained stable growth of our existing games

+8.9%

YoY ↑

Domestic Revenue

Recovery of gamers' spending post-Covid helped drive domestic revenue growth

+24.5%

YoY ↑

ARPPU

Higher ARPPU due to enhancement of content quality, frequent updates & innovative gameplay to spur spending

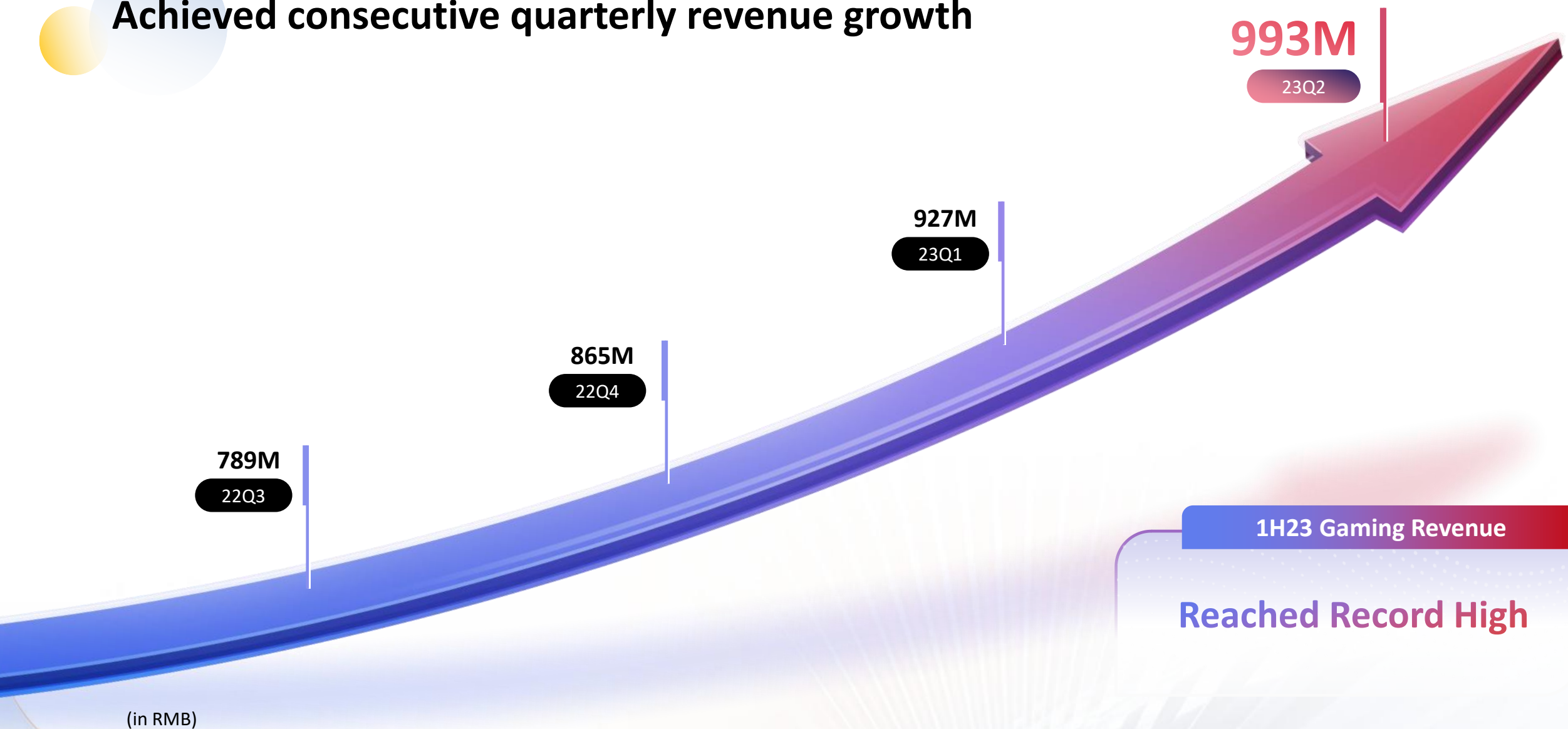
-7.7%

YoY ↓

DAU

Put in place anti-hacks measures to clean up unauthentic accounts, optimizing the balance of the gaming ecosystem for sustainable growth

