

Q1 2021 Earnings Prepared Remarks

Minju:

Hello everyone, and welcome to Sea's 2021 first quarter earnings conference call. I am Minju Song, from Sea's Group Chief Corporate Officer's Office.

Before we continue, I would like to remind you that 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 and net loss excluding share-based compensation. 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 Group Chief Executive Officer, Forrest Li, Group Chief Financial Officer, Tony Hou, and Group Chief Corporate Officer, Yanjun Wang.

Our management will share strategy and business updates, operating highlights, and financial performance for the first quarter of 2021. 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 as always for joining today's call.

We are pleased to start 2021 on a strong note, with our results for the first quarter showing continued high growth across all our businesses. Even with the gradual recovery in offline activities in our region since the second half of 2020, our strong performance in terms of user growth and engagement shows that digital adoption is still rising healthily as the communities we serve continue to embrace the benefits of online lifestyles.

At the group level, for the first quarter of 2021, we are happy to report GAAP revenue of 1.8 billion dollars, which represents 147% year-on-year growth. We recorded particularly strong growth in gross profit, which reached 645.4 million dollars, up 212% year-on-year, while adjusted EBITDA was 88.1 million dollars, compared to a loss of 69.9 million dollars a year ago.

This strong performance on both the top and bottom lines once again demonstrates Sea's ability to capture the high growth potential of the industries and regions we operate in, while deploying capital and resources effectively and efficiently across our businesses.

Before we discuss our business performance in detail, it is important to note that many of the communities, consumers and small businesses we serve continue to face significant challenges as a result of the ongoing impact of the pandemic, including recent increases in cases in some countries.

At Sea, we are committed to play our part in helping our communities navigate these ongoing challenges. This includes support to address the most pressing near-term needs of our communities, as well as our sustained focus on helping more people to benefit from the growth of the digital economy.

Our global teams are working hard to identify ways in which we can offer tangible, near-term support to our communities. For example, in Bandung, Indonesia, we recently set up a vaccination centre in collaboration with the West Java Health office to deliver 20,000 doses of vaccine. In the Philippines, we

launched the second series of our Frontliners Package for healthcare workers, delivery and logistics providers and other personnel who contribute in the fight against the pandemic. We have offered them an exclusive package of discount and mobile vouchers and prepaid WiFi devices from Shopee and its partners.

Meanwhile, we are mindful that many small businesses around the region are still recovering from the shocks of the last year. And we continue to invest in initiatives to help them successfully adjust to the digital economy, scale their businesses and generate more income to provide for their families. As an example, in March, Shopee announced that it will work with the School of Export in Indonesia to help 500,000 small and medium enterprises export their products by 2030. In April, ShopeePay announced that it will be offering training programs for female entrepreneurs in Indonesia to digitalize their businesses and expand their customer reach. In Malaysia, Shopee worked with the Federal Agriculture Marketing Authority to teach local farmers on how to effectively move their businesses online, and adapt to the effects of the pandemic.

We also continue to groom talent during this difficult period. We are clearly aware that many people in our key markets, both young and old, may need to cultivate new skillsets to benefit from the rapidly growing digital economy. We want to do our part to bring positive impact to our communities by helping to nurture these new skillsets. In February, we announced the second season of our Shopee Code League, the largest online code league in Southeast Asia and Taiwan, attended by 15,000 participants from eight countries. In addition, as an ongoing initiative, our Garena Academy in Thailand helps guide and educate young people on how to develop a career in the gaming and esports industry.

Most importantly, we are proud to serve the under-served with our businesses, by connecting communities, enabling consumers, and empowering small businesses, especially those who traditionally lack access to tech platforms and the opportunities they bring.

With that, let me now discuss each business individually, starting with digital entertainment.

Garena delivered another quarter of outstanding performance. Bookings were 1.1 billion dollars, up 117% year-on-year, while adjusted EBITDA reached 717.3 million dollars, up 140% year-on-year.

In the quarter, quarterly active users reached 648.8 million, up 61% year-on-year, while quarterly paying users hit 79.8 million, up 124% year-on-year. Our paying user ratio rose to reach 12.3%, compared to 8.9% a year ago, showing that we can grow our user base while also deepening monetization.

Once again, Free Fire had a standout quarter as our focus on building out the platform with more creative and engaging content and user engagement activities continued to resonate with gamers around the world.

Indeed, Free Fire remained the highest grossing mobile game in Latin America, Southeast Asia and India for the quarter, according to App Annie, maintaining its top rank for Latin America and Southeast Asia for 7 consecutive quarters, and achieving the same in India for two consecutive quarters.

A key success factor is our ability to keep our strong global community deeply engaged with our platform by consistently delivering fresh, high quality and locally relevant content.

