



# KongZhong Corporation (NASDAQ: KONG) Emerging Leader in Internet / Mobile Games

November 2013  
Post 3Q 2013 Results Presentation



# Safe Harbor Statement



This press release contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include, without limitation, statements regarding trends in the wireless value-added services, wireless media, mobile games and online games industries and our future results of operations, financial condition and business prospects. Although such statements are based on our own information and information from other sources we believe to be reliable, you should not place undue reliance on them. These statements involve risks and uncertainties, and actual market trends and our results may differ materially from those expressed or implied in these forward looking statements for a variety of reasons. Potential risks and uncertainties include, but are not limited to, continued competitive pressure in China’s wireless value-added services, wireless media, mobile games and online games industries and the effect of such pressure on revenues; our ability to develop new products that are commercially successful; unpredictable changes in technology, consumer demand and usage preferences in the markets we operate; our ability to protect our intellectual property rights; the short operating history of certain of our business segments, in particular the online games segment; the state of and any change in our relationship with China’s telecommunications operators; our dependence on the billing systems of telecommunications operators for our performance; the outcome of our investment of operating income generated from the WVAS segment into the development of our wireless Internet, mobile games and online games segments; changes in the regulations or policies of the Ministry of Industry and Information Technology and other government authorities relevant to our businesses; and changes in political, economic, legal and social conditions in China, including the Chinese government’s policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China’s telecommunications and online games markets. For additional discussion of these risks and uncertainties and other factors, please see the documents we file from time to time with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statements, which apply only as of the date of this press release.



# 3Q 2013 Results Overview



- Total 3Q13 revenues of US\$ 44.08 mn
- Non-GAAP net income was US\$ 1.50 mn, inline with the guidance range of US\$ 1.5 mn to US\$ 2.5 mn
- As of September 30, 2013, the Company had US\$ 204.81 mn in cash and cash equivalents, term deposits, held-to-maturity securities and restricted cash or US\$ 4.71 per ADS.



# 4Q 2013 Outlook



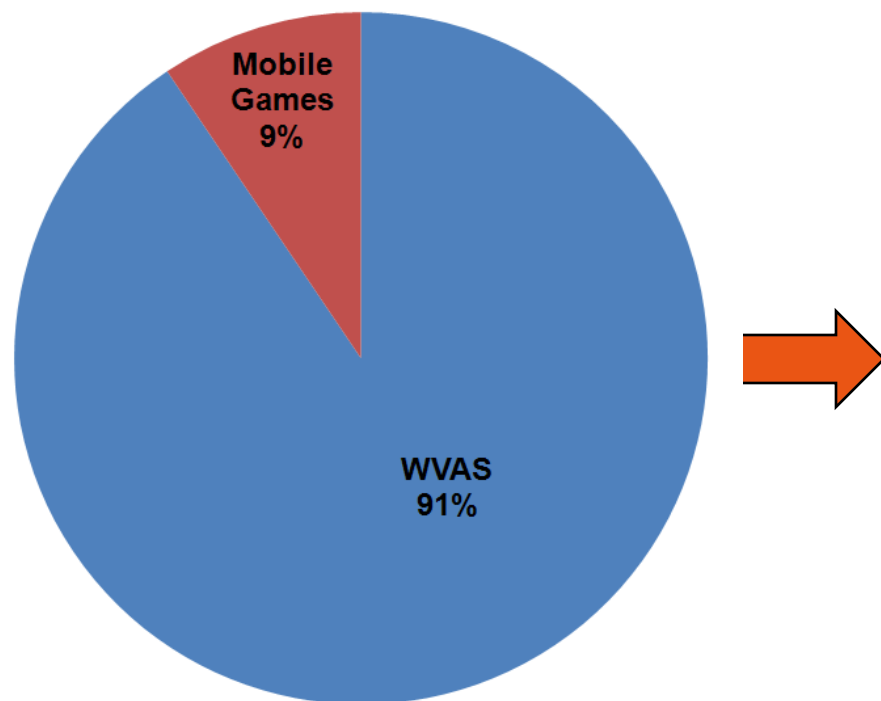
- The Company expects total revenues for 4Q13 to be within the range of US\$ 41 mn to US\$ 42 mn, with business unit revenues at the mid-point expected to roughly consist of;
  - WVAS revenues of US\$ 13 mn;
  - Feature phone mobile game revenues of US\$ 2 mn;
  - Smartphone game revenues of US\$ 3.5 mn and;
  - Net Game revenues of US\$ 23 mn.
- The Company expects:
  - Total gross profit to be within the range of US\$ 20 mn to US\$ 21 mn;
  - Net profit to be US\$ 8 mn to US\$ 9 mn and;
  - Non-GAAP net profit is expected to be US\$ 9 mn to US\$ 10 mn.



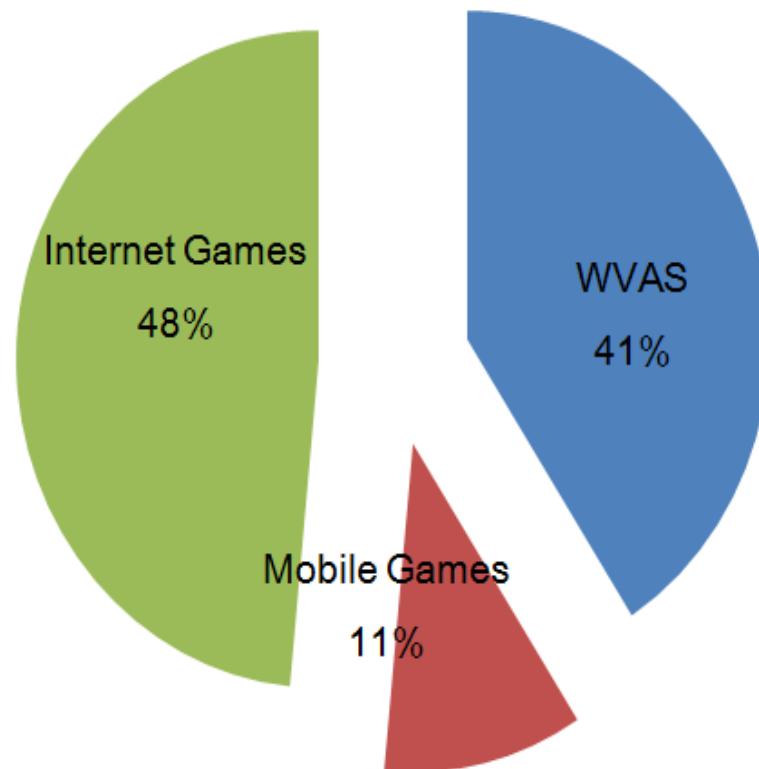
# From WVAS to Internet / Smartphone Games