Achieved consecutive quarterly revenue growth



Balanced growth across all platforms

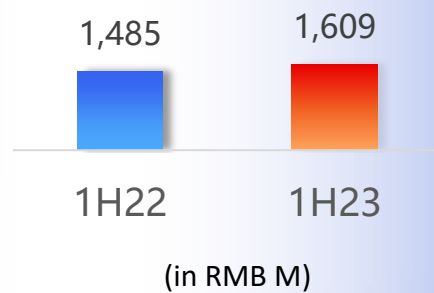
Revenue Growth

+8.3% YoY

PC/Cross-Platform

~84% of total

Significant users returning via cross-platform version of *Eudemons Online*, boosting growth domestically and in overseas market



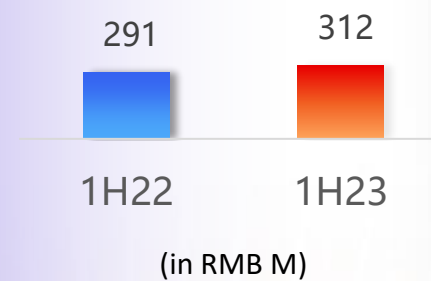
Revenue Growth

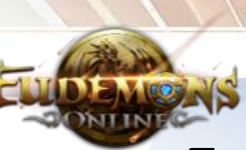
+7.3% YoY

Mobile

~16% of total

Continuous optimization of user acquisition mechanism drove higher retention rate; DAU of the self-published *Eudemons Pocket Version* also up significantly YoY





Eudemons IP: Committed to driving growth with continuous innovation

1

PC revenue up 10.4% YoY and 22.0% HoH

Deepening our efforts in gameplay innovation and content enhancement

2

APA* of Cross-Platform Version up 15.8% HoH

Driving returning users; APA accounting for nearly 20% of total

3

Total APA of the IP up 12.0% HoH

Paying users bounced back sequentially along with players' activities (MAU also up 5.3% HoH)

4

Mobile revenue up 9.5% YoY and 10.8% HoH

Continuing to optimize our self-publishing strategy to drive retention and spending growth

5

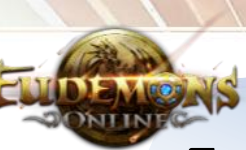
Launched 4 expansion packs

Maintaining robust, high quality content update via R&D and AIGC adoption

6

Launch of Eudemons Mobile II in March

Also initiated development work for overseas version



Eudemons IP: Focus on user experience via multi-pronged strategy

1 High Quality Content

Increasing the depth of content

2 User Retention and Re-engagement

Optimizing returned users' experiences

3 IP Creation

Extension from IP crossover to IP creation

4 Optimized Branding + Marketing

Emphasis on Douyin, live streaming, eSports channels, etc.

Alice's Adventures
Themed Eudemons



Yartland Noble



Gloria Gear
Expansion



Cross-Server Family War
Miss EO 2023



Chinese Culture Carnival
In R&D



Spring Festival Edition
In R&D



Jan

Mar

May

Jun

Jul

Aug

Sep

Oct

Nov

Dec



Thor Series
Anniversary



Divine Eudemon
Qiongqi



Spirit Eudemon
Taibai



All-Round Eudemon
Wang Zhaojun
In R&D



Divine Fire Iterative Expansion
Enhanced Mage
In R&D

Building on our successful business model

全新神兽 少昊穷奇

- ◆ Continued to elevate the art, lore and gameplay for Eudemons
- ◆ Leading to increasing penetration and ASP for Eudemons
- ◆ In-game purchase of Eudemons reached over 50% of “character development” revenue



