



# NetDragon Websoft Holdings Limited

Stock Code: 777 HK

## 2024 Interim Earnings Presentation

August 30, 2024





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# Opening Remarks

A wide-angle photograph of a modern, multi-story building with a glass facade and a prominent, angular tower on the right. The sun is setting behind the tower, creating a bright lens flare and casting a golden glow across the sky and the water in the foreground. The sky is filled with soft, wispy clouds. The building is reflected in the calm water. A few people can be seen walking on a path in the distance.

**Dr. Simon Leung**

**Group Vice Chairman**

# Agenda

Topic	Speaker
1H24 Highlights	Dr. Simon Leung, Group Vice Chairman
1H24 Financials	Ben Yam, Group CFO
Gaming	Lin Chen, Group Senior Vice President
Mynd.ai	Dr. Simon Leung, Group Vice Chairman
Outlook	Dr. Simon Leung, Group Vice Chairman
Q&A	

# Key Highlights



## Gaming\*

- Domestic PC game revenue increased by 2.1% YoY and 5.3% HoH
- Overseas gaming revenue declined by 12.9% YoY, due to short-term temporary issues
- Consistent growth in “content-driven” revenue in line with the trend towards quality of experience



## Mynd.ai

- Classroom technology market continued to go through normalization and transformation
- Improved key operating matrices, e.g. Gross Margin, S&M expenses, EBITDA, Inventory
- Well positioned to capture the transformation to service based market
- Our world-wide installed base provides advantages over competition



# Financial Highlights

The background image shows a modern architectural complex at night. A large, illuminated tree stands on a small island in a body of water. The building's facade is lit up, and the lights are reflected in the water. The sky is dark with some light trails.

**Ben Yam**

**Group CFO**



# Key Financial Highlights

(RMB million)	1H24	1H23 (Restated)	YoY	Notes
Revenue	<b>3,301</b>	3,681	-10.3%	
Gaming and Application Services	<b>2,121</b>	2,139	-0.8%	
Mynd.ai	<b>1,180</b>	1,542	-23.5%	
Gross Profit	<b>2,199</b>	2,287	-3.8%	Group gross margin improved to 66.6% (1H2023: 62.1%)
Selling & Marketing Expenses	<b>352</b>	443	-20.5%	Driven by optimization of the sales and promotion expenses
as % of Revenue	<b>10.7%</b>	12.0%	-1.4ppts	
Administrative Expenses	<b>551</b>	570	-3.3%	
as % of Revenue	<b>16.7%</b>	15.5%	+1.2ppts	
R&D Expenses	<b>696</b>	641	+8.6%	Driven by a larger R&D team to drive development of new games
as % of Revenue	<b>21.1%</b>	17.4%	+3.7ppts	
EBITDA	<b>1,035</b>	917	+12.9%	Higher EBITDA as it excludes one-time deferred tax provision (non-operating)
Profit before taxation	<b>702</b>	579	+21.2%	PBT increased YoY driven by operational efficiency
Profit Attributable to Owners of the Company	<b>400</b>	500	-20.0%	Net Profit up by 24% if excluding the one-time deferred tax provision of \$39.5M
Non-GAAP EBITDA	<b>1,150</b>	864	+33.1%	
Non-GAAP Operating Profit	<b>640</b>	692	-7.5%	
Non-GAAP Profit Attributable to Owners of the Company	<b>558</b>	589	-5.3%	

**Our cash, cash equivalents and liquid investments as of June 30, 2024 was RMB 3.74B, a 11% increase from RMB 3.37B as of Dec 31, 2023.**

# Segmental Financial Highlights

(RMB million)	Gaming and Application Services			Mynd.ai		
	1H24	1H23 (Restated)	YoY	1H24	1H23 (Restated)	YoY
Revenue	<b>2,121</b>	2,139	-0.8%	<b>1,180</b>	1,542	-23.5%
Gross profit	<b>1,849</b>	1,896	-2.5%	<b>351</b>	392	-10.5%
Gross profit margin (%)	<b>87.2%</b>	88.6%	-1.4 pts	<b>29.7%</b>	25.4%	+4.3 pts
Core segmental profit (loss)	<b>688</b>	777	-11.5%	<b>(111)</b>	(48)	-131.3%
Segmental operating expenses						
- Research and Development	<b>(595)</b>	(543)	+9.6%	<b>(101)</b>	(99)	+2.0%
- Selling and Marketing	<b>(210)</b>	(240)	-12.5%	<b>(139)</b>	(187)	-25.7%
- Administrative	<b>(324)</b>	(361)	-10.2%	<b>(200)</b>	(145)	+37.9%

## Gaming and Application Services

- **Revenue from gaming** represents 88% of our revenue in Gaming and Application Services segment
- **Higher R&D** due to higher headcount YoY as we continued to strengthen our investment in new games
- **Lower S&M and Admin expenses** driven by optimization measures to drive more efficient operations

## Mynd.ai

- **Gross Margin** improved by 4.3 pts due to lower materials and freight cost
- **Core Segmental OPEX** decreased by 2.1% due to S&M expense optimization partially offset by increase in G&A costs attributed primarily to inclusion of our GEH Singapore operations (Admin expense ex-GEH increased by 11% YoY)\*

\* Our GEH Singapore business is referring to the early kindergarten and childcare service business in Singapore (a positive EBITDA business in 1H) acquired in the reverse merger transaction announced in December 2023





