

NetEase (NTES) Earnings Report: Q4 2015 Conference Call Transcript

The following NetEase conference call took place on February 24, 2016, 08:00 PM ET. This is a transcript of that earnings call:

Company Participants

- Brandi Piacente; NetEase Inc ; The Piacente Group, IR
- Onward Choi; NetEase Inc ; Acting CFO
- William Ding; NetEase Inc ; CEO

Other Participants

- Fan Liu; Goldman Sachs; Analyst
- Eddie Leung; Merrill Lynch; Analyst
- David Hao; Credit Suisse; Analyst
- Vivian Hao; JP Morgan; Analyst
- Thomas Chong; Citigroup; Analyst
- Natalie Wu; CICC; Analyst
- Tian Hou; TH Capital; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the NetEase fourth-quarter and full-year 2015 earnings conference call.

Today's conference is being recorded.

At this time, I would like to turn the conference over to Brandi Piacente. Please go ahead.

Brandi Piacente (The Piacente Group, IR):

Thank you, Operator.

Please note the discussion today will contain forward-looking statements, regarding -- relating to future performance of the company, and are intended to qualify for the Safe Harbor from liability, as established by the US Private Securities Litigation Reform Act.

Such statements are not guarantees of future performance and are subject to certain risks and uncertainties, assumptions and other factors. Some of these risks are beyond the company's control, and could cause actual results to differ materially from those mentioned in today's press release and this discussion.

A general discussion of the risk factors that could affect NetEase's business and financial results is included in certain filings of the Company with the Securities and Exchange Commission, including its annual report on Form 20-F. The company does not undertake any obligation to update this forward-looking information, except as required by law.

During today's call, management will also discuss certain non-GAAP financial measures, for comparison

purposes only. For a definition of non-GAAP financial measures, and a reconciliation of GAAP to non-GAAP financial results, please see the fourth-quarter and fiscal year 2015 financial results news release issued earlier today.

As a reminder, this conference is being recorded. In addition, a webcast replay of this conference call will be available on the NetEase corporate website, at ir.netease.com.

I will now turn the call over to Mr. Onward Choi, Acting Chief Financial Officer, who will read the prepared remarks on behalf of Mr. William Ding, Chief Executive Officer of NetEase.

Onward Choi (Acting CFO):

Thank you, Brandi.

Before I begin, please note that for the purposes of this discussion, all percentages are based on renminbi.

We accomplished a great deal in 2015, demonstrating growth and achievements throughout the company. Our mobile games grew rapidly, captivating new players and reaching exemplary rankings. Our premium PC-client games continue to delight Chinese audiences and our advertising and other business lines thrive.

With each of our businesses flourishing, our total net revenues grew by 94.7% for the year, including a 128.2% increase in the fourth quarter compared to the same quarter of 2014.

The combination of leading PC-client games along with our mobile games has proven vital to the success of our growth strategy. This winning combination is demonstrated in net revenue increase of 103.2% from our online game in the fourth quarter compared to the same quarter of 2014.

The popularity of mobile games continues to grow rapidly and over the last year we introduced a number of new mobile games that have resonated with Chinese audiences. We have now established ourselves as a formidable player in China's increasingly competitive mobile games market, with a diverse and growing portfolio of more than 80 games.

Two of our most popular games, the Fantasy Westward Journey and the Westward Journey Online mobile games, continue to thrive and were listed as the top two grossing games in China's iOS App Store in the fourth quarter.

I would also like to highlight a few of our new mobile additions that demonstrated strong performances during the fourth quarter, which include our licensed game, Kai-ri-sei Million Arthur as well as Invincible, the Kung Fu Panda mobile game and Chrono Blade.

The foundations of our online games business can be seen in our PC-client games which have delighted players for more than 15 years. Our passions for these games remains strong and with that ideal comes new developments to complement our long-running successes.

For example, our self-developed 3D oriental fantasy MMORPG, Revelations maintained strong traction in the fourth quarter, and in November we launched open beta testing for our 3D warfare MMORPG Hegemon-King of Western Chu.

During the fourth quarter we also released a number of new expansion packs for PC-client games including Tianxia III, Heroes of Tang Dynasty Zero and Kung Fu Master II, as well as launched a promotional campaign for Demon Seals.

