

Q3 2021 Earnings Prepared Remarks

Minju:

Hello everyone, and welcome to Sea's 2021 third 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 third 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 for joining today's call.

Sea exists to connect communities, enable consumers, and empower small businesses so that more people can benefit from the growth of the digital economy. We continue to scale with efficiency and build deeper connections across our ecosystems. As this happens, we are expanding our total addressable market.

We are reporting another quarter of strong results across all our businesses in the third quarter. Our results once again demonstrate our ability to capture new and attractive opportunities.

At a group level, for the third quarter of 2021, we continued to record triple digit growth in GAAP revenue and gross profit. GAAP revenue increased 122% year-on-year to 2.7 billion dollars, while gross profit grew 148% year-on-year to reach 1 billion dollars.

Along with our strong financial and operating results for the quarter, we rolled out more initiatives to empower our users to benefit from the opportunities of the digital economy. Let me share some examples:

In Indonesia, we have ramped up our efforts to give local SMEs the resources they need to build successful businesses online, including helping them to reach new, international markets on Shopee. In recent months, Shopee has opened Shopee Export MSME Campuses in Solo and Bandung. These campuses give local businesses the resources and training they need to help them scale more effectively and sell internationally. SMEs can access inventory management systems, marketing support facilities like photography studios, courses on business management, and individual training sessions with the Shopee team.

In Malaysia, we are working with the government to digitize rural sellers and help boost their sales on e-commerce platforms. We partnered with the Malaysian Communications and Multimedia Commission to use their rural internet centers nationwide to offer free e-commerce training to local entrepreneurs. Since the start of the campaign in July 2021, we have trained and helped more than 6 thousand rural sellers nationwide. We also partnered with the Malaysian government as part of the "Shop Malaysia Online"

program to promote over 280 thousand online and offline local brands and sellers. The program aims to further boost local SMEs' participation in the growth opportunities offered by the digital economy.

In Thailand, we are working with the Digital Economy Promotion Agency, the Stock Exchange of Thailand and the Office of Small and Medium Enterprises Promotion to launch the “Digital Opportunities for Talents” project. This initiative aims to develop digital entrepreneurial skills for young entrepreneurs through prizes, training and mentoring sessions.

Similarly, in Brazil, we have been focused on onboarding more local SMEs to help them to sell and grow online. I am pleased to note that more than one million local sellers in Brazil have registered with Shopee since we started welcoming local sellers in mid-2020.

Meanwhile, we are mindful that the impact of the pandemic remains a significant challenge in all our markets. For instance, Vietnam imposed its strictest lockdowns of the entire pandemic during the third quarter. During such lockdowns, we quickly adapted to serving our users as much as possible while ensuring the safety and health of our employees. We worked closely with governments to ensure the safety of our teams and continued to serve our sellers and buyers to the best of our ability.

We have also launched various initiatives to assist governments in our markets in rolling out containment and vaccination efforts. In Indonesia, for example, we have worked with the government to integrate the national contact tracing system within our app to enable more users to access this service with ease. In Malaysia and the Philippines, we introduced small reward programs for users who had been vaccinated to support the governmental efforts to encourage vaccine uptake.

All these initiatives reflect the fundamental mission of our business. We want to ensure that the benefits of technology and digitization are wide-reaching and accessible.

As more people in our communities embrace the digital economy, we are committed to serving the needs of more consumers and small businesses and continuing to play our part in building a healthy and sustainable digital economy.

Let us now look at the performance of each of our business segments.

Starting with digital entertainment. In the third quarter, Garena continued to solidify its position as one of the world's leading games developers and publishers as we deepened engagement with our large and growing global user base.

We recorded bookings of 1.2 billion dollars, up 29% year-on-year. Adjusted EBITDA grew 22% from last year to reach 715 million dollars. Quarterly active users were 729 million representing year-on-year growth of 27%, and quarterly paying users hit 93 million, up 43% from last year. Our paying user ratio increased to 12.8%, from 11.4% a year ago.

Garena is now serving some of the largest game communities globally, and we are very focused on creating great experiences to engage, entertain, and help friends and families spend time together.

In particular, Free Fire's massive and highly engaged user base represents an exciting and growing opportunity for us. We continue to create high quality, diverse content so that our community can enjoy fresh and engaging experiences.