# GAMING

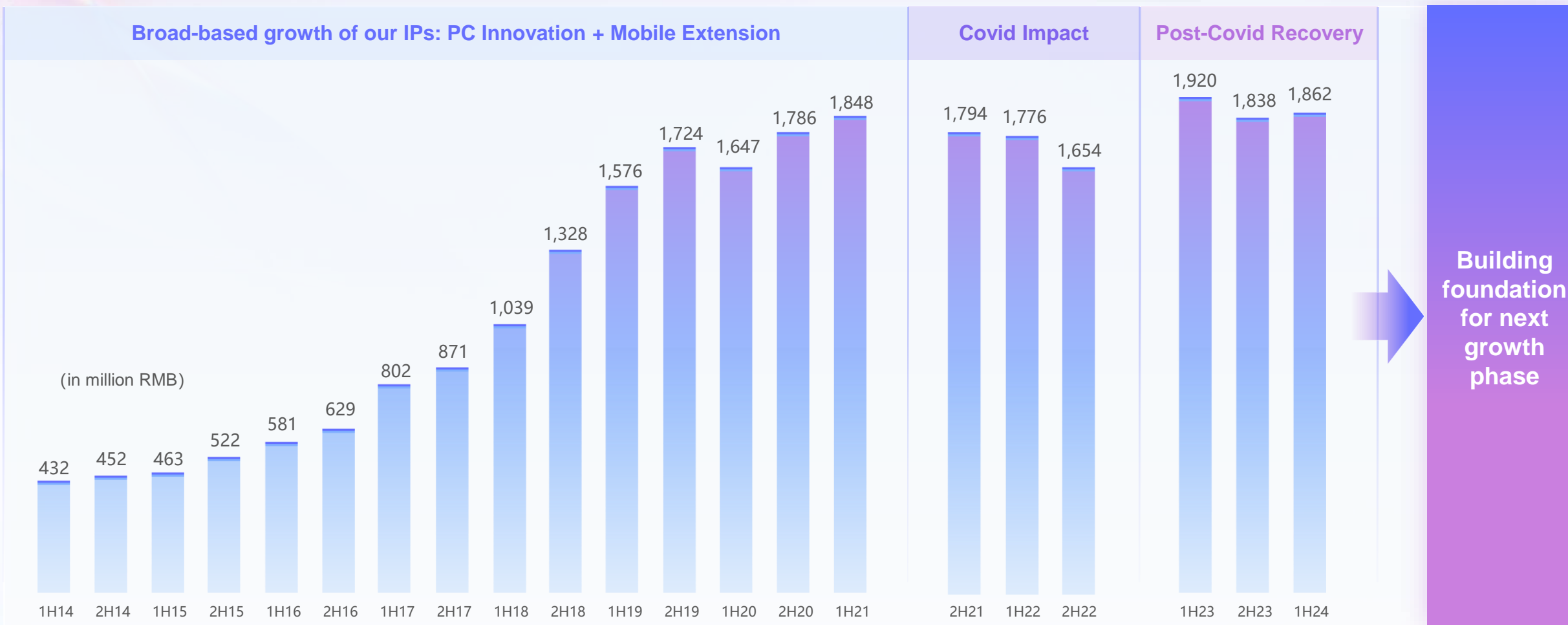
**LIN Chen**

Group Senior Vice President



# We continued to maintain our revenue scale while building for the future

Continuing to build on our unique core competencies in long term operation with iconic, non-replicable IP



Building foundation for next growth phase



## We continued to execute our strategy and stay focused on what drives future growth

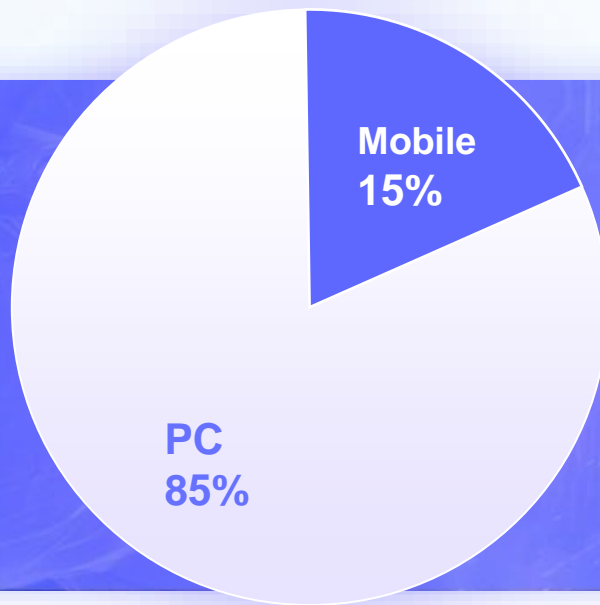
**PC 1.58** billion RMB



**1.5%**  
YoY



**1.5%**  
HoH



**Mobile 278** million RMB



**10.8%**  
YoY



**0.3%**  
HoH

percentage of revenue

- ▶ Focused on building a larger user base to drive future growth
- ▶ Achieved domestic PC revenue YoY and HoH growth for all three of our flagship IPs - *Eudemons*, *Conquer* and *Heroes Evolved*

- ▶ Putting our R&D focus on new mobile games while continuing to expect stable revenue for *Eudemons Pocket Version*
- ▶ Several new mobile games in the pipeline to drive both short and long term growth