**3Q08 Revenue Mix**

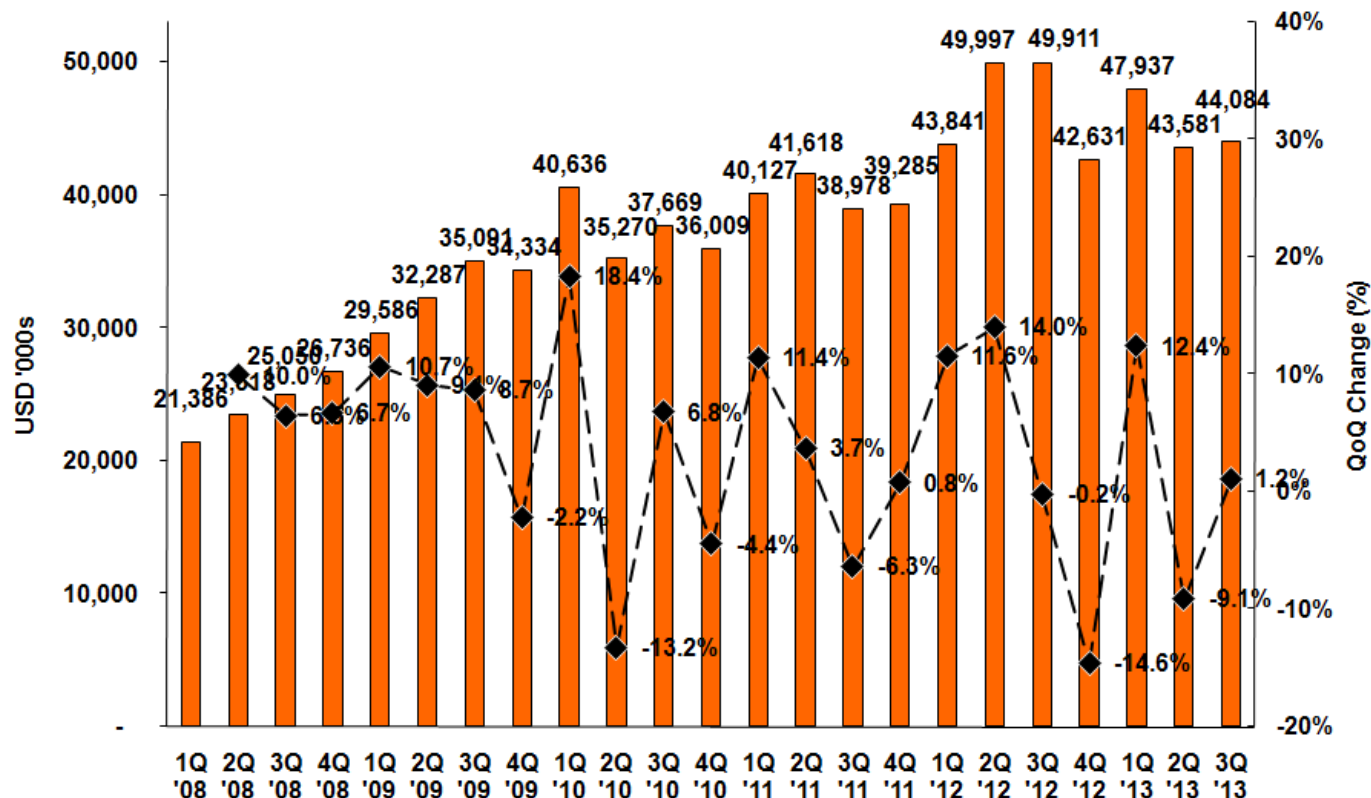


**3Q13 Revenue Mix**



# 3Q13 Total Revenues

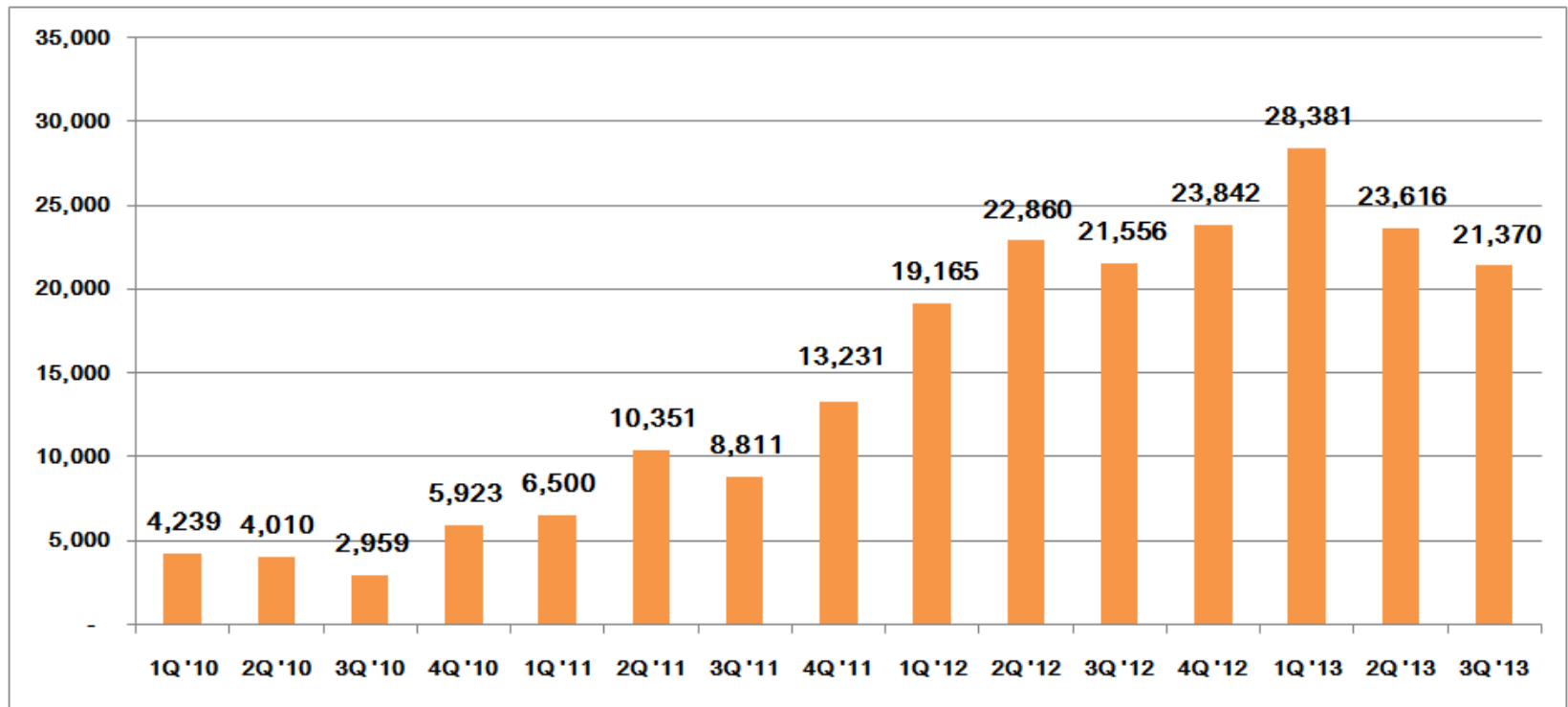
- Total revenues in 3Q13 were flat QoQ due to seasonal pause in Internet game content updates.



