

Q2 2025 Earnings Prepared Remarks

KC:

Hello everyone, and welcome to Sea's 2025 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 2025. 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.

The momentum from our strong start to 2025 has continued into the second quarter. All three of our businesses have delivered robust, healthy growth, giving us greater confidence of delivering another great year. Shopee's GMV grew 25% year-on-year in the first half, and we expect this growth momentum to carry into Q3. Monee's loan book continues to expand rapidly while maintaining a healthy NPL ratio. And for Garena, we now expect full-year bookings to grow more than 30%, year-on-year.

Given the high potential of our markets and the stage of our business now, we will continue to prioritize growth. We still see huge opportunities in our markets to serve many more users and better many more lives with technology. Expanding both our addressable market and capturing more market share will pave the way for us to maximize our long-term profitability.

At the same time, our company has reached a stage where we can pursue growth opportunities while improving profitability. By being disciplined and cost efficient, we have turned all three businesses EBITDA positive since the second half of last year, and we are accumulating cash each quarter as we scale. We remain committed to growing profitably, with a strong balance sheet that enables us to capture future opportunities.

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

Starting with e-commerce.

Shopee has shown stellar growth performance throughout the first half of this year. After a record-high Q1, we have delivered another record-breaking Q2, with quarter-on-quarter growth in gross order volume, GMV, and revenue. This was driven by a sustained increase in our active buyers and their purchase frequency, reinforcing our leadership across all our markets. We also delivered year-on-year profitability improvements across Asia and Brazil, enabled by our expanding scale and improving cost efficiency.

Our monetization improved in the second quarter, largely driven by strong growth in advertising revenue. We have deliberately worked to both drive seller adoption and encourage existing ad-paying sellers to use our latest ad-tech solutions. Since early last year, our dedicated ad-tech team has worked hard to improve algorithms, enhance traffic allocation efficiency, and deploy AI technologies to better serve our ad-paying sellers. And we have seen very encouraging results. During the second quarter, the number of sellers using our ad products rose by around 20%, and ad-paying sellers' average quarterly ad-spend grew by more than 40% year-on-year. Our tech enhancements have allowed us to more effectively optimize Shopee's GMV and advertising revenue at the same time. We saw an 8% uplift in Shopee purchase conversion rates and improved our ad take rate by almost 70 basis points this quarter, year-on-year.

Our operational priorities have proven to be a winning formula, and they remain consistent: enhancing price competitiveness, improving service quality, and strengthening our content eco-system.

In the second quarter, we reinforced our price-competitive value proposition with the launch of the campaign slogan "Cheaper, Faster at Shopee". It resonated well with buyers: we saw a more than 10% year-on-year uplift in overall purchase frequency during the quarter, and buyers continued to rank us as the most price-competitive e-commerce platform in Qualtrics surveys across Asia and Brazil.

On service quality, our logistics capabilities continue to be an important differentiator for us. In the second quarter, we reduced logistics cost-per-order and improved delivery speeds across Asia and Brazil year-on-year, in both urban and rural areas. We continue to roll out new initiatives to address specific customer needs, such as "instant delivery" options in dense urban areas. This lets some buyers receive their orders within as little as four hours of order placement – our fastest shipping channel yet. We piloted it in Indonesia, and it proved so successful that we have now rolled it out to Vietnam and Thailand as well. Another example is intelligent demand forecasting, where we pre-ship commonly ordered products to warehouses closer to where we know buyer demand will likely come from, reducing buyer waiting time when actual orders are placed. Our logistics innovations not only delight our customers by improving the service quality they receive, but they also make us more cost-efficient, letting us pass savings on to buyers.

We have also been doing more to enhance buyer loyalty and stickiness. Our Shopee VIP membership program, a paid subscription service giving buyers exclusive benefits, has shown very good momentum in Indonesia. Total GMV from VIP members there grew nearly 50% quarter-on-quarter, and VIP members bought a monthly average of around 30% more after subscribing. VIP members have also shown a roughly 20% higher retention rate compared to non-members. Building on this success, we have expanded the program to Thailand

and Vietnam. At the end of June, total VIP subscribers in these markets reached 2 million. We plan to roll out the program to more markets over the rest of the year.

Our content ecosystem continues to be a powerful engine of buyer engagement and conversion. Our AI tools empower Shopee sellers to produce high-quality video content, helping them improve user conversion and make more money without having to invest in their own studio set-up. In Southeast Asia, orders from live-streaming and short-form videos accounted for more than 20% of our total physical goods order volume in the second quarter. Our collaboration with YouTube has also continued its strong momentum. As of June, more than seven million YouTube videos featured Shopee product links across our Southeast Asian markets, an increase of more than 60% quarter-on-quarter.