## Domestic revenue remains stable while overseas revenue impacted by short term issues

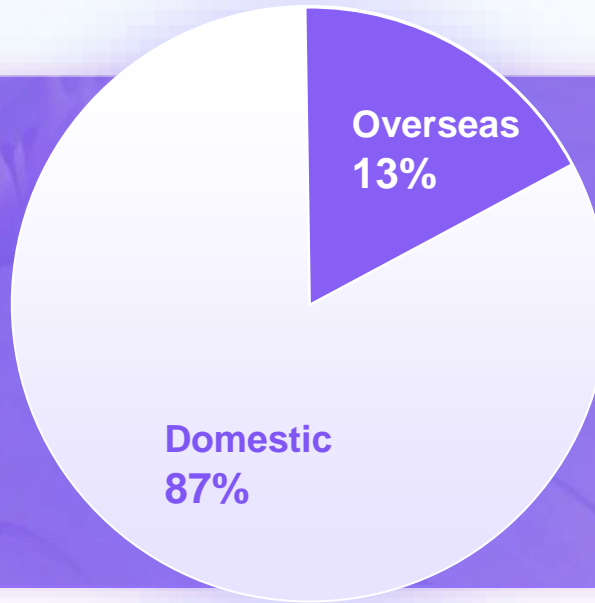
Domestic **1,613** million RMB



**1.3%**  
YoY



**3.5%**  
HoH



Overseas **249** million RMB



**12.9%**  
YoY



**10.8%**  
HoH

percentage of revenue

- ▶ Maintain revenue stability amidst strong PC revenue partially offsetting mobile decline
- ▶ On the mobile front, we expect to grow our revenue in 2H HoH by optimizing our channels and marketing efforts

- ▶ *Eudemons Online* overseas version was impacted by bot interference in the 1H; We have implemented the right measures to put the game back on normal growth track
- ▶ *Conquer Online* overseas revenue was affected by temporary electricity shortages in Egypt, which the local government has committed to resolve by end of the year\*

\* According to news article: [Egypt to stop load-shedding power cuts on Sunday: PM Madbouly](#), Ahram Online, 17 July 2024





## Focus on increasing player engagement and stickiness

Strong user metrics across the board for our core domestic PC title *Eudemons Online*

**MAU**

YoY

**+13.8%**

**DAU**

YoY

**+2.0%**

**ACU**

YoY

**+12.2%**

**PCU**

YoY

**+15.4%**

**Cross-Platform  
Version MAU**

YoY

**+30.9%**

**New Users\***

YoY

**+46.4%**

\* Growth of new users driven by lower entry barriers for our new servers and the launch of in-game competition livestreaming



# Stepping up execution of our content-driven revenue strategy



**FEB**

Dragon Palace Carnival

**APR**

1H major event warm-up

**JUN**

1H major event  
– “Guarding the Winter”

**AUG**

2024 Queen of Rose Event  
– “Cai Yu Qiong Hua”

**DEC**

2H major event;  
Year Eudemon - Snake

**JAN**

Year Eudemon - Dragon

**MAR**

The 18<sup>th</sup> anniversary event, IP crossover, and upgrade of the beginner progression system

**MAY**

The Great Wall charity event

**JUL**

Multi-platform livestreaming of cross-server in-game competitions, launch of new Eudemon - Mulan

**OCT**

New Eudemons with deep cultural content background





## Stepping up execution of our content-driven revenue strategy

### Content-driven spending

Content-driven spending increased significantly, with the Year Eudemon revenue up 45% YoY, surpassing 100 million RMB for the first time in history

### Gameplay-driven spending

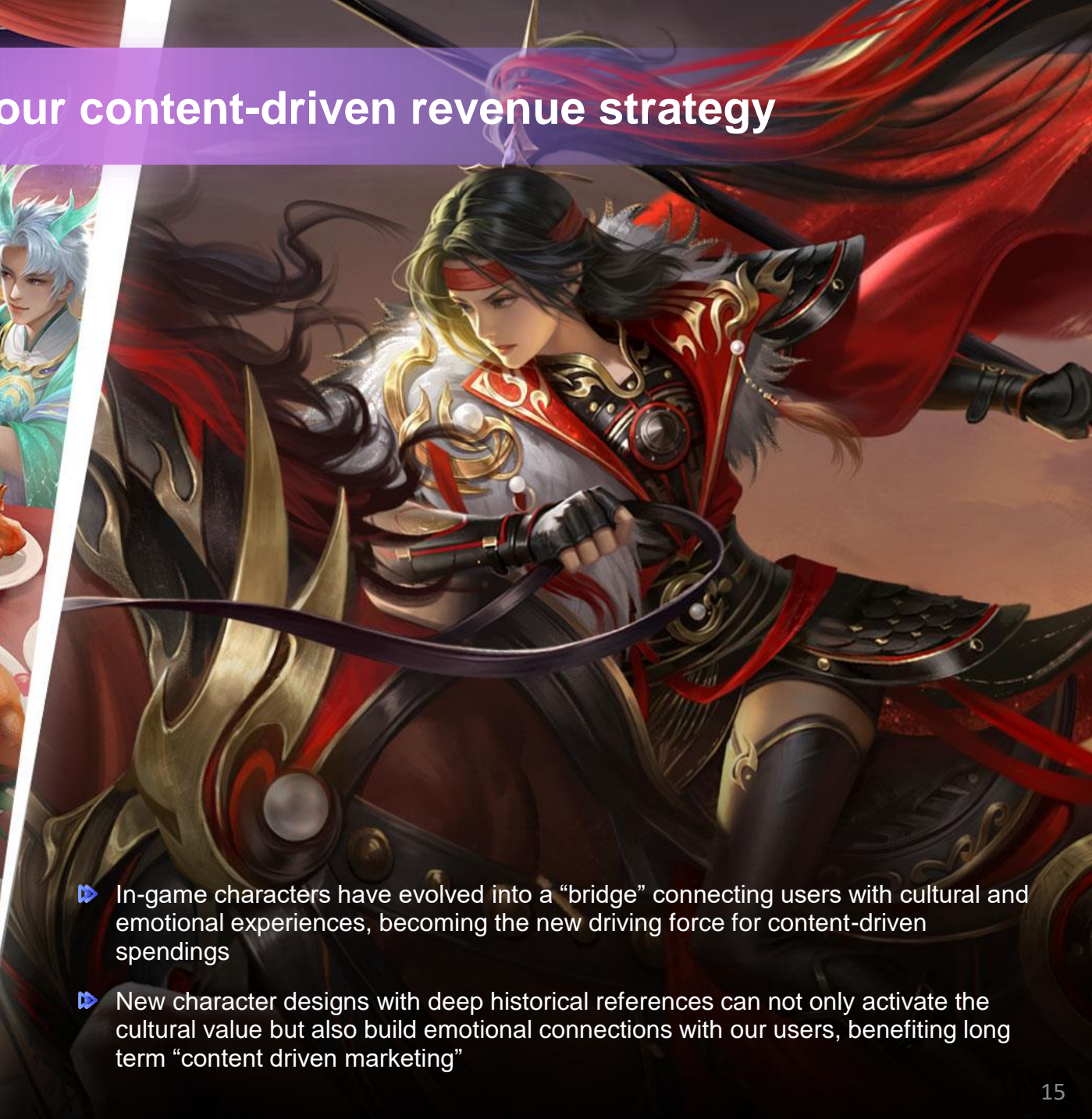
Gameplay upgrade and iteration also contributed to the overall revenue growth



