

Q4 & FY 2020 Earnings Prepared Remarks

Minju:

Hello everyone, and welcome to Sea's 2020 fourth quarter and full year 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 and changes in fair value of the 2017 convertible notes. 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 here 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 fourth quarter and for the full year of 2020. 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.

2020 was a landmark year for Sea. Our teams, users, and communities all faced unprecedented challenges as a result of the pandemic. This further reinforced the importance of our mission to empower the consumers and small businesses in our communities with technology.

We adapted rapidly to enable our users and communities to meet the unique challenges of the last year, while also successfully addressing the fast-growing and fast-evolving demand from our users for Sea's products and services.

For example, we quickly scaled up home and living and grocery offerings on the Shopee platform, rolled out seller support programs to help local merchants get back on their feet faster, accelerated our digital payment service offerings, and shifted major esports events online, each with highly successful results.

The lockdown and social distancing measures to curb the pandemic have materially accelerated the digitalization of our economies and we expect the effects to be long-lasting. During this time, our team has demonstrated their resilience, adaptability, and strong execution. We believe these capabilities position us very well to capture and drive the significant growth opportunities ahead as a strong market leader.

Our results for the fourth quarter and for the full year of 2020 speak to the success of our approach. On a group level, in the fourth quarter, we recorded accelerated year-on-year growth in GAAP revenue compared to the previous quarter. It reached 1.6 billion dollars, up 102% year-on-year.

We also recorded 102% year-on-year growth in our fourth quarter gross profit to reach 533.7 million dollars. Our fourth quarter adjusted EBITDA was 48.7 million dollars, compared to an adjusted EBITDA loss of 104.9 million dollars a year ago.

The strong fourth quarter results contributed to an outstanding set of results for the full year of 2020. GAAP revenue for the full year more than doubled compared to that of 2019 to reach 4.4 billion dollars. Gross profit grew 123% year-on-year to reach 1.3 billion dollars. We also achieved a positive adjusted EBITDA of 107 million dollars for the full year, compared to a loss of 178.6 million dollars for 2019.

This was supported by the strong performance across our digital entertainment and e-commerce businesses. For the full year, Garena achieved bookings of 3.2 billion dollars and Shopee achieved GAAP revenue plus sales incentives net-off of 2.5 billion dollars. Both businesses exceeded our recently raised full-year guidance for 2020.

Let me now discuss each business individually.

Starting with digital entertainment.

Garena's outstanding performance in the previous quarters continued in the fourth quarter, as we recorded bookings of 1 billion dollars, up 111% year-on-year. Adjusted EBITDA in the fourth quarter was 663.5 million dollars, up 149% year-on-year, representing 66% of bookings.

For the full year, we generated bookings of 3.2 billion dollars, increasing by 80% year-on-year. Garena's adjusted EBITDA increased by 94% year-on-year to reach 2 billion dollars, representing 62% of bookings.

The strong financial performance in the fourth quarter and the full year was a result of our ability to continually expand our user and paying user base. Every quarter, more gamers globally engaged with our in-game content and esports activities. In the fourth quarter, quarterly active users reached 610.6 million, an increase of 72% year-on-year. Quarterly paying users hit 73.1 million, up 120% year-on-year. Our paying user ratio, measured as quarterly paying users as a percentage of quarterly active users, continued to grow in the fourth quarter to reach 12%.

Free Fire was once again a key driver of Garena's outperformance. According to App Annie, it continued to be the highest grossing mobile game in Latin America and Southeast Asia in the fourth quarter as well as the full year of 2020. It has maintained this top ranking for 6 consecutive quarters. The strong performance was also evident in India where Free Fire was the highest grossing mobile game for the fourth quarter and for the full year of 2020 based on App Annie.

We are also pleased to share that Free Fire was once again the most downloaded mobile game in the world in 2020 according to App Annie. This is the second year in a row that Free Fire was ranked first globally. As we continue to grow the Free Fire user base worldwide and build even tighter bonds with global gamers, we believe that Free Fire is firmly establishing itself as a strong global gaming franchise and platform.

