



Seminar on Value Investing and the Search for Value

June 27, 2025



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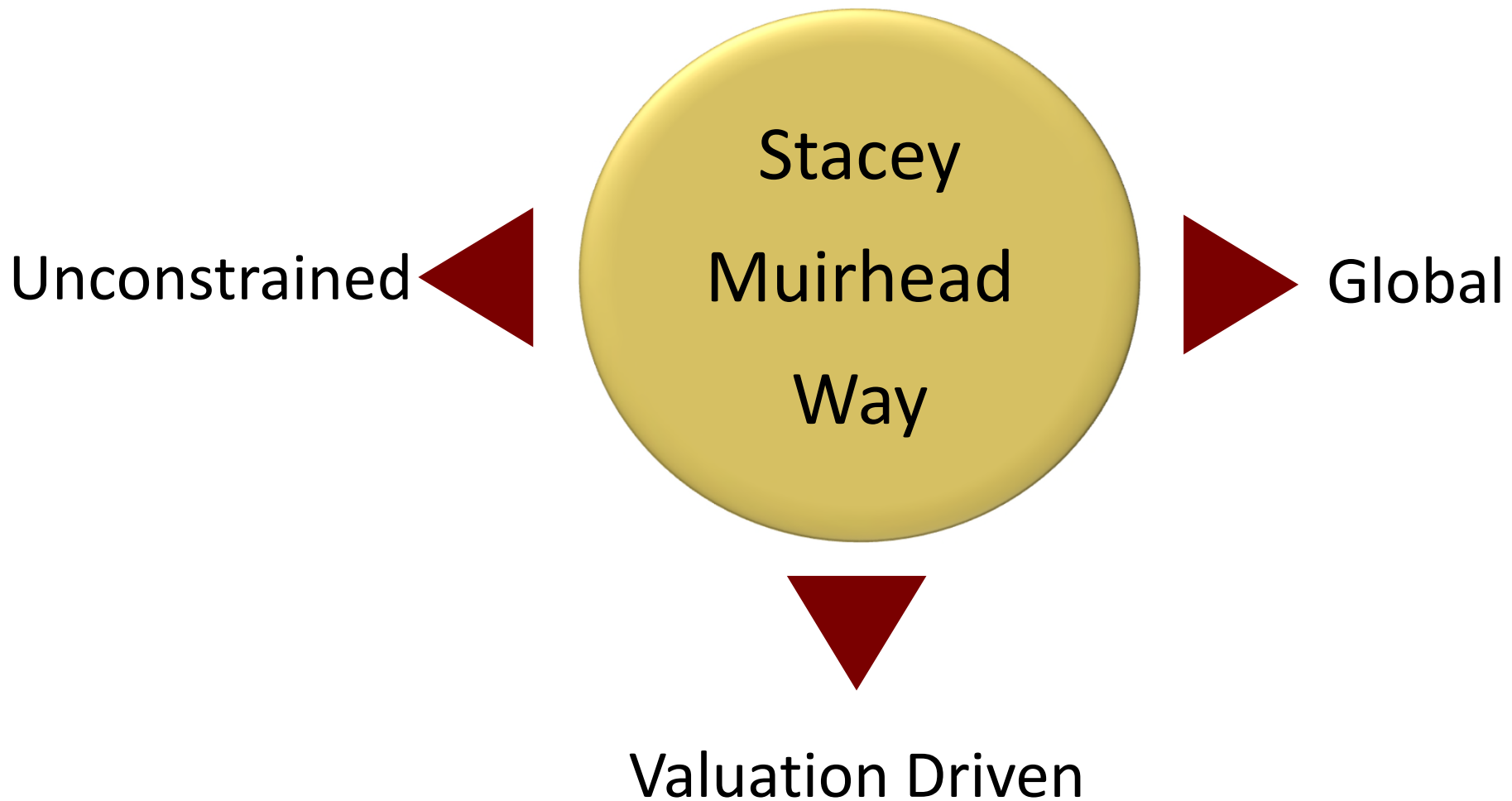
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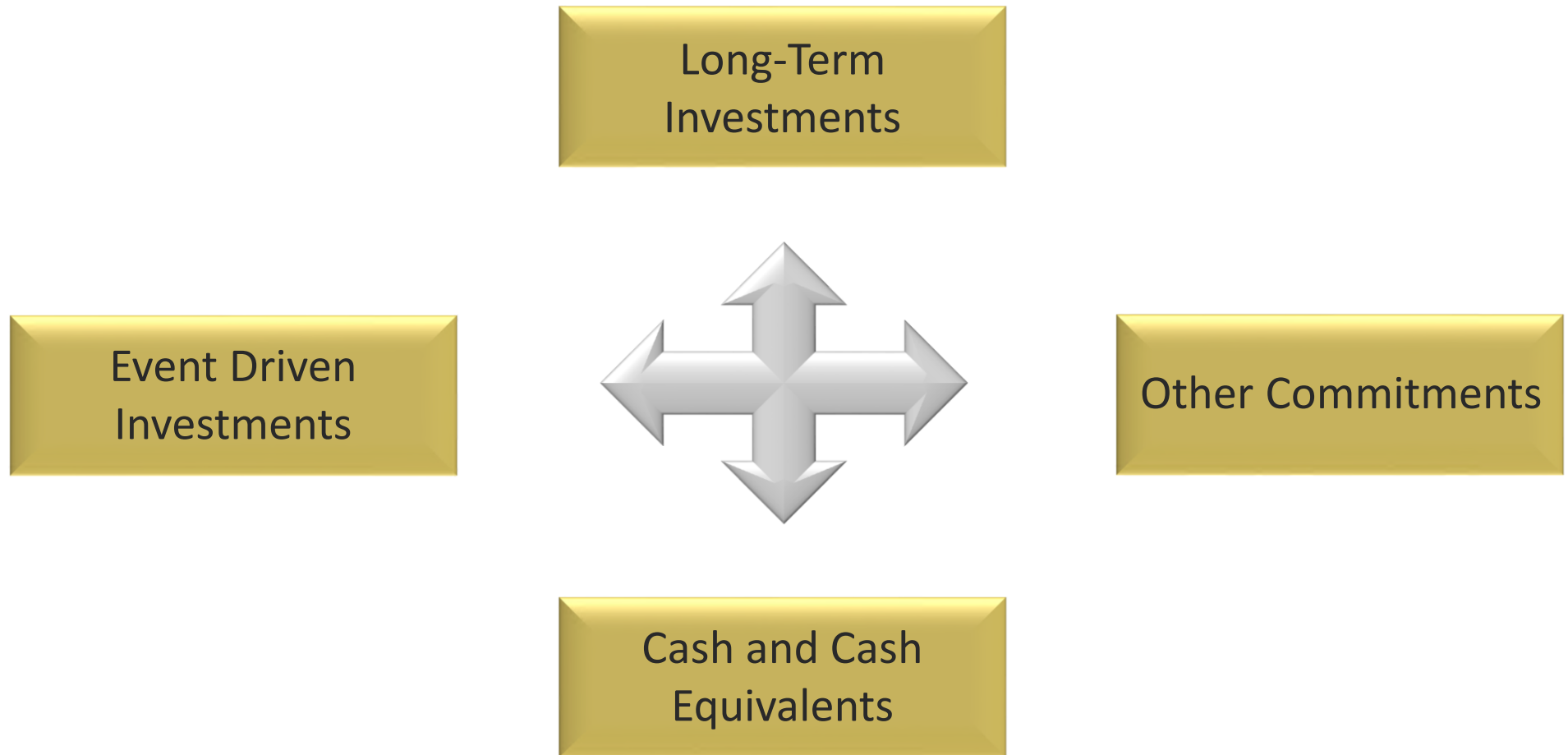
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Investment Philosophy



Investment Philosophy



Fundamental Research and Stock-Picking are the Cornerstone



Long Term Investments – What Are We Looking For?