# 3Q13 Net Game Overview

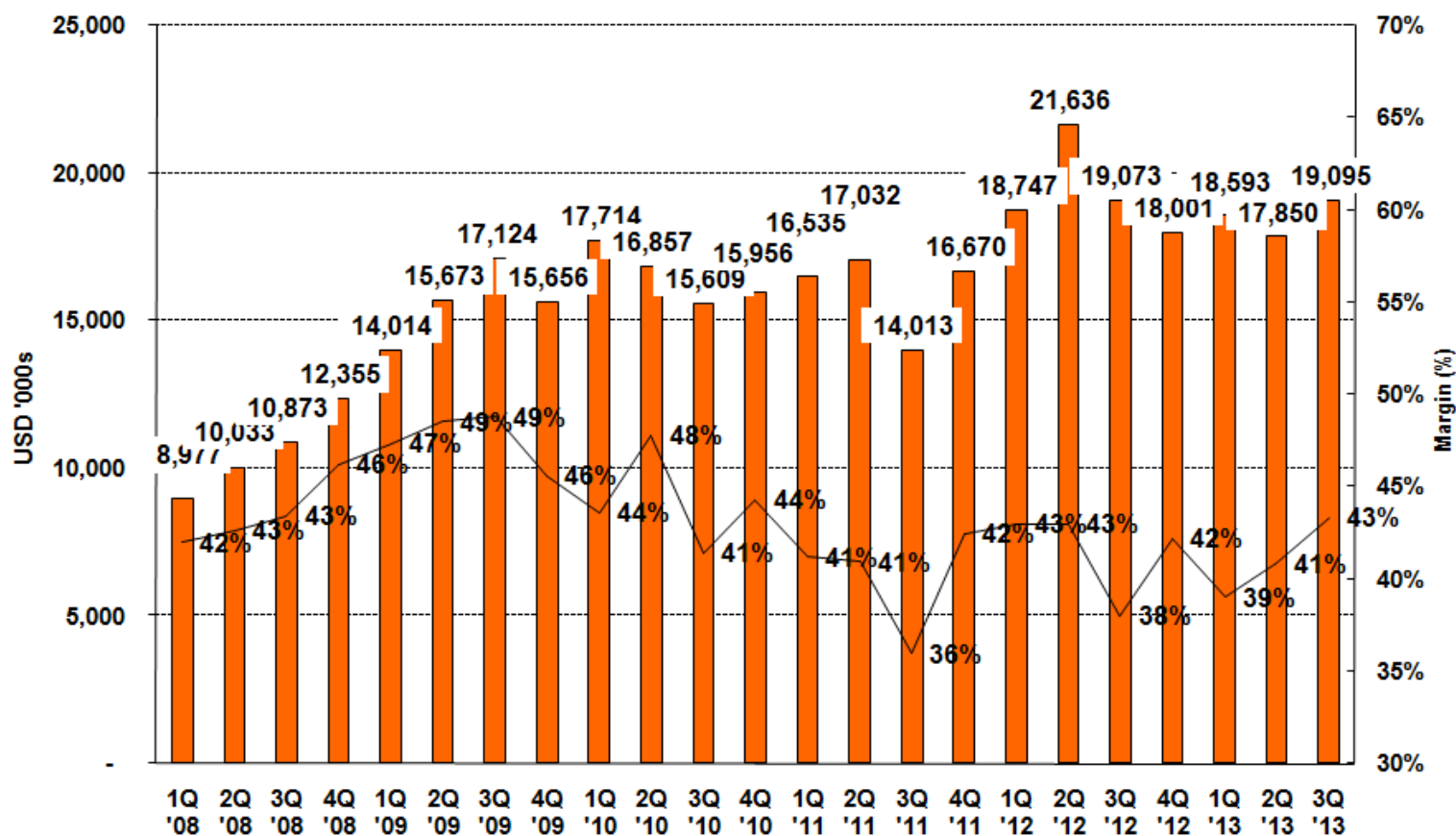


- Net Game revenues in 3Q13 were down QoQ due to seasonal pause in Internet game content updates (e.g. WoT)
- Expect rebound in Net Game revenues in 4Q13. Guidance of US\$ 23 mn



