



ND

Results Presentation

2017 Third Quarter Results

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NETDRAGON

Dec 6, 2017

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Overview

Record quarter achieved in both gaming and learning

- Over 50% increase in revenue achieved in Q3 year-over-year
- Several “record high” milestones achieved in both gaming and learning
- Gaming
 - Another quarter of record high revenue achieved
 - Mobile games continued to be major growth driver
 - Our “IP” strategy beginning to bear fruit
 - Pipeline is stronger than ever and we are on track to deliver
- Learning
 - Robust international revenue growth of over 50% year-over-year, driven by market share gains and new market expansion
 - Achieved record high contracted sales in China as we see increasing product adoption through tender wins
 - Very significant ramp-up in installed user base of our flagship platform 101 Education PPT

Operational Updates

Learning

- In China, we achieved two record-high milestones:
 - Achieved year-end goal of 1 million teachers installed base for our flagship platform 101 Education PPT (as of Nov. 30)
 - Achieved RMB150 million in Q3 contracted sales, with end-of-quarter sales backlog of RMB344 million on the back of our tender wins increasing by over 3 times year-over-year
- In the international market, we as global market leader are capitalizing on the rapid adoption of interactive classroom learning technologies
 - As evident from Q3 being the biggest quarter ever in terms of total K-12 interactive displays shipment at a global scale (23% YOY market growth)
 - Rapid transition to newer technologies and bigger screens – market moving to buy flat panels and 70+ inches screen
 - Enhanced user experience at the hardware level inevitably drives adoption of internet platform for teaching and communications
- Achieved significant international market share gain to 31% in Q3, a significant increase from 23% in the same quarter last year
 - In U.S.A (our biggest market in terms of revenue), our sales volume increased by 107% YOY, far exceeded the market growth of 49%
 - Our progress in emerging markets is strong and on track

Gaming

- Achieved another quarter of record-high revenue
- On the back of successful execution of our dual strategy of IP monetization and mobile extension
- Sustained momentum in both new player acquisition and monetization
 - ARPU and APA increased by 52% and 38% YOY respectively
 - MAU and DAU increased by 87% and 19% YOY respectively
- Eudemons Online
 - PC version sustained strong performance with continuous execution of strategies to increase user engagement and user stickiness
 - Pocket version reached record-high monthly gross billing in September
 - New Eudemons mobile game launched in October (in partnership with Kingsoft) and recorded gross billing of over RMB100 million in first month
- Heroes Evolved
 - MAU under this IP increased by 33% QOQ and 141% YOY
 - Pocket version ranked as the ‘top three downloaded mobile games’ on Tencent Open Platform for nine consecutive months