# Stepping up execution of our content-driven revenue strategy



- ▶ Introduced the “Jiu Zhou Shen Long” Year of Dragon Eudemon around the Spring Festival, customized with beloved traditional Chinese cultural elements
- ▶ Conducted comprehensive and detailed research on graphical, melodic and in-game character skill designs to create this new Chinese culture themed feature



- ▶ In-game characters have evolved into a “bridge” connecting users with cultural and emotional experiences, becoming the new driving force for content-driven spendings
- ▶ New character designs with deep historical references can not only activate the cultural value but also build emotional connections with our users, benefiting long term “content driven marketing”





## Continuing the exploration of new frontiers

### *Key Developments – Conquer IP*

- ▶ Revenue declined by 1.3% on EGP basis, affected by short-term electricity supply fluctuations
- ▶ APA (Average Paying Users) increased by 16.7% YoY as we continue to build a larger monetization base
- ▶ Extending into the casual playing segment with increase of casual users by 12.7%
- ▶ Expanding our presence in other MENA countries





## Strong PC growth amid thriving eSports events

### Key Highlights

#### Healthy operational metrics with an optimized ecosystem

- ▶ User stickiness continuing to grow, with average # of games played by users up 18% YoY
- ▶ Average monthly paying accounts up 15% YoY, showing stronger user spending confidence

#### eSports events continuing to boost user activity

- ▶ 166 teams joined the 2024 summer tournament, up 28% compared to 2023 spring tournament
- ▶ Viewership # up 71% in the official livestreaming platform
- ▶ Our eSports events have significantly “called back” old players of the IP, and also boosted the activity level and spending of current users