*In USD '000s*

# 3Q13 Gross Profit



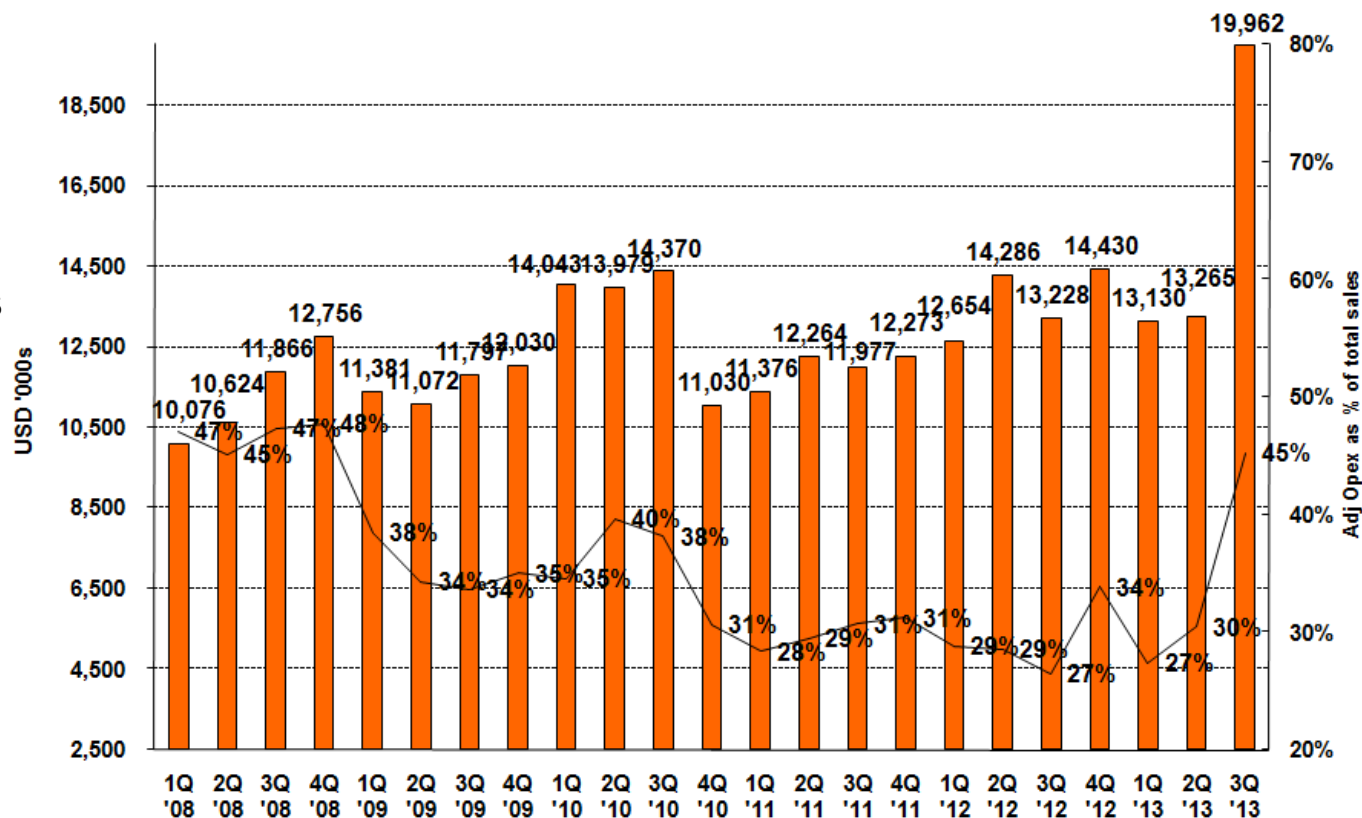
• Non-GAAP Financial Measures are described and reconciled to the corresponding GAAP measures in the section titled “Non-GAAP Financial Measures” in our corresponding financial reports / earnings releases



# 3Q13 Operating Expenses



- Sharp jump in 3Q marketing expenses focused on (a) new user acquisition for smartphone games (b) new users and branding for WoT and (c) overall branding for KONG games
- Expect 4Q13 marketing spend to return to 1<sup>st</sup> half 2013 levels