In addition to our successful and growing portfolio of self-developed online games, Blizzard

Entertainment's Hearthstone Heroes of Warcraft continued to perform well and attract new players.

The steps we talked in 2015 to grow our business sets us on course to advance and diversify our games portfolio in 2016. To this end, we recently released a trailer for War Rage, a real-time tactical action game for PC-clients, which we expect to launch in 2016.

We also plan to build on the popularity of our established PC-client titles with upcoming expansion packs for games, including New Westward Journey Online II, Tianxia III, Heroes of Tang Dynasty Zero, Demon Seals and Kung Fu Master II.

Our mobile portfolio is also growing, as we work to introduce a number of gripping new titles this year. In January, we released Kung Fu Panda 3 and The X-World. These games quickly gained traction with players along with other compelling new mobile games, including Raven, Fantasy

Westward Journey Warriors and the mobile version of New Ghost.

A series of new titles based on the best-selling novels by Mr. Gu Long, a famous wuxia writer, are also scheduled to premiere in the coming months.

In addition to our games, we are expanding our reach with our Internet service offering. In the fourth quarter our advertising services grew 68.1% and our email, e-commerce and others business grew 355.5%, both compared with the same period in 2014.

During the fourth quarter we further strengthened our brand by hosting high-profile events, such as NetEase Annual Economist Conference. These types of events along with the steady popularity of our mobile news app helped to grow our advertising services business with the automobile, Internet services and telecommunication sectors as the top-performing advertising verticals in the fourth quarter.

As advertisers seek more and more mobile Internet marketing opportunities, our leading mobile product matrix provides us with a considerable competitive advantage, enabling us to maintain and grow our partnerships with leading advertisers.

Our e-commerce platforms, including Kaola.com, also continued to grow at a swift pace during the fourth quarter. We plan to keep expanding this business where we see considerable growth opportunities.

Our focus remains on creating innovative experiences for our community by delivering the highest quality Internet games and services. With the continued support of our investors we plan to further these efforts in 2016, while simultaneously giving back to this constituency.

Through our share repurchase and regular dividend program we returned more than \$247m to our investors in 2015. Our plan for diligent expansion across our business lines positions us well to continue these measures that create and return values to shareholders throughout the year.

This concludes William's comments. I will now provide a review of our fourth-quarter and full-year 2015 financial results. I will primarily focus on the discussions of margins and expense fluctuations along with net profit.

Gross profit for the fourth quarter of 2015 was RMB4.2b or \$651.4m compared to RMB3.8b and RMB2.5b for the preceding quarter and the fourth quarter of 2014 respectively.

The year-over-year increase in online games gross profit was primarily driven by revenue contributions from our mobile games, such as the Fantasy Westward Journey and the Westward Journey Online mobile games, and licensed games such as Blizzard Entertainment's Hearthstone Heroes of Warcraft and Diablo III Reaper of Souls, as well as Kai-ri-sei Million Arthur and our new self-developed PC-client games such as

Revelation.

The quarter-over-quarter increase in online games gross profit was primarily driven by revenue contributions from mobile games, such as the Westward Journey Online mobile game and Kai-ri-sei Million Arthur, as well as Blizzard Entertainment's Hearthstone Heroes of Warcraft.

Our year-over-year and quarter-over-quarter increases in advertising services gross profit were primarily attributable to strong demand from the automobile, Internet services and telecommunication sectors, as well as the monetization of our mobile applications, primarily our mobile news app.

The year-over-year decrease in our email, e-commerce and others gross profit segment was primarily due to the temporary suspension of higher-margin e-commerce services related to third-party lottery products since February 2015.

The quarter-over-quarter increase was mainly due to increased revenue contributions from our e-commerce-related businesses, such as Kaola.com.

Gross profit margin for the online games business for the fourth quarter of 2015 was 67.2%, compared to 67.9% and 76% for the preceding quarter and the fourth quarter of 2014 respectively.

The year-over-year and quarter-over-quarter decreases in gross profit margin were mainly due to increased revenue contributions from mobile games, which have relatively lower gross profit margins as a percentage of our total online games revenues.

Gross profit margin for the advertising services business for the fourth quarter of 2015 was 68.1%, compared to 67.6% and 65.9% for the preceding quarter and the fourth quarter of 2014 respectively.