One of the key factors in Free Fire's sustained success is our commitment to keeping our game fresh and engaging. Gamers around the world increasingly recognize Garena's reputation for constantly enhancing the Free Fire experience with innovative content, partnerships, and esports activities.

In the fourth quarter, for example, we announced a partnership between Free Fire and football legend Cristiano Ronaldo, marking one of the most significant tie-ups between the esports industry and the physical sports industry in recent times. In addition to new in-game items and playable characters, we also introduced two new game modes as part of the partnership with Cristiano Ronaldo, a limited time battle royale racing game mode and a team-based 1v1 duel mode. Our users love these new game modes as they provide a richer and more varied gaming experience by morphing different types of gameplay into the battle royale genre.

Free Fire's huge and growing esports and streaming community is another key pillar of our user engagement strategy. We made significant progress in deepening engagement with our community in 2020. Despite the challenge of holding live events, 3 of the 5 top esports tournaments by peak concurrent viewers in 2020 were Free Fire tournaments according to Esports Charts.

In 2020, Free Fire was once again the top-ranked mobile-only video game and the top-ranked battle royale video game on YouTube in terms of views. It was also the third-ranked game overall on YouTube by view counts. Free Fire related content recorded over 72 billion view counts across YouTube globally over the course of the year. The game was also named the Esports Mobile Game of the Year at the Esports Awards 2020. These esports activities and online video content help to drive up gamer engagement around the Free Fire franchise while extending its reach to a wider group of communities as a spectator sport.

While we continue to grow Free Fire into a long-lasting global franchise, we are also focused on building solid foundations for Garena's long-term growth. For example, in the fourth quarter, Phoenix Labs, our triple A gaming studio based in Vancouver, announced further expansion, adding new offices in Montreal and Los Angeles alongside its existing bases in Vancouver and Seattle. It also unveiled plans to build out teams in each of those cities to focus on new game development. We are confident that the expanded Phoenix Labs team will deliver great content in the years to come.

As we move through 2021, Garena is building on the strong momentum of 2020 and strengthening our position as a global leader in the digital entertainment industry.

We believe that our uniquely nuanced understanding of the tastes and preferences of global games communities, and our proven ability to build lasting bonds of affinity with gamers in diverse markets around the world, will continue to drive growth and success for Garena in 2021 and beyond.

Moving on to e-commerce. 2020 was an extraordinary year for Shopee. In a challenging environment, we adapted quickly to serve our communities and addressed the fast-evolving needs of our buyers and sellers. As a result, we have cemented Shopee's position as the favourite e-commerce platform for both buyers and sellers across Southeast Asia and Taiwan.

We continued to record excellent results for the fourth quarter. Year-on-year growth for each of gross orders, GMV and GAAP revenue further accelerated compared to the third quarter. In the fourth quarter, Shopee recorded 1 billion gross orders, up 135% year-on-year, and GMV of 11.9 billion dollars, an increase of 113% year-on-year. GAAP revenue grew 178% year-on-year to 842.2 million dollars. Adjusted EBITDA loss per order decreased by 41% year-on-year to 41 cents during the quarter reflecting the efficiencies we have reaped across 2020 even as we continued to invest in growth, especially during the peak shopping season.

For the full year of 2020, Shopee's gross orders totaled 2.8 billion, up 133% year-on-year. GMV was 35.4 billion dollars, an increase of 101% year-on-year. GAAP revenue grew 160% year-on-year to achieve 2.2 billion dollars.

In Indonesia, Shopee's largest market, we continue to grow our leadership position. We recorded more than 430 million orders in the fourth quarter. This translates into a daily average of around 4.7 million orders, up 128% year-on-year. According to App Annie, Shopee continued to rank first in Indonesia by average monthly active users, total time spent in app on Android, and downloads, in the Shopping category in the fourth quarter and for the full year of 2020.

We are also encouraged to see more sellers and brands around the region doing business on Shopee. For example, Shopee Mall, our dedicated space for leading brands, now features over 23 thousand international and local brands.