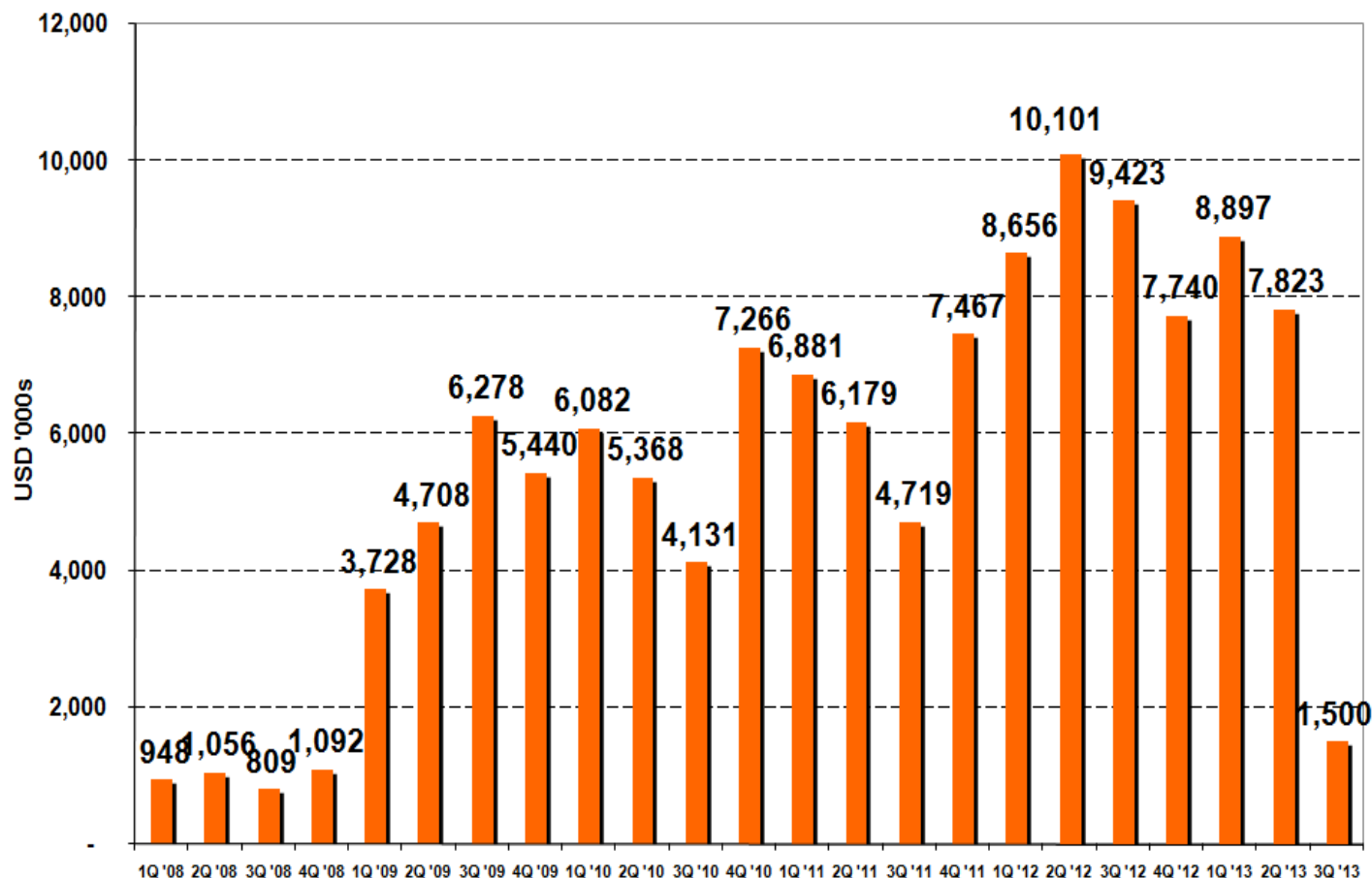


• Non-GAAP Financial Measures are described and reconciled to the corresponding GAAP measures in the section titled “Non-GAAP Financial Measures” in our corresponding financial reports / earnings releases

# 3Q13 Non-GAAP Net Profit



- 3Q13 Non-GAAP NPAT down QoQ due to high marketing spend
- Expect US\$ 9-10 mn in Non-GAAP NPAT in 4Q13



• Non-GAAP Financial Measures are described and reconciled to the corresponding GAAP measures in the section titled “Non-GAAP Financial Measures” in our corresponding financial reports / earnings releases

# Internet Games



# 2014 Internet Game Pipeline



# 3Q13 Internet Game Metrics



	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	QoQ	YoY
US\$ '000s	1Q '10	2Q '10	3Q '10	4Q '10	1Q '11	2Q '11	3Q '11	4Q '11	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13	2Q '13	3Q '13	Chg (%)	Chg (%)
NET Game Revs	4,239	4,011	2,959	5,922	6,500	10,351	8,811	13,231	19,165	22,860	21,556	23,842	28,381	23,616	21,370	-10%	-1%
Overseas - %	7%	37%	18%	39%	23%	20%	12%	7%	6%	9%	6%	4%	2%	2%	3%		
Net Game % of tll revs	10%	11%	8%	16%	16%	25%	23%	34%	44%	46%	43%	56%	59%	54%	48%		
ACUs ('000s)	77	75	69	81	66	157	157	194	228	302	286	300	364	377	399	6%	40%
APAs ('000s)	185	115	69	120	218	445	450	570	744	821	781	832	950	838	763	-9%	-2%
ARPU (RMB) - qtr	172	149	240	204	150	121	111	137	153	161	165	173	184	172	168	-2%	2%
China operations revs	3,925	2,524	2,435	3,620	4,980	8,289	7,776	12,294	18,108	20,912	20,323	22,855	27,811	23,152	20,780	-10%	2%
Overseas revs	314	1,487	524	2,302	1,520	2,062	1,035	937	1,057	1,949	1,233	987	570	464	590	27%	-52%

- Net Game revenues in 3Q13 were down QoQ due to seasonal pause in Internet game content updates (e.g. WoT)
- Expect rebound in Net Game revenues in 4Q13. Guidance of US\$ 23 mn



• Note: 1Q11 figures only include WoT ACU / APA as of March 2011

# World of Tanks – Team-based MMO Game



- Commercialized March 15<sup>th</sup> 2011
- Working closely with Wargaming to deploy new and timely content to WoT China users
- Continue to build up loyal WoT community while developing Net Café and e-sports





# Strategic Partnership with Wargaming.net



- On May 14<sup>th</sup> 2012, announced strategic partnership with Wargaming.net, developer of World of Tanks
- World of Tanks – Extended initial 3-year agreement into no time limited, long-term operating rights
- World of Warplanes – Signed exclusive and long-term rights for China
- World of Warships-- Signed exclusive and long-term rights for China
- Future Wargaming.net games (including mobile games) – Right of first offer for mainland China



# World of Warplanes – WoT in the sky!

- CBT in 2014
- World of Warplanes is an action MMO game dedicated to the golden era of military aviation. The new project will continue the "war saga" launched by its predecessor, the legendary World of Tanks, and will open up the skies for those wishing to dominate the air.