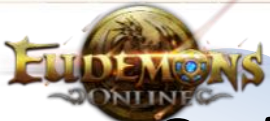


Enhancing content depth and experiences

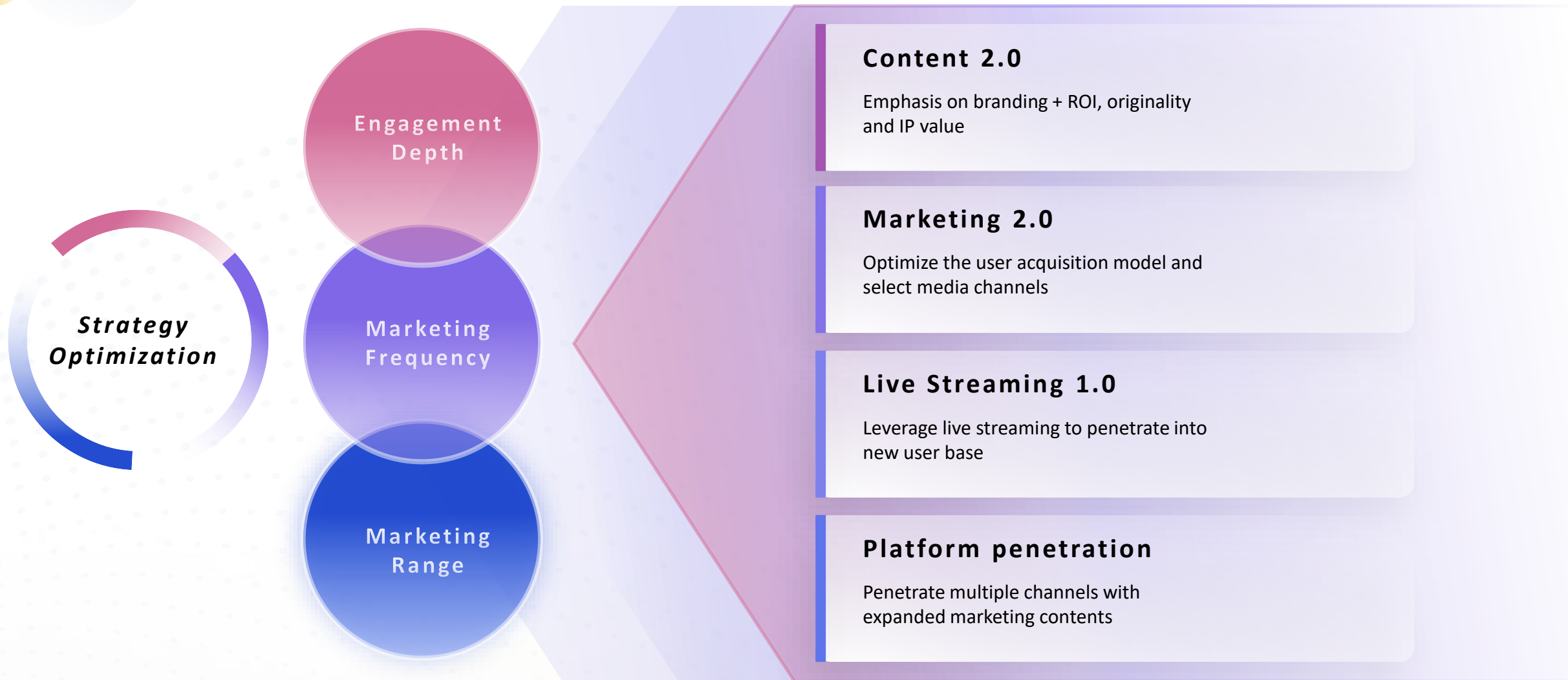
爱丽丝游卡城

1月10日奔赴兔年兽梦境盛宴

- ◆ Our CNY eudemons (Eudemons: Year of Rabbit) launched during Chinese New Year in 1H came with significant enhancements in quality and depth in terms of artistry, plot and quest
 - ◆ Average spending up 10% in PC version
 - ◆ Revenue up 17%, take rate up 12% in Mobile version



Optimizing user acquisition to drive mobile growth





Driving growth with IP crossover

Highlights

IP crossover with famous ACGN title to attract “next-gen” users and boost revenue growth

Gross billings for Heroes Evolved IP increased significantly due to IP crossover promotions and events

Gross billings

+18% YOY

Future Plan:

- Balancing gameplay, enhancing user experience
- Rolling out events to attract new users and re-engage with old users through targeted content creation and marketing
- R&D in progress for *Heroes Evolved: Lite* and *Heroes Evolved 2.0*