Does it possess outstanding business economics?



Does it have honest and capable management?



Can it be purchased at an attractive price?



GREAT BUSINESS

GREAT PEOPLE

GREAT PRICE



Does it possess outstanding business economics?

- High returns on shareholders' equity
- A strong balance sheet with minimal or no debt
- Growing revenue and earnings over time
- Attractive operating and profit margins
- Consistent free cash flow generation
- Significant brand recognition
- Pricing power for its products or services



Does it have honest and capable management?

- “Skin in the game”
- Reasonable compensation practices
- Measurable pay for performance
- Demonstrated integrity
- Capital allocation record
- Unique corporate culture
- Strong board governance



Can it be purchased at an attractive price?

“Your goal as an investor should be simply to purchase at a rational price a part interest in an easily understood business whose earnings are virtually certain to be materially higher, five, ten or twenty years from now.”

Warren Buffett





All figures in USD unless otherwise noted



NetEase, Inc.

Corporate Overview

- NetEase is a leading online gaming developer & publisher
- NetEase was founded by William Ding in 1997
- #2 market share in China
- #5 market share globally
- NetEase owns approximately 55% of Youdao
- NetEase owns approximately 60% of NetEase Cloud Music



Does it possess outstanding
business economics?



NetEase, Inc.

Compounded Annual Growth Rates (CAGR) (Per Share Basis – Last 10 Years)

Revenues	20.5%
Earnings	17.6%
Free Cash Flow	19.1%
Dividends	18.5%
Market Price	18.1%



NetEase, Inc.

Key Financial Data (Year Ended 12/31/24)

Revenues	\$14.4 B
Net Income	\$4.1 B (\$6.29 per ADS)
Free Cash Flow	\$5.1 B (\$7.95 per ADS)
Return on Equity	21.7%
Net Profit Margin	28.2%
Net Cash *	\$18.9 B (\$29.47 per ADS)
Share Buybacks	\$1.3 B (14 million @\$89.70)
Total Dividends Paid	\$1.7 B (\$2.45 per ADS)

* as of 03/31/25



NetEase, Inc.

Competitive Advantages

- Large scale and proven ability to develop successful games
- Loyal and sticky customer base
- Over 50 games in development currently
- Distribution agreement with Activision Blizzard in China



NetEase, Inc.

Potential Headwinds

- Geopolitical considerations
- Gaming restrictions on Chinese youth
- Game approval delays by Chinese regulators
- U.S. share delisting



NetEase, Inc.

Does it possess outstanding business economics?

- Excellent long term growth record
- Strong financial position
- High returns on shareholder equity
- Consistent free cash flow generation
- Loyal and sticky customer base
- Solid development pipeline
- Attractive distribution partner in China



Does it have honest and
capable management?



NetEase, Inc.

Key Management

- William Ding started NetEase and is the current CEO
- He owns approximately 46% of NetEase valued at about \$38.8 Billion
- William is 53 years old and still very active in the business
- Excellent Capital Allocation record

Management and Shareholders are clearly aligned!



NetEase, Inc.

Does it have honest and capable management?

- “Skin in the Game”
- Excellent capital allocation record
- William Ding is still very active in operations



Can it be purchased at an
attractive price?



NetEase, Inc.

Valuation Basics – Earnings

Current Price	\$132.76
Net Cash per ADS	<u>29.47</u>
Adjusted Price	\$103.29
2025 Earnings Estimate per ADS	\$8.42
PE	12.3 X



NetEase, Inc.

Valuation Basics – Sum of the Parts (Per ADS)

Current Market Price	\$132.76
Net Cash	29.47
Current Market Value – Youdao	1.62
Current Market Value – NetEase Cloud Music	<u>6.25</u>
Net Market Value	\$95.42
2025 Earnings Estimate per ADS	\$8.42
PE Multiple	11.3 X



NetEase, Inc.

Summary

Great Business

Great People

Great Price





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