Q2 2026 Earnings Prepared Remarks

KC:

Hello everyone, and welcome to Sea's 2026 second quarter earnings conference call. I am KC from Sea's Investor Relations team.

On this call, we may make forward-looking statements, which are inherently subject to risks and uncertainties and may not be realized in the future for various reasons as stated in our press release.

Also, this call includes the discussion of certain non-GAAP financial measures such as adjusted EBITDA. We believe these measures can enhance our investors' understanding of the actual cash flows of our major businesses when used as a complement to our GAAP disclosures. For a discussion of the use of non-GAAP financial measures and reconciliation with the closest GAAP measures, please refer to the section on "non-GAAP Financial Measures" in our press release.

I have with me Sea's Chairman and Chief Executive Officer, Forrest Li, President, Chris Feng, and Chief Financial Officer, Tony Hou.

Our management will share strategy and business updates, operating highlights, and financial performance for the second quarter of 2026. This will be followed by a Q&A session in which we welcome any questions you have.

With that, let me turn the call over to Forrest.

Forrest:

Hello everyone, and thank you for joining today's call.

Our strong momentum from the first quarter has continued into the second. Sea generated 7.8 billion dollars in revenue, up 48% year-on-year, and over 917 million dollars in adjusted EBITDA. Our investments have enabled Shopee and Monee to continue to strengthen our market leadership while improving our user penetration. Many of our initiatives' unit economics continue to improve, a testament to our strong financial discipline and operational efficiency. We will continue to invest prudently in serving more users and serving them better, broadening our foundation for profitable growth into the future.

With that, let me take you through each business's performance.

Starting with Shopee.

Shopee continued its strong momentum into the second quarter. GMV grew 28% year-on-year, marking eight consecutive quarters of sequential growth, and we again achieved new highs in gross order volume and revenue. We generated an adjusted EBITDA of more than 250 million dollars during the second quarter.

Our improving operational efficiency and growing scale have strengthened our unit economics. We can now profitably serve a wider range of users, enabling us to lean further into user acquisition. We have engaged and re-engaged several user groups through brand awareness campaigns, expanding our content channels, and broadening our logistics offerings to cater to different preferences. This drove remarkable new buyer growth in the second quarter. Average monthly new active buyers grew more than 35% year-on-year, a significant acceleration from previous quarters. Average monthly active buyers increased 18% year-on-year, and overall buyer engagement also continued to improve, with purchase frequency increasing by 8% year-on-year.

Our monetization strengthened further in the second quarter. Ad revenue was up more than 70% and ad take rate improved by over 90 basis points, year-on-year. We continued to make advertising simpler and smarter for sellers. For example, pairing ads with vouchers that are personalized to buyers, to increase purchase conversion and improve the efficiency of sellers' ad spend. Ad adoption and spend continued to improve across our seller base: the number of ad-paying sellers rose around 45%, while average ad spend per seller increased more than 15% year-on-year.

Our operational priorities remain consistent: improving price competitiveness, service quality, and our content ecosystem. To keep strengthening our execution across these priorities, we continued to deepen our structural moats across logistics, ShopeeVIP, and content.

Strong logistics capabilities continue to be a key contributor to Shopee's reputation for excellent service. We continued to make delivery faster and more reliable across a wider product assortment in the second quarter. Instant- and same-day delivery gained strong traction, as we captured more everyday purchases. Our instant service in Indonesia can now deliver in as fast as one hour in urban areas. We continued to extend our presence in high-frequency categories, such as groceries and pharmacy items, to serve our buyers better. Order volumes using instant delivery grew around 80% year-on-year in Indonesia, while cost-per-order fell by around 20%, driven by economies of scale and efficiency gains.

Beyond delivery, we also made good progress in fulfillment, with order volumes up more than 20% quarter-on-quarter. Fulfillment benefits both sides of our marketplace: sellers offload operational complexity and scale more efficiently, while buyers enjoy faster, more reliable delivery. In some markets, more than 60% of our fulfilled parcels arrive the next day, meaningfully higher than the platform average. The gains are especially noticeable in places where geography makes delivery challenging. For example, in Mindanao, a mountain region in the Philippines, fulfillment cuts buyer waiting time by one to three days. Buyers can feel the difference. Listings that converted to fulfillment saw more than a 20% first-month uplift in orders, on average, in Southeast Asia.

Second, our ShopeeVIP program continued to scale strongly. Now live across Asia and Brazil, total membership exceeded 15 million at the end of June, up 45% from the previous quarter. Across Asia, VIP members contributed 24% of GMV in the quarter. Average monthly retention remained strong at around 80%, and members continued to show higher engagement, spending meaningfully more after subscribing. In Brazil, early adoption has been encouraging since our April launch, with membership already surpassing 1 million.