Exploring into new frontier

1 Revenue down 12.3% YoY due to forex reason

- Egyptian pounds (vs. USD) reduced by 45%* in 1H YoY (Egypt is our largest market for Conquer IP)
- Achieved 45% YoY revenue growth in Egypt on basis of Egyptian Pound

2 Exploring new opportunities

- Integrating new casual gameplay in Conquer Online
- Continued to penetrate into new markets

3 Expanding IP influence with new game

- Building on successful casual gameplay to extend into casual board game genre
- Expecting to launch *Code - Alpha* in 1H24, leveraging massive players' base of Conquer IP



* EGP/USD dropped from 0.058 in 1H22 to 0.032 in 1H23 (-45%), whilst EGP/CNY dropped from 0.38 in 1H22 to 0.24 in 1H23 (-37%)

Integrating AIGC - Art Production

We have made solid progress in utilizing AIGC in our art production process, leveraging years of art experience and resources to train tailored AI models to address diverse project needs, spanning various aspects including character concept art, environment concept art, UI, etc. In particular, we have achieved >30% efficiency improvement in character concept art production with AIGC.



Integrating AIGC - Smart NPC



1

Visualization

Transitioning from logging NPC decisions/actions to a visualized RPG Maker

2

Integrating Memory System

Utilizing NPC's memories to shape NPC's personalities, which in turn influence their decisions.

3

Group Evolution

Conducting group evolution tests, where multiple NPCs coexist and evolved within an environment through unordered interactions

4

Decision Model Iteration

Utilizing a smaller AI model approach to iterate the NPC decision model

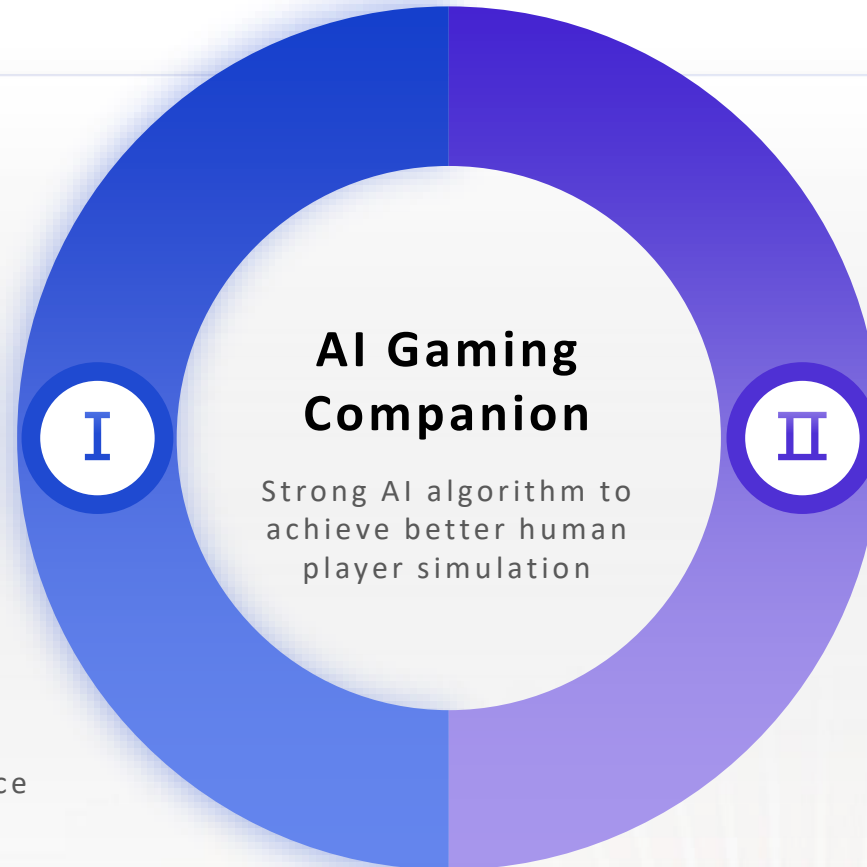
Integrating AIGC - AI Gaming Companion

Guidance mode

Help players onboard and progress

for casual players

- Less decision pressure
- Enable players to focus on interaction / feedback
- Enhanced gaming experience



Combat mode

Assist players to achieve higher levels via advanced practices

for hardcore players

- More challenging opponents
- More in-game features
- Higher gaming objectives and competition goals