For example, we introduced more new content that develops the storylines across the Free Fire universe and its characters to deepen user affinity. We launched an event themed around “Moco” with a focus on enriching the narrative around one of the most popular playable characters in Free Fire. We also had our first movie collaboration, partnering with “Venom: Let There Be Carnage” to bring Venom-themed playable content, in-game items and collectibles to our users.

We are also finding other creative ways to holistically engage with our broader community through offline experiences. This week, Free Fire will make its debut in the fashion world at São Paulo Fashion Week where 20 in-game skins will be brought to life at a fashion show. Events like this are a great way for us to connect with our users across different mediums and reinforce Free Fire's growing influence and importance - both online and offline - among our community.

Importantly, we continued to enhance the variety of game modes within Free Fire. In the third quarter, we launched 1v1 and 2v2 modes and have seen significant adoption across our community. Players enjoy the simplicity of these modes because they offer a more casual and quicker game with a smaller group of friends. We are also introducing more diverse gameplay options within Free Fire, such as the recently launched Pet Mania. This mode enables users to compete against their friends or other members of the community in various fast-paced casual games.

Another highlight of the quarter was the global celebration around Free Fire's fourth anniversary. Among other activities to celebrate this milestone with our community, we worked with global artists to produce a theme song which has been streamed over 60 million times across various online platforms to date.

At the end of the third quarter, we introduced Free Fire MAX globally, to a very strong reception from our community. Free Fire MAX offers an enhanced Free Fire experience through higher quality effects, animations, graphics and features – but retaining the same great gameplay. Because we are committed to empowering users everywhere, we worked hard to ensure that players of both Free Fire and Free Fire MAX can play together seamlessly. To make that possible, we developed proprietary in-house technology to guarantee complete integration between both Free Fire and Free Fire MAX. This also allows existing users of Free Fire to use the same account on Free Fire MAX and sync account data across both apps with access to all game modes.

With Free Fire MAX, we have also incorporated a map editor feature called Craftland. Players can create their own unique maps and invite their friends to join them in playing within these custom maps. This enables us to tap into the creative power of our community. They have always been the source of our inspiration for the game, and now they have an opportunity to create their own experiences within the game. It's also a powerful new way for friends to enjoy the game in a space that they have created together – which adds a new and deeper dimension to our community building efforts. While still early, Free Fire MAX will be an important component of the Free Fire platform by continuing to drive more engagement and experiences across our large and diverse user base.

The positive community reception to these initiatives is reflected in strong engagement across our markets. According to App Annie, Free Fire was ranked second globally by average monthly active users for all mobile games on Google Play in the third quarter. Free Fire also continued to be the highest grossing mobile game in Southeast Asia, Latin America and India. It has maintained this leading position in Southeast Asia and Latin America for nine consecutive quarters, and in India for four consecutive quarters. In the U.S., Free Fire remained the highest grossing mobile battle royale game for the third consecutive quarter, and it was the second highest grossing mobile game on Google Play across all game categories during the quarter.

Given Free Fire's growing global popularity, we see significant opportunity to provide our community with many kinds of ways to enjoy the Free Fire platform, and we continue to invest in building towards a long-lasting global franchise.

We are looking forward to a busy calendar of esports events towards the end of the year. Free Fire will be hosting the Free Fire Asia Championship and Free Fire EMEA Invitational at the end of this month. Additionally, the Arena of Valor International Championship will be held in the coming weeks. We believe this exciting lineup of esports tournaments will further drive engagement across our communities.

We are also very focused on growing our global reach and building a games pipeline that ensures we can capture the most promising and valuable long-term trends in online games. Our growing global presence across diverse high-growth markets gives us important local insights and strong local operational

capabilities. And our in-house development team is tapping into this as they work on both existing games and new ideas. Moreover, given our proven global track record, we have received more interest from studios keen to build strategic relationships with us. As such, our pace of investments in and partnerships with games studios worldwide has stepped up.

Moving now to e-commerce.

Shopee continues to grow much more quickly than the overall market as we deliver ever greater value to our sellers and buyers.