### PC-end Revenue

**+ 29.6%** YoY



# Pipeline



**Eudemons Remake Version**  
(PC MMORPG)

Estimated Launch: 25H1

**New Eudemons PC**  
(PC MMORPG)

Estimated Launch: 25H2

**Eudemons Pocket Version 2.0**  
(Mobile MMORPG)

Estimated Launch: 2026



**Code - Alpha**  
(Mobile Casual Game)

Estimated Launch: 24H2



**Code - Nirvana**  
(Mobile MOBA)

Estimated Launch: 25H1

**Heroes Evolved 2.0**  
(Mobile MOBA)

Estimated Launch: 2026



**Under Oath Overseas Version**  
(Mobile ACGN Game)

Estimated Launch: 25H1

**New IP**

**Miracland Saga (Code - Dragon)**  
(Mobile MMORPG)

Estimated Launch: 24H2

**Nebula Rangers (Code - Ge Cao)**  
(Top Down Shooter Mobile Game)

Estimated Launch: 25H2

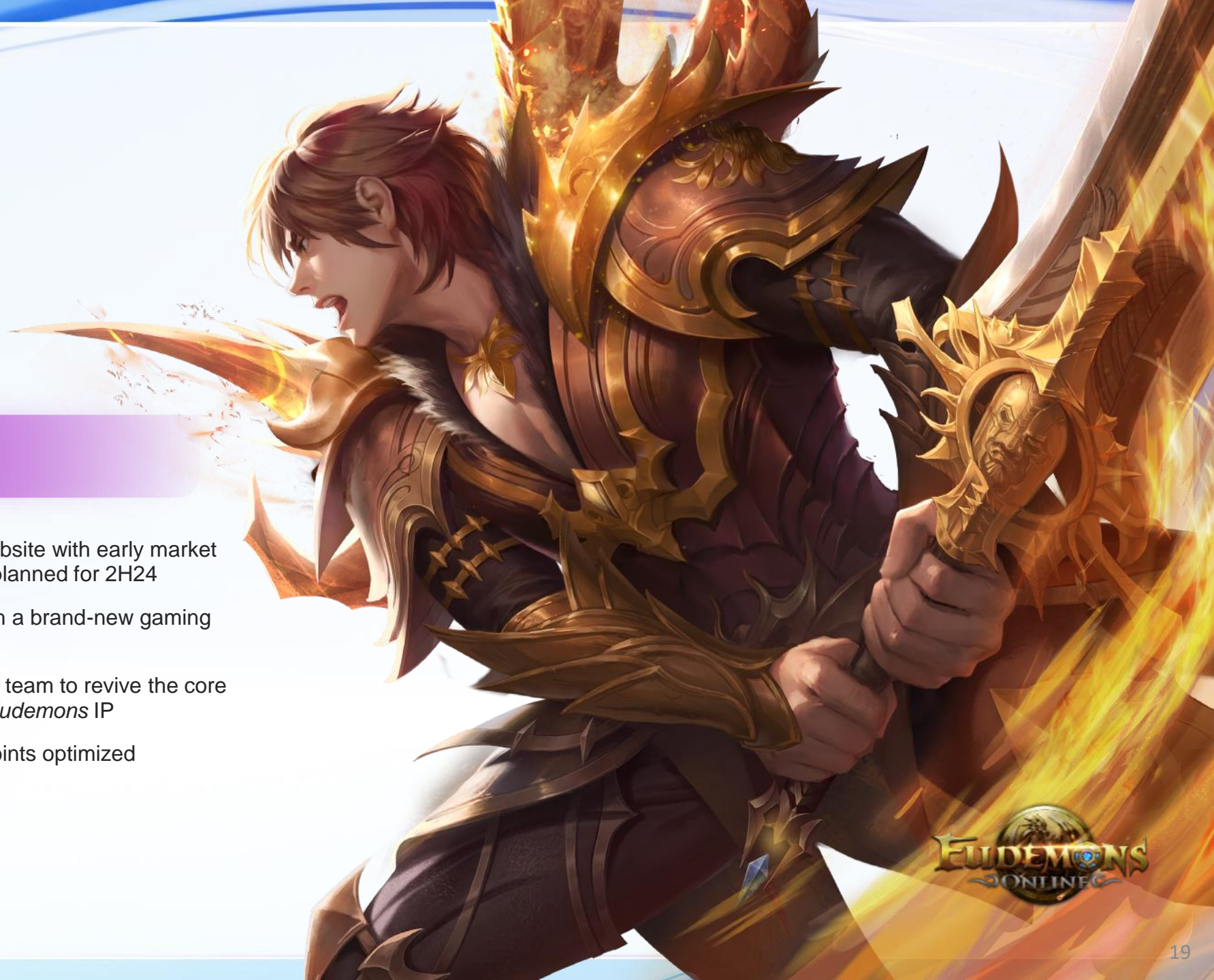
**Huan Kong Cheng Zhan Ge**  
(Idle Card RPG, Mobile)

Estimated Launch: TBD

## Most Anticipated New *Eudemons* Game

### *Eudemons Remake Version*

- ▶ Launched the official pre-registration website with early market promotion since March; Closed beta is planned for 2H24
- ▶ Overall gaming experience elevated with a brand-new gaming engine and high-quality art design
- ▶ Designed by the original *Eudemons* dev team to revive the core gameplay and classic elements of the *Eudemons* IP
- ▶ Proven business model with key pain points optimized





