

NetDragon (0777.HK) 2023 Annual Earnings Presentation

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NetDragon's Management Team

Dr. Simon Leung, Group Vice Chairman and Executive Director

Mr. Ben Yam, Group CFO

Mr. Lin Chen, Group Senior Vice President

Moderator:

Dear friends and investors, good morning. Thank you for joining us for the NetDragon Websoft Holdings Limited 2023 Annual Results Presentation.

Our presentation materials are currently available under the Webcast - News and Event tab on the NetDragon IR website: ir.netdragon.com

Before the start of our presentation, please allow me to introduce the management who are joining us today.

Dr. Simon Leung, Group Vice Chairman and Executive Director.

Mr. Ben Yam, our Group CFO.

Mr. Lin Chen, Group Senior VP.

Now let's pass our time to Dr. Simon Leung to host our presentation today.

Simon:

Thank you. Thank you. Hello, everyone. Good morning. Are you kind of awake?

Actually this is a real test. I have a microphone on one hand and this on the other hand, but I'm gonna put it down.

It seems it's been like, what, how many years that we can't get together face to face, like it's been four years. It's kind of refreshing to be here with you physically and also some online.

It is a very interesting year for us because actually we did quite a bit last year. One of the big things I'm going to talk about is actually we spun off one of our subsidiaries, which is the overseas business of education.

That makes this earnings announcement will be interesting because it's actually their company is now under the jurisdiction of New York Stock Exchange, which is in the U.S. which has a different board. I happened to be the Chairman of that, but it's a really different composition. In terms of the Board, it got its own team, actually, and its own CFO.

What we can do is when we talk about the education business, we can only do directional comments because it's actually, the company is actually on its own with its own board.

We are doing alone right now. I think we just filed our... yesterday has been... We would be doing a lot of filings. Board Meeting will be coming up for that company. I'll give you a post.

By the way, if you want to get to know a lot more about their business, what we can do is to arrange a different session with you with the management team of Mynd.ai, so we can go into all the details.

Without further to do, I'm gonna go ahead and maybe I'll use this. You know what we look like, you know the agenda.

It's actually a good year for us last year. A lot happened, like I said before. I'm not gonna steal Lin Chen's thunder too much. Exactly, if you look at our gaming business, our revenue is up, it's above average, and is actually over the market growth rate, which is good.

One of the things Ben keeps reminding me so that I can remind you, our gaming business has been growing nine out of the last ten years. Frankly, I wish it would be ten out of a ten, but nine is actually not too bad.

One of the things we do, again, Lin Chen is gonna go through in detail, is actually how we focus to drive our business, which is on the content side, quality content, which attract a lot of people.

We also start embracing the AI technology. I don't think we can, not talk about AI in everything we do, everything talk about AI. We started embracing it. It's at early stage, but I think we can share some insights on what we have done and what we can do going forward.

Of course we're gonna step up our investments. If you look at our numbers, we've been hiring a lot of

people. We've been stepping up. We are very excited about the gaming business.

I did talk about our overseas education business. Let me be very specific. A big part of it is actually Promethean, which some of you are probably quite familiar with. We spun it off. It is actually on the New York Stock Exchange right now, under the ticket of MYND. And the new company is called Mynd.ai. I want to remind you, MYND happens to be sound like “my NetDragon”. Actually I like that ticker quite a bit.

There's a lot of changes in the market. Both on an economic standpoint, I mean Europe is actually under a lot of stress and the U.S. is actually the market that's being rationalized because of a lot of funding in with CAREs act, actually that money has been spent. So now we're back to the normal growth in terms of the education business. We will talk directionally about it later on.

And then, one of the things we have done and will continue to do is to look at acquisition opportunities. One of the companies we acquired is called Explain Everything. It's for collaboration. It's a very interesting company. Actually, a lot of people are based in Poland. They are very good people. We love that product. So we start to integrate it with the panel when you collaborate. So you have a seamless kind of user experience.

With that, I'm going to turn it over to Ben. He's going to take you through the financials and with bridges and a lot of stuffs, because a lot happened when we spun off the company.

Ben:

Thank you, Simon. Good morning. Great to see everyone.

I'm gonna go through the financials of the company.

First, I'll start with the P&L. As Simon mentioned, 2023 is a very interesting year. On the one hand, our gaming business came back with a very healthy growth rate. On the other hand, our overseas education business in Mynd.ai went through a normalization of the market.

We see a lot of opportunities during this normalization. As this market came back to normal, we see a lot of opportunities.

But in the meantime, in 2023, we see, because of the digestion of the demand - that led to a decrease in the education revenue. As a result, the overall revenue went down by 9.7%.

If we look at the gross profit line, despite the decrease in revenue, our gross profit actually increased by 1.9%. If you look at the gross margin, or the integrated or combined gross margin is 62%, that's actually above the Bloomberg consensus estimate.

If we continue to go down the P&L, we look at sales and marketing expense, it went down by 14.6% as we optimize our sales and promotion, both in the gaming unit and also in the education unit.

In terms of the administrative expenses, you guys will see a 23 % increase YoY. But I would like to highlight that a lot of that is due to the one-time expense related to the listing of the overseas education business.

