



# Investor Presentation

Emerging leader in internet & mobile games

NASDAQ: "KZ"

March 2015

# 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.



- Low Valuation + High Growth Potential
- Developing Diversified AAA PC Game Portfolio
- Expansion of Mobile Game Portfolio through Self-development and Licensing

## Internet Games



## Mobile Games



More to come...



# Opportunities / Goals for KongZhong



## INTERNET GAMES

Less Competition  
Diversified Pipeline  
AAA Games

## MOBILE GAMES

Early Mover Advantage  
Existing Distribution Channel  
Overseas Market

## OBJECTIVES

Seize Current Timing  
Realize Annual Game Revenue \$US 400–500M in 2 Years



# Experienced Management Team to Lead Growth



**Leilei Wang**  
**Chairman & CEO**

- Chairman & CEO since 2008
- 10+ years experience in internet industry
- Served as CEO at Tom Online from 2003 to 2008
- Graduated from Tsinghua University



**Jay Chang**  
**CFO & Director**

- CFO since 2009
- Served as CFO at 56.com & Tom Online
- Served as a director of equity research at Credit Suisse for nearly six years
- Graduated from University of Washington



**Tai Fan**  
**CIO**

- CIO since 2009
- Served as EVP at Tom Online
- Served as the financial controller of Xin De Telecom and an auditor at KPMG
- EMBA from the State University of New Jersey

Total Staff ~1,100

# 4Q 2014 Results Overview



- Total revenues US\$ 61.6 mn, 43.5% YoY growth
- US\$ 188.2 mn in cash and cash equivalents or US\$ 4.06 per ADS.
- Non-GAAP NPAT US\$ 10 mn or US\$ 0.22 per ADS



# 1Q 2015 Outlook



**Revenues**

**US\$ 46 mn to US\$ 47 mn**

**Gross Profit**

**US\$ 17 mn to US\$ 18 mn**

**Net Profit**

**~US\$ 4 mn**

**Non-GAAP Net Profit**

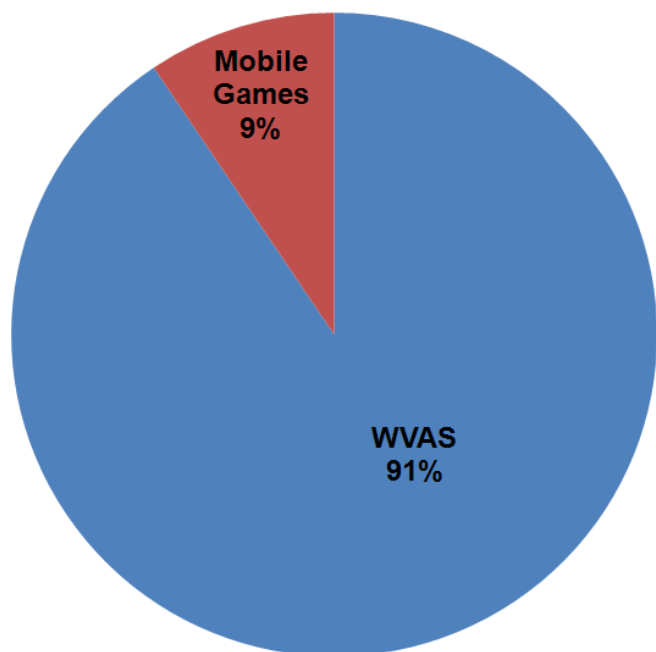
**~US\$ 5 mn**



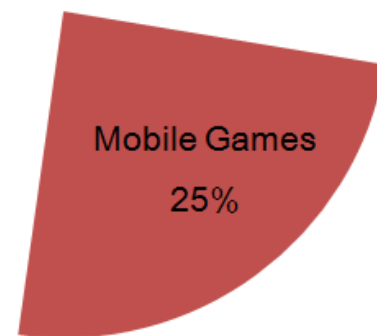
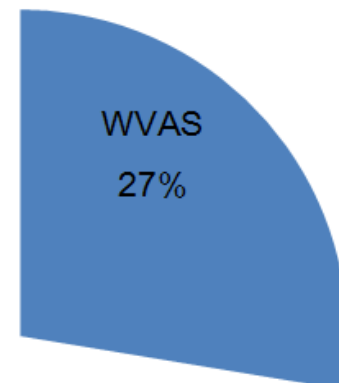
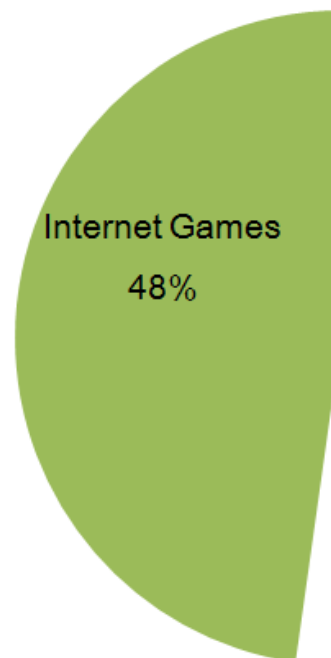
# From WVAS to Internet / Smartphone Games