As our communities increasingly embrace e-commerce as their top retail choice, we believe Shopee's relentless focus on serving our users ensures that we continue to capture the largest share of the resulting growth. In both the fourth quarter and for the full year, Shopee was ranked number one in the Shopping category across Southeast Asia and Taiwan by average monthly active users, total time spent in app on Android, and downloads, based on App Annie. In fact, Shopee was ranked the third most downloaded app in the Shopping category globally for the full year, according to App Annie.

The success of Shopee has also translated into stronger brand recognition across our communities. We see this in YouGov's recently published "Best APAC Buzz Rankings 2020" where Shopee was ranked first in Asia. Shopee was also the number 8 ranked brand in YouGov's "Best Global Brands 2020", representing one of the two e-commerce brands in the world's top 10 ranking. Our strong focus on serving our users will continue to drive lasting brand affinity across our regions.

In each of our markets, e-commerce adoption continues to grow at an accelerated pace and we believe that, as the go to online shopping platform, Shopee will successfully capture and further drive these growth opportunities.

Turning now to digital financial services.

SeaMoney had a transformational year in 2020, as it successfully captured the opportunities presented by both the acceleration of digitalization in our economy as a whole and the particularly strong growth of our e-commerce platform. As a result, it enjoyed rapid and efficient growth in the fourth quarter and the full year of 2020. For the fourth quarter, SeaMoney's mobile wallets recorded total payment volume of 2.9 billion dollars with quarterly paying users surpassing 23.2 million. This was partly driven by monthly paying users in Indonesia which exceeded 10 million during the fourth quarter. Over the full year 2020, our mobile wallet total payment volume was 7.8 billion dollars.

Even as our mobile wallet, ShopeePay, benefited from the strong growth of Shopee, it also meaningfully reduced payment friction and improved the user experience on Shopee. This synergistic growth of both Shopee and ShopeePay showcases the strength of our platforms in terms of adding value for our consumers.

Off-platform online and offline use cases and partnerships also grew in 2020 as we continued our initiatives to expand use cases and as we saw more natural adoption by users who appreciate the accessibility and convenience of our mobile wallet services. For example, we recently expanded our partnership with Google to offer our mobile wallet as a payment option for the Google Play Store in Indonesia, in addition to our existing partnership in Thailand. As we onboard more online and offline use cases, we are seeing that our users increasingly appreciate the ease and convenience of using our mobile wallet services. We also see that SeaMoney's merchant partners increasingly recognize the value of tapping into the vast and rapidly growing user bases of Shopee and SeaMoney.

We are excited about the opportunity ahead of us to serve a wider set of needs for both new and existing consumers and businesses across our ecosystems. The rapid adoption of digital financial services in our regions is expected to have a long-term growth prospect and we will continue to focus on delivering strong, efficient and sustainable growth.

Turning now to our guidance for 2021.

We believe that we are well positioned to continue delivering value across our communities. For the full year of 2021, we currently expect bookings for digital entertainment to be between 4.3 billion and 4.5 billion dollars representing 38% year-on-year growth at the midpoint of the guidance. We also expect GAAP revenue for e-commerce to be between 4.5 billion and 4.7 billion dollars representing 112% year-on-year growth at the midpoint of the guidance.

I am also pleased to share that Sea has completed the acquisition of Composite Capital, a leading investment management firm founded and led by David Ma. I have known David for several years. In the past, he has been a long-term shareholder of Sea and shares our vision for the business and our passion to serve our communities through technology. David and his team have a demonstrated track record of thoughtful, long-term investing, with a deep understanding of industry trends and businesses globally. I am very excited to welcome David and the team at Composite Capital to the Sea family.

Along with this acquisition, I am proud to announce the formation of Sea Capital, a new platform to manage Sea's investment efforts. David will serve as the Chief Investment Officer of Sea Capital and report directly

to me. Sea Capital will focus on identifying, partnering with, and investing in technology companies that share our vision of bettering the lives of consumers and small businesses through technology.