In the first quarter, we rolled out partnerships with popular Japanese manga titles like One Punch Man and Attack on Titan to create memorable cross-over events and content experiences for our users. We also received very positive feedback when we introduced in-game characters based on popular local celebrities. For example in Vietnam and in MENA, we collaborated with the popular “V-Pop prince” Son Tung M-TP, who has more than 9 million followers and nearly 2 billion views on YouTube, and the famous Egyptian singer and actor Mohamed Ramadan, who had a top hit song last year that has since generated over 225 million views on YouTube, to create in-game characters.

Our community engagement and esports efforts are key drivers of success. In the first quarter, we introduced highly popular community content around India’s Holi festival. A special Free Fire music video

for the festival drew 50 million views. We also organized esports tournaments like the Free Fire League Latinoamerica 2021.

In April, our flagship Garena World event generated an online attendance of 1.2 million and more than 40 million online views across Facebook, YouTube and other social media channels. During the fully virtual two-day event that was hosted in Thailand, we used a combination of augmented reality, visual effects, animation and other technologies to provide our fans with an interactive and immersive experience. For example, we hosted a dedicated live streaming platform where viewers can customize their avatars and express their views through chats. We also welcomed thirty-nine teams from nine regions to compete in our online game tournaments. This event demonstrated our ability to adapt to fast changing environments and to successfully deepen engagement with our users through technology.

We also received a number of awards at the Pocket Gamer Awards 2021, with Garena winning the “Best Mobile Publisher” award and Free Fire named as the “Best Battle Royale Game”.

These efforts to grow and strengthen the Free Fire platform through continuous content rollout and emphasis on community building activities have delivered clear results not only in terms of strong user metrics and financial performance, but also in user stickiness.

Indeed, our Free Fire cohort analysis shows that even as strict lockdowns in our core markets have been gradually eased since the second quarter of 2020, time spent per daily active user on Free Fire remained far higher than pre-pandemic levels. We are encouraged to see that for older cohorts, the time spent per active user, and especially paying user ratio, are still rising even though these users have been playing Free Fire since its early days. New cohorts also start off stronger than older cohorts, displaying a higher and faster growing paying user ratio than older cohorts over time.

Looking ahead, we continue to plan for a deep pipeline of innovative content, fresh partnerships and exciting esports activities to further and better engage with our ever growing global communities of users. We are also working to ensure that our long-term games portfolio pipeline remains strong. A significant number of our more than 1,000 in-house game developers globally are constantly working on new ideas, while we continue to engage with third-party game studios for collaborations on promising and complementary game development and publishing opportunities.

Let us turn to e-commerce.

Shopee delivered exceptional results for the first quarter, building on its stellar performance in 2020, as it continues to gain momentum and attract more buyers and sellers.

In the first quarter, Shopee recorded 1.1 billion gross orders, up 153% year-on-year, and GMV of 12.6 billion dollars, an increase of 103% year-on-year. GAAP revenue grew 250% year-on-year to 922.3 million dollars. Our year-on-year order growth rate continued to accelerate in the quarter, underscoring our strengthening market leadership.

We are pleased to note that adjusted EBITDA loss per order fell once again. It declined 38% year-on-year to 38 cents during the quarter, demonstrating the growing efficiencies of our core e-commerce operations, even as we continue to invest in growth.

According to App Annie, Shopee continued to rank first across Southeast Asia and Taiwan by average monthly active users and total time spent in app on Android, in the Shopping category, for the quarter. In Indonesia, Shopee’s largest market, we continued to rank first across those same metrics, while our year-on-year gross order growth further accelerated in the quarter.

We also saw growing user reception to our platform in Brazil. We will continue to assess the trends and opportunities there carefully, and invest with efficiency to continually enhance our platform offerings to the users.

Our focus on executional excellence remains the key factor driving Shopee's sustained success. In everything we do, we are relentless about optimizing our performance and maximizing the outputs.

In the first quarter, we rolled out more initiatives to support our regional seller base and brands. As an example, for small medium sellers, we worked with SkillsFuture Singapore in March to offer a step-by-step program to successfully help them to transition online. For brands, we launched new programs like our "Regional Champion Brands Programme" and our "100 Million Dollar Club" to help them maximize their online growth potential. We also gave out awards like "Best Product Launch" or "Best Tech Innovation" to reward brands who have differentiated themselves on our platform, like P&G, Disney, L'Oreal, Samsung and Unilever. We are happy to share that the number of brands working with Shopee Mall has grown to more than 25,000.

To conclude, we believe that e-commerce penetration remains low across all our markets, in spite of the step change in digitalization since the onset of the pandemic. Against this backdrop, we remain committed to investing with efficiency to capture the attractive potential over the long run.

We believe our hyperlocal and highly targeted approach, alongside our commitment to focus and invest with efficiency for the long term, will allow us to build a healthy and sustainable ecosystem that can offer the best long term value for buyers and sellers and in turn our other stakeholders.

