

Q1 2024 Earnings Prepared Remarks

MC:

Hello everyone, and welcome to Sea's 2024 first quarter earnings conference call. I am MC, Sea's Investor Relations Director.

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 first quarter of 2024. 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.

I am pleased to share that we are kicking off 2024 with a strong quarter. All our three businesses have delivered solid growth with an improved profit profile.

The macro environment in the past few years has been challenging. Many of you have been with us through this journey. Going through this period has made us leaner, fitter, and savvier. While we will always face new challenges, we are now much more confident of our ability to weather headwinds well, and adapt quickly to changing environments.

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

Starting with e-commerce.

We are pleased to report that Shopee delivered strong growth this quarter, achieving its highest ever quarterly orders, GMV, and revenue. In the first quarter, on a year-on-year basis, gross orders was up 57%, GMV was up 36%, and revenue was up 33%. Unit economics has also improved: our overall adjusted EBITDA loss narrowed to 22 million dollars, and our Asia markets achieved a positive adjusted EBITDA of 11 million dollars this quarter.

Shopee's operational priorities for 2024 continue to be: enhancing our price competitiveness, strengthening our content ecosystem, and improving service quality for our buyers.

We are making good progress on all these fronts. On enhancing our price competitiveness, we continue to help sellers with upstream supply chain access to sell more easily on Shopee. On strengthening our content ecosystem, Shopee has become the largest live-streaming e-commerce platform in Indonesia, based on average daily live-streaming orders in the first quarter. Live streaming e-commerce unit economics also continued to improve quarter-on-quarter.

On improving service quality for buyers, our integrated logistics capability has become a key differentiating factor of our service quality. We have put a lot of hard work into SPX Express, and today, it is one of the fastest and most extensive logistics operators in our markets, greatly enhancing our customer experience. In the first quarter, about 70% of SPX Express orders in Asia were delivered within three days of order placement. And, because of the scale we have achieved in our markets, we have managed to steadily reduce its cost: SPX Express's cost per order decreased by 15% for Asia and 23% for Brazil year-on-year in the first quarter.

Having SPX Express in the Shopee ecosystem also allows us to efficiently roll out new features that benefit our buyers, such as the 'On Time Guarantee' program that we launched in Southeast Asia. This program provides a guaranteed delivery time for orders, and this certainty is very well appreciated by our buyers.

Another initiative we implemented is having Shopee directly manage the return-and-refund process. This has resulted in a 30% year-on-year decrease in resolution times. In the first quarter, about 45% of cases were resolved within one day.

So, taken together, these efforts increase operational efficiency, improve customer experience, and reinforce Shopee's reputation as a reliable shopping destination. We will continue to push more on these operational priorities in the coming quarter and year. We expect these efforts to further differentiate Shopee from its competition and bring greater value to both our buyers and sellers.

Next, turning to digital financial services.

We are pleased to report that SeaMoney has continued its strong growth momentum and profitability into 2024 while maintaining prudent risk management. Our efforts on user acquisition have produced significant growth in both user numbers and loan book size.

In the first quarter, our digital financial services revenue grew 21% and adjusted EBITDA grew 50% year-on-year. Consumer and SME loans active users, defined as those with loans outstanding by the end of the quarter, increased 42% year-on-year to more than 18 million this quarter. As of March 31st 2024, our consumer and SME loans principal outstanding reached 3.3 billion dollars, up 29% year-on-year and up 5% quarter-on-quarter.

Credit business is currently the primary driver of SeaMoney's revenue and profit growth. Our credit business benefits from Shopee's transaction volume and user base. In addition, we are also seeing strong growth in off-Shopee loans, which include cash loans and off-Shopee SPayLater consumption loans. By the end of the first quarter, off-Shopee loans accounted for over 40% of our total consumer and SME loans outstanding. Going forward, we see further upside to improve our off-Shopee penetration across different markets as we continue to grow.