Gross profit margin for the email, e-commerce and others business for the fourth quarter of 2015 was 6%, compared to 0.1% and 48.2% for the preceding quarter and the fourth quarter of 2014 respectively.

The year-over-year decrease in gross profit margin was primarily attributable to the temporary suspension of higher-margin e-commerce services related to third-party lottery products discussed above, as well as increased revenue contributions from our other e-commerce platforms, which have relatively lower gross profit margins.

The quarter-over-quarter improvement in gross profit margin was mainly due to the revenue growth from our e-commerce businesses such as Kaola.com.

Our total operating expenses for the fourth quarter of 2015 were RMB1.8b or \$278.1m compared to RMB1.8b and RMB1.2b for the preceding quarter and the fourth quarter of 2014 respectively.

The year-over-year increase in operating expenses was mainly due to increased selling and marketing expenses relating to our online games and advertising services, higher research and development investments and higher staff-related costs resulting from an increase in headcount and average compensations.

The quarter-over-quarter increase in operating expenses was mainly due to increased selling and marketing expenses for mobile games.

We recorded a net income tax charge of RMB513.8m or \$79.3m for the fourth quarter of 2015, compared to RMB399.2m and RMB187.9m for the preceding quarter and the fourth quarter of 2014 respectively.

The effective tax rate for the fourth quarter of 2015 was 19.2%, compared

to 17.1% and 12.8% for the preceding quarter and the fourth quarter of 2014 respectively.

The year-over-year increase in the effective tax rate was mainly the result of certain subsidiaries being approved as Key Software Enterprises and subject to a preferential tax rate of 10% for 2014. Those subsidiaries were subject to a tax rate of 15% in 2015.

During the fourth quarter of 2015, we had a net foreign exchange gain of RMB66.3m or \$10.2m, compared to a net foreign exchange gain of RMB66.5m and a net foreign exchange loss of RMB7.1m for the preceding quarter and the fourth quarter of 2014 respectively.

The year-over-year and quarter-over-quarter changes in foreign exchange gains and losses were mainly due to unrealized exchange gains and losses arising from our US dollar-denominated bank deposits and short-term

loan balances, as the exchange rate of the US dollar against the RMB fluctuated over the periods.

Our net income attributable to the Company's shareholders for the fourth quarter of 2015 totaled RMB2.2b or \$334.1m compared to RMB1.9b and RMB1.3b for the preceding quarter and the fourth quarter of 2014 respectively.

Our non-GAAP net income attributable to the Company's shareholders for the fourth quarter of 2015 totaled RMB2.4b or \$363.5m, compared to RMB2.1b and RMB1.4b for the preceding quarter and the fourth quarter of 2014 respectively.

Basic and diluted earnings per ADS were \$2.54 and \$2.52 respectively for the fourth quarter of 2015. This compares to basic and diluted earnings per ADS of \$2.21 and \$2.20 respectively for the preceding quarter, and basic and diluted earnings per ADS of \$1.50 and \$1.49 respectively for the fourth quarter of 2014.

Non-GAAP basic and diluted earnings per ADS were \$2.77 and \$2.74 respectively for the fourth quarter of 2015. This compares to non-GAAP basic and diluted earnings per ADS of \$2.41 and \$2.39 respectively in the preceding quarter and non-GAAP basic and diluted earnings per ADS of \$1.65 and \$1.64 respectively for the fourth quarter of 2014.

Now, for an overview of the 2015 fiscal year financial results.

Gross profit for fiscal year 2015 was RMB13.4b or \$2.1b, compared to RMB8.5b for the preceding fiscal year.

The increase in online game services gross profit in 2015 was primarily attributable to increased revenue contribution from our mobile games such as the Fantasy Westward Journey mobile game, the Westward Journey Online mobile game and Battle to the West, and licensed games such as Blizzard Entertainment's Hearthstone Heroes of Warcraft and Diablo III Reaper of Souls, as well as our self-developed PC-client games, such as Revelation.

The increase in advertising services gross profit in 2015 was due to a rise in demand, mainly from the automobile, Internet services and real estate sectors, as well as the monetizations of our mobile applications, primarily our mobile news app.

The decrease in email, e-commerce and others gross profit in 2015 was primarily attributable to the temporary suspensions of higher-margin e-commerce services related to third-party lottery products since February 2015.