Specifically, we're talking about roughly (RMB) 250 million one-time expenses related to the listing, that includes items such as stock award and some of the other one-time items. If you exclude this (RMB) 250 million, if you take that out of the picture, the normalized or adjusted sort of administrative expense would have increased by only 4%.

And then on the R&D expense, it also increased by 12.9%. That is - a lot of it is really because of our gaming, because we hired more people. And I'll get into that in the next slide.

Going down the list, if we look at EBITDA and operating cash flow, which actually, I believe, are actually more sort of a fair approach to kind of look at our operational capability. If you look at EBITDA, our EBITDA went down by 8.7%, and is (RMB) 1.3 billion and that's actually also above the consensus estimate.

Look at operating cash flow it actually increased by 4%, because we optimize and carry out effective working capital management both in the gaming and education business.

And then if you look at the bottom line, we look at operating profit and the net profit, right, so operating profit was (RMB) 821 million. I think, in terms of these two numbers, there's a substantial GAAP charge that is included in the operating profit and also in net profit. And that's roughly about (RMB) 250 million that I just talked about. If you exclude that (RMB) 250 million GAAP charge, which is related to the spin-off of the business, we're talking about, instead of a 28% decrease and a 34% decrease, we're talking about a 4% decrease for the net profit and a 6.9% decrease for the operating profit year over year.

I just want to kind of highlight that so that you guys will understand sort of the adjusted nature of these two numbers.

Also, there is one thing that's also not highlighted here is the cash position. We continue to have a

very strong cash position with roughly about (RMB) 2.9 billion of cash and cash equivalents, and also bank deposits. So we believe that we have a very strong cash position to drive our business.

Onto the segmental financial highlights. First of all, I think first thing first, you know starting in this period, we decided to change our segmental presentation to show two segments.

In the past, we've always shown gaming segment and education segment. But with the listing of our overseas education business in Mynd.ai, we believe that it makes sense to change presentation to gaming and application services and Mynd.ai, so that you guys will see a clearer picture of where we are. We also put some of the incubational business within the gaming and application services. I think that will present a much easier picture for you guys to understand.

First of all, with the gaming and application services segment, you can see we increased our revenue by 6.6%. Gross profit margin increased by 2.6 ppts. As we optimized the usage of our servers - we used less servers to generate more revenue effectively. And that led to a 2.6 ppts increase in the margin. And then, our core segmental profit also increased by 12.9%.

And going down the list, R&D for gaming increased by 16.4%. That's largely due to the hiring of people to develop basically more new games with higher quality.

Sales and marketing expense decreased by 9.9% despite the increase in gaming revenue. And that's because we decided that we need to optimize our sales and promotion expense and basically invest in marketing promotion programs that generate the greatest return.

Moving on to the Mynd.ai side, as Simon mentioned and I mentioned, 2023 is a year of normalization. The whole industry came down in terms of shipment, because there was an extraordinary amount of government funding all over the world during the two or three years of Covid period. 2023 was a year where the demand was digested, and the market returned to normal. But we believe that this actually works well to our strength, because as the market normalizes, people will return to emphasis on quality. As the market leader, we believe that we are in the best position to capitalize on that.

If you look at the gross margin percentage, it increased by 1.3 ppts, despite the decrease in revenue. As we optimized our cost management, that percentage increase is due to a combination of decrease in material cost, decrease in the freight cost, and also, there's a bit of exchange rate fluctuations in there.

If you look at ex. tariff basis because we disclose ex. tariff basis in the past, there will be another 1.7% on top of that. So our gross profit margin actually increases both on an absolute basis and also on an

ex. tariff basis.

On the core segmental side, we had a loss of (RMB) 93 million compared to a profit of (RMB) 30 million. And that is largely due to decrease in revenue, because of the normalization of the market, as I mentioned, and offset by the savings in the opex.

As you can see, for Mynd.ai, R&D, sales and marketing expense went down significantly, especially sales and marketing expense, as we optimize our team to be more well-prepared for the future. And then administrative expense also increased by only 1.5%.

All right, that's the end of my session. With that, I will pass the stage to Lin Chen to go through the gaming business.

Lin Chen: (Translation)

Thank you, Ben.

Good morning, everyone. I'm Lin Chen. I'm very honored to present the performance of our gaming business in 2023.

Our gaming segment has grown by 3.9x over the past 10 years, with only a temporary dip in 2022 due to Covid. This underscores our long-standing growth trend. Our strategic investments in gaming have consistently yielded stable returns.

Over the past decade, we have consistently made bold investments in our IPs, infrastructure, and technologies. In today's gaming market, to maintain consistent growth you must capitalize on market opportunities and develop technological competitiveness.

We've just presented the revenue growth for the entire gaming business. On top of the 9.6% YoY increase in total revenue, we have seen solid growth in both domestic and overseas markets, as well as in the PC and mobile sectors. This is not an easy feat.

In the domestic market, our continued investment in IPs, combined with the improving domestic economy and the easing of pandemic control, has led to favorable conditions on the PC end. We have experienced a large boost in revenue due to the recovery in user spending.

PC end is our primary focus. In the current market environment, PC end offers significant opportunity. We don't subscribe to the notion that only the mobile end offers opportunities, we believe that both

PC and mobile are essential areas in which we must excel.