Moving to Brazil: Shopee has continued to deliver exceptional growth while maintaining its positive adjusted EBITDA. Average monthly active buyers rose by over 30% year-on-year in the second quarter, much faster than the industry average growth rate.

Our strong growth in Brazil is built on solid fundamentals, especially logistics improvements and product category expansion. We have brought logistics cost-per-order down by 16% while also reducing our average delivery time by more than two days, year-on-year. In the greater São Paulo region, about one in four Shopee parcels were delivered the next day, and 40% within two days – up from single-digit percentages in the same period last year. We added over 100 well-known brands to our platform, especially in higher-value product categories. This contributed to steady and healthy increases in buyers' average basket sizes in the second quarter. This combination of improving delivery services while expanding our product selection has allowed us to both serve our existing users more effectively and expand into more user segments, such as urban and more affluent buyers. We will continue to push on these fronts and keep our strong momentum going in Brazil.

This quarter, we celebrated Shopee's 5-year anniversary in Brazil, and I am very proud of what our team has achieved in this relatively short time. We have become the market leader by order volume, we continue to grow fast, and we are operating profitably. I am especially happy with the role we have played in promoting digital entrepreneurship to over 8 million Brazilians. 30% of our active sellers cite Shopee as their first experience selling online, and more than half of our active sellers say they rely on Shopee as their primary source of income.

In summary, Shopee has delivered an exceptional performance in the first half of the year, with 25% GMV growth year-on-year, and we are confident that this growth momentum will carry into Q3. We remain committed to delivering strong, profitable growth while reinforcing our market leadership across Asia and Brazil.

Next, moving to digital financial services.

Monee had another very strong quarter. Both revenue and adjusted EBITDA continued to grow more than 50% year-on-year, and our loan portfolio remained healthy thanks to our prudent risk management. In the second quarter, our loan book grew over 90% year-on-year to reach 6.9 billion dollars, driven by both our expanding user base and our wider range of products addressing more user needs. We added over 4 million first-time borrowers during the quarter, and our newer cohorts are scaling well with positive unit economics. At the end of the quarter, active users for our consumer and SME loan products exceeded 30 million for the

first time, representing more than 45% year-on-year growth. Our loan portfolio remained healthy, with the 90-day NPL ratio staying stable at 1.0%.

We have delivered this strong and healthy growth across multiple markets, reducing our reliance on any single market and improving our ability to weather local economic cycles. I am happy to report that Malaysia's loan book surpassed one billion dollars at the end of June. It is our third market to reach this significant milestone, after Indonesia and Thailand. Brazil also delivered robust growth in the second quarter, driven by strong adoption of SPayLater and personal cash loan products.

We have achieved such high growth while managing risk very well, thanks to three unique advantages that Monee has. First, deep and seamless integration with our Shopee ecosystem. Second, a very large base of users who are growing their credit track records with us over the years. Third, our increasing use of AI to improve our credit models. Together, these advantages uniquely enhance our underwriting capabilities in each market, enabling us to very effectively push for growth across our three credit product lines: on-Shopee SPayLater, off-Shopee SPayLater, and cash loan products.

On-Shopee SPayLater continues to deliver solid growth across our markets, with GMV penetration now in the mid-teens on a market blended basis. We promoted SPayLater's one-month interest-free option at Shopee check-out, mimicking the benefits of credit card usage. We used tier-based pricing to offer lower interest rates to prime user segments who have access to more credit options and are more price sensitive. We also introduced a feature that allows users to request higher credit limits by voluntarily submitting proof of income. Such initiatives contributed to our record-high monthly numbers for first-time SPayLater borrowers in June. In addition, these measures have enabled us to capture more prime users with stronger repayment capacity and higher lifetime value. We see further runway to scale this product by deepening its penetration on Shopee in all our markets.

Off-Shopee SPayLater is also growing healthily. In Malaysia, we recognized significant user demand for greater payments flexibility, so we integrated SPayLater with Malaysia's national QR network, DuitNow, enabling seamless and flexible offline usage on many everyday purchases. Our off-Shopee SPayLater portfolio grew over 40% quarter-on-quarter and accounted for more than 20% of our SPayLater portfolio in Malaysia at the end of June. Building on this success, we have just launched a similar user experience with Thailand's national PromptPay QR network as well.

We have also gained good traction with personal cash loans, addressing the strong demand we have seen in our markets for credit access in people's daily lives. We have scaled this product category both quickly and profitably by cross-selling personal cash loans to SPayLater users with good repayment trends. As a result, personal cash loans outstanding has almost doubled year-on-year as of the end of June, and a lot of headroom remains for this product in our markets.

In summary, Monee has delivered excellent growth throughout the first half of the year, diversified its loan portfolio across markets and products, and maintained high asset quality through prudent risk management. It is exciting that our credit business is still in the early stages in many of our markets, reinforcing our strong conviction in Monee's long-term growth and earnings potential.