Beyond buyers, we are seeing encouraging support among both Shopee sellers and external partners for our ShopeeVIP program. We have broadened member benefits across travel, dining, and entertainment, improving the program's value proposition. More sellers and partners have come on board to co-fund benefits, demonstrating the value they see in engaging our ShopeeVIP buyer base. This has helped improve the program's unit economics in Asia.

Third, we have continued to improve our content ecosystem to make product discovery more engaging. Orders from livestreaming and short-form video grew more than 50% year-on-year, accounting for more than 25% of physical goods orders in Southeast Asia. Unit economics also improved sequentially as we further optimized our marketing spend. We have deepened our relationships with YouTube and Meta to drive order growth. Shopee affiliate orders generated by linked creators on Facebook increased by more than 85% quarter-on-quarter, with Facebook Reels proving to be a very popular channel to drive purchases. We have now extended our Instagram collaboration to all eight of our core markets, and we are seeing promising early results from Indonesia, the first market where we launched the partnership.

I am particularly happy with our progress in Brazil, which remained our fastest-growing market in the second quarter. We once again outpaced the broader market on GMV growth, supported by increases in active buyers, purchase frequency, and average basket size. We continued to invest in and optimize our end-to-end logistics capabilities, expanding our network while ramping up utilization. We improved delivery speed, reducing average buyer waiting time by 15% year-on-year, and doubled our penetration of fulfilment orders year-on-year. These logistics improvements are also supporting our expansion upmarket: we onboarded nearly 500 new official brands during the quarter, while GMV from ShopeeMall sellers more than doubled year-on-year. We still see significant headroom for growth in Brazil, and we will continue to invest in this market in a disciplined and profitable manner.

I am pleased that Shopee has delivered a strong first half of 2026. With this solid momentum, we are optimistic that Shopee will achieve the milestone of 1 billion dollars in adjusted EBITDA for the full year.

Next, moving to Monee.

Monee delivered another great quarter, with continued strong growth in both revenue and adjusted EBITDA. Credit remained the primary driver of growth. Our loan book reached 11.1 billion dollars at the end of June, up 62% year-on-year. Asset quality remained stable, with our 90-day NPL ratio at 1.0%. The Philippines has become our fifth market with a loan book exceeding 1 billion dollars.

We continue to expand our credit business on three fronts: acquiring new users, deepening our relationships with existing users, and expanding our credit use cases.

One key enabler of our credit business growth has been the ongoing advances we have made in our credit risk capabilities. Our latest risk models are pre-trained on a broad set of behavioral and transactional data across our ecosystem using transformer architecture similar to those following today's large language models. The model learns from the full sequence of a user's actions over time, capturing richer context around how customers interact with our platform. Recent enhancements to our underwriting models have helped lift approval rates by around 10% when compared to previous models, while maintaining a similar level of risk. This further reinforces the scale of our ecosystem as a durable advantage.

To further strengthen this capability, we are also drawing on more external data sources to better assess users who are newer to our ecosystem. For instance, through partnerships with local mobile operators in Indonesia and Open Finance data in Brazil.

We have also used AI to build tools to efficiently verify a diverse range of user-submitted income documents across markets, languages and formats. Review time reduced by around 95% while maintaining a very high level of accuracy, letting us respond to credit limit requests from users almost instantly.

Supported by these improvements in risk underwriting, we have been pushing harder on new user acquisition. We have found that many users begin using SPayLater for convenience, and subsequently generate more value through repeat transactions, installment conversion, and adoption of our other credit products. So, we broadened the rollout of one-month interest-free SPayLater loans, giving borrowers the option to either settle their balances within the month, or easily convert purchases into interest-bearing installments. Similarly, we have been more widely offering promotional interest rates for first-time personal cash loans.

Taken together, these efforts contributed to strong new-user growth during the quarter. We added around 5.3 million unique first-time borrowers, and our active credit users grew around 34% year-on-year to over 40 million at the end of the quarter. We also saw deeper user engagement: average loans outstanding per user grew around 20% year-on-year.

Off-Shopee SPayLater has continued to scale well, driven by integration with national QR payment infrastructure and continued merchant on-boarding. By the end of the quarter, Off-Shopee accounted for over 20% of our total SPayLater portfolio, with this figure as high as 35% in some markets. In Thailand, we are testing a new product: the ShopeePay Unlimited Card. It lets users pay with their SPayLater balance at any merchant that accepts card payments, further expanding SPayLater use cases.

The standalone ShopeePay app remains a key pillar of our strategy to grow Monee beyond Shopee, serving as a one-stop platform for users' payments, credit, insurance and broader financial needs. In the second quarter, monthly transacting users on the app more than doubled. The ShopeePay app is currently live in Indonesia, Thailand, Malaysia and Vietnam, and we will launch a similar standalone app in Brazil soon.