This expansion is driven by our continual investment in our IPs, which has proven to be incredibly effective. Our confidence in the *Eudemons* IP is more than just a statement made at this meeting. We have been holding onto it for the past three to four years, backed by continuing investment.

You can see a significant increase in our PC revenue, which is up by 14% YoY. This growth is fueled by the ongoing release of high-quality content and the increase in the amount of time we spent effectively engaging our users.

In addition to the significant increase in the MAU of the cross-platform version, we have witnessed a 50% YoY increase in the average playing time spent by users.

This is to suggest that our consistent delivery of quality content has resulted in increased user engagement both online and offline, leading to improved user stickiness.

MMOs can achieve healthy and stable revenue growth as long as they have high user engagement and benign in-game economy system.

We have also experienced good revenue increase YoY in the mobile front, with more user acquisition channels.

Eudemons is the most important IP for us. We are constantly lowering barriers to re-engage existing users and attract new users by delivering high-quality content via AIGC adoption. This enables *Eudemons* to attract players of varying preferences. As indicated by the increase in the paying rate of new users, this approach plays a pivotal role in serving a more diverse user base for the entire *Eudemons* IP.

Next, I'll discuss how we achieved these results. It's critical to emphasize the consistent delivery of high-quality game content because games are ultimately about providing an enjoyable experience for players.

We have accumulated extensive experience in the multi-faceted operations of long-term IPs. For example, we have improved our eudemon's combinations. In the past, our expansion packs might have focused solely on introducing new professions or character-building systems. However, thanks to more user interaction and a better knowledge of their demands, we now ensure that our expansion packs cater to different subgroups of users, including both paying and non-paying users, with comprehensive content that goes beyond gameplay, content, and numerical attributes.

As for the *Eudemons* IP, we strive for constant progress by perfecting even the smallest elements. From enhancing stability to boosting the performance of our game engine, we are constantly upgrading and optimizing our existing products, resulting in a remarkable advance in the quality of *Eudemons* over the past three or four years.

In addition, we improved our VIP system by concentrating on our VIP users' key needs, such as retaining the core market value of their eudemons.

In terms of content updates, last year we released updates every one to two months. In 2024, we plan to step up the frequency, with new content releases for users every month.

The trade of gaming is gradually moving towards "industrialization". AIGC and AI applications, along with "industrialized" pipeline production, will help us consistently deliver high-quality content to our users.

We also respect the use of games as a medium to promote culture and fulfill social responsibilities.

In addition to western fantasy elements, we are also integrating eastern *Xuanhuan* themes, such as the legend of *Zhaojun* into the storyline and the *Pipa* for traditional music content. The reception from players regarding these cultural themes has exceeded our expectations. We believe that fulfilling players' cultural needs not only encourages more content consumption, but also adds to long-term user satisfaction.

As for the core business model of our long-term IPs, we prioritize fostering a healthy economic ecosystem and maintaining a rational revenue structure. We pay special attention to the share of revenue generated by the sale of culture-driven content.

"*Nian Beast*" is a very popular notion among Chinese users. Every year, we add cultural components into its design.

Here you can see a consistent upward trend in the revenue from *Nian Beast* each year. This year, in particular, revenue from the *Dragon Nian Beast* hit an all-time high.

This also demonstrates that players' expectations of gaming experience are constantly developing and improving. As long as there is great content, players are eager to pay for it. Increased revenue from culture-driven content can help to enhance our overall revenue structure and ecosystem. Unlike traditional revenue model based on numerical attributes, culture-driven content promotes a better balance between users with varying spending habits.

This also shows the evolution of our core business model. Five years ago, our model was very traditional, relying heavily on numerical attributes. However, our ecosystem has evolved in tandem with changing user preferences in recent years. We've expanded our business model to include gameplay and IP content in addition to numerical attributes.

The latest *Dragon Nian Beast* not only offers numerical attributes and a character-building element, but also integrates gameplay, which added the fun to play. Meanwhile, it offers original IP plot and character customization. This evolution demonstrates that the game has progressed from a single character-building driven ecosystem to one that offers more comprehensive gaming experiences.

During the Chinese New Year, users acquire eudemons and learn about the cultural stories behind them. They form stronger emotional bonds with their eudemons through increased interactions in the game. These factors contribute to continuous development in content purchase revenue and play a crucial role in the IP's overall content and ecosystem.

As we enhance our operations, we can better identify the needs of different user segments by utilizing refined user behavior analysis based on data collecting points embedded in our game. For example, we keep track of all paying users' content purchases and spending preferences with our VIP system. This allows us to accurately profile their spending habits and gaming behavior to understand what matters most to these VIPs. Through the analysis, we were able to discover additional pain points of these paying users. Leveraging these insights, we can tailor our designs to improve VIP user's retention rate. This is an important effort within our existing IP products.

This year, we will launch the *Eudemons Remake Version*, which is the most expected game under *Eudemons* IP. By employing new engines, new techniques, and high-quality graphical content, we aim to re-engage our huge *Eudemons* user base, evoking their fond memories of the IP.