In the third quarter, Shopee recorded GAAP revenue growth of 134% from last year to reach 1.5 billion dollars. It also recorded gross orders of 1.7 billion, up 123% year-on-year. This is the ninth consecutive quarter of triple digit year-on-year order growth for Shopee. Shopee's GMV was 16.8 billion dollars, an increase of 81% since last year. With monetization continuing to improve, GAAP revenue as a percentage of total GMV rose to 8.6%, from 6.7% in the third quarter of 2020. The stronger monetization was driven by growth across our revenue streams including value added services, transaction-based fees and advertising revenue.

In view of Shopee's performance, we are again raising our full year 2021 e-commerce guidance. We now expect e-commerce GAAP revenue to be between 5.0 billion and 5.2 billion dollars, representing over 135% growth from 2020 at the midpoint of the revised guidance. Our previous e-commerce GAAP revenue guidance was between 4.7 billion and 4.9 billion dollars.

As with Garena, Shopee's focus on deepening engagement with our users is a winning strategy.

We are helping sellers be more competitive. For example, we have rolled out more features, tools and services to help them build engagement with their customers and grow their businesses. We recently launched Seller Missions, an incentive program that rewards sellers with privileges as they complete certain tasks. The program gamifies the experience of sellers as it guides them through features and tools on Shopee they can use to become better sellers. We also introduced tools like Listing Optimizer which helps sellers identify listings that can be improved and how to improve them. These initiatives help sellers grow on the Shopee platform and create better experiences for our buyers too.

We also recently celebrated the first anniversary of Shopee Premium, a dedicated space on Shopee for select brand partners in the luxury segment. Since launch, we have doubled the number of Shopee Premium brands. Through a more immersive shopping experience, Shopee Premium helps brands share their stories and build deeper personalized relationships with buyers.

And for our buyers, we continue to roll out captivating content and activities, such as our hugely popular double day sales. Last week, Shopee had a fantastic 11.11 shopping festival with widespread success. It was especially heartening to see an uplift in participation from consumers in rural and smaller towns as they enjoyed the convenience of and wide assortment on Shopee. Additionally, our new local sellers also benefited through a substantial increase in sales during the festival period. These shopping festivals showcase the numerous ways in which we serve and engage with our community. And its success exemplifies Shopee's strengthening position as the go-to marketplace for our consumers.

Our focus on engagement and adding value for our community is a key factor in our sustained strong user metrics.

According to App Annie, globally on Google Play, Shopee ranked first in the Shopping category by total time spent in app, and second by downloads and average monthly active users in the third quarter. Shopee also continued to be the top ranked app in the Shopping category, in both Southeast Asia and Taiwan by average monthly active users and total time spent in app during the quarter. Shopee was the leading app across these same metrics in Indonesia, where we recorded another quarter of triple digit year-on-year order growth.

Shopee also continued to make good progress in Brazil. In the third quarter, it was once again ranked first by downloads and total time spent in app, and second by average monthly active users, for the Shopping category, according to App Annie. While Brazil is still a young market for us, our local teams are focused on better understanding our growing community of local buyers and sellers and improving the experience we offer to them. We believe that our deepening engagement with the local community is a promising sign of this market's long-term potential for Shopee.

Shopee's total adjusted EBITDA loss per order across all markets was 41 cents in the third quarter. As we have said previously, we are committed to investing efficiently and growing in a sustainable manner across all our markets as Shopee scales. And with that in mind we are pleased to note that adjusted EBITDA loss per order improved both on a year-on-year and a quarter-on-quarter basis in Southeast Asia and Taiwan combined, as well as in Shopee's other markets combined.

Looking ahead, we are prudently and efficiently exploring how to maximize our largest addressable opportunities given our growing market position. In the recent months, we launched Shopee in Poland, France, Spain and India. From time to time, we may test the waters in new markets where we believe there may be an opportunity to use our experience in highly diverse environments to reach underserved buyers and sellers.

On the one hand, our core focus remains managing our efficient and sustainable growth in Southeast Asia, Taiwan and Brazil, where we have established and are continuing to grow our strong presence serving local sellers and buyers. On the other hand, the opportunities we can address through efficiently leveraging the Shopee platform in existing markets and expanding into new markets have increased. We will continue to exercise prudence and maintain flexibility as we pursue the significant growth opportunities with accelerating investments.