Our total operating expenses for fiscal year 2015 were RMB6.1b or \$946.5m, compared to RMB3.7b for the preceding fiscal year.

The increase in operating expenses in 2015 was primarily due to increased selling and marketing

expenses for online games, advertising services and other mobile products, higher research and development investments and higher staff-related costs resulting from an increase in headcounts and average compensations.

We recorded a net income tax charge of RMB1.3b or \$196.6m and RMB662.7m for fiscal years 2015 and 2014 respectively. The effective tax rate was 15.7% for fiscal year 2015, compared to 12.1% for fiscal year 2014.

The change in the effective tax rate was mainly due to the fact that certain subsidiaries were approved as Key Software Enterprises and subject to a preferential tax rate of 10% for 2014. Those subsidiaries were subject to a tax rate of 15% in 2015.

We reported a net foreign exchange gain for the 2015 full year of RMB133.8m or \$20.7m, compared to a net foreign exchange loss of RMB18m for the preceding fiscal year.

The net foreign exchange changes for fiscal year 2015 and 2014 were mainly due to exchange gains and losses arising from the our US dollar-denominated bank deposits and short-term loan balances, as the exchange rate of the US dollar against the RMB fluctuated.

Our net income attributable to the Company's shareholders for fiscal year 2015 totaled RMB6.7b or \$1b, compared to RMB4.8b for the preceding fiscal year.

Our non-GAAP net income attributable to the Company's shareholders for fiscal year 2015 totaled RMB7.4b or \$1.1b, compared to RMB5.1b for fiscal year 2014.

Our basic and diluted earnings per ADS were \$7.91 and \$7.86 respectively for fiscal year 2015. This compares to basic and diluted earnings per ADS of \$5.62 and \$5.60 respectively for the 2014 fiscal year.

Our non-GAAP basic and diluted earnings per ADS were \$8.72 and \$8.66 respectively for fiscal year 2015. This compares to non-GAAP basic and diluted earnings per ADS of \$6.04 and \$6.01 respectively for fiscal year 2014.

As of December 31, 2015, our total cash, current and non-current time deposits and short-term investment balance was RMB26.8b or \$4.1b, compared to RMB23.2b as of December 31, 2014.

Cash flow generated from operating activities was RMB8.1b or \$1.2b for fiscal year 2015, compared to RMB5.9b for the preceding fiscal year.

As part of our commitment to returning values to our shareholders we are pleased to announce that our Board of Directors has approved a dividend of \$0.64 per ADS for the fourth quarter of 2015. We expected to pay this on March 18, 2016 to shareholders of record as of the close of business on March 11, 2016.

Additionally, on September 1, 2015 we announced that our Board of Directors approved a new share repurchase program of up to \$500m of the Company's outstanding ADSs. As of December 31, 2015 we repurchased around 190,000 ADS for approximately \$20.7m under this program.

Thank you for your attention. We would now like to open the call to your questions. Operator, please go ahead.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Fan Liu.

Fan Liu (Analyst - Goldman Sachs):

Hi, management. Thanks for taking my questions. So I have two questions.

Number one is about the mobile games. So we witnessed actually some volatility of (growth) rate of FWJ and Westward [inaudible] recently. Does the management think the competition landscape is getting more challenging? Or would you mind to comment on the user engagement and also monetization for both these two top titles?

Also for the new games pipeline, what kind of -- which titles do you think may be the next blockbuster for NetEase? And what would be your expectation for Blizzard games agreements in the coming year? Thank you.

Onward Choi (Acting CFO):

Okay. So thank you for your questions.

So with regard to your first question about our view on our mobile games, especially on the Fantasy Westward Journey and Westward Journey Online, we believe that for now the competition landscape in this area is getting very competitive.

But having said that, we still believe that for companies that could actually deliver some high-quality products and care about the user experiences, then we would be able to deliver something very meaningful and also very supportive from the player communities.

And insofar as those two games are concerned, we have been seeing that they have been performing very well in the past years since their first launch in the market. And we have been seeing that the user engagement has been very good. And we are also seeing that there has been a good growth that we have experienced in the past quarters as well.

And we are also looking forward that those games will upkeep their current performances in the foreseeable future.