As we scale up our credit business, we continue to maintain a prudent approach to risk management. We generally begin by granting low credit limit, short tenure loans to users to build their credit history. For users with good track records, we gradually increase the credit limit, loan tenure, and credit product offering. As we gain more users and more data, we continuously fine-tune the risk model for each market. This allows us to grow our business while maintaining good risk control. Non-performing loans past due by more than 90 days as a percentage of total consumer and SME loans remained stable at 1.4%.

We anticipate further growth for our digital financial services business throughout the year. As we healthily grow our user base, we will be able to offer a broader set of financial services to meet our users' needs in the future.

Finally, turning to our digital entertainment business.

We are pleased to share that Garena is back to positive growth, with bookings up 11% year-on-year. This

was led by Free Fire's strong performance across markets: in the first quarter, Free Fire's average MAU increased 24% year-on-year.

Our operational priorities for Free Fire will remain consistent in 2024: improving user acquisition, engagement, and retention. We continue to introduce play modes, redesign features, and launch new content – all at a high frequency, allowing Free Fire to sustain high player engagement with its huge user base. In January, we launched Chaos, a major version update allowing players to vote for key events in the game setting. This interactive feature has made Chaos highly successful. And in April, we launched the Mechadrake version update, allowing players to team up to combat a mechanical monster in addition to the usual PvP gameplay.

Our constant efforts to understand users' needs, address key issues from a product perspective, and frequently introduce fresh and exciting content are paying off: in its 7th year, Free Fire is still one of the largest mobile games in the world by user scale, and remains highly effective in attracting new users. According to Sensor Tower, Free Fire was the most downloaded mobile game globally in the first quarter.

Given this track record of being able to sustain and grow Free Fire's massive global user base, we are confident of building Free Fire into an evergreen franchise.

To conclude, we have a clear roadmap for profitable growth. Our results in the first quarter have given us a strong start to 2024, and we are well on-track to deliver our full-year guidance.

With that, I will 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 23% year-on-year to 3.7 billion dollars. This was primarily driven by GMV growth of our e-commerce business and the growth of our credit business. Our total adjusted EBITDA was 401 million dollars in the first quarter of 2024, compared to an adjusted EBITDA of 507 million dollars in the first quarter of 2023.

On e-commerce, our first quarter GAAP revenue of 2.7 billion dollars included GAAP marketplace revenue of 2.4 billion dollars, up 33% year-on-year, and GAAP product revenue of 0.3 billion dollars. Within GAAP marketplace revenue, core marketplace revenue, mainly consisting of transaction-based fees and advertising revenues, was 1.7 billion dollars, up 47% year-on-year. Value-added services revenue, mainly consisting of revenues related to logistics services, was 0.7 billion dollars, up 8% year-on-year.

E-commerce adjusted EBITDA loss was 22 million dollars in the first quarter of 2024, compared to an adjusted EBITDA of 208 million dollars in the first quarter of 2023.

For our Asia markets, we had an adjusted EBITDA of 11 million dollars during the quarter, compared to an adjusted EBITDA of 276 million dollars in the first quarter of 2023. In our other markets, the adjusted EBITDA loss was 33 million dollars, narrowing meaningfully from last year, when losses were 68 million dollars. Contribution margin loss per order in Brazil improved by nearly 88% year-on-year to reach negative 4 cents.

Digital financial services GAAP revenue was up by 21% year-on-year to 499 million dollars. Adjusted EBITDA was up by 50% year-on-year to 149 million dollars.

Digital entertainment bookings were 512 million dollars. GAAP revenue was 458 million dollars. Adjusted EBITDA was 292 million dollars.

Returning to our consolidated numbers, we recognized a net non-operating loss of 18 million dollars in the

first quarter of 2024, compared to a net non-operating income of 23 million dollars in the first quarter of 2023.

We had a net income tax expense of 79 million dollars in the first quarter of 2024, compared to net income tax expense of 62 million dollars in the first quarter of 2023.

As a result, net loss was 23 million dollars in the first quarter of 2024, as compared to net income of 87 million dollars in the first quarter of 2023.

MC:

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