In summary, Monee delivered another strong quarter, with broad-based growth across our products and markets. The advances in our risk capabilities are compounding: each improvement helps us serve more users, serve them better, and reach further beyond Shopee. We are still at an early stage of growth. Only a fraction of the users across our ecosystem are using Monee's financial products today, and credit penetration remains low across our markets. This gives us great confidence in Monee's long-term growth and earnings potential.

Next, turning to Garena.

Garena delivered another strong quarter with bookings growing 15% year-on-year, with profitability remaining healthy and growing well year-on-year.

Free Fire anchored this strong performance. Now in its ninth year, it is still expanding its reach and scale globally, continuing to draw in over 100 million average daily active users.

Free Fire’s longevity comes from a simple discipline: we keep the experience fresh with new gameplay and content, and we make it feel both local to the communities who play it and enjoyable for a global audience. A great example this quarter was Undersea Mystery, an ocean-themed campaign inspired by Songkran, Thailand's water festival. We integrated the theme into the map itself, creating a gateway into a new Undersea Realm. This extended battleground gave players fresh territory to explore and fight over, and the opportunity to hunt for powerful gear hidden in a Hydro Zone and Fishing Ponds across the map. This continual reinvention of the core gameplay keeps players engaged over time.

We also rode the World Cup wave to build excitement and engagement with our players. Our Fire Kickoff campaign wove football into the map itself, turning part of it into a football field. Eliminated players were sent to a one-on-one football showdown for a chance at rejoining the match, and a new Football Form let players turn themselves into a football to speed across the map and pull off surprise plays. The campaign also resonated well beyond the game: the original campaign song “Booyah Olé” became a standout organic driver of social engagement, generating over 350 million social media views.

I am also very excited about what lies ahead for our portfolio. We announced two mobile games, both built on strong, globally recognized IP. Palworld Online is an open-world multiplayer survival adventure game, developed and published by Garena under license from Pocketpair. And Monster Hunter Outlanders is a survival hunting action game developed by Tencent based on Capcom's iconic franchise. Taken together, these titles show how Garena is expanding into new genres, strengthening our development and publishing capabilities, and deepening our relationships with top global partners.

In summary, Garena delivered another strong quarter. Free Fire is still proving itself as an evergreen franchise, and we continue to work towards diversifying our portfolio. We remain committed to delivering the high-quality experiences our players know us for.

In conclusion, this quarter's strong results underscore both our financial discipline and the strength of our business. This promising momentum gives us greater confidence for the rest of the year.

With that, I invite Tony to discuss our financials.

Tony:

Thank you, Forrest, and thanks to everyone for joining the call.

For Sea overall, total GAAP revenue increased 48% year-on-year to 7.8 billion dollars in the second quarter of 2026. This was primarily driven by growth in Shopee and Monee. Our total adjusted EBITDA was up by 11% year-on-year to 917 million dollars in the second quarter of 2026.

On Shopee, gross orders increased 27% year-on-year to 4.2 billion in the second quarter of 2026 and GMV increased by 28% year-on-year to 38.3 billion dollars in the second quarter of 2026. Our second quarter GAAP revenue of 5.6 billion dollars included GAAP marketplace revenue of 4.9 billion dollars, up 49% year-on-year, and GAAP product revenue of 0.7 billion dollars. Within GAAP marketplace revenue, core marketplace revenue, mainly consisting of transaction-based fees and advertising revenues, was 4.3 billion dollars, up 66% year-on-year. Value-added services revenue, mainly consisting of revenues related to logistics services, was 0.7 billion dollars.

Shopee adjusted EBITDA was up by 12% year-on-year to 255 million dollars in the second quarter of 2026.

Monee GAAP revenue was up by 59% year-on-year to 1.4 billion dollars in the second quarter of 2026. Adjusted EBITDA was up by 13% year-on-year to 288 million dollars in the second quarter of 2026.

As of the end of June, our consumer and SME loans principal outstanding reached 11.1 billion dollars, up 62% year-on-year. This consists of 10.0 billion dollars on-book and 1.1 billion dollars off-book loans principal outstanding. Non-performing loans past due by more than 90 days as a percentage of total consumer and SME loans was 1.0% at the end of the quarter.

Garena bookings grew 15% year-on-year to 764 million dollars. GAAP revenue was up by 34% year-on-year to 747 million dollars. The growth was primarily due to the increase in our active user base and deeper paying-user penetration.

Garena adjusted EBITDA was up by 17% year-on-year to 430 million dollars.

Returning to our consolidated numbers, we recognized a net non-operating income of 66 million dollars in the second quarter of 2026, compared to a net non-operating income of 83 million dollars in the second quarter of 2025.

We had a net income tax expense of 251 million dollars in the second quarter of 2026, compared to net income tax expense of 144 million dollars in the second quarter of 2025.

As a result, net income was up by 11% year-on-year to 458 million dollars.

KC:

Thank you, Forrest and Tony. We are now ready to open the call to questions.