Exclusive for Mainland China



Time Magazine's Game of 2012



# Hawken (Meteor Entertainment)



- Hawken is a free-to-play first person mech combat shooter.
- CBT in 2014



- 3D Martial Arts  
“Wu Xia” MOBA  
game
- KONG self-  
developed by  
experienced Xbox  
development team  
in Shanghai
- Beta testing to  
begin in 2013

新流星搜剑录



# Blitzkrieg 3 – Under Development



- New genre of RTS / MOBA from Nival Games (Russian), developer of famous Blitzkrieg series.
- CBT in 2014





# Auto Club Revolution – Under Development



- ACR - The First Free-to-Play Simulated Online Car Racing Game in China
- Eutechnyx is the world's leading independent racing game developer & publisher
- CBT in 2014



# Smartphone Games

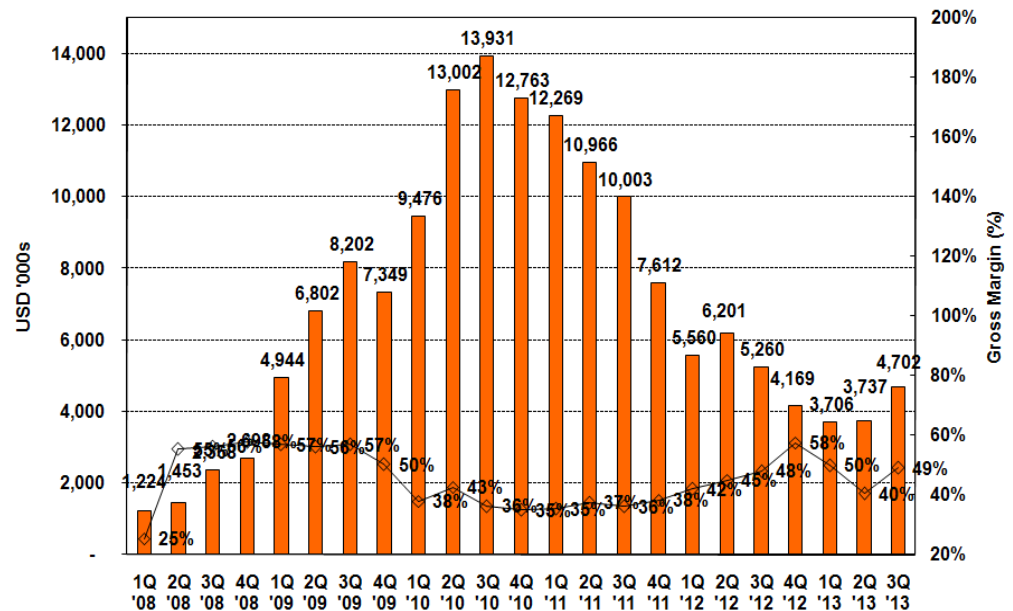


# Mobile Games – Pivoting to Smartphone



Mobile Games	3Q 2012	4Q 2012	1Q 2013	2Q 2013	3Q 2013	QoQ %	Mix (%)
Featurephone	3,483	2,125	2,363	2,848	3,209	13%	68%
Smartphone	1,778	2,043	1,343	889	1,493	68%	32%
<b>Total</b>	<b>5,261</b>	<b>4,169</b>	<b>3,706</b>	<b>3,736</b>	<b>4,702</b>	<b>26%</b>	

- In 3Q have begun to launch new smartphone games to market and expect more smartphone games in 2<sup>nd</sup> half of 2013.
- 3Q avg MAUs 1.03 mn, but 1.19 mn new registered users in Sept 2013 due to increased marketing spend
- 4Q guidance, expect feature phone mobile game revenues of US\$ 2 mn and ;
- Smartphone game revenues of US\$ 3.5 mn.