Financial Highlights

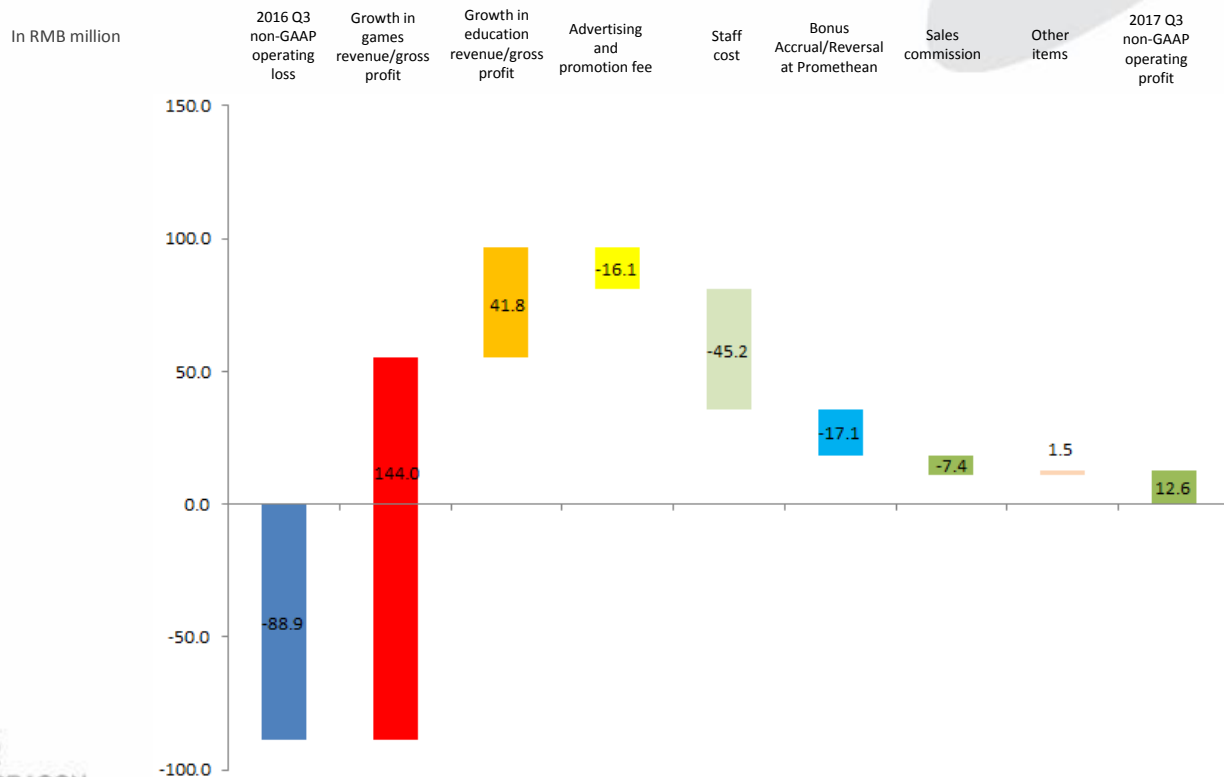
Financial Highlights

| <i>(RMB million)</i> | 2017 Q3 | 2017 Q2 | 2016 Q3 |
|---|---------|---------|---------|
| Revenue | 1,060.6 | 1,061.8 | 694.5 |
| Gross profit | 584.9 | 587.5 | 385.0 |
| Operating profit (loss) | (0.7) | 80.1 | (105.5) |
| Profit (loss) attributable to owners of the Company | 5.1 | 71.4 | (65.4) |
| Non-GAAP operating profit (loss) ¹ | 12.6 | 93.3 | (88.9) |
| Cash, cash equivalents and liquid investment | 1,902.4 | 977.0 | 1,098.7 |
| Cash per Share ² (RMB) | 3.6 | 1.97 | 2.21 |

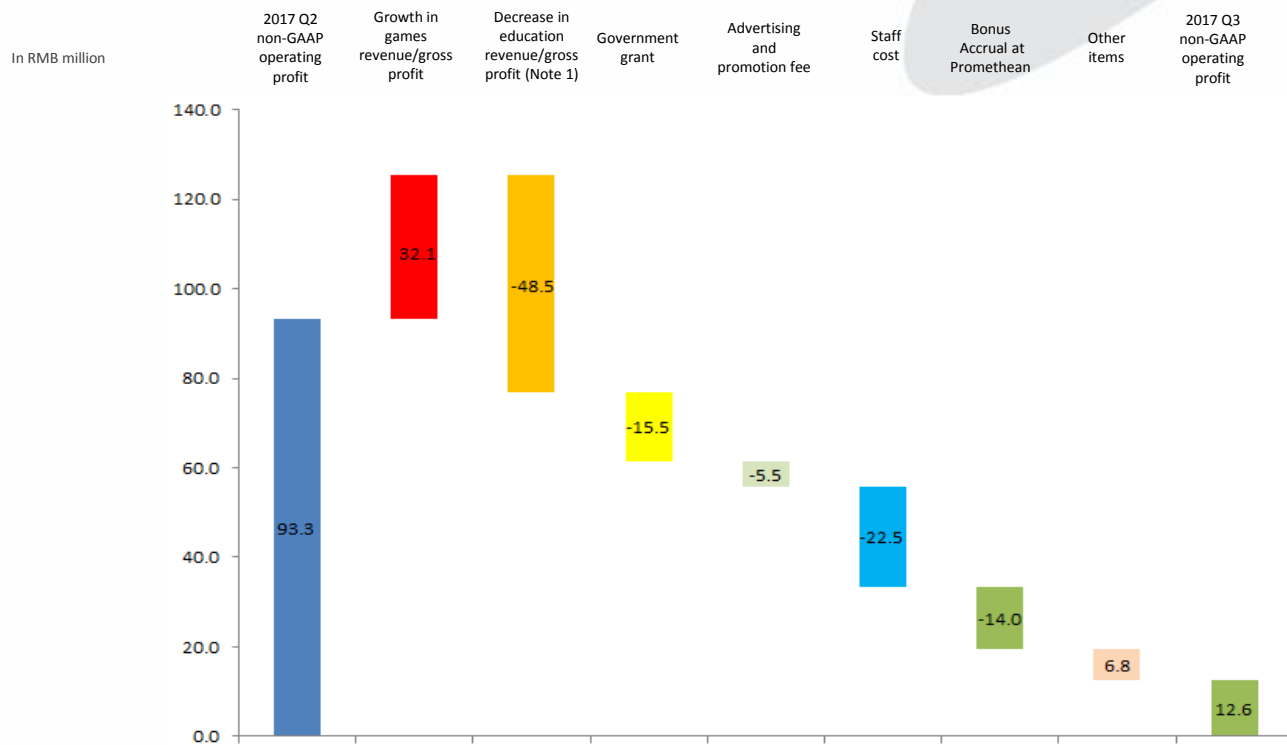
Note 1: The non-GAAP financial measure of the Group excludes share-based payments expense and amortization of intangible assets arising on acquisition of subsidiaries.

