

Q3 2024 Earnings Prepared Remarks

MC:

Hello everyone, and welcome to Sea's 2024 third 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 third 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'm happy to report that it has been another solid quarter. We are seeing high growth across all our three businesses. Shopee is on track to deliver our full year guidance of mid-twenties year-on-year GMV growth. SeaMoney's loan book grew by over 70% year-on-year this quarter, while maintaining a stable NPL ratio. And for Garena, we now expect Free Fire's full year bookings to grow over 30% year-on-year.

I am very proud that we also improved our profitability while getting back to high growth. This quarter, Shopee achieved positive adjusted EBITDA, in both Asia and Brazil. As we continue to focus on delivering growth, we expect Shopee to remain profitable going forward.

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

Starting with e-commerce.

Shopee has delivered strong GMV and order volume growth this quarter, sustaining strong market leadership in our Asia markets. User growth remained strong, with average monthly active buyers in the third quarter growing by over 20% year-on-year.

We have improved our monetization in both commission and advertising take rates this quarter. On commissions, further market rationalization in Southeast Asia has led to industry-wide increases in commission take rates. On advertising, our ad-tech improvements attracted more sellers to our paid-ad features. We simplified seller onboarding, optimized the algorithm for traffic allocation, and introduced a dashboard making it easier for sellers to set their ad spend and ROI targets. These helped our sellers both see the benefits of their ad spend and achieve better returns on it, driving up adoption of our ad offerings. In the third quarter, ad-paying sellers increased by over 10% and ad-paying revenue per seller increased by over 25% year-on-year. Compared to the same quarter last year, Shopee's ad take rate has improved by more than 30 basis points, and we

see much more upside here.

On the operations front, we remain committed to the same three priorities to deepen our competitive moats: enhancing our price competitiveness, improving our service quality, and strengthening our content ecosystem.

Price competitiveness continues to be a key value proposition that we bring to Shopee users. It is a strong anchor of our brand mindshare among buyers. In a recent survey conducted by Qualtrics, Shopee received the highest score among e-commerce platforms for good product prices in our Asia markets and Brazil.

On service quality, investing in end-to-end logistics integration across our logistics partners has given us a vital and structural advantage over our peers. Our buyers are happy with the cost savings we pass on to them and the better customer service we are able to provide. Our sellers also appreciate it, as we give them access to one-stop logistics solutions that are both reliable and cost-efficient. SPX Express, in particular, continues to be a key differentiating factor for us. It has become a leading logistics service provider in our markets with extensive coverage, fast delivery speed, and cost leadership. In the third quarter, half of SPX Express' orders in Asia were delivered within 2 days of order placement. Cost-per-order also continued to improve quarter-on-quarter in both Asia and Brazil.

We have also made significant progress on the content ecosystem front. Live streaming continues to be a popular format on both the supply and demand side in our markets. Our decision in the second half of last year to invest in building Shopee's live-streaming capability has paid off. In the third quarter, our average daily unique streamers grew over 50% and daily unique live-streaming buyers grew over 15%, both quarter-on-quarter. Average basket size on live-streaming has consistently increased over the past few quarters, driving improvements in its unit economics.

Our content efforts have been particularly successful in Indonesia, our largest market in Asia. We have been the largest live-streaming e-commerce platform there by both GMV and order volume since the start of 2024, and our unit economics has improved steadily since then. One recent boost to our content efforts has been a new collaboration between Shopee and YouTube in Indonesia. YouTube creators can now embed clickable buttons in their videos that allow viewers to buy items from Shopee directly. We have just brought this collaboration to Thailand and Vietnam as well, and look forward to extending this strategic partnership into more markets.

Looking beyond Asia, we are also seeing good results coming out of Brazil. In the third quarter, average monthly active buyers grew by close to 40% year-on-year. We are encouraged to see that these new user cohorts are purchasing bigger basket sizes than older cohorts, giving us better returns on investment and improving our unit economics. This allowed us to break even in Brazil on an adjusted EBITDA basis for the first time ever. Despite only having been in the market for less than five years, Shopee recently received recognition as the best shopping site in the Folha Top of Mind award, which recognizes brands with the best mindshare among consumers in Brazil. We feel very excited about Shopee's further growth opportunities there.

In summary, I am very happy with the strength that Shopee continues to show in both Asia and Brazil. Many of our markets still have very low e-commerce penetration rates. This puts us in a great position to continue to grow as e-commerce penetration improves.

Next, turning to digital financial services.

We continued our strong momentum this quarter, delivering double digit year-on-year growth in both revenue and adjusted EBITDA. Our key driver of growth continues to be credit lending, which is in high demand but still very under-served in our markets.

Shopee's large user base in our markets makes it highly efficient for us to acquire and serve credit

users. Proprietary data from Shopee also allows us to better underwrite risk. In addition, we have diversified funding sources, such as innovative asset-backed lending products and our digital banks in local markets that give us access to retail deposits. All of this has let us scale up our credit business very quickly and profitably.

In the third quarter, our loan book grew over 70% year-on-year, and we added 4 million first-time borrowers. Our consumer and SME loans active users reached about 24 million by the end of the quarter, growing more than 60% year-on-year. Despite high growth, our NPL 90-day ratio held stable in the third quarter at 1.2%.

One of our risk management practices is to gradually increase loan size and tenure offerings to users. We typically engage first time borrowers by offering SPayLater products with small credit limits and short tenures on their Shopee purchases. If the users show a healthy repayment track record, we offer them a higher credit limit, longer tenure options, or other credit products such as cash loans. This practice underpins our sustainable, healthy growth. Right now, our average loans outstanding per user is less than two hundred dollars, with tenure periods of just a few months. These loans are spread over a very large user base across different markets.