3Q08 Revenue Mix



4Q14 Revenue Mix

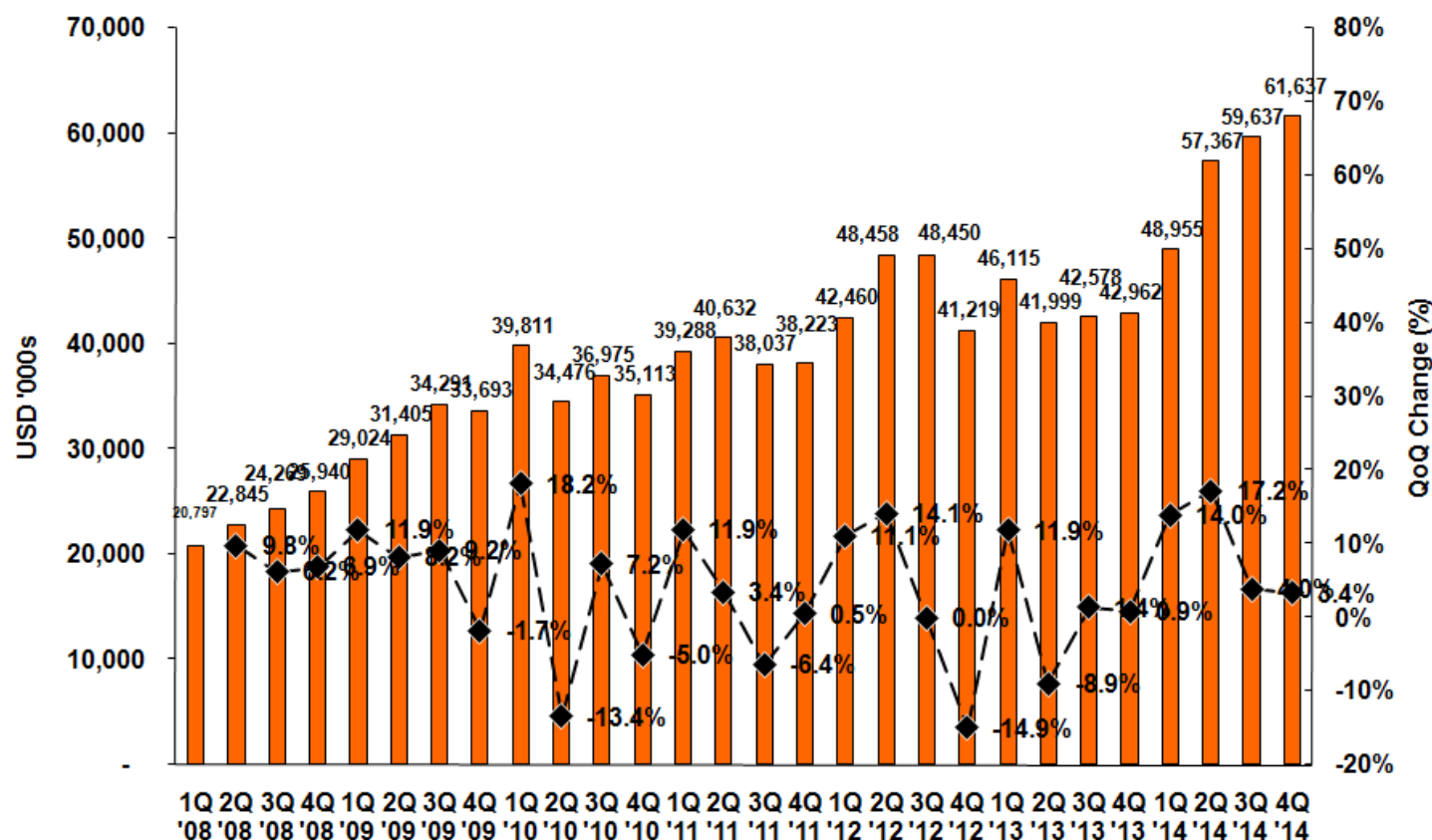




# 4Q14 Total Revenues



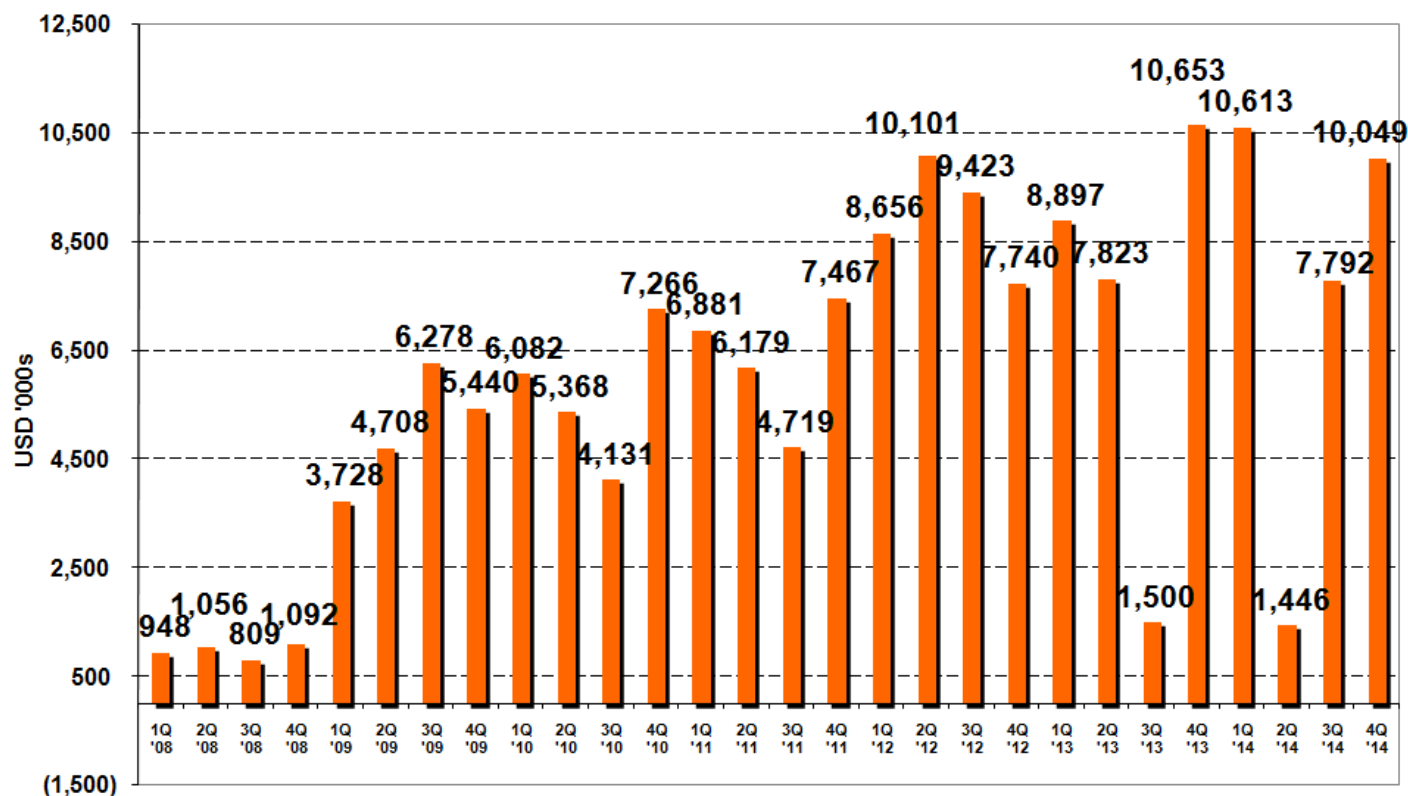
- Total revenues in 4Q14 US\$ 61.6 mn YoY growth of 43.5%
- 1Q15 revenue guidance of US\$ 46 – 47 mn