Note 2: Cash referred to cash, cash equivalents and liquid investments.

Non-GAAP Operating Profit Bridge - YoY



Non-GAAP Operating Profit Bridge - QoQ



Segmental Financial Highlights

| | 2017 Q3 | | 2017 Q2 | | 2016 Q3 | |
|---|---------|-----------|---------|-----------|---------|-----------|
| (RMB '000) | Gaming | Education | Gaming | Education | Gaming | Education |
| Revenue | 440,229 | 595,935 | 403,904 | 636,306 | 286,559 | 392,220 |
| Gross profit | 409,997 | 168,175 | 377,898 | 204,609 | 266,002 | 115,436 |
| Gross profit margin (%) | 93.1% | 28.2% | 93.6% | 32.2% | 92.8% | 29.4% |
| Core segmental profit (loss) ¹ | 179,061 | (107,850) | 165,349 | (31,425) | 80,110 | (106,301) |
| Segmental operating expenses ² : | | | | | | |
| - Research and development | 112,645 | 107,346 | 103,633 | 94,831 | 91,283 | 95,717 |
| - Selling and marketing | 53,838 | 107,673 | 47,480 | 97,713 | 39,223 | 81,561 |
| - Administrative expenses | 70,675 | 42,753 | 68,038 | 32,698 | 62,046 | 32,569 |

Note 1: Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with HKFRS 8) but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance cost of convertible preferred shares.

Note 2: Segmental operating expenses exclude unallocated expenses such as depreciation and amortization that have been grouped into SG&A categories on the Company's reported consolidated financial statements but cannot be allocated to specific business segments for purpose of calculating the segmental profit (loss) figures in accordance with HKFRS 8.

Financial Highlights – Learning

- Recorded 51.9% YOY increase in revenue in Q3
- International – Q3 highlights:
 - 56.2% revenue growth YOY
 - 30.2% gross margin excluding Russia tender
 - Achieved consecutive profitable quarters
 - “Fixed” SG&A, after adjustment for bonus accrual and sales commission, went down by 10.2% YOY as cost reduction pays off
- China – Q3 highlights:
 - RMB150.2 million of contracted sales achieved during the quarter, an increase of 350.5% YOY
 - RMB344.5 million of sales backlog as of end of Q3, representing signed sales order to be recognized as revenue
 - Robust sales momentum demonstrating beginning of widespread product adoption
- Core segmental loss in Q3 remained steady YOY on the back of growth in revenue with offset by increase in headcounts for user scaling and product developments, sales commission (due to increased revenue), and performance-based bonus expense

Financial Highlights – Gaming

- Q3 is another quarter of record high revenue of RMB440.2 million, a 53.6% YOY increase
- Mobile gaming revenue was RMB82.3 million, a 124.1% YOY increase on the back of strong performance of both pocket versions of Eudemons Online and Heroes Evolved
 - Eudemons Online pocket version reaching record high monthly gross billing of RMB38.5 million in September
 - Heroes Evolved pocket version started to ramp up monetization with 181.3% increase in revenue over Q2
- Eudemons Online PC version continued its strong performance with six consecutive months of monthly gross billings of over RMB100 million
- 123.5% YOY increase in segmental profit supported by revenue growth and operating leverage
- New Eudemons browser-based game was launched in September with RMB27.1 million in gross billing
- Eudemons Online mobile game in partnership with Kingsoft was launched in October and will start revenue contribution in Q4 (gross billing in first month of launch was over RMB100 million)

Outlook

Outlook

- Learning
 - Rapidly growing trend of digital classroom adoption worldwide will drive revenue growth for ND as a global market leader
 - Confident in making significant inroads in emerging markets
 - Several emerging countries present significant revenue opportunities
 - User scaling and user engagement will continue to be our focus as we aim to achieve significant scale of active users of our software platforms
- Gaming
 - Expecting robust growth to be driven by both revenue contribution of our recent successful new game launches and our strong pipeline
 - Pipeline includes 3 new games under the Eudemons Online IP and 3 new games under the Heroes Evolved IP
 - Growth of mobile gaming contribution will continue
 - We are just starting off in the early stage of building our IPs with a current low base

Q&A

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