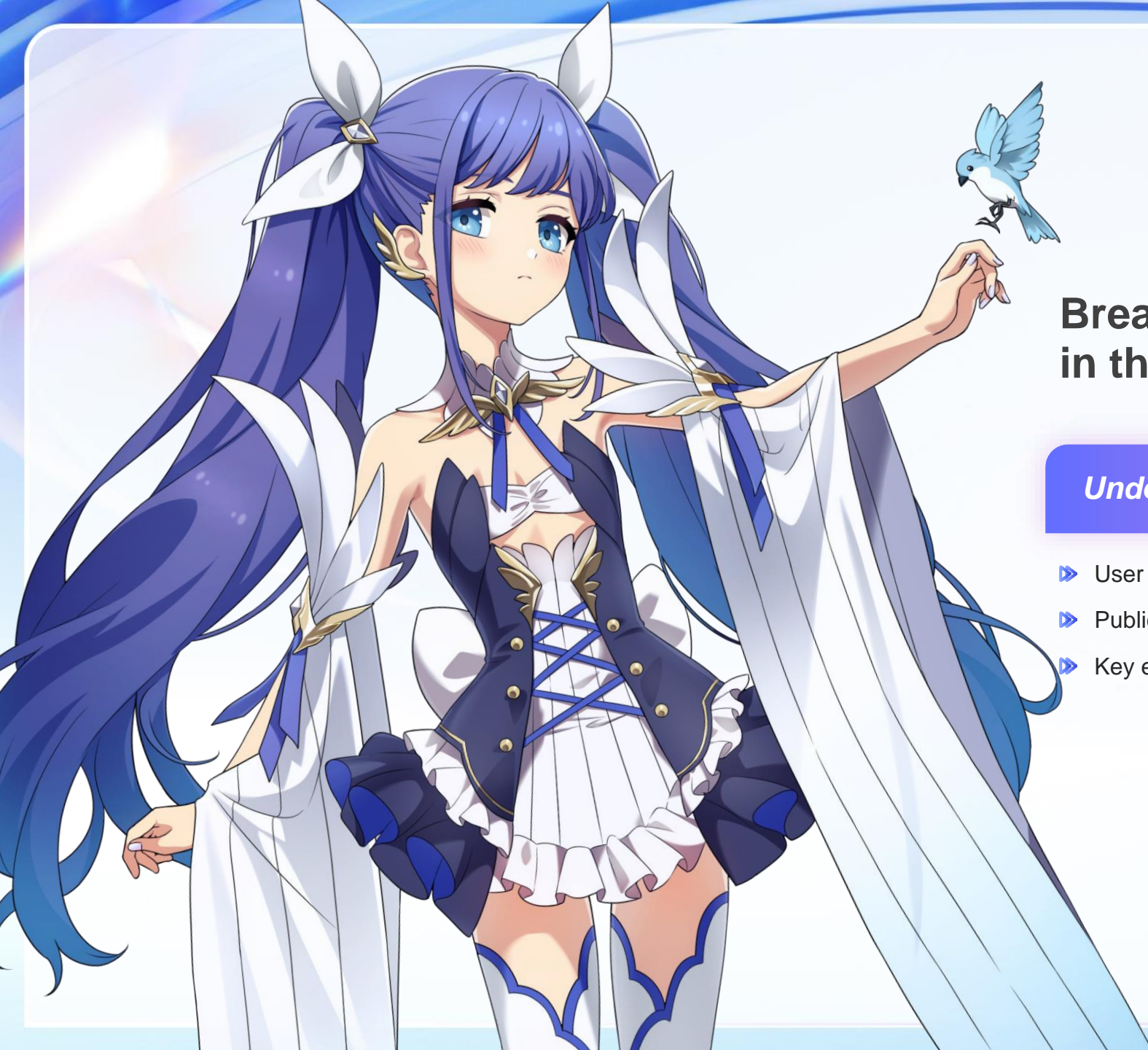


## New Generation of Shooting Games

### *Nebula Rangers*

- ▶ Top-down shooter game powered by UE4 engine
- ▶ Featuring insectoid swarms for a unique hack-and-slash experience together with alien battlefields and intense gunfights
- ▶ Ranked 2<sup>nd</sup> for new games at the *TapTap Game Fest 2024*
- ▶ Expected to launch in 2025



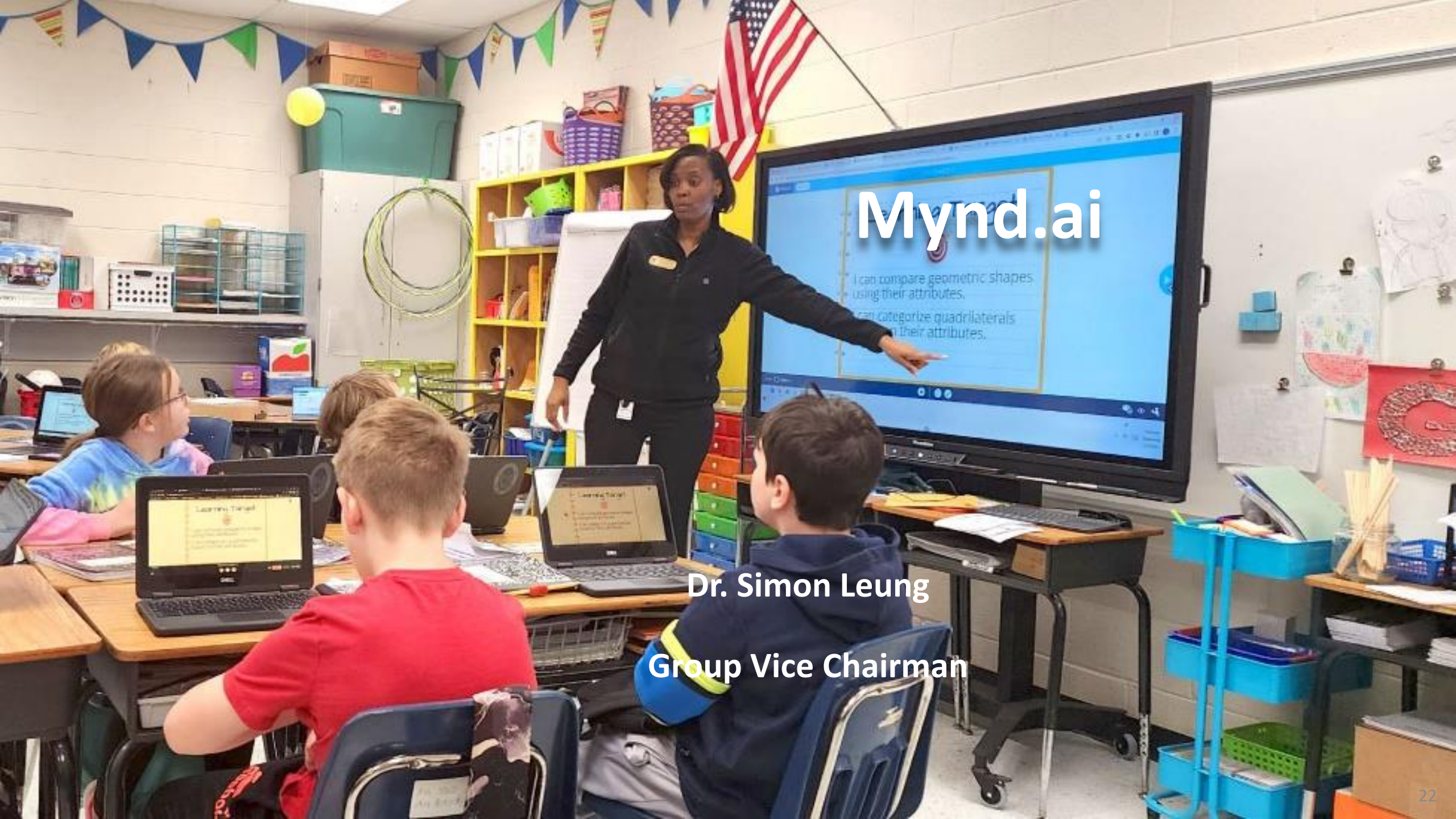


## Breakthrough and Expansion in the ACGN Genre

### *Under Oath*

- ▶ User retention test data in Japan has met expectation
- ▶ Public beta is expected in 1H25
- ▶ Key entry point into the global ACGN market