# 4Q14 Non-GAAP Net Profit



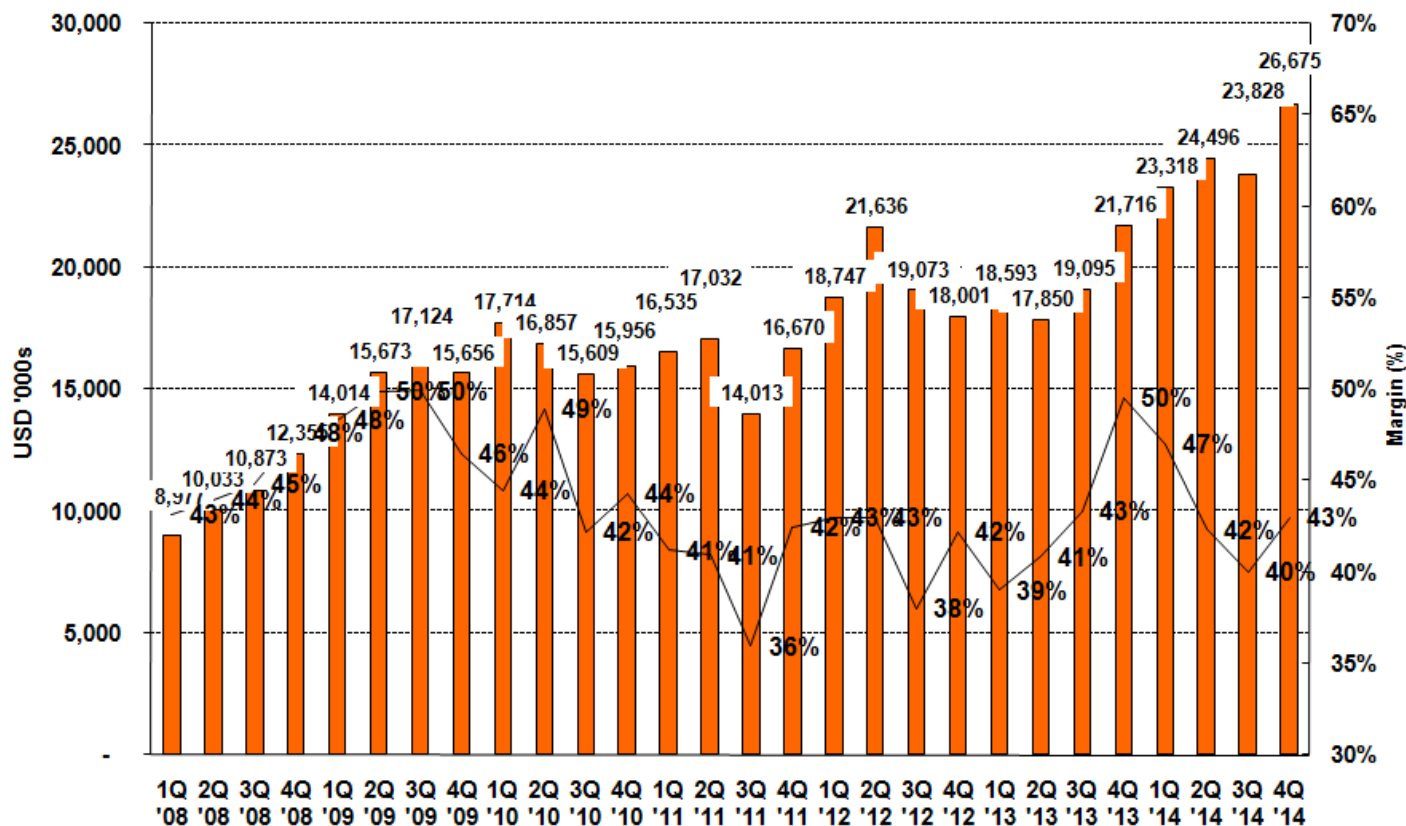
- 4Q14 Non-GAAP NPAT US\$ 10 mn
- 1Q15 Non-GAAP NPAT guidance US\$ 5 mn