And with regard to your second question about the new games pipelines and whether or not there will be any particular blockbuster games and things like that, basically, we have been upkeep a very good momentum of rolling out the games, especially the mobile games, to the market.

And if you look back in the past quarter, which is the fourth quarter of 2015, we have come up to 80 plus mobile games in the market. That's compared to about 50 plus in the third quarter of 2015. And you will see that we have upkeep these visions and also the passions to roll out those interesting games to the market.

And just as what we highlighted earlier in the earnings sharing, there will also be quite a lot of some other games coming up to the market in 2016, including some games like the Raven, Fantasy Westward Journey Warriors and the mobile version of our New Ghost. And we are also seeing that those games will have a good traction from the market as well.

And insofar as your third question about our expectations on the Blizzard games, we believe that in 2016 there will also be some new games that we are looking forward from it and one of those will be the Overwatch. And there will be some new additions to some current games that we are currently working.

And we -- just as what we previously shared about, Blizzard is a very good company and they are also delivering some good-quality games to the market as well. And so we are looking forward that this will

also [go out] and appeal to the market in 2016.

Fan Liu (Analyst - Goldman Sachs):

Thank you, Onward. If I may, can I have two follow-ups. So apologies if I'm being bold. Do you mind to share with us the mobile games contribution, revenue contribution, this quarter?

And also secondly about your cross-border e-commerce. So assuming the -- most of the incremental revenue coming from Kaola, so with the revenue contribution rising up, would you be planning to have a separate disclosure for this segment in the coming quarters?

And also the margin, if we see the gross margin for the e-commerce and email and others segments, the margin is actually up 6% quarter on quarter. So it seems that there is some [operating leverage] here. Would you mind to share with us the outlook for the profitability for this segment in the coming quarters? Thank you.

Onward Choi (Acting CFO):

Okay. So I believe there would be a couple of questions that you have just raised up in the follow-up.

And with regard to the mobile contributions from the game business, in the fourth quarter it would be about 57%.

And with regard to your second follow-up about our e-commerce business, of course we have been doing very well in the past quarters and the overall revenue generation has been doing good as well. And we are also keeping track on how big the business would be before we will make a decision on whether or not those numbers will be separately disclosed in the foreseeable future.

But having said that, we are still quite happy with this performance over the past couple of quarters since we first launched this new business initiative to the market.

And insofar as the improvement in the gross margins on our email, ecommerce, and others segments, I believe that one of the recent [attributes] to it is that there has been some operating leveraged that we have been -- enjoy.

And another thing is that if you recall, back in the third quarters of 2015, there has also been a one-time treatment about certain costs that we have been charged in those segments. That impact the overall gross margins in different quarters. And so we have been seeing that the current levels of the gross margins in the fourth quarters would be a more -- a better reflections of its current situations.

Operator:

(Operator Instructions). Eddie Leung.

Eddie Leung (Analyst - Merrill Lynch):

Good morning. I would like to get a sense on the strength in your advertising business in the fourth quarter, since like there has been some acceleration. So just wondering whether there has been any one-time impact for certain industry promotion.

And then could you also talk a little bit about the advertising outlook for the upcoming few quarters, especially given the seasonality in the first quarter? Thanks.

William Ding (CEO):

(Interpreted). So Eddie, with regard to your first question about the reasons attributed to the good

performances of our advertising services in the fourth quarter, first of all, from the products perspectives, including our mobile news app, the cloud musics, the Youdao dictionary and stuff like that, we have been invest quite a lot. And also, coupled with some effective marketing promotions to keep it aware and recognized in the market.

And more importantly, because the product quality is very good, and the -- we have got a very well recognitions by our advertisers (technical difficulty) performances in the fourth quarter of 2015.

And on the other hand, we also appreciate the (technical difficulty) that our sales team has been doing to sell those advertisings inventory to the market. And that has resulted in a relatively good performances in the fourth quarter.

So with regard to our general outlook in 2016, basically we would still be putting quite a focus on developing our non-game-related mobile apps and -- in order to making sure that this can also make another step up in these performances in 2016.

And in particular, for apps like the cloud musics and also the news reader and stuff like that, we are also seeing that there has been quite a lot of new features that we have added into the applications, and also are getting good tractions from the market. And so we are holding a positive view about the overall performances in our advertising services in the 2016.

Operator:

David Hao.