Turning now to digital financial services.

SeaMoney continued to see very high growth in the quarter, building upon its excellent performance last year. For the first quarter, SeaMoney's mobile wallet services recorded a total payment volume of 3.4 billion dollars, which more than tripled compared to the 1.1 billion dollars a year ago. Quarterly paying users surpassed 26.1 million in the quarter.

We are pleased that ShopeePay continues to gain traction as a quick and convenient online and contactless payment option. Indeed, according to Snapcart Indonesia's survey in March, ShopeePay was the most used, the most remembered and most liked mobile wallet by Indonesian consumers during the first quarter.

In addition to leveraging the strong and growing on-platform use cases on Shopee, we continued to expand our range of off-platform use cases.

For example, ShopeePay is now available as a payment option at Indomaret, one of Indonesia's leading convenience store chains, as well as various popular F&B chains such as Wendy's and Domino's Pizza. The reception so far has been strong. In the first week of our partnership with Indomaret, more than 1 million transactions were paid using ShopeePay.

We also added new features to the ShopeePay experience to enhance its utility for both consumers and ShopeePay merchants. In April, we launched a new feature called "Mall Around You Promo" or "Deals Near Me", which shows the users attractive deals in their immediate vicinity. Users can then purchase the relevant vouchers on the app and redeem them immediately at the physical outlets. This has been highly successful in driving significant extra footfall for onboarded offline merchants.

We believe the digital financial services sector in our region is still in the early stages and expect it to develop significantly more use cases, features and opportunities in due course. As we scale this business, we will apply the same rigor and discipline in efficiency as we have achieved across our businesses so far.

To conclude, our first quarter result is a great start to the year. Each of our businesses has performed impressively and is well positioned to benefit from attractive long-term industry potential. Even when offline activity continues to resume, we expect rising digital adoption to be a tailwind for Sea's sustained growth.

We will also keep investing prudently and efficiently to strengthen our competitive moat and to position ourselves for new opportunities. Our commitment to serve consumers and small medium businesses with

technology is stronger than ever, and we are determined to enable more people across our communities to benefit from the digital economy.

With that, I will invite Tony to discuss our financials.

Tony:

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

We have included detailed financial schedules together with the corresponding management analysis in today's press release, and Forrest has discussed some of our financial highlights. So, I will focus my comments on the other relevant metrics.

For Sea overall, total GAAP revenue increased 147% year-on-year to 1.8 billion dollars. This was mainly driven by strong performance in our e-commerce business as we continue to roll out tools to better serve our users' needs, as well as growth of our digital entertainment business, especially our self-developed game, Free Fire.

Digital entertainment bookings grew 117% year-on-year to 1.1 billion dollars. GAAP revenue was up 111% year-on-year to 781.3 million dollars. The growth was primarily driven by the increase of our active user base and deepened paying user penetration, as we continue to engage the community through new content and partnerships rollout and esports events.

Digital entertainment adjusted EBITDA was 717.3 million dollars. This represents year-on-year growth of 140%. This was mainly due to strong top line growth and an increased share of our self-developed game among our total bookings.

On e-commerce, our first quarter GAAP revenue of 922.3 million dollars included 'GAAP marketplace revenue' of 715.9 million dollars, up 285% year-on-year, and 'GAAP product revenue' of 206.4 million dollars, up 167% year-on-year. The strong results demonstrated the deepening penetration of e-commerce and our ability to capture these accelerated growth opportunities as we continuously enhance our offerings to create greater value for our platform users.

E-commerce adjusted EBITDA loss was 412.9 million dollars as we continued our investments to fully capture the opportunities in our markets. We remain committed to efficiently investing in and growing the ecosystem to serve our users better.

Digital financial services GAAP revenue was 51.3 million dollars an increase of 396% year-on-year from 10.3 million dollars in the first quarter of 2020. The growth was primarily due to increasing traction as we continued to expand our suite of service offerings. Adjusted EBITDA loss was 153.1 million dollars, compared to a loss of 93.1 million dollars in the same period of 2020. This was primarily due to our continued efforts to drive mobile wallet adoption.

Returning to our consolidated numbers, we recognized a net non-operating loss of 23.3 million dollars in the first quarter of 2021, compared to a net non-operating income of 11.2 million dollars in the first quarter of 2020. Our non-operating loss in the first quarter of 2021 was primarily due to interest expense on convertible notes.

We had a net income tax expense of 51.0 million dollars in the first quarter of 2021 which was primarily due to corporate income tax and withholding tax recognized in our digital entertainment business.

As a result, net loss excluding share-based compensation was 320.0 million dollars in the first quarter of 2021, as compared to 239.5 million dollars for the same period in 2020.

With that, let me turn the call to Yanjun.

Yanjun:

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