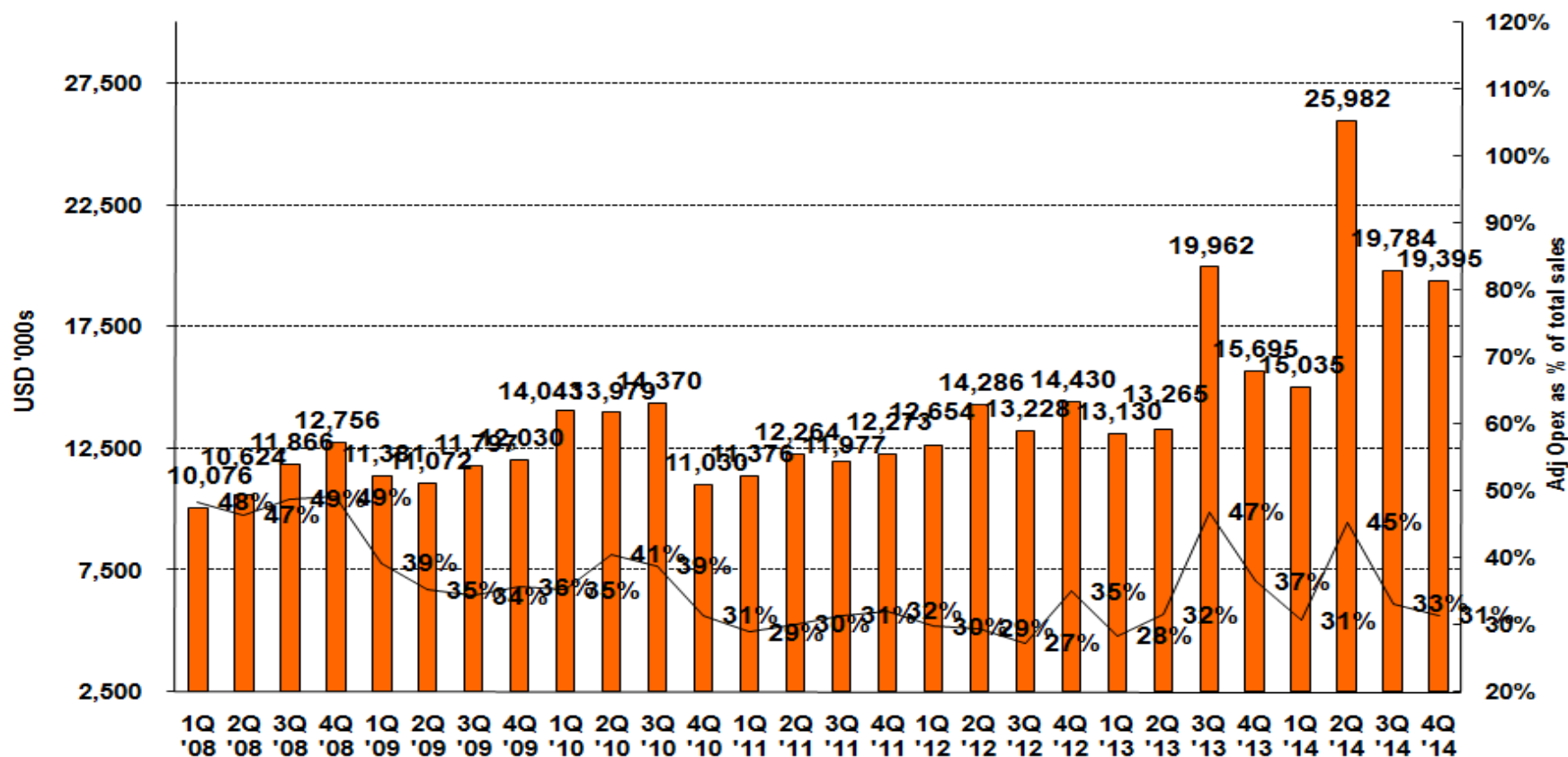
• Non-GAAP Financial Measures are described and reconciled to the corresponding GAAP measures in the section titled “Non-GAAP Financial Measures” in our corresponding financial reports / earnings releases

# 4Q14 Gross Profit

- 4Q14 Gross profit was US\$ 26.7 mn  
YoY growth of 22.8%
- Expect 1Q15  
Gross profit of US\$ 17 - 18 mn