David Hao (Analyst - Credit Suisse):

Good morning, gentlemen. So my question will be focusing on the games, film, and drama ecosystem. So back in December last year, the company announced three [bridge light] strategies. So can you let us know more on the progress of carrying out these strategies currently? And will we see meaningful revenue earnings contribution this year? Thanks.

Onward Choi (Acting CFO):

David, excuse me. Would you mind to repeat it in Chinese again, about your questions?

David Hao (Analyst - Credit Suisse):

(Spoken in Chinese).

William Ding (CEO):

(Interpreted). So with regard to your questions, David, basically we are very appreciate and also cherish the successes that we have been built up in the past couple of years on our gaming businesses. And along this line, we are also thinking that those IPs would be very receptive and also popular amongst the audiences in the market in general.

And so along this line, we have also got some plans to develop some stuff like the movies or the serial TV shows and stuff like that, to make our popular IP to be recognized and enjoyed by much wider populations. And at the same time, this kind of format or the way that we are doing is -- would be a good way to further leverage or to extend our current content offerings.

And some of the achievements that we have made so far is that in 2016, earlier this year, we have also introduced games like the Kung Fu Panda series games, with which we have also got very good tractions from the market. And those popular IPs would -- got a very good potentials to make some better tractions

to our targeted audiences, in general.

Operator:

Vivian Hao.

Vivian Hao (Analyst - JP Morgan):

Hi, Onward. Hi, William. Thank you for taking my question. I'll keep it brief.

Just on the news ad front, and also the [PforP] ads, can you share with us the monetization plan on mobile news app this year? Particularly how do you see the competition has been shaping up in this area? I think we have seen quite a few of those news apps, like Today's Headline and also Tencent News App has been doing very well, as well. (Spoken in Chinese).

William Ding (CEO):

(Spoken in Chinese).

Onward Choi (Acting CFO):

Okay -- so basically, just a quick recap on William's highlights. From our perspective, we believe that there would be quite a couple of companies that would be engaged in the news app businesses. And every company would get its own distinct features, or the own differences.

And of course Netease would have our own, unique differentiations from the others.

And two of the most significant features that we have and that we are having leading positions with include that our mobile news applications would be able to promote a more unique news sharings, perspective sharings and stuff like that.

And at the same time, the following post function has been doing very, very well in the market. And I think this has made us to surpass our competitors in this space.

And insofar as 2016 is concerned, from the development perspective, we believe that there will be some new products or service being offered in this year, like the direct broadcasting for some video stuff. And also, there would be some innovative product that we will also be introduce in the market as well.

And from the marketing perspective, we would also be upkeep our investment in these areas, in order to promote our news app.

And from the technical side, we would also be doing some things to promote the personalized readings. And coupled with all those initiatives that we are going to roll out in the market in this year, we are quite confident that we will be able to secure our leading positions in this space.

And one more thing. In 2016, this would be a sports years because there would -- and we would also be invest more on some sport-related contents. And this is something that what our peer is likely to -- Today's Headlines has not been doing much, in that sense.

And in summary, we are quite confident that we would upkeep a good growth in our popularity of our mobile news apps in the market, and also doing some good performances in 2016 and ahead.

Operator:

Thomas Chong.

Thomas Chong (Analyst - Citigroup):

Hi. Good morning, William, Onward, and Juliet. Thanks for taking my questions. I have two questions.

My first question is about if -- mobile advertising revenue. Can management give us some color about the contribution to your total online advertising in the fourth quarter?

And my second question is about management comments about the PC game industry trend outlook. And I'm just wondering how we should think about the lifecycle for FWJ, for the PC version. Are we seeing some weakness, as we go into 2016? Thanks.

William Ding (CEO):

(Interpreted). So with regard to your question about how we view about the lifecycles of the games like our Fantasy Westward Journey, basically we are still quite happy with its performance so far. And it's still keeping very good momentum, in terms of its performances and the user engagements.

And of course, with the developments of the -- or the growth in the mobile areas, there will be a certain impact to PC games. But we still believe that those impact will not be that significant, in that sense.

And on the other hand, in 2016, and perhaps towards the ends of this quarter, the first quarter of 2016, we will also be rolling out some other PC versions games to the market as well, which is a reflection on our confidence that the PC games would form an integral part of our gaming business and all the gaming strategies.