In H1 2024, we will conduct some customer engagement testing with enlarged player pools. The initial response from players in small-scale testing has been very positive towards this high-quality content under the *Eudemons* IP. This feedback gives us confidence that when we launch the *Remake Version* later this year, we will be able to maintain the mature business model while increase revenue throughout the entire *Eudemons* IP.

Next, I'd like to talk about the *Conquer* IP. Despite external challenges such as forex impact, as mentioned last time, we achieved 12% revenue growth YoY in Egypt market alone. Our focus for *Conquer* in the overseas market is to reach out to local users, especially in Middle Eastern countries where we aim to build a comprehensive ecosystem.

MMO is a relatively open and inclusive game genre. In our user communities, we've seen vibrant user-generated content and casual-social gameplay opportunities discovered by users. Within this dynamic ecosystem, users take initiatives to organize and participate in activities such as contests and social events. As mentioned earlier, our goal this year is to further explore casual-social gameplay through user communication and social engagement, and ultimately turn them into a standalone product. We believe this is the biggest opportunity *Conquer* offers us in the overseas market. We will also place more emphasis on localization and on-the-ground marketing in the overseas markets.

Next up is our *Heroes Evolved* IP. As you all know, the MOBA market is very competitive both domestically and internationally, especially for the leading titles. However, we are very pleased to announce that the *Heroes Evolved* IP achieved a remarkable turnaround last year, with a significant 34% YoY growth in PC revenue.

This indicates that by identifying unique approaches and establishing core competitiveness in content production and consumption, we can effectively leverage them to create opportunities across multiple projects.

Unlike the MMO genre, the most important elements in the MOBA business model are heroes, skins, and esports tournaments. These elements are the backbone of the MOBA scene.

Last year, we launched several original skins - this is different from IP crossovers - while IP crossovers can drive short-term revenue growth, original content and original IPs bring the highest user satisfaction and thus highest profit margins.

With revenue growth fueled by original IPs and renewed efforts in offline esports tournaments, our original content, combined with greater user interaction, has propelled our esports events to new heights. This led to tremendous revenue and user growth in 2023. We anticipate that this trend will gain traction in 2024, creating prospects for sustained revenue growth across both PC and mobile.

Having covered our existing game products, I would like to highlight our efforts in gaming R&D. AI has undoubtedly absorbed the largest portion of our gaming R&D expenditure. In H1, we began working on applications in AIGC. Deeper adoptions of AIGC in H2 improved the in our R&D efforts and helped our overall operations.

The benefits of AI in graphic design are particularly evident. Apart from 2D original graphics and 3D scene design, we expect rapid progress in AI technology in the future. Considering Sora and other technologies, I believe AIGC will be a key contributor to significant cost reduction and efficiency improvement in 2024.

We also place a high priority on the ongoing training of small-scale models within our company. Through in-house AI model finetuning, we achieved deeper understanding of *Eudemons* users' preferences towards the graphical designs. This supports our long-term efforts to refine and enrich the *Eudemons* IP.

As AI technology continues to evolve, we will closely monitor these advances and make timely investments to apply them.

Last time, we mentioned AI gaming companion features and smart NPCs. In 2023, we began using these tools to create better gaming experience.

In the MOBA genre, the introduction of AI-powered smart NPCs has notably improved the experience for onboarding players to MOBAs. Our AB testing has shown a significant difference in user retention, with AI-powered NPCs producing an additional 6.6% retention compared to their absence. This is just the initial application of AI in the MOBA genre, while MMOs have higher technical barriers. In 2024, we believe we will better deploy AI technologies.

On top of AI, in terms of engine rendering, we will increase R&D investment in the UE engine in addition to our self-developed U3D engine to consistently produce high-quality gaming content.

I just covered our existing products. In 2024 we are set to launch more new products. In addition to *Eudemons Remake Version* mentioned earlier, we will also have *New Eudemons PC*, *Eudemons Mobile 2: Overseas Version* and *Eudemons Pocket Version 2.0*. This is our overall plan for the *Eudemons* IP.

As for the *Heroes Evolved* IP, we will launch the *Sci-Fi Version* and a localized version for the Middle East market called *Code - Nirvana*. We will also be working on *Heroes Evolved 2.0*, our next-generation MOBA product that embodies continuous evolution and innovation.

As for the *Conquer* IP, we expect to launch *Code – Alpha* in the overseas market in H1 2024.

As for other genres, we will see many products entering closed beta or open beta phase soon as we execute our R&D strategy and continue our R&D efforts, including MMO mobile game *Code – Dragon*, top-down shooter game *Code – Ge Cao* developed with UE engine, *Under Oath Overseas Version*, and idle card products.

We will incorporate our existing AI capabilities, including in-game social feature augmentation and graphical rendering capabilities in the MMO genre, to our new IPs. By doing so, we aim to propel the next stage of our gaming strategy and promote healthy growth.

As mentioned earlier, we achieved an impressive 9.6% growth last year driven by the consistent performance of our existing games. This suggests that we have effectively capitalized on market opportunities and addressed user needs.

Our performance in the first two months of this year gives us confidence in maintaining stable growth with our existing games throughout the year. In addition, the introduction of new products this year will further enhance our opportunities to grow gaming revenue.

