

Q4 & FY 2021 Earnings Prepared Remarks

Minju:

Hello everyone, and welcome to Sea's 2021 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. 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 fourth quarter and for the full year 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.

In 2021, we continued to focus on growing and evolving our business to address the fast-changing needs of our users and communities. We have invested with vision and efficiency to capture the unprecedented opportunities available to us during this period of accelerated digitalization. As a result, we have greatly deepened our engagement with consumers and small businesses, vastly expanded our total addressable market, and extended our leadership across all our businesses. Moreover, our growing scale, leadership and strong cash balance means we are well placed to leverage efficiencies across our ecosystem.

As we look ahead, I would first like to take this opportunity to share with you how we plan to manage sustainable growth going forward.

We believe we are now in a strong position to manage the levers of our business to reach profitability across more markets and segments in 2022 and beyond. We currently expect Shopee to achieve positive adjusted EBITDA before HQ costs allocation in Southeast Asia and Taiwan by this year. We also expect SeaMoney to achieve positive cashflow by next year. As a result, we currently expect that by 2025 cash generated by Shopee and SeaMoney collectively will enable these two businesses to substantially self-fund their own long-term growth.

By that point, we believe Shopee and SeaMoney will be generating meaningful cash in our existing core markets of Southeast Asia and Taiwan as strong market leaders, while Shopee will also have achieved significant scale and a strong market position in our new growth market of Brazil.

On the path to this inflection point, we plan to continue to invest in Shopee and SeaMoney with efficiency. We have around 10 billion dollars of cash, cash equivalents and short-term investments on our balance sheet, including close to 7 billion dollars raised last year, which we intend to invest into the growth of Shopee and SeaMoney over the coming years. Based on our current plan, we believe that we have the financial resources required to grow the two businesses to the inflection point, without having to heavily

rely on cash generated from the digital entertainment business. Of course, any additional growth from Garena would further strengthen our