# 3Q /4Q Smartphone Games Line-up (1)



## 大领主 (Pocket Lord)

Type: **RPG**

Dev team size: **15-20**

Time under development: **6+ months**



## 口袋战争 (Pocket Fort)

Type: **SLG**

Dev team size: **25-30**

Time under development: **6+ months**





## 3Q /4Q Smartphone Games Line-up (2)



### 三国群英OL (Three Kingdom Generals)

Type: **SLG**

Dev team size: **15-20**

Time under development: **9+ months**



### 搞怪三国 (Kooky Three Kingdoms))

Type: **Online RPG**

Dev team size: **25-30**

Time under development: **9+ months**



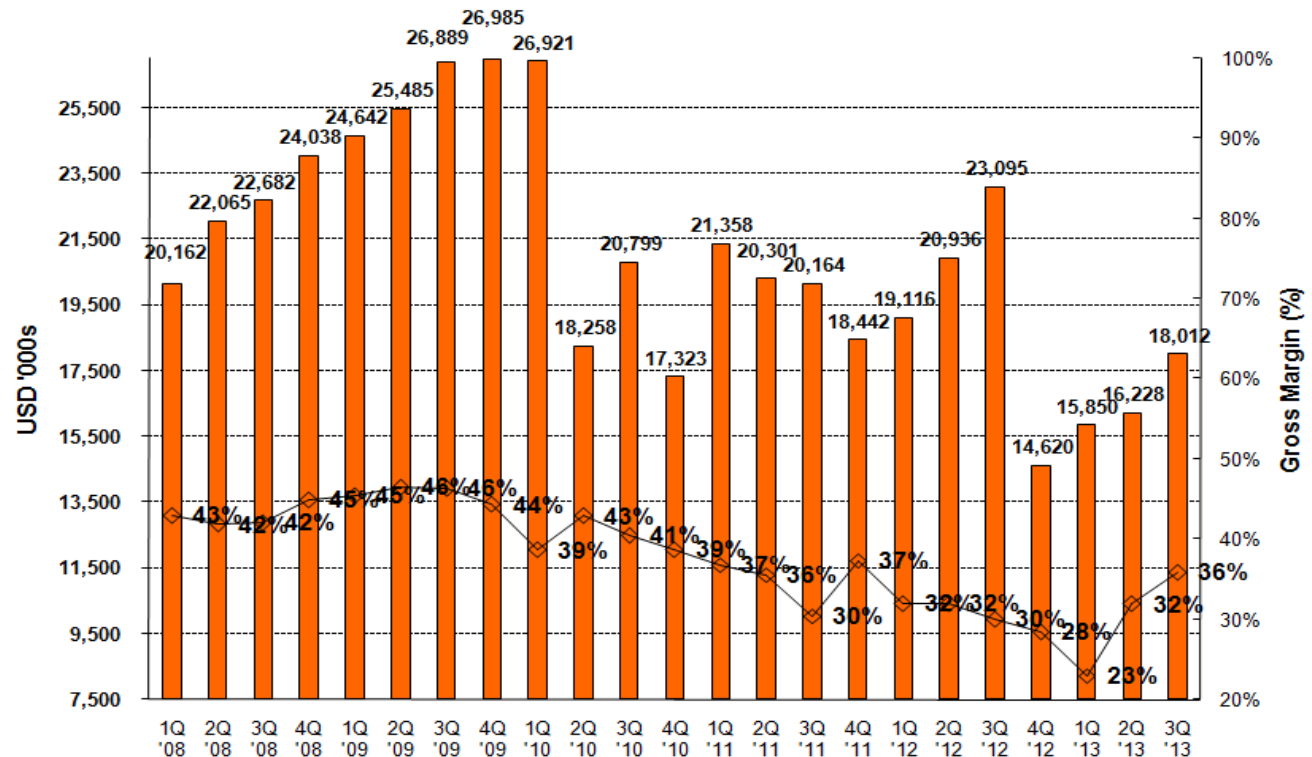
WVAS



# WVAS: Remains difficult – Focus on cashflow



- New mobile operator policies were introduced in 4Q09 / 1Q10 with first full qtr impact in 2Q10
- Expect WVAS policy environment to remain difficult
- KONG strategy is to organically grow our Internet game business to be less dependent on WVAS
- 4Q13 WVAS revenue guidance US\$ 13 mn
- However, we expect 2014 WVAS to be relatively stable compared to 2013



# Company Guidance - 4Q 2013



# 4Q 2013 Guidance



## **Business Outlook (For the 3-month period ending December 31, 2013):**

The Company expects total revenues for 4Q13 to be within the range of US\$ 41mn to US\$ 42 mn, with business unit revenues at the mid-point expected to roughly consist of;

WVAS revenues of US\$ 13mn,  
feature phone mobile game revenues of US\$ 2mn  
smartphone game revenues of US\$ 3.5 mn and  
Net Game revenues of US\$ 23 mn.

The Company expects total gross profit to be within the range of US\$ 20 mn to US\$ 21 mn, net profit to be US\$ 8 mn to US\$ 9 mn, and Non-GAAP net profit is expected to be US\$ 9 mn to US\$ 10 mn.



# Company Financials



# Key Business Segments



in US\$ '000s	3-mths 1Q '11	3-mths 2Q '11	3-mths 3Q '11	3-mths 4Q '11	3-mths 1Q '12	3-mths 2Q '12	3-mths 3Q '12	3-mths 4Q '12	3-mths 1Q '13	3-mths 2Q '13	3-mths 3Q '13	QoQ (%)	YoY (%)
<b>Revenues</b>	<b>40,127</b>	<b>41,618</b>	<b>38,978</b>	<b>39,285</b>	<b>43,841</b>	<b>49,997</b>	<b>49,911</b>	<b>42,631</b>	<b>47,937</b>	<b>43,581</b>	<b>44,084</b>	<b>1.2%</b>	<b>-11.7%</b>
WVAS	21,358	20,301	20,164	18,442	19,116	20,936	23,095	14,620	15,850	16,228	18,012	11.0%	-22.0%
Mobile Games	12,269	10,966	10,003	7,612	5,560	6,201	5,260	4,169	3,706	3,737	4,702	25.8%	-10.6%
Net Games	6,500	10,351	8,811	13,231	19,165	22,860	21,556	23,842	28,381	23,616	21,370	-9.5%	-0.9%
<b>Sales tax</b>	<b>839</b>	<b>986</b>	<b>941</b>	<b>1,062</b>	<b>1,381</b>	<b>1,539</b>	<b>1,461</b>	<b>1,412</b>	<b>1,822</b>	<b>1,582</b>	<b>1,506</b>		
WVAS	381	370	367	272	277	303	294	178	211	204	278		
Mobile Games	178	166	154	124	86	66	38	30	41	41	37		
Net Games	280	450	420	666	1,018	1,170	1,129	1,204	1,570	1,337	1,191		
<b>Gross Profit</b>	<b>16,535</b>	<b>17,032</b>	<b>14,013</b>	<b>16,670</b>	<b>18,747</b>	<b>21,636</b>	<b>19,073</b>	<b>18,001</b>	<b>18,593</b>	<b>17,850</b>	<b>19,095</b>	<b>7.0%</b>	<b>0.1%</b>
WVAS	7,866	7,224	6,132	6,894	6,140	6,781	6,982	4,156	3,615	5,176	6,457	24.7%	-7.5%
Mobile Games	4,331	4,106	3,620	2,923	2,341	2,763	2,530	2,402	1,862	1,510	2,310	53.0%	-8.7%
Net Games	4,338	5,702	4,261	6,853	10,266	12,092	9,561	11,443	13,116	11,164	10,328	-7.5%	8.0%
<b>Gross Margin (%)</b>	<b>41%</b>	<b>41%</b>	<b>36%</b>	<b>42%</b>	<b>43%</b>	<b>43%</b>	<b>38%</b>	<b>42%</b>	<b>39%</b>	<b>41%</b>	<b>43%</b>		
WVAS	37%	36%	30%	37%	32%	32%	30%	28%	23%	32%	36%		
Mobile Games	35%	37%	36%	38%	42.1%	45%	48%	58%	50%	40%	49%		
Net Games	67%	55%	48%	52%	53.6%	53%	44%	48%	46%	47%	48%		
<b>Revenue Mix (%)</b>													
WVAS	53%	49%	52%	47%	44%	42%	46%	34%	33%	37%	41%		
Mobile Games	31%	26%	26%	19%	13%	12%	11%	10%	8%	9%	11%		
Net Games	16%	25%	23%	34%	44%	46%	43%	56%	59%	54%	48%		