I believe the gaming business will deliver even better and more gratifying results in 2024.

All right, thank you, everyone.

Simon:

Thank you, Lin Chen.

I'm gonna go through education very quickly. As said earlier, I can't go into detail because it's actually under New York Stock Exchange, but I can certainly talk about directions.

So again, if you want to understand the education, the overseas education better, we can arrange a meeting with our management team.

As a result of this spun-off, actually we still own a significant share of the company which is listed on New York Stock Exchange.

By the way, it is not our goal to maintain that percentage. We will do whatever we can, because this spin-off is actually the first of many things that we will do with the education business. It is our intention to raise more money and invest into this company. We'll do whatever we can to help the overseas education business. This is actually the current picture, I would say.

The good news is we've maintained our market share. A lot happened in 2023. It actually started happening towards the end of 2022. If you remember, I mean, we have a big, huge Q4 and then the market was corrected. So that's quite last year's kind of revenue and everything looked a little bit odd. We are more than happy to go through it of course with the new management team.

The opportunity in education is actually not only in the current market we are in. There are some emerging markets growing in there, for example like Indonesia.

We were impacted by Egypt quite a bit to be honest. It's actually like Lin Chen said, the gaming

business because of the devaluation of the Egyptian pound. Same thing for us. If you remember in education, we did quite a lot of business in Egypt for a while. The devaluation is really putting a lot of stress.

One of the things we did last year is that we launched a low-end product called LX. And also we started to focus on driving the SaaS revenue, which is actually very important.

This is actually the SaaS revenue part. We are very confident because that we can deploy it because we have a huge user base. We have 4,000 channels that work for us, so we can effectively take this into all the new customers and also the existing incumbent customers.

That is a very busy slide. I'm gonna talk at a very high level. I mentioned some of it. We are very confident even though 2023 is a correction year. But going forward, we believe with all the things that we have been doing, we can continue to kind of enjoy the market growth by taking share from our competitors.

We're gonna grow our business continue. It's actually like I said, our plan is to take share. We will continue to invest into our software side and also look at directionally what are some of the new technology that we can embrace.

We talked too much about Explaining Everything, but it's important because that's our SaaS revenue stream. And then again, we're going to expand our portfolio and see. Again we have a good plan and then we will unveil it at the right time, so that you know the new Board of Mydn.ai will be ready to work with the team to approve the strategic plan. Once we get it approved, we can take it through.

Okay, very quickly on the outlook. I think you heard all about it. Actually I'm not gonna go into detail. New games, or course. AIGC is actually some of the directions that we're going for 2024. It's actually for education. I did talk about it. Driving SaaS revenue is a big thing, looking out our product direction and some of the new market that they would be looking at.

With that I'm gonna stop and then I think we're gonna open it up for Q&A right? Okay, let's do it.

Moderator:

While our colleagues setting up the stage, let me introduce how you raise questions. Thank you, Dr. Leung and our managements.

If you are joining us physically, please raise your hand, our colleagues will pass you the microphone.

If you are joining us online, please type your questions on the Q&A or the message box and I will read it out on your behalf.

Let's welcome our first question from the audience here. Thank you.

Eric: (Translation)

Hi Mr. Lin, I have a few questions about the gaming business.

Your presentation provided a clear overview of the pipeline, IPs, and features. However, I'd like to explore another perspective – user demographics. Could you please discuss aspects such as the user groups you target, the overall status of the domestic gaming market, your projections for the gaming sector, and factors such as user groups, ARPPU, and market potential? In terms of overall growth trends - are they expected to be in the low single digits or remain stable?

I'm interested in understanding the demographics of the new users you acquire, and the relationship between their spending and the broader economic situation. Could you elaborate on these aspects to shed some light on the stability of NetDragon's gaming business?

Simon: (Translation)

This question might take you an hour and a half to answer.

Lin Chen: (Translation)

Ok, I think I get your question. Let me talk about the relationship between the market and NetDragon's gaming business.

First of all, I think PC gaming is one of our biggest advantages domestically. While many in the market have been focusing on the mobile side over the years, seeing mobile growth as critical, people are now surprised to see that the PC end has actually seen higher revenue growth than expected. What does this mean? It shows that players still want high-quality content. While mobile gaming is important, when it comes to fully immersive gaming experiences, the PC end remains vital.

PC gaming today has a very high entry barrier. To develop a decent PC game that makes any meaningful impact, you typically need to invest more than a hundred million (RMB). That's why the

PC end is a great opportunity for us because the market is not flooded with new entrants.

We've also challenged the traditional notion that PC games will not be available on mobile platforms. Our cross-platform version has proven that PC games can also be enjoyed on mobile devices, reaching users through various means. The goal of PC gaming is to create a better gaming experience for users. This gives us a significant advantage.

I believe that users' demand for high-quality content will always be there, because people play games for a better experience. I think the domestic PC gaming market will continue to see healthy and stable growth in the foreseeable future. There won't be so many new entrants; only those who aim to elevate gaming experience and content will be willing to invest in this sector. So, I believe we have a significant advantage here.