# 4Q14 Operating Expenses



• 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

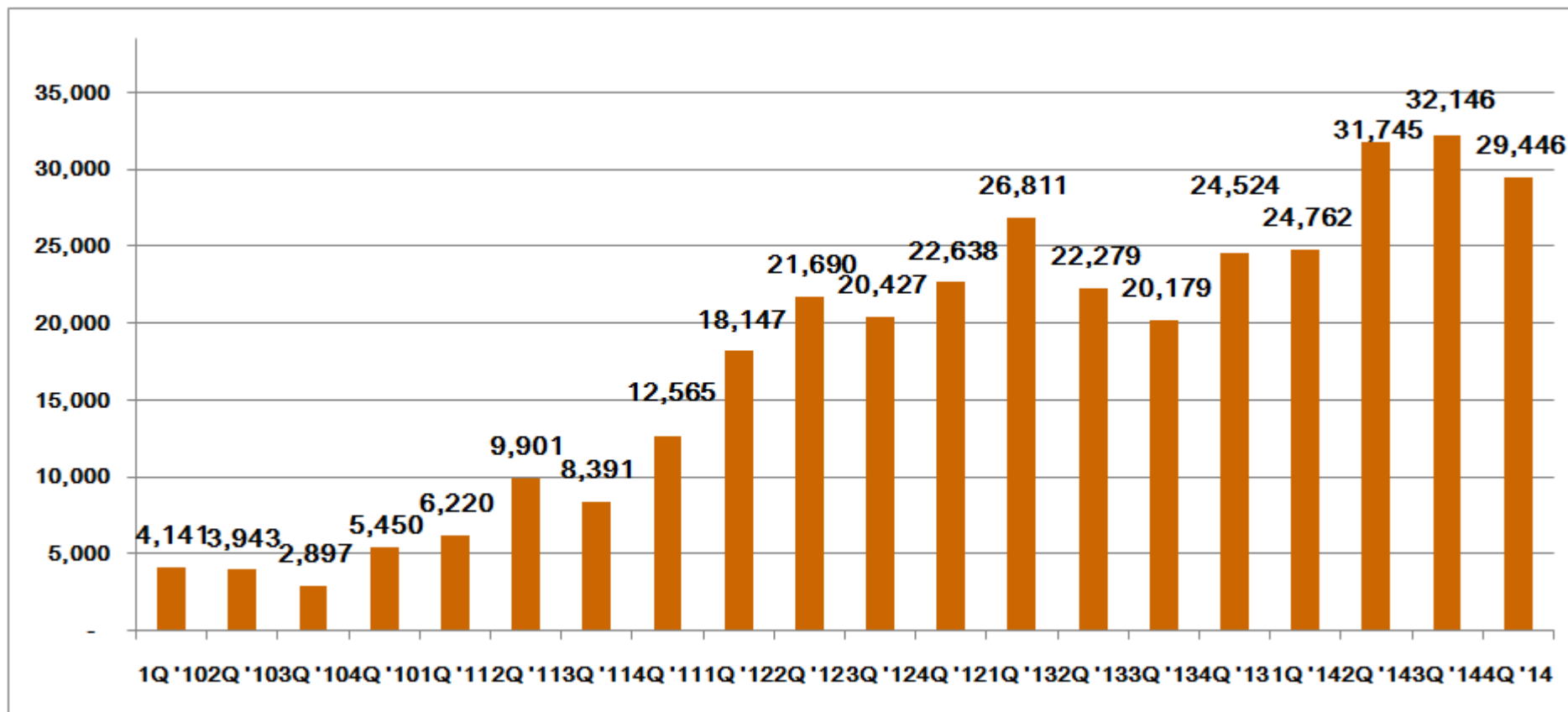
# Internet Games



# 4Q14 Net Game Overview



- Decline in 4Q14 Internet game revenues due to underperformance of Guild Wars 2 and World of Warplanes, offset by stable performance from World of Tanks



In USD '000s

# 4Q14 Internet Game Metrics



	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	3-mths	QoQ	YoY
US\$ '000s	1Q '13	2Q '13	3Q '13	4Q '13	1Q '14	2Q '14	3Q '14	4Q '14	Chg (%)	Chg (%)
NET Game Revs	28,381	23,616	21,370	25,082	25,079	32,022	32,446	29,446	-9%	17%
Net Game % of tll revs	62%	56%	50%	58%	51%	56%	54%	48%		
MAUs ('000s) - mtg avg	1,790	1,741	1,745	1,641	1,696	2,616	2,207	1,840	-17%	12%
APAs ('000s) - mth avg	330	291	270	271	280	427	343	327	-5%	21%
ARPU (RMB) - mth avg	176	165	158	183	181	152	193	185	-4%	1%



Licensed &  
Self  
Developed

AAA Focus

No. 1 Military  
Game Brand

Strong  
Pipeline

OBT

CBT

New Game





# WarGaming - Perpetual Operating Rights



## Internet Games



## Unified Account Platform



# World of Warships: Next Growth Area for War Saga



- Potentially bigger than WoT and WoWP
- Innovative naval combat
- To be launched in 2015



# WoT Generals



- Browser / Tablet military card battle game from WGN
- Complimentary to War Saga Series
- Alpha tests in 2015







Over 1.0 mn CD-keys sold in China



Guild Wars 2: Heart of Thorns™ is the first expansion for Guild Wars 2. Founded on the idea that the journey is the goal, the Heart of Thorns expansion continues the Guild Wars 2 tradition of challenging the conventions of MMOs to fulfill the promise of what online worlds should be.

Announced January 2015 – CBT coming soon!

# 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 2015



# Blitzkrieg 3 – Under Development

- New genre of RTS / MOBA from Nival Games (Russian), developer of famous Blitzkrieg series.
- CBT in 2015





# Master of Meteor Blades – Under Development



- 3D Martial Arts  
“Wu Xia” MOBA  
game
- KZ self-developed  
by experienced  
Xbox development  
team in Shanghai
- Beta testing to  
begin in 2015



全球唯一 武侠电竞



# Chronicles of Dragon Wing



- 3D Turn-based Tactical Battle Game
- For PC and Tablet
- Beta testing to begin in 2015