# Income Statement



in US\$ '000s	3-mths 1Q '11	3-mths 2Q '11	3-mths 3Q '11	3-mths 4Q '11	3-mths 1Q '12	3-mths 2Q '12	3-mths 3Q '12	3-mths 4Q '12	3-mths 1Q '13	3-mths 2Q '13	3-mths 3Q '13
Revenues	40,127	41,618	38,978	39,285	43,841	49,997	49,911	42,631	47,937	43,581	44,084
Cost of revenues	22,753	23,600	24,024	21,553	23,713	26,822	29,377	23,218	27,522	24,149	23,483
Sales tax	839	986	941	1,062	1,381	1,539	1,461	1,412	1,822	1,582	1,506
<b>Gross profit</b>	<b>16,535</b>	<b>17,032</b>	<b>14,013</b>	<b>16,670</b>	<b>18,747</b>	<b>21,636</b>	<b>19,073</b>	<b>18,001</b>	<b>18,593</b>	<b>17,850</b>	<b>19,095</b>
Gross margin (%)	41%	41%	36%	42%	43%	43%	38%	42%	39%	41%	43%
Operating expenses											
Product development	3,606	3,952	3,960	3,899	4,080	4,424	4,554	5,325	6,136	6,455	6,991
Sales and marketing	4,831	5,351	5,074	5,636	5,712	7,147	5,802	5,926	4,568	4,644	10,942
General & administrative	2,939	2,961	2,943	2,738	2,862	2,715	2,872	3,179	2,426	2,166	2,029
Goodwill impairment/intangibles	-	-	20,259	-	-	-	-	-	-	-	-
Total operating expenses	11,376	12,264	32,236	12,273	12,654	14,286	13,228	14,430	13,130	13,265	19,962
Govt subsidy	-	-	-	-	-	159	-	143	153	652	-
<b>Operating profit / (loss)</b>	<b>5,159</b>	<b>4,768</b>	<b>(18,223)</b>	<b>4,397</b>	<b>6,093</b>	<b>7,509</b>	<b>5,845</b>	<b>3,714</b>	<b>5,616</b>	<b>5,237</b>	<b>(867)</b>
<b>Operating margin (%)</b>	<b>12.9%</b>	<b>11.5%</b>	<b>-46.8%</b>	<b>11.2%</b>	<b>13.9%</b>	<b>15.0%</b>	<b>11.7%</b>	<b>8.7%</b>	<b>11.7%</b>	<b>12.0%</b>	<b>-2.0%</b>
Income (loss) before tax exp	611	5,275	(16,855)	6,452	7,895	9,051	7,116	5,170	7,019	6,703	(2,658)
Income tax expense	1,067	885	402	784	1,037	1,159	896	400	214	191	23
<b>Net income (loss)</b>	<b>(456)</b>	<b>4,390</b>	<b>(17,257)</b>	<b>5,668</b>	<b>6,858</b>	<b>7,892</b>	<b>6,220</b>	<b>4,770</b>	<b>6,805</b>	<b>6,512</b>	<b>(2,681)</b>
<b>Diluted earnings/(loss) per ADS</b>	<b>\$ (0.01)</b>	<b>\$ 0.11</b>	<b>\$ (0.41)</b>	<b>\$ 0.14</b>	<b>\$ 0.16</b>	<b>\$ 0.18</b>	<b>\$ 0.14</b>	<b>\$ 0.11</b>	<b>\$ 0.16</b>	<b>\$ 0.15</b>	<b>\$ (0.06)</b>
ADS diluted (mn)	37.58	42.54	41.18	41.57	41.91	43.87	43.82	42.43	41.85	42.96	43.50
Net margin (%)	-1.1%	10.5%	-44.3%	14.4%	15.6%	15.8%	12.5%	11.2%	14.2%	14.9%	-6.1%

- Cash and cash equivalents, held-to-maturity securities and restricted cash as of Sept 30<sup>th</sup> 2013 = US\$ 204.81 mn or US\$ 4.71 per basic ADS
- For our full financial statements, please see our filings with the SEC





# Non-GAAP Net Income



in US\$ '000s	3-mths 1Q '11	3-mths 2Q '11	3-mths 3Q '11	3-mths 4Q '11	3-mths 1Q '12	3-mths 2Q '12	3-mths 3Q '12	3-mths 4Q '12	3-mths 1Q '13	3-mths 2Q '13	3-mths 3Q '13
GAAP Net income / (loss)	(456)	4,390	(17,257)	5,668	6,858	7,892	6,220	4,770	6,805	6,512	(2,681)
Share-based comp	1,191	1,117	1,097	1,174	1,150	1,150	1,143	1,022	556	444	284
Financial exp on conv notes	230	82	88	88	63	-	-	-	-	-	-
Amortisation of Intangibles	619	590	532	537	585	1,059	2,010	1,798	1,386	717	185
Impairments of goodwill/intangibles	-	-	20,259	-	-	-	-	-	-	-	3,562
Change of contingent payable	-	-	-	-	-	-	-	-	-	-	-
Investment impairments loss	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of contingent payable	3,730	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment	1,567	-	-	-	-	-	-	-	-	-	-
Imputed interest in LT payables	-	-	-	-	-	-	50	150	150	150	150
<b>Non-GAAP Net Income</b>	<b>6,881</b>	<b>6,179</b>	<b>4,719</b>	<b>7,467</b>	<b>8,656</b>	<b>10,101</b>	<b>9,423</b>	<b>7,740</b>	<b>8,897</b>	<b>7,823</b>	<b>1,500</b>
<b>Non-GAAP Income per ADS</b>	<b>\$ 0.17</b>	<b>\$ 0.14</b>	<b>\$ 0.11</b>	<b>\$ 0.18</b>	<b>\$ 0.21</b>	<b>\$ 0.23</b>	<b>\$ 0.21</b>	<b>\$ 0.18</b>	<b>\$ 0.21</b>	<b>\$ 0.18</b>	<b>\$ 0.03</b>
ADS mn	40.9	43.1	42.1	42.2	41.9	43.9	44.0	42.4	41.9	43.0	43.5



# Thanks

Jay Chang

Chief Financial Officer  
KongZhong Corporation  
[jaychang@kongzhong.com](mailto:jaychang@kongzhong.com)  
<http://kong.net>  
NASDAQ: KONG