On the mobile end, user acquisition is no longer the primary focus. Instead, content quality has become increasingly important. Great content spreads naturally among users. Older age groups, in particular, are less responsive to advertising or other forms of promotion. Therefore, our efforts are directed towards building our reputation through word-of-mouth and user loyalty. We believe this approach is crucial for our sustained and healthy development over the long term. This is also one of the things that sets us apart from other companies.

Simon: (Translation)

If I may add, this is the case not only in the domestic market, but also in the overseas market. Many people envy our strong presence in the PC sector. Overseas mobile gaming growth is rather slow and customer acquisition costs are quite high. This is why we have a major advantage.

Moderator: (Translation)

Thank you, Lin Chen. Thank you, Simon.

Next, we will take the second question from the audience here. Ma'am, please.

Chu Jun, CICC: (Translation)

Hello to the three executives. I have a question for Dr. Leung on the education segment. Your

overseas education business got spun off and went public this year. I believe Dr. Leung just...

Simon: (Translation)

The spin-off and listing didn't happen this year. It went public last year. As I've said many times, it's now a separate entity with its own Board of Directors and its own management team.

Chu Jun, CICC: (Translation)

Yes. Since this company is still consolidated into your financial statements, I'd like to understand more. As a new entity, one of the primary challenges would be team management or integration. Could this affect its business development in the short term? Looking at the medium to long term, say three to five years ahead, what are the operational goals and strategies for its current education business? Could you please provide some insights?

Simon: (Translation)

Your first question is about what aspect of the team?

Chu Jun, CICC: (Translation)

Integration. Given that the team is new, will this affect the company's short-term business development?

Simon: (Translation)

This is a very good question. Actually, the new team you mentioned is basically our old team. There haven't been any major changes in the team except for the addition of a new CFO. Previously, we did not need very complex financial structures because we owned that business 100%.

Now it's an independent company with its own team, yet the CEO, HR and Legal Director remain the same. Product development continued smoothly. It has simply added a new CFO. This CFO was previously with another listed company and had worked at Microsoft earlier.

As far as the team is concerned, there haven't been any major changes. Collaboration within the team has been seamless. The company went public at the end of last year, and I don't see any problems with the team working together in that process.

Sorry, I can't answer your second question now. As I mentioned earlier, it will take another month until the new Board of Directors - I am the chairman of the new board, but all other directors are new, with only myself being carried over from NetDragon - approves the new plan before we can disclose it publicly. Therefore, I am unable to provide an answer to that question now.

Of course, we have very high expectations for the next three to five years, given the years of efforts we've made. We see opportunities not only in hardware and software, but also in emerging technologies such as AI. We take a holistic view of the company's development.

Moderator: (Translation)

Thank you, Simon. Next, we have a question from the webcast audience, Angus, analyst at Guotai Junan Securities.

He has two questions. The first one is about the strong revenue growth of the *Eudemons* IP in 2023. What do you think about the lifecycle and growth drivers of the *Eudemons* IP? Also, what are the current development progress and revenue expectations for *Eudemons Remake Version* and *Eudemons Mobile 2*?

The second question is about Explain Everything Advanced, Promethean's recently launched SaaS solution. What is the current market feedback and subscriptions? What are the company's expectations for future revenue and profit in the SaaS business? Thank you.

Lin Chen: (Translation)

In answer to your first question, I think our commitment to investing in the *Eudemons* IP is unwavering. We aspire to cultivate it into a long-lasting IP comparable to Final Fantasy or Pokémon Go. I believe that the lifecycle of an IP hinges on our investment in it and our ability to create high-quality content. We are confident that as we continue to invest in this IP and create excellent content, there is ample opportunity for the *Eudemons* IP to thrive sustainably.

Regarding *Eudemons Remake Version* and *Eudemons Mobile 2*, the *Remake Version* is progressing

in line with our expectations. Of particular note is the creation of high-quality content using the new U3D engine, with a seven-day version test planned in the near future. I think we're on schedule.

As a mature business model, the sequel or remake of a successful product typically leads to an overall growth of more than 10% to 15% for the entire IP. I believe our expectations for the remake version are very stable.

As for *Eudemons Mobile 2*, it will require further iterative testing. As Simon mentioned, the overseas market presents a different picture, and we need to fine-tune the product with a user-centered approach. At present, based on testing feedback, users in Europe and the U.S. seem to like it better.

As for our expectations for it, at least in the overseas market, a product like this should generate at least two to three million US dollars in monthly gross billings to make sense.

Simon: (Translation)

I think the Middle East is also a promising market, especially given our long-standing presence in Egypt. Perhaps you could elaborate on that.

Lin Chen: (Translation)

We have different pipelines for different markets.

For the Middle East market, we focus on adapting to the behaviors and habits of local users. MMOs are not dominant in this region. Instead, users are more interested in casual games and recreational or competitive gameplay. We plan to address this with the *Code-Alpha* project.

In Europe and the U.S., there is a stronger demand for the immersive experiences that RPGs provide. Therefore, we will leverage the *Eudemons* IP to better cater to these users.

Simon: (Translation)

Regarding Explain Everything, I can provide some directional comments.

First, the acquisition of this company was obviously driven by our interest in the company itself and its industry, particularly because it allows us to enter the SaaS market quickly. SaaS will certainly be

a major focus for us this year.