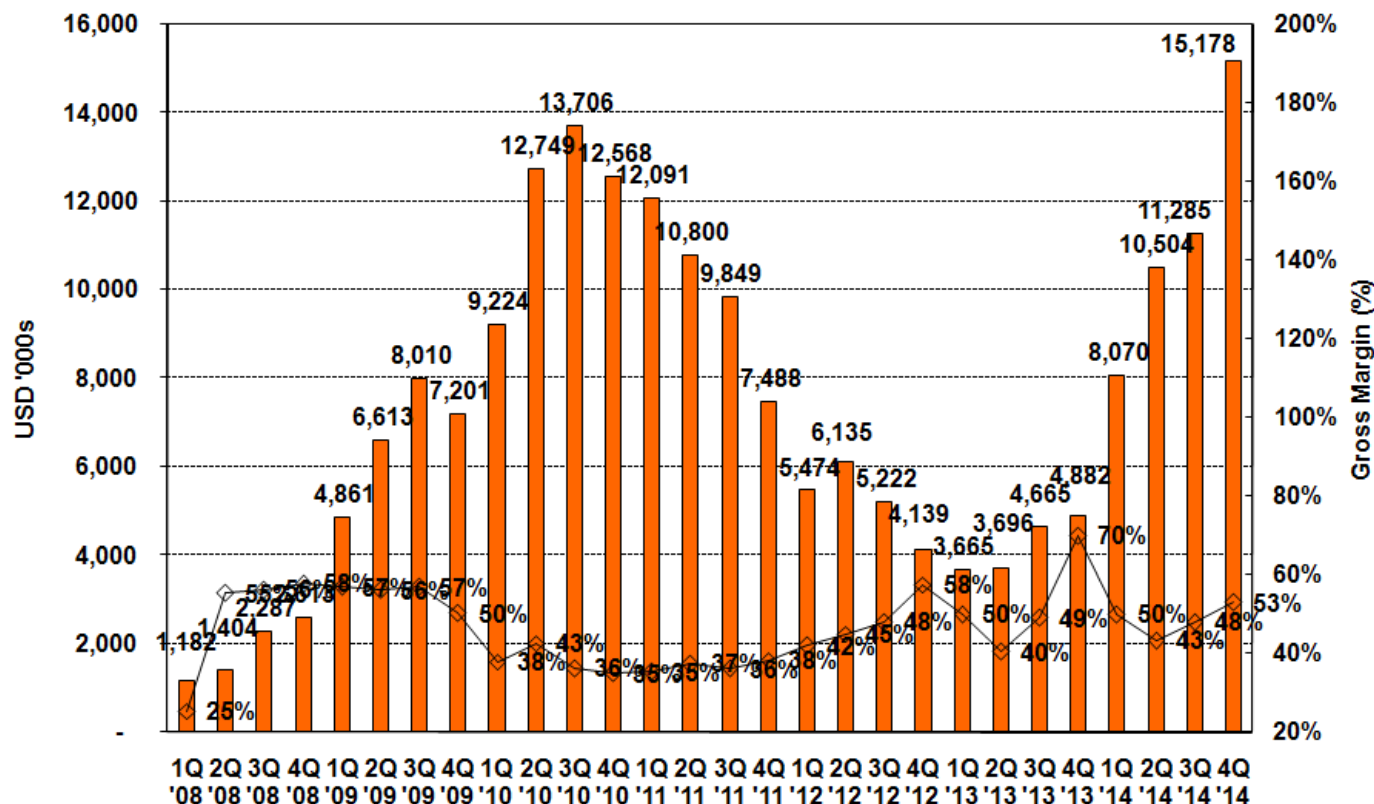


# Smartphone Games



# Mobile Games – Return to Growth

- Total mobile game revenues in 4Q14 US\$ 15.2 mn YoY growth of 210.9%



# Expanding Mobile Game Portfolio in 2Q15



4Q14  
5 games under operation  
- No new game launches in 1Q15



2Q15+  
Expand to 20+ games in pipeline

2015+

Self-developed

Beijing

Tianjin

Shanghai

Xiamen

Japan

Licensed

China

Korea

Co-development

Korea



# Self-developed: Next generation RTS



- Self-developed out of Beijing game studio
- Based on multiple year work on Noumena game engine and Pocket Fort
- Enhances RTS gameplay by layering on in-depth / engaging Three Kingdom hero collection system
- September 2014 Release on IOS / Android





# Licensed from Japan – Puzzle / Princess RPG



- Licensed from CyberAgent from Japan
- Prior top free to play download rank on IOS in Japan and top 10 grossing
- November 2014 release on IOS / Android





# Co-development: Korean Next-Gen ARPG



- Co-developed with Mplus and KZ
- Experienced ARPG mobile game developer from Korea
- Expect 1<sup>st</sup> half 2015 beta testing



# ARPG 3 Kingdoms Themed



- Action RPG based on 3 Kingdoms Theme
- Licensed game from Chinese Studio
- 2Q15 launch expected





# Western Themed Card Battle Game

- Western Themed Card Battle Game
- Licensed from Chinese Studio
- 2Q15 launch expected





# Western Themed Mobile MOBA game

- Western Themed mobile MOBA game
- Licensed from Chinese studio
- 2Q15 launch expected



# Tank Battle Action RPG

- Tank action RPG
- Licensed from Korean Studio
- 2Q15 launch expected





# 3 Heroes

- Fantasy Themed side-scrolling action battle game
- Licensed from Korean Studio
- Expect 2<sup>nd</sup> half 2015 launch



# Western Fantasy RTS Game

- Internally Developed RTS game (Beijing studio)
- Similar to Clash of Clans + Chinese card collecting game





# Kuiba ARPG

- Internally developed action RPG game based on Kuiba (anime movie – domestically produced) by Xiamen studio