Create **high quality in-game battles** by integrating AI, enhancing gaming experiences for different levels of users

Pipeline



Eudemons Remake Version

(MMO PC Game)

Estimated Launch: 24H1

Eudemons Mobile II:

Overseas Version

(MMO Mobile Game)

Estimated Launch: 24H2

New Eudemons PC

(MMO PC Game)

Estimated Launch: 25H1

Eudemons Pocket Version 2.0

(MMO Mobile Game)

Estimated Launch: 25H1



Heroes Evolved Pocket:

Sci-Fi Version

(MOBA Mobile Game)

Estimated Launch: 24H1

Heroes Evolved: Lite Version

(MOBA Mobile Game)

Estimated Launch: 24H2

Heroes Evolved 2.0

(MOBA Mobile Game)

Estimated Launch: 25H2



Code - Alpha (Overseas Casual)

(Casual Board Mobile Game)

Estimated Launch: 24H1

New IPs

Under Oath Overseas Version

(ACGN Mobile Game)

Estimated Launch: 24H1

Code - DPS

(Idle Card RPG Game)

Estimated Launch: 24H1

Code – Dragon

(MMO Mobile Game)

Estimated Launch: 24H2



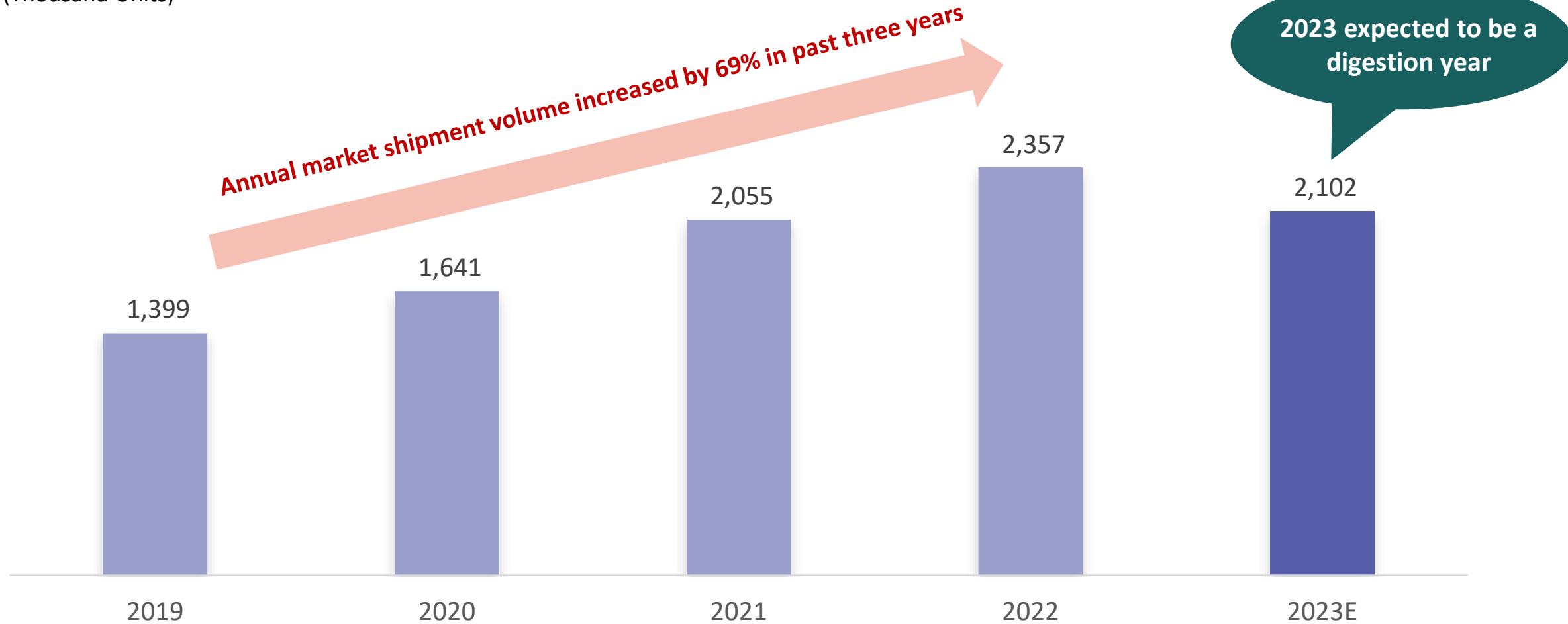
Education

Dr. Simon Leung

Group Vice Chairman

IFPD* global market experienced a COVID-driven demand spike in the past 3 years

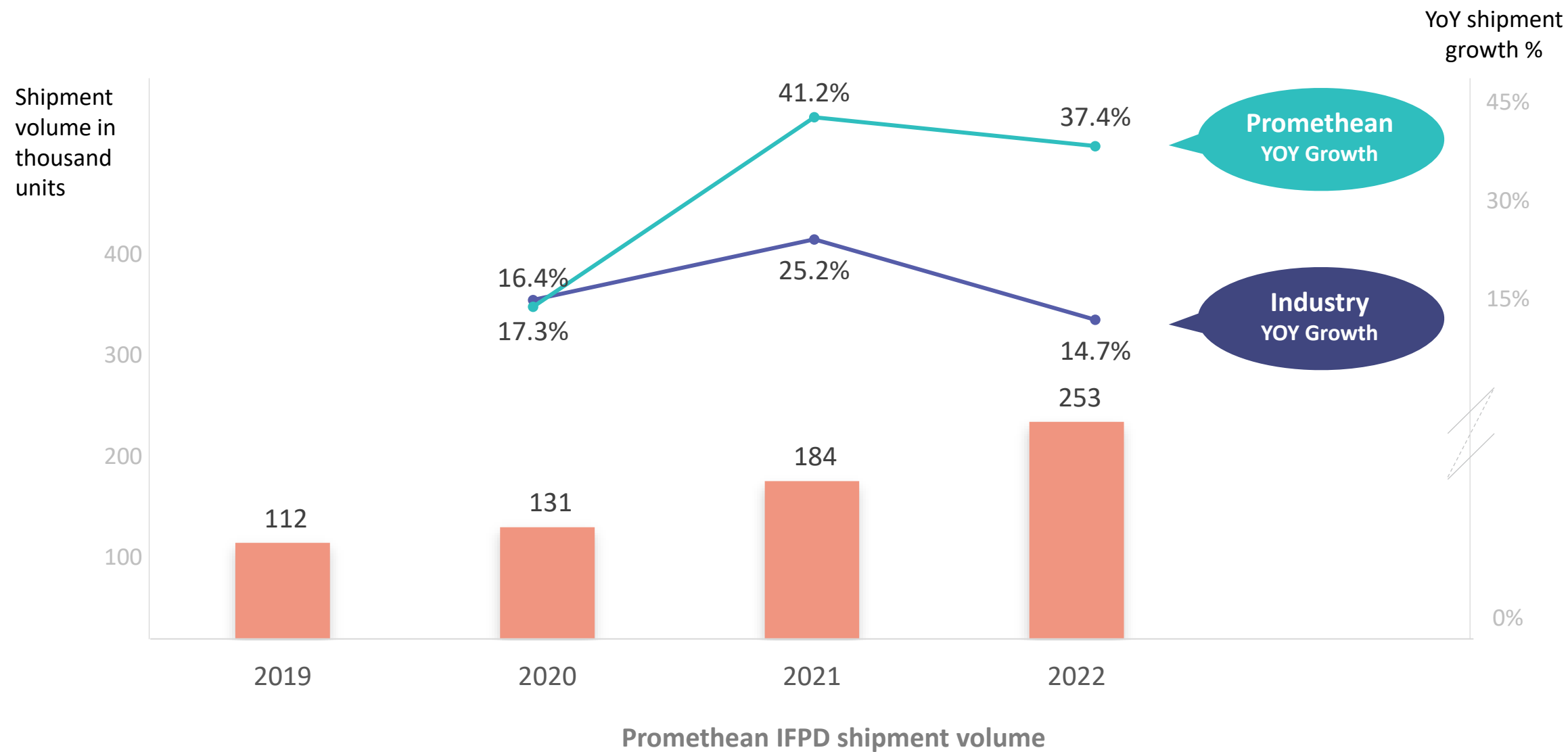
(Thousand Units)



* IFPD stands for Interactive Flat Panel Devices (IFPD represents 89% of our education revenue in 1H 2023)

Source: Futuresource Consulting <Q1 2023 World Interactive Display Report>, Apr 2023 (Global IFPD shipment volume in education sector)

Promethean growth has significantly exceeded market growth during the pandemic



1H revenue decreased along with the broader market, but our operating metrics remained strong

Revenue¹

Market Share²

Higher ASP³ of AP9

Gross Margin ex. tariff⁴

1H23 vs. 1H22:

↓ **29%** YoY

#1

12.9% higher

vs.