Recently, we have been pushing off-Shopee loan book growth more strongly, especially in Indonesia. Off-Shopee loans now account for more than half of our loan book there. One recent example of an off-Shopee use case was to facilitate consumers' large-ticket purchases of mobile phones in offline retail stores. In this case, we offered select users SPayLater Limit Xtra credit products with a higher credit limit. This initiative was very well received by our users. We will continue to explore further use cases in Indonesia, and bring these successes to our other markets.

In summary, we see plenty of growth opportunities ahead in our markets. Strong synergies with Shopee give us a unique advantage, and use cases beyond Shopee are also very compelling. We are well positioned to grow our credit business and offer more financial services to address the huge under-served demand in our markets.

Finally, turning to our digital entertainment business.

Garena's strong growth has continued into the third quarter. Total bookings grew over 24%, and adjusted EBITDA grew over 34%, year-on-year. This good performance is driven by the strength of Free Fire, which continues to be one of the largest mobile games in the world. Free Fire consistently had over 100 million daily active users in the third quarter, representing an impressive 25% year-on-year growth.

In addition to Asia and the Americas, we were happy to see meaningful growth in other regions such as North Africa over the past year. We view this region as a sizeable untapped opportunity and have been ramping up both in-game campaigns and out-of-game events in these markets. Recently, we held a major esports tournament in Morocco where thousands of teams participated, attracting millions of views on social media. We believe it was the largest-attended offline mobile game event ever held in North Africa.

Our top priorities for Free Fire continue to be attracting, retaining, and engaging our users. In the third quarter, Sensor Tower once again ranked Free Fire as the No. 1 most downloaded mobile game in the world. The number of new users who downloaded and played Free Fire in the third quarter was up 25% year-on-year. User engagement has also remained high, and while we always try to keep ARPU at a healthy level, we saw an increase this quarter thanks to strong item sales during our anniversary campaign update.

It is quite remarkable that a game of Free Fire's vintage is able to grow its user base so steadily, and I believe this has a lot to do with our relentlessly user-centric approach. We make sure to release new content updates and in-game experiences very frequently, keeping things fresh even for seasoned gamers.

Many of these updates are inspired by our local markets and social media trends. In October, Free Fire was the first online game in the world to collaborate with the Zoological Park Organization of Thailand to bring their hugely popular baby pygmy hippo, Moo Deng, into the game. Our users loved the hippo-themed virtual items that we introduced in Free Fire. They shared user-generated content on social media that went viral, yielding more than 10 million views. This is just one example of how we leverage local trends to connect with users at an emotional level, making them feel that Free Fire is relevant and interesting. It also keeps Free Fire highly visible on social media, helping to draw in new users.

Beyond Free Fire, Garena launched Need for Speed: Mobile in Taiwan, Hong Kong and Macau at the end of October. Since its launch, it has ranked as the number 1 most downloaded racing game in all three markets according to Sensor Tower. We are also strengthening our partnership with Tencent to bring Delta Force, a first-person tactical shooting game, to PC and mobile users in several markets across Southeast Asia, MENA, and Latin America.

To conclude, I am happy that we delivered a very strong quarter, with all three of our businesses posting high profitable growth. We have done well, and we will continue doing so.

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 31% year-on-year to 4.3 billion dollars in the third quarter of 2024. 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 521 million dollars in the third quarter of 2024, compared to an adjusted EBITDA of 35 million dollars in the third quarter of 2023.

On e-commerce, Shopee's gross orders grew 24% and GMV increased by 25% year-on-year. Our third quarter GAAP revenue of 3.2 billion dollars included GAAP marketplace revenue of 2.8 billion dollars, up 43% year-on-year, and GAAP product revenue of 0.4 billion dollars. Within GAAP marketplace revenue, core marketplace revenue, mainly consisting of transaction-based fees and advertising revenues, was 2.0 billion dollars, up 49% year-on-year. Value-added services revenue, mainly consisting of revenues related to logistics services, was 0.8 billion dollars, up 29% year-on-year.

E-commerce adjusted EBITDA was 34 million dollars in the third quarter of 2024, compared to an adjusted EBITDA loss of 346 million dollars in the third quarter of 2023.

For our Asia markets, we continued to achieve positive adjusted EBITDA following our second quarter of 2024 results, recording 31 million dollars during the quarter, compared to an adjusted EBITDA loss of 306 million dollars in the third quarter of 2023. In our other markets, we achieved positive adjusted EBITDA of 4 million dollars, compared to an adjusted EBITDA loss of 40 million dollars in the third quarter of 2023.

Digital financial services GAAP revenue was up by 38% year-on-year to 616 million dollars. Adjusted EBITDA was up by 13% year-on-year to 188 million dollars.

As of the end of September, our consumer and SME loans principal outstanding reached 4.6 billion dollars, up 73% year-on-year. This consists of 3.8 billion dollars on-book and 0.8 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 1.2% at the end of the quarter.

Digital entertainment bookings were 557 million dollars, up 24% year-on-year. GAAP revenue was 498 million dollars. Adjusted EBITDA was 314 million dollars.

Returning to our consolidated numbers, we recognized a net non-operating income of 50 million dollars in the third quarter of 2024, compared to a net non-operating income of 46 million dollars in the third quarter of 2023.

We had a net income tax expense of 93 million dollars in the third quarter of 2024, compared to net income tax expense of 62 million dollars in the third quarter of 2023.

As a result, net income was 153 million dollars in the third quarter of 2024, as compared to net loss of 144 million dollars in the third quarter of 2023.

MC:

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