Mynd.ai

I can compare geometric shapes using their attributes.  
I can categorize quadrilaterals using their attributes.

Dr. Simon Leung

Group Vice Chairman

# The market is facing headwinds affecting hardware shipments for all players

**Revenue**

 **23.5%** YoY

**Adj. EBITDA**

 **7.5%** YoY



*Continuing to focus in our core markets with potentials for SAAS/CAAS*



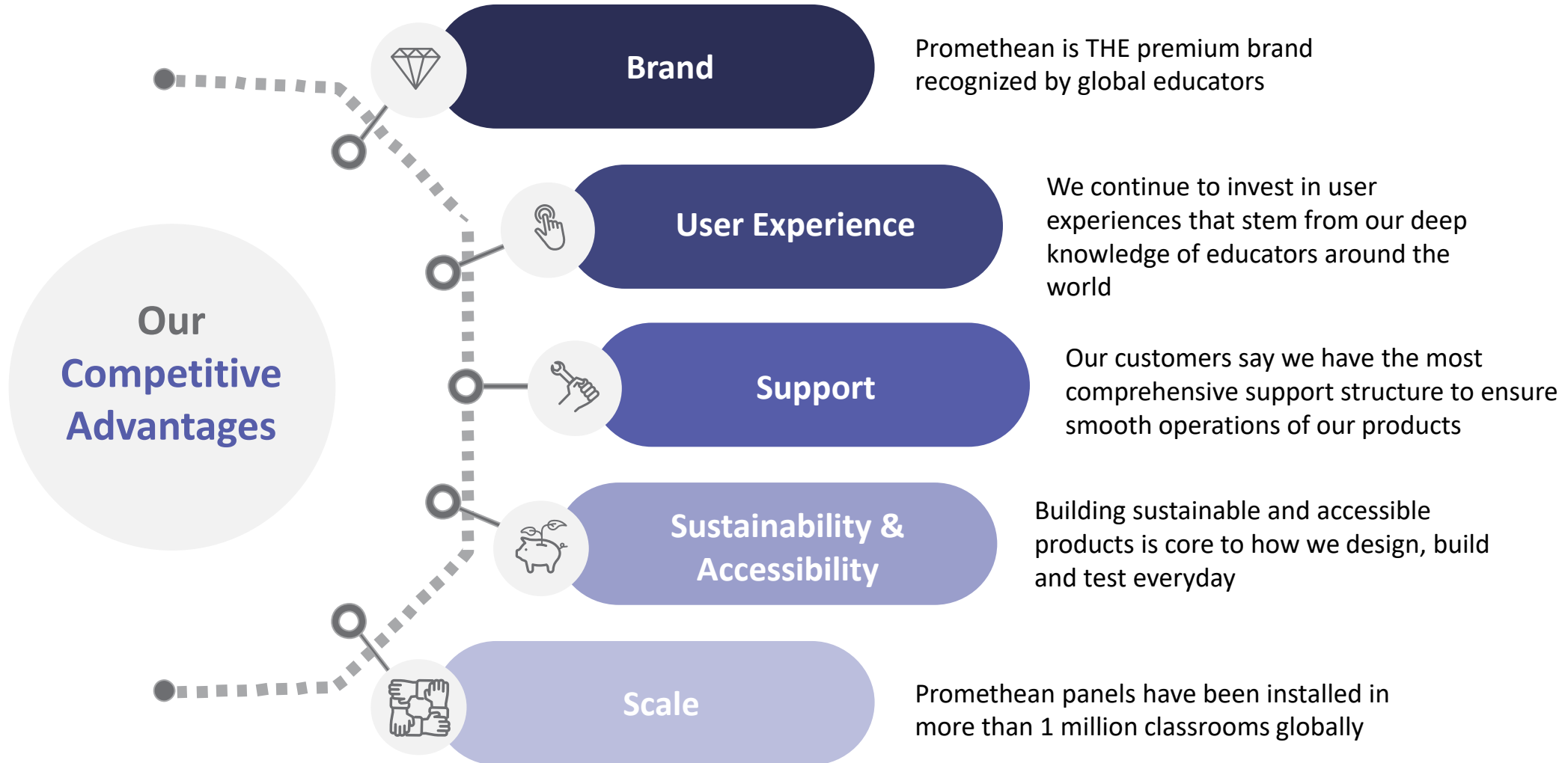
*Inflation leading to higher recurring overhead costs for schools*