ASP of AP7 pre-AP9 launch in 2022**

+2.5 ppts HoH

1H22 vs. 1H21:

↑ **71%** YoY

to 28.4% in 1H23

¹ Overall education revenue including Promethean and other subsidiaries

² Market share in global ex. China K12 IFPD market in 1H23, according to the Futuresource Consulting <Q2 2023 World Interactive Displays Report> (data pack), Aug 2023

³ Gross ASP (without accounting for rebate) of AP9 (ActivPanel 9) in 1H 2023 in comparison with the previous model AP7 (ActivPanel 7) in 1H 2022 (AP9 was launched in late June 2022), denominated in USD

⁴ Gross margin for Promethean only, denominated in USD

Launched the all new ActivPanel LX panel to expand our offerings to the value segment



Ease of use for teachers

Simple set up with little to no training required, lowering the barrier of ownership

Maximum flexibility for schools

Designed to fit with a school's preferred ecosystem, hence providing flexibility as school's edtech needs change

Targeting low to mid end segment

Priced at significantly lower ASP compared to ActivPanel 9

Launched the all new ActivPanel LX panel to expand our offerings to the value segment

2Q23

Product launched; Shipment started in June in the U.S. (our largest market)

8%

% of 1H panel volume represented by LX, while we built strong traction into 2H

>40%

Estimated % of global ex. China front-of-class interactive display addressable market (untapped by Promethean in the past prior to LX launch)

>5M

units of installed base* globally with the old IWB (Interactive Whiteboard) technology to be replaced by IFP in next several years

1.7M

units of installed base of Promethean displays globally including a significant share using IWB**

>40%

% of our LX sales pipeline in the U.S. with new customer accounts, demonstrating ability to penetrate into a new customer category***

* According to the Futuresource Consulting <Q1 2023 World Interactive Display Report>, Apr 2023 (Global classrooms with IWB installed)

** Based on company estimates according to historical shipment records

*** Based on company estimates as of mid-August 2023

Our path to achieve recurring software revenue with AI-enabled tools



Targeting to roll out our first integrated software subscription plan by end of this year



Leveraging the Explain Everything platform (acquired in 2022) as the launch pad



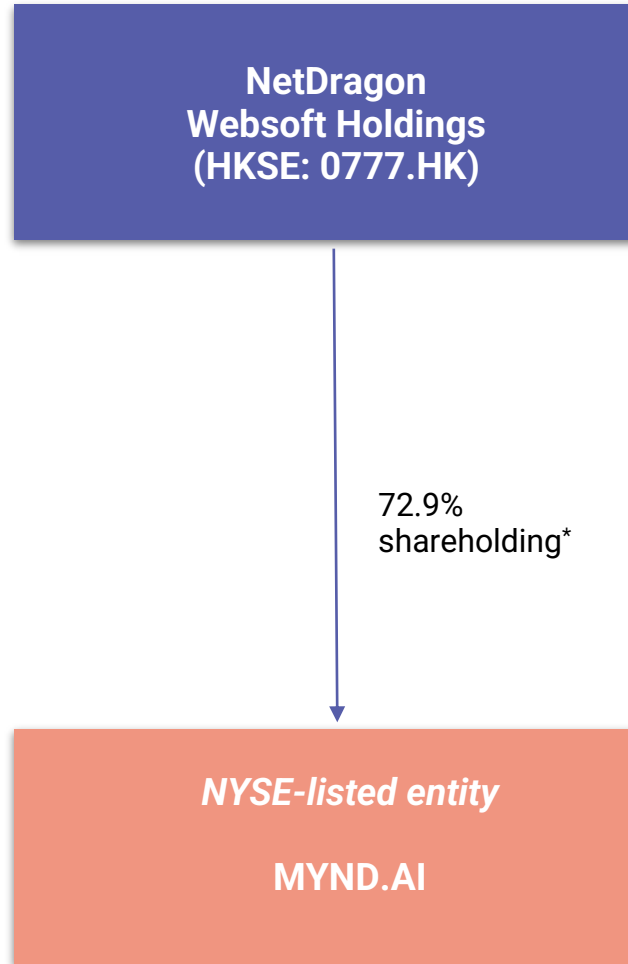
Use cases aimed at saving time and effort for teachers