As I mentioned earlier, we have a large user base that we can sell products to. We can also market it to users who are not using our hardware, or even to users of our competitors. If we can sell SaaS to our competitors' users, it could give us an opportunity to introduce our hardware to them as well.

Another thing is our distribution network. We already have so many distribution channels worldwide, so we are pretty confident in Explain Everything. It already has a large user base. Therefore, I believe SaaS is definitely a direction to take. Of course, SaaS revenue can have various avenues. Explain Everything is our first step.

Moderator: (Translation)

Thank you, Simon. Thank you, Lin Chen.

Let's take another question from the audience here. Ma'am, please.

Rachel Guo, Nomura Securities: (Translation)

Good morning, management. I'm Rachel from Nomura Securities, and I have a couple of questions.

My first question is about your education business. I noticed a decline in your total education revenue in 2023, partly due to the high baseline in 2022. As we go into 2024, could you provide the growth rate for hardware revenue in Q1 after the baseline is normalized? Also, I'd like to understand if there has been any slowdown in demand in the post-pandemic period, and the outlook for future demand in this segment.

My second question is about your financials. We see a significant increase in R&D expenses last year, mainly due to increased investments in gaming and larger headcount. Looking ahead, do you expect this ratio to remain stable or decrease somewhat? Thank you.

Simon: (Translation)

Ok, let me answer the education one first. Like I said, I'm going to give directional comments instead of going into detail.

You know last year's situation very well. Due to the high revenue in Q4 2022, there seemed to be a sharp decline in 2023. However, if you normalize that high base, our performance in 2023 was actually quite good.

Our direction for 2024 is simple: to maintain our leadership position - and we certainly will. Not only do we have AP9, but we also launched a very popular value product last year called LX.

Looking at this direction, we saw an increase in gross profit last year, which is very positive.

In addition, our growth strategy is to take share. We're confident in this because we have new products and SaaS revenue that can take market share from our competitors. So that is our direction. We expect growth this year, although I can't go into detail.

Ben: (Translation)

The question about R&D expenses is very insightful.

As for R&D expenses for gaming, if you've been following our performance, you'll recall that we substantially increased our headcount in 2022. Our goal at that time was to strengthen our foundation to increase the quality and quantity of games developed by our team. To this end, we expanded our team in 2022. This expansion had a full-year effect in 2023, resulting in a significant increase in R&D expenses. We also increased headcount slightly in 2023, but it had relatively lesser of an impact on our overall gaming R&D expenses.

To answer your question, in terms of future R&D expenses, I expect regular pay raises and perhaps a slight increase in headcount, but nothing on a large scale. The overall R&D expense as percentage of revenue should go down, because that's the whole point. We want to have a strong R&D force to drive revenue growth while keeping our R&D and other expenses relatively stable.

Simon: (Translation)

But you're right. The increase in headcount last year didn't happen all at once on Jan 1, 2023, but over the course of the year. So there is a run rate effect. That means going into 2024, R&D expenses will continue to increase due to the ongoing effect of the additional headcount. However, given our revenue growth, we can certainly offset those expenses. I believe that our investments, especially in gaming, are absolutely worth it.

Moderator: (Translation)

Thank you, Simon. Thank you, Ben. Next, we'll take questions from the webcast. Lu Yi, analyst with BOCI Securities.

First, in terms of new game genres, what is your current strategic direction? Is there a genre that you are particularly focused on or have any plans in mind?

Second, in terms of AI and education, where are you in terms of integrating your AI products into your panels? What features have been deployed so far?

Lastly, you have recently established strategic cooperation with parties in Saudi Arabia. Could you talk about any specific project under this cooperation? What are your plans for expansion in the Middle East? Thank you.

Simon: (Translation)

Allow me to answer the education one first.

AI is definitely the direction to go, but as I mentioned earlier, the plan needs to be approved by Mynd.ai's Board of Directors. I look forward to discussing it in detail with you once it's approved. However, given the name of the company, Mynd.ai, it would be a bit of a problem if we didn't work on AI.

Turning to the Middle East, NetDragon is focused not only on education, but also on gaming and some of the businesses we are incubating. We see the potential in the Middle East across these sectors. In terms of gaming, Saudi Arabia has recently invested big in acquiring gaming companies and they offer a lot of incentives. In fact, before this meeting, I discussed with Lin Chen about visiting Saudi Arabia to further explore these incentives. Saudi Arabia is also actively attracting people. Considering the large population of the entire Middle East, I'm sure there are many opportunities.

Education is definitely a promising area. During our recent trip to Saudi Arabia, which both Ben and I attended, we met with their Minister of Education and their Royal Commission. They have significant needs, so we signed partnership agreements with them. These agreements cover various aspects that go far beyond display panels, they cover a very wide range.

We signed two MOUs, didn't we? One was with a vocational training organization, which Ben signed on our behalf, and it includes comprehensive cooperation. The other was with the Royal Commission. I'm sure we'll have good news to share with you soon.

(Lin Chen,)would you like to discuss that (gaming part)?

Lin Chen: (Translation)

The first question about gaming regards the genres we focus on. Currently, we mainly focus on two genres: MMO and MOBA.