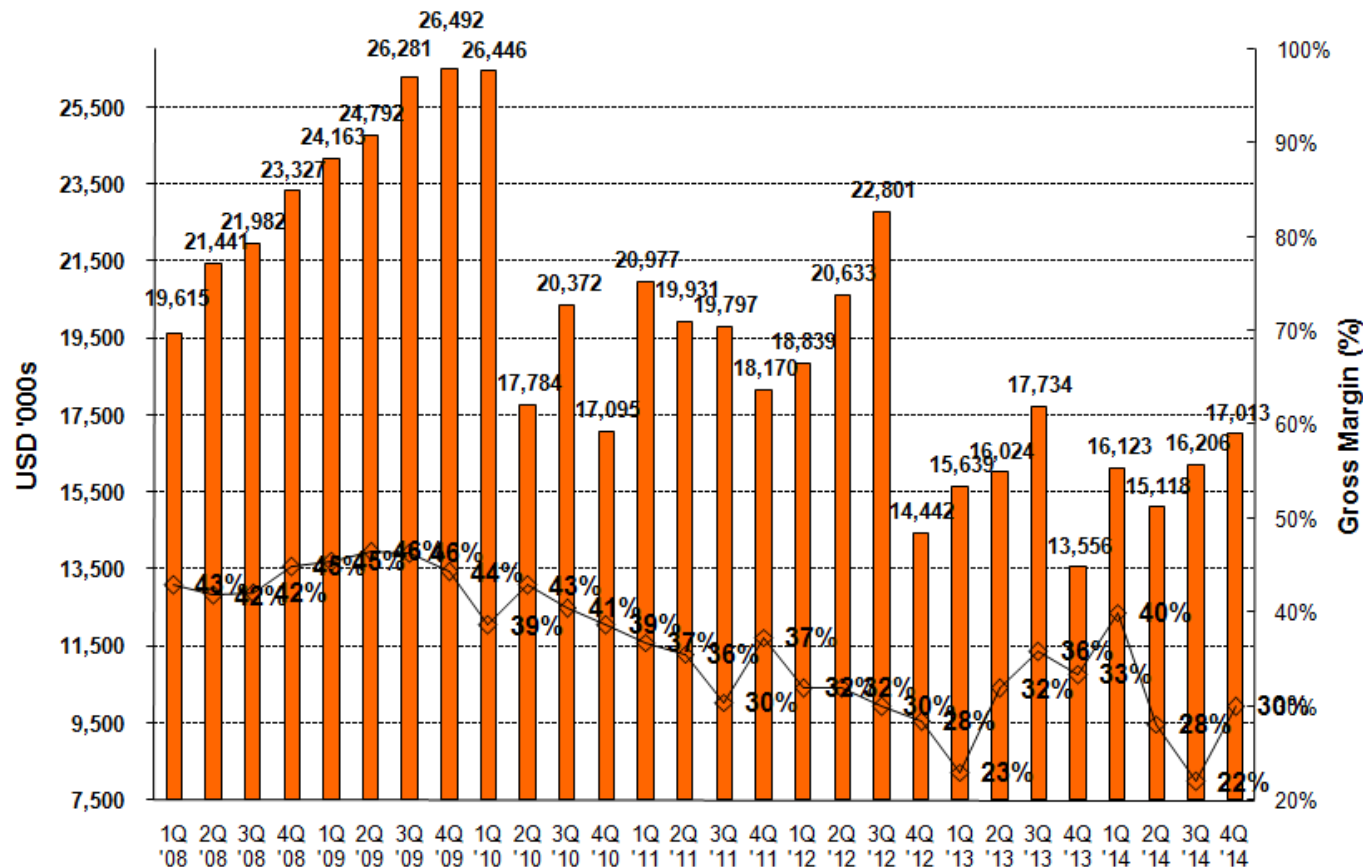
WVAS



# WVAS: Stable - Focus on stable cashflow



- New mobile operator policies were introduced in 4Q09 / 1Q10 with first full qtr impact in 2Q10
- Expect WVAS policy environment to remain difficult
- KZ strategy is to organically grow our Internet game business to be less dependent on WVAS



## Company Guidance - 1Q 2015





# 1Q 2015 Outlook



**Revenues**

**US\$ 46 mn to US\$ 47 mn**

**Gross Profit**

**US\$ 17 mn to US\$ 18 mn**

**Net Profit**

**~US\$ 4 mn**

**Non-GAAP Net Profit**

**~US\$ 5 mn**



## Appendix - Financials



# Key Business Segments



in US\$ '000s	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	3-mths 4Q '13	3-mths 1Q '14	3-mths 2Q '14	3-mths 3Q '14	3-mths 4Q '14	QoQ (%)	YoY (%)
<b>Revenues(Net of sales tax)</b>	<b>42,460</b>	<b>48,458</b>	<b>48,450</b>	<b>41,219</b>	<b>46,115</b>	<b>41,999</b>	<b>42,578</b>	<b>42,962</b>	<b>48,955</b>	<b>57,367</b>	<b>59,637</b>	<b>61,637</b>	<b>3.4%</b>	<b>43.5%</b>
Net Games	18,147	21,690	20,427	22,638	26,811	22,279	20,179	24,524	24,762	31,745	32,146	29,446	-8.4%	20.1%
Mobile Games	5,474	6,135	5,222	4,139	3,665	3,696	4,665	4,882	8,070	10,504	11,285	15,178	34.5%	210.9%
WVAS	18,839	20,633	22,801	14,442	15,639	16,024	17,734	13,556	16,123	15,118	16,206	17,013	5.0%	25.5%
<b>Cost of Sales</b>	<b>23,713</b>	<b>26,822</b>	<b>29,377</b>	<b>23,218</b>	<b>27,522</b>	<b>24,149</b>	<b>23,483</b>	<b>21,246</b>	<b>25,636</b>	<b>32,871</b>	<b>35,809</b>	<b>34,962</b>	<b>-2.4%</b>	<b>64.6%</b>
Net Games	7,881	9,598	10,865	11,195	13,695	11,115	9,851	10,873	12,073	16,126	17,353	15,892	-8.4%	46.2%
Mobile Games	3,133	3,372	2,693	1,737	1,803	2,186	2,356	1,436	4,050	5,933	5,846	7,148	22.3%	397.6%
WVAS	12,699	13,852	15,819	10,286	12,024	10,848	11,277	8,937	9,514	10,812	12,610	11,923	-5.5%	33.4%
<b>Gross Profit</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>21,716</b>	<b>23,318</b>	<b>24,496</b>	<b>23,828</b>	<b>26,675</b>	<b>11.9%</b>	<b>22.8%</b>
Net Games	10,266	12,092	9,561	11,443	13,116	11,164	10,328	13,651	12,689	15,619	14,793	13,554	-8.4%	-0.7%
Mobile Games	2,341	2,763	2,530	2,402	1,862	1,510	2,310	3,446	4,020	4,571	5,439	8,030	47.6%	133.0%
WVAS	6,140	6,781	6,982	4,156	3,615	5,176	6,457	4,619	6,609	4,306	3,596	5,091	41.6%	10.2%
<b>Gross Margin (%)</b>	<b>44%</b>	<b>45%</b>	<b>39%</b>	<b>44%</b>	<b>40%</b>	<b>43%</b>	<b>45%</b>	<b>51%</b>	<b>48%</b>	<b>43%</b>	<b>40%</b>	<b>43%</b>		
Net Games	57%	56%	47%	51%	49%	50%	51%	56%	51%	49%	46%	46%		
Mobile Games	43%	45%	48%	58%	51%	41%	50%	71%	50%	44%	48%	53%		
WVAS	33%	33%	31%	29%	23%	32%	36%	34%	41%	28%	22%	30%		
<b>Revenue Mix (%)</b>														
Net Games	43%	45%	42%	55%	58%	53%	47%	57%	51%	55%	54%	48%		
Mobile Games	13%	13%	11%	10%	8%	9%	11%	11%	16%	18%	19%	25%		
WVAS	44%	43%	47%	35%	34%	38%	42%	32%	33%	26%	27%	28%		