Doing work on a customizable education LLM with panel integration

Signed merger agreement in April to spinoff overseas biz for NYSE listing in Q3

At Completion (Q3 expected)



Transaction Overview

NetDragon will merge its core overseas education business ("NetDragon Education Business") with Gravitas Education Holdings (NYSE: GEHI) at a valuation of US\$750 million for the NetDragon Education Business and US\$800 million for the merged entity.

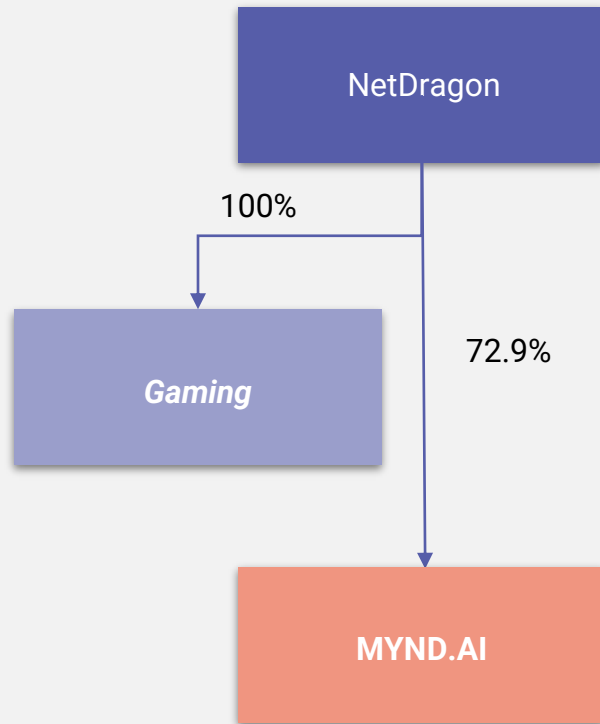
The merged entity will be renamed to MYND.AI at closing of the transaction to reflect the new brand and the direction of the company to pursue the transformation of education with AI.

Expected closing of the transaction is Q3 2023.

The NYSE listing will achieve multiple strategic objectives



Unlock Shareholder Value



Fundraising Platform

PIPE from Strategic Investors

Public registered offering



Ensure Sustainable Growth

- ✓ Independent board to enforce governance and ensure regulatory compliance in the U.S. / globally
- ✓ Provide the necessary strategic / operating flexibility to achieve sustainable growth

A circular view from a space station window looking out at a blue sky with white clouds and a modern building below. The view is framed by a dark, metallic circular structure with various bolts and components. The sky is a vibrant blue with wispy white clouds. Below the horizon, a modern building with a curved, glass-enclosed upper section and a white structural base is visible. The building is supported by several white pillars. The overall scene is a high-angle, wide-angle shot from space.

Outlook

Dr. Simon Leung

Group Vice Chairman



Gaming

- ◆ On track to achieve solid revenue growth for the full year
- ◆ Continue to drive growth of existing flagship games
- ◆ Expected to conduct testing in the 2H for *Under Oath* (Japan version) and *Code - DPS*
- ◆ In preparation of submitting “Banhao” gaming licenses in the 2H for *Eudemons Remake Version* and *Code - DPS*



Education

- ◆ Complete the spinoff of our overseas education business as NYSE-listed MYND.AI
- ◆ Penetrate the massive low-to-mid end of the IFPD market with our new LX product
- ◆ Launch our first integrated software subscription offering by end of the year to initiate recurring revenue
- ◆ Implement cost rationalization for our China education business



Q&A



Investor Relations Email: ir@netdragon.com