By investing into the growth of our broader ecosystem, we believe Sea Capital can help accelerate the growth of the overall digital economy and create real and lasting value for our users, business partners, and communities. In line with this commitment, we are allocating an initial 1 billion dollars for Sea Capital to deploy in the coming years. We believe the addition of the Composite team and the establishment of Sea Capital will further enhance our investment and capital allocation capabilities in support of Sea's long-term growth strategies.

I would also like to take this opportunity to welcome Dr. Yan Shuicheng who has joined the Sea family to build and lead Sea AI Labs as our Group Chief Scientist. Dr. Yan is a leading expert in the field of artificial intelligence, with a particular focus on computer vision, machine learning and multimedia analysis. He is an ACM Fellow and Fellow of Academy of Engineering Singapore.

Sea AI Labs intends to attract and collaborate with top talent in artificial intelligence with the goal of exploring and developing long-term insights and technologies related to our existing businesses and new opportunities beyond. I believe that Dr. Yan and Sea AI Labs will strengthen our capabilities in innovation and research, in line with our commitment to advancing technology to drive the development of the digital economy across our regions.

I am very proud of the outstanding results our team achieved in 2020 and believe we are moving into 2021 primed for the exciting growth opportunities ahead of us. Across the business, we are focused on driving sustained and efficient growth. As we scale towards becoming a top global internet company, we believe our single-minded goal of delivering value to our users will continue to drive our success.

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 102% year-on-year to 1.6 billion dollars in the fourth quarter, and 101% year-on-year to 4.4 billion dollars for the full year of 2020. This was mainly driven by take-rate growth 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 111% year-on-year to 1 billion dollars in the fourth quarter, and 80% year-on-year to 3.2 billion dollars for the full year of 2020. GAAP revenue was up 72% year-on-year to 693.4 million dollars in the fourth quarter and 78% year-on-year to 2 billion dollars for the full year of 2020. 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 rollout and esports events.

Digital entertainment adjusted EBITDA was 663.5 million dollars in the fourth quarter and 2 billion dollars for the full year of 2020. This represents year-on-year growth of 149% and 94% for the quarter and the full year respectively. 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 fourth quarter GAAP revenue of 842.2 million dollars included 'GAAP marketplace revenue' of 627.6 million dollars, up 175% year-on-year, and 'GAAP product revenue' of 214.6 million dollars, up 187% year-on-year. For the full year of 2020, GAAP revenue of 2.2 billion dollars included 'GAAP marketplace revenue' of 1.6 billion dollars, up 155% year-on-year, and 'GAAP product revenue' of

0.6 billion dollars, up 173% year-on-year. The strong results demonstrated the deepening penetration of e-commerce and our ability to capture these accelerated growth opportunities created by the rapid expansion of the digital economy.

E-commerce adjusted EBITDA loss was 427.5 million dollars in the fourth quarter and 1.3 billion dollars for the full year of 2020 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 24.4 million dollars in the fourth quarter and 60.8 million dollars for the full year of 2020.

Digital financial services adjusted EBITDA loss was 171.3 million dollars in the fourth quarter and 511.1 million dollars for the full year of 2020 as we continue our efforts to drive mobile wallet adoption.

Returning to our consolidated numbers, we recognized a net non-operating loss of 124.5 million dollars in the fourth quarter of 2020, compared to a net non-operating loss of 15.2 million dollars in the fourth quarter of 2019. Our non-operating loss in the fourth quarter of 2020 was primarily due to investment loss and interest expense on convertible notes.

For the full year, our net non-operating loss was 179.9 million dollars, compared to loss of 477.4 million dollars for the full year of 2019. Our non-operating loss for the full year of 2020 was primarily due to interest expense on convertible notes, while such loss in 2019 was primarily due to fair value loss of 472.9 million dollars on our 2017 convertible notes.

We had a net income tax expense of 44.2 million dollars in the fourth quarter of 2020 and 141.6 million dollars for the full year of 2020. This 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 and changes in fair value of the 2017 convertible notes was 430.7 million dollars in the fourth quarter of 2020 and 1.3 billion dollars for the full year of 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.