*Continuous normalization of demand given the spike from Covid- funding*



# But we continue to win customers on the back of our core competitive advantages



# We also implemented measures to increase our operational efficiencies

*Lower component materials cost*

*Lower freight*

*Transitioning contract production to Mexico*

*Lower warranty cost from lower failure rates*

*Optimization of overhead costs*

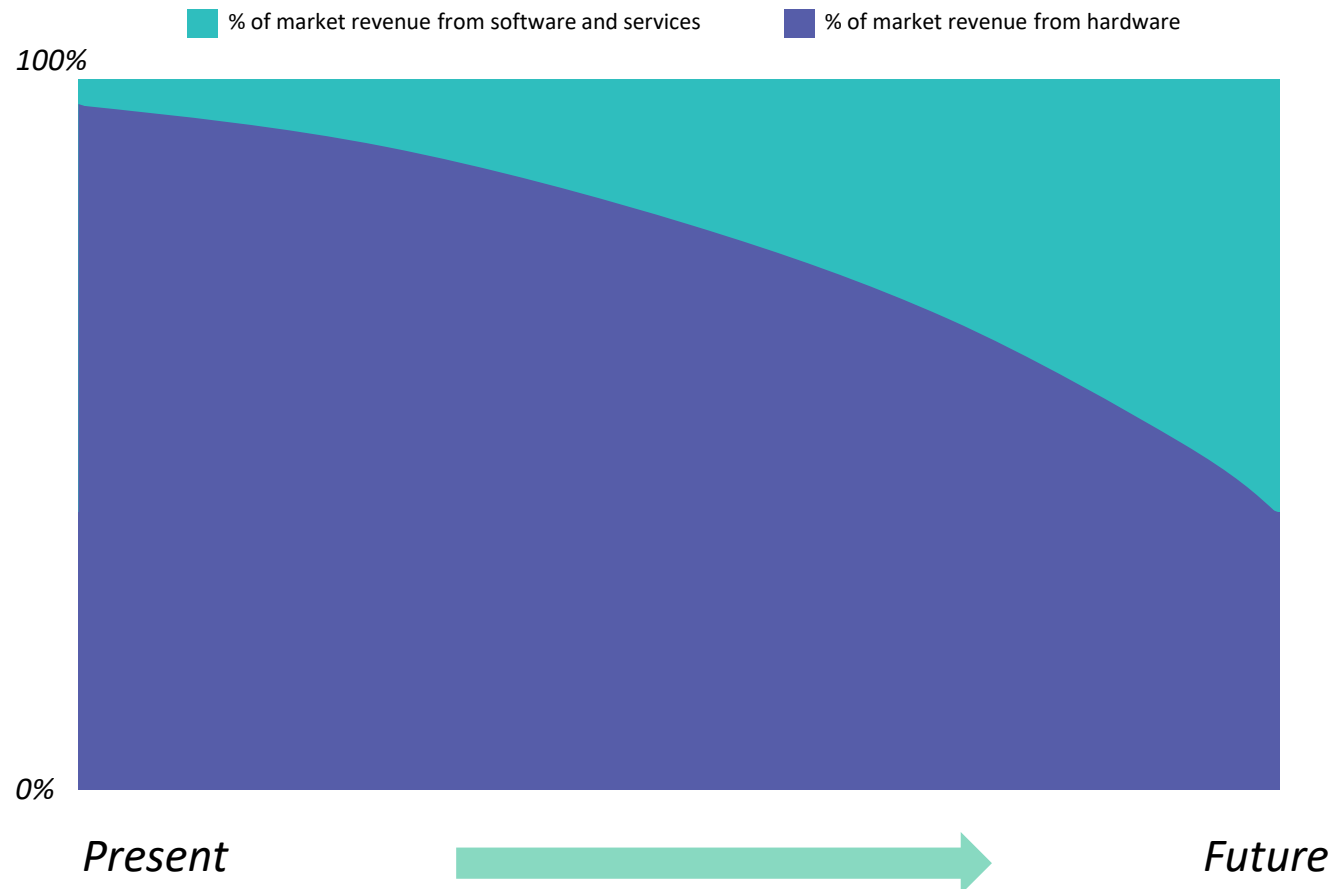
*Working capital management*

	<u>YoY</u>	
Gross margin	↑	<b>4.3</b> pts
Sales & marketing expenses	↓	<b>25.7%</b>
Adjusted EBITDA	↑	<b>7.5%</b>
Cashflow from operations	↑	<b>38.2%</b>



# The opportunity ahead of us in the long run is unprecedented and it's still early days...

*Global classroom education technology market is still in a very early stage of evolving from a hardware-centric model to an integrated software and service-based model*



## *Our competitive moats:*

- 1 Our brand
- 2 Our position as the incumbent market leader
- 3 Our installed base of over 1 million classrooms
- 4 Well-established network of distribution channels
- 5 A head-start advantage in launching our first SAAS offering in ***Explain Everything Advanced***

We're at a market inflection point and we are excited about the future

**We expect our subsidiary Mynd.ai to host a capital market day in the near future to detail our growth strategy and how we plan to achieve success.**





# Outlook

Dr. Simon Leung

Group Vice Chairman





## Gaming

- ◆ Continue our effort in driving increase in content quality that has started to pay off
- ◆ Launch 4-5 new games in the coming 6-9 months
- ◆ Follow through on our multi-pronged strategy to bring *Eudemons* to next phase of accelerated growth



## Mynd.ai

- ◆ Well positioned to continue as the market leader in the classroom technology space
- ◆ Continue to pursue cost optimization measures
- ◆ Dedicated to our long term strategic vision
- ◆ Expect to host Capital Markets Day soon





# Q&A



**Ben Yam**  
Group CFO



**Dr. Simon Leung**  
Group Vice Chairman



**Lin Chen**  
Group Senior Vice President



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