Let's talk about MMO first. In addition to our existing MMO products, we are also exploring two sub-genres within MMO. The first is lightweight MMO, where we'll develop idle card games. These games retain the social and character-building aspects of MMOs, but are designed for users who don't want to spend as much time and prefer a lighter gaming experience.

The second is open-world MMOs based on AI-based NPCs, which we believe could be the next generation of MMOs. This sub-genre also offers metaverse opportunities. We're currently working with some IPs to explore what could be the next generation of metaverse products. This is our plan for MMOs.

As for MOBA, it's essentially a multiplayer competition driven genre. Apart from our existing MOBA products, we are exploring a customized product for the Middle East market and developing a top-down shooter game. This is our plan for multiplayer competitive games with high DAU. Therefore, at present, we remain focused on these two genres where we excel.

Moderator: (Translation)

Thank you, Lin Chen. Thank you, Simon.

Let's see if there are any other questions for our management from the audience here. Okay, no more questions.

We have a few more question from Ms. Yang Lingling from GF Securities. She would like to understand our current strategy for the education business in China and our outlook for the future.

Second, there is still considerable interest in the overall growth and profitability prospects of our

education business. This remains a major concern of the market.

Simon: (Translation)

I'd like to answer the second one first because it's easier. Right now I cannot disclose much, please give us more time.

Actually, we've also published a white paper domestically called EDA, which stands for Edmodo Academy. It covers many aspects, including blockchain and the metaverse. We actually have a platform where we are working extensively with the government in China, and we are confident in this direction.

When I was in the Middle East, I was there for all businesses of the NetDragon group, not just the display panel stuff. We would like to explore potential cooperation with local governments to see how we can introduce the entire EDA concept to Saudi Arabia or the Middle East.

Although we've talked a lot about Saudi Arabia, we are active in other countries as well. You'll probably hear about these collaborations soon as part of our efforts on EDA - it may be renamed in the future, but it's an academy, it's a platform with a wide range of content, including the metaverse, it allows many students to learn and interact together. We can integrate everything into this platform and gamify the educational content within there.

We believe that's the right direction to take, so we're gradually heading in that direction. That's where some of the increased investment that you've seen is going.

Or let me digress a little bit. you may have noticed that last year we invested in two companies rather than acquiring them completely. One of them is Rokid - coincidentally, both companies are based in Hangzhou. Rokid specializes in AR glasses, and it's been growing rapidly recently. We see AR playing an important role in learning, especially in corporate training. While we have software and content, we also need hardware to complement our offerings. That's where Rokid comes in.

The second company specializes in livestreaming in Hangzhou and has close partnerships with platforms such as Douyin and Tik Tok. Whether it's in a metaverse or not, we believe that in the education sector, game livestreaming could become a very interesting business model in the future. So we are also exploring the technologies. That's why we invested in this company last year. Yes, about last year.

So, our focus now is on gaming and education, but we're also exploring specific technologies that could aid our development in both sectors.

Moderator: (Translation)

Thank you. Now let's welcome this lady's question.

Ma Ziyang, Huafu Securities: (Translation)

Greetings to the management team. Thank you for this opportunity. I'm Ma Ziyang, Internet analyst from Huafu Securities. First, we understand that you may launch several new products in 2024. Could you please share your expectations for the promotion expense of these products?

Second, NetDragon offers both PC and mobile games. As the mobile gaming market becomes increasingly competitive, do you have any specific focuses or strategies for these two sectors, and how do you plan to maintain a balance?

Yes, two questions. Thank you.

Lin Chen: (Translation)

I think it varies by market. Let's look at the *Eudemons* IP first. Its *Remake Version* targets the PC gaming side, especially the existing users of this IP. Unlike traditional user acquisition strategies, it relies more on brand promotion and encouraging pre-registration from old users. Therefore, I don't think it's a business model with a long payback period for user acquisition costs. I believe we can keep the payback period within a relatively healthy range of three to six months.

This may not be the case in the overseas market. For products without established IPs, the initial investment in user acquisition would be much higher. However, in the MMO genre – different than SLGs - we keep the payback period of our MMOs within six months, and no longer.

One of our flagship products to be launched this year is *Code-Alpha*. It's a casual-social game, which is a different genre. Because of its social nature, it has considerable potential for virality with local brand promotions.

Therefore, while we expect increased promotional expenses this year, we don't see it becoming a

significant burden. In addition, we have many products that can facilitate cross promotion in person. We can also leverage our user communities for cross-promotion and referrals. As we can acquire new users through existing users, we won't put significant pressure on our P&L in the short term, unlike companies that rely heavily on user acquisition model.

Simon: (Translation)

We're doing quite well, to be honest. If you look at other gaming companies, especially those focused on mobile games, they are really under a lot of pressure.

Moderator: (Translation)

Thank you, Lin Chen. Thank you, Simon.

Let's see if there are any other questions from the audience here.

Alright, thank you all. Our meeting today has successfully concluded. We appreciate the participation of all the investors today.

We have set up on-site demonstrations of our flagship product, Promethean's interactive display, as well as Explain Everything's software products. We welcome you to visit the exhibition area for a tour and further insight.