Turning to our digital financial services business.

SeaMoney recorded excellent results in the third quarter. The total payment volume of our mobile wallet services grew by 111% year-on-year to reach 4.6 billion dollars. Quarterly paying users of our mobile wallet services increased to over 39 million, up 120% year-on-year.

One of our key areas of focus is expanding the number of use cases for our mobile wallets so that we can serve more businesses and add greater value to our users. In the recent months, we partnered with more online and offline merchants such as Google Play in Malaysia, Blue Bird Taxi in Indonesia, Family Mart in Thailand, and Lotte Cinema in Vietnam.

As we grow the number of use cases, we are naturally seeing an increase in consumer adoption of our mobile wallets as more people grow to appreciate the ease and convenience that our platform offers. And as our user base grows, we see growing interest from merchants wanting to work with us, creating a positive flywheel effect that we believe will drive increasingly efficient growth for SeaMoney.

Besides our mobile wallet business, we have launched early initiatives in other digital financial services such as buy now pay later, digital bank and insurtech. These products are still in the early development phase, and we are currently focused on strengthening our models and operations. In line with our mission to serve the underserved segments in our markets, we intend to roll out more of these digital financial products in a thoughtful manner with our customary focus on long-term sustainable growth.

We are excited about the significant long-term growth potential of the opportunity that SeaMoney addresses, and we believe we are well positioned to serve this opportunity by building on our strong technology core, and our unique insights on and relationships with consumers and businesses across our markets.

Last but not least, I am very pleased to announce Chris Feng's appointment as Sea's Group President effective from January 1, 2022. Chris is an exceptional business leader who has delivered outstanding results for Sea and deeply embodies our core values. He, together with the rest of the leadership team and our

hugely talented Sea teams, have not only driven our business forward but also significantly furthered Sea's mission to better the lives of consumers and small businesses with technology.

Going forward, Chris will continue to directly report to me, and operate our Shopee and SeaMoney businesses. In addition, as Group President, Chris will work closely with me and the rest of the group leadership team on our long-term strategic initiatives, with an increasing focus on synergy creation across our various businesses.

In closing, our first core value at Sea is “We Serve” and this continues to inform everything we do.

We believe that technology holds the greatest potential to improve people’s lives. And we believe that in the current environment our commitment to serving the unmet needs of our communities through technology has never been more important.

In the quarters ahead, we will continue to focus on connecting communities, enabling consumers, and empowering small businesses so that more people can benefit from the growth of 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 122% year-on-year to 2.7 billion dollars. This was mainly driven by growth in the scale of our e-commerce business, as we continue to deepen the engagement with our users, as well as growth of our digital entertainment business, especially our self-developed game, Free Fire.

Digital entertainment bookings grew 29% year-on-year to 1.2 billion dollars. GAAP revenue was up 93% year-on-year to 1.1 billion 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 quality contents and immersive experiences.

Digital entertainment adjusted EBITDA was 715 million dollars. This represents year-on-year growth of 22% and was mainly driven by the top line growth.

On e-commerce, our third quarter GAAP revenue of 1.5 billion dollars included GAAP marketplace revenue of 1.2 billion dollars, up 151% year-on-year, and GAAP product revenue of 0.3 billion dollars, up 82% year-on-year. The strong results demonstrated the deepening penetration of e-commerce and our ability to capture these significant growth opportunities.

E-commerce adjusted EBITDA loss was 684 million dollars as we continued our investments to fully capture the opportunities in our markets. We remain committed to continue investing in a prudent and sustainable manner, and growing the ecosystem to serve our users better.

Digital financial services GAAP revenue was 132 million dollars an increase of 818% year-on-year from 14.4 million dollars in the third 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 159 million dollars, compared to a loss of 149 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 13 million dollars in the third quarter of 2021, compared to a net non-operating loss of 74 million dollars in the third quarter of 2020. Our non-operating loss in the third quarter of 2021 was primarily due to interest expenses on our convertible notes, partially offset by foreign exchange gain.

We had a net income tax expense of 101 million dollars in the third 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 448 million dollars in the third quarter of 2021, as compared to 346 million dollars for the same period in 2020.

With that, let me turn the call to Minju.

Minju:

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