Finally, moving to digital entertainment.

After a flying start to the year, Garena continued its strong growth momentum into the second quarter. Bookings were up 23% and adjusted EBITDA was up 22%, year-on-year. Multiple key titles delivered double-digit growth in the second quarter, including Free Fire, Arena of Valor, EA Sports FC Online, and Call of Duty: Mobile.

Free Fire continues to be at the core of Garena's strong performance, sustaining its massive global user base of more than 100 million average daily active users. Free Fire continues to grow well even after 8 years, bringing joy to more users in more markets, because we always put what gamers want at the heart of our work. A great example is the high-profile launch of our new map, Solara, in celebration of Free Fire's 8th anniversary during the second quarter. Solara blends enjoyable nostalgia with exciting innovation. Our veteran gamers were thrilled by the return of an iconic train from Free Fire's earliest maps that used to be a central part of their game experience. And gamers both old and new were very excited by the new full-map slide rail feature, allowing them to move rapidly across the entire terrain, completely changing their gameplay strategy and pushing them to come up with new techniques to win. Since its launch on May 16th at the Free Fire World Series, response from players has been exceptional: it has already become our best-performing new map.

We also capitalized on the excitement around this new map by introducing a new camera mode that lets players capture photos and videos of their gameplay more easily, boosting social sharing and engagement. Within a month of releasing this feature, average daily shares of in-game footage grew by nearly four times, dramatically expanding Free Fire's visibility. Building on this excitement, we extended our anniversary celebrations into July with two high-impact IP collaborations: Netflix's Squid Game and NARUTO SHIPPUDEN Chapter 2. Initial response from gamers has been extremely positive.

In summary, Garena has delivered a very strong performance in the first half of this year. We believe Free Fire has established itself as an evergreen franchise, both sustaining its user engagement and growing its appeal in more markets globally. We are also committed to trying out new genres and new markets, and testing the boundaries of future game experiences by embracing AI. Given all of this, we are raising our full-year guidance for Garena, and expect bookings to grow more than 30% in 2025, year-on-year.

In closing, we are very happy with the strong set of results we delivered both in Q2 and the first half of 2025 overall. All three of our businesses have extended their track record of excellent execution, robust growth, and improving profitability. This gives us greater confidence about the second half of the year, and we look forward to delivering a strong 2025 and beyond.

Thank you, as always, for your support.

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 38% year-on-year to 5.3 billion dollars in the second quarter of 2025. This was primarily driven by GMV growth of our e-commerce business and the growth of our digital

financial services business. Our total adjusted EBITDA was 829 million dollars in the second quarter of 2025, compared to an adjusted EBITDA of 448 million dollars in the second quarter of 2024.

On e-commerce, Shopee's gross orders grew 29% year-on-year to 3.3 billion in the second quarter of 2025 and GMV increased by 28% year-on-year to 29.8 billion dollars in the second quarter of 2025. Our second quarter GAAP revenue of 3.8 billion dollars included GAAP marketplace revenue of 3.3 billion dollars, up 34% year-on-year, and GAAP product revenue of 0.5 billion dollars. Within GAAP marketplace revenue, core marketplace revenue, mainly consisting of transaction-based fees and advertising revenues, was 2.6 billion dollars, up 46% year-on-year. Value-added services revenue, mainly consisting of revenues related to logistics services, was 0.7 billion dollars, up 3% year-on-year.

E-commerce adjusted EBITDA was 228 million dollars in the second quarter of 2025, compared to an adjusted EBITDA loss of 9 million dollars in the second quarter of 2024.

Digital financial services GAAP revenue was up by 70% year-on-year to 883 million dollars. Adjusted EBITDA was up by 55% year-on-year to 255 million dollars.

As of the end of June, our consumer and SME loans principal outstanding reached 6.9 billion dollars, up over 90% year-on-year. This consists of 5.9 billion dollars on-book and 0.9 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.

Digital entertainment bookings grew 23% year-on-year to 661 million dollars. GAAP revenue was up 28% year-on-year to 559 million dollars. The growth was primarily due to the increase in our active user base as well as the deepened paying user penetration.

Digital entertainment adjusted EBITDA was 368 million dollars, up 22% year-on-year.

Returning to our consolidated numbers, we recognized a net non-operating income of 83 million dollars in the second quarter of 2025, compared to a net non-operating income of 56 million dollars in the second quarter of 2024.

We had a net income tax expense of 144 million dollars in the second quarter of 2025, compared to net income tax expense of 61 million dollars in the second quarter of 2024.

As a result, net income was 414 million dollars in the second quarter of 2025, as compared to a net income of 80 million dollars in the second quarter of 2024.

KC:

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