Onward Choi (Acting CFO):

And with regard to your second question, about the mobile ads revenue percentages, basically this has still upkept as a double-digits percentage, just as what we have talked about in the previous quarters. We have also been seeing that those contributions has been upkept at a very good level. And we are still seeing some good tractions from the advertisers going to our mobile platforms for doing the advertisements.

And so this is what we would like to share, for now.

Thomas Chong (Analyst - Citigroup):

Thanks, William and Onward.

Operator:

Natalie Wu.

Natalie Wu (Analyst - CICC):

Hi. Good morning, management. Thanks for taking my question. Firstly, I have a quick question for Onward.

If we look at your balance sheet, the account receivable, actually it went up a lot in 2015, especially in the second quarter and fourth quarter. Wondering what's the story behind. What kind of business is related to that item? And also (Spoken in Chinese).

Also, I have a question for William. What do you think the next hit title might be? Will it be Ghost or some other titles? And also, what will be the new move for Netease in 2016? Is there any new strategic initiative, like virtual reality etc? Thank you.

William Ding (CEO):

(Interpreted). So basically, we believe that the more important elements in our game business strategies is the innovations, as an ongoing and integral part of our development cycle, because we are all the time trying to do new things, in order to meet and surpass the expectations or the demand from the players.

And also, for those new game titles that we are going to roll out in the market in 2016 and years ahead, we would also be focusing on the qualities and also the innovative elements within the games, in order to meet the expectations from the players.

And just like what we have been doing for games like the FWJ because we have always cared about the qualities of the products that we are going to roll out or launch to the market, and also the users' experiences and stuff like that.

And accompanied with all those elements, we are believing that this will ensure us to be playing very successfully in the market, in 2016.

Onward Choi (Acting CFO):

And with regard to your second questions, Natalie, about the accounts receivable balances in the balance sheets, basically, you would see that in the past couple of quarters, perhaps since the second quarter of 2015, there has been a growth in the net balances. And the major reasons for the increase was attributed to those mobile games receivable balances from the platforms. And this is also a good reflection from what we have been doing, in terms of our revenue growth that has been experienced in the mobile game businesses.

Operator:

Tian Hou.

Tian Hou (Analyst - TH Capital):

Hi William, Onward, and Brandi. I have a couple of questions.

One is related to your advertising business. The normal seasonality was Q3 is the highest one and Q4 could be flat, with Q3. And Netease is a little bit different. I wonder is it a one-time thing or your advertising business actually, against normal seasonality? William (Spoken in Chinese).

So the follow-up question is what is the major driver of the industry for your advertising growth?

The third question is related to [E-chat]. (Spoken in Chinese). So the download of [E-chat] is increasing rapidly. So I wonder if William can give us some color. How do you plan to use [E-chat] going forward? That's all my questions. Thank you.

William Ding (CEO):

(Interpreted). So with regard to this first part of the questions, basically nowadays, the whole markets would be looking on both the PC and the mobile fronts. And for Netease, we have a quite a [couple] of new productions initiatives in the market that has rolled out so far, including the news, the Youdao dictionary, the E-mail Master, the Cloud Music center, also the News Reader.

And for products like our email services, we would be the absolute leader in the market, in terms of the user engagement, and stuff like that. And for the dictionary, I believe that so far, it would be no second one that could perform much better than us.

And with regard to the cloud music, we have accumulated quite a huge populations of high-quality and high-level users there. And with all those comprehensive user base, we have gotten very good recognitions from the market and the advertisers alike. And coupled with our very strong and diligent sales team, we have also been doing a very good job, in order to grow our advertising businesses in the past couple of months.

And even though you will see that the overall revenue contributions coming from the advertising services will be quite similar to the third quarters, but we are still seeing that that has been a good growth area, going ahead. This is the first part.

So with regard to your second and third questions, I believe that we have no further comments for the time being.

Operator:

And that concludes the question and answer session. I would like to turn the conference back over to management, for any additional or closing comments.

Brandi Piacente (The Piacente Group, IR):

Thank you once again for joining us today. If you have further questions, please feel free to contact Juliet Yang, Netease's IR Manager, based in Hangzhou, or TPG Investor Relations. Have a wonderful day.

Operator:

And that concludes today's conference. We thank you for your participation.

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