# Income Statement



in US\$ '000s	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	3-mths 4Q '13	3-mths 1Q '14	3-mths 2Q '14	3-mths 3Q '14	3-mths 4Q '14
Revenues (net of sales tax)	42,460	48,458	48,450	41,219	46,115	41,999	42,578	42,962	48,955	57,367	59,637	61,637
Cost of revenues	23,713	26,822	29,377	23,218	27,522	24,149	23,483	21,246	25,636	32,871	35,809	34,962
<b>Gross profit</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>21,716</b>	<b>23,319</b>	<b>24,496</b>	<b>23,828</b>	<b>26,675</b>
Gross margin (%)	44%	45%	39%	44%	40%	43%	45%	51%	48%	43%	40%	43%
Operating expenses												
Product development	4,080	4,424	4,554	5,325	6,136	6,455	6,991	6,819	5,934	6,510	6,580	6,083
Sales and marketing	5,712	7,147	5,802	5,926	4,568	4,644	10,942	6,520	6,737	16,009	10,702	9,076
General & administrative	2,862	2,715	2,872	3,179	2,426	2,166	2,029	2,356	2,364	3,463	2,502	4,236
Goodwill impairment/intangibles	-	-	-	-	-	-	-	-	-	-	1,323	-
Total operating expenses	12,654	14,286	13,228	14,430	13,130	13,265	19,962	15,695	15,035	25,982	21,107	19,395
Govt subsidy	-	159	-	143	153	652	-	1,371	194	267	198	480
<b>Operating profit / (loss)</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>10,310</b>	<b>10,249</b>	<b>(1,219)</b>	<b>2,919</b>	<b>7,760</b>
<b>Operating margin (%)</b>	<b>14.3%</b>	<b>15.5%</b>	<b>12.1%</b>	<b>9.0%</b>	<b>12.2%</b>	<b>12.5%</b>	<b>-2.0%</b>	<b>24.0%</b>	<b>20.9%</b>	<b>-2.1%</b>	<b>4.9%</b>	<b>12.6%</b>
Income (loss) before tax exp	7,895	9,051	7,116	5,170	7,019	6,703	(2,658)	10,310	10,249	66	3,612	9,710
Income tax expense	1,037	1,159	896	400	214	191	23	284	298	-	109	641
<b>Net income (loss)</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>10,026</b>	<b>9,951</b>	<b>66</b>	<b>3,503</b>	<b>9,069</b>
<b>Diluted earnings/(loss) per ADS</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>	<b>\$ 0.22</b>	<b>\$ 0.21</b>	<b>\$ 0.00</b>	<b>\$ 0.08</b>	<b>\$ 0.19</b>
ADS diluted (mn)	41.91	43.87	43.82	42.43	41.85	42.96	43.50	46.85	47.03	47.31	46.64	46.59
Net margin (%)	16.2%	16.3%	12.8%	11.6%	14.8%	15.5%	-6.3%	23.3%	20.3%	0.1%	5.9%	14.7%

- As of December 31, 2014, the Company had US\$ 188.20mn in cash and cash equivalents, term deposits, held-to-maturity securities, available-for-sale securities and restricted cash or US\$ 4.06 per ADS in cash and cash equivalents, term deposits, held-to-maturity securities, available-for-sale securities and restricted cash, net of a US\$ 42.4 mn short-term bank loan used to obtain US dollars to fund the one-time special dividend distributed in October 2014.



# 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	3-mths 4Q '13	3-mths 1Q '14	3-mths 2Q '14	3-mths 3Q '14	3-mths 4Q '14
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)	10,026	9,950	66	3,503	9,069
Share-based comp	1,191	1,117	1,097	1,174	1,150	1,150	1,143	1,022	556	444	284	290	333	768	217	230
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	187	180	462	599	600
Impairments of goodwill/intangibles	-	-	20,259	-	-	-	-	-	-	-	3,562	-	-	-	3,323	-
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	150	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>10,653</b>	<b>10,613</b>	<b>1,446</b>	<b>7,792</b>	<b>10,049</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>	<b>\$ 0.23</b>	<b>\$ 0.23</b>	<b>\$ 0.03</b>	<b>\$ 0.17</b>	<b>\$ 0.22</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	46.9	47.0	47.3	46.6	46.6



# Thanks

Jay Chang

Chief Financial Officer  
Kongzhong Corporation

[ir@kongzhong.com](mailto:ir@kongzhong.com)

[www.kongzhong.com](http://www.kongzhong.com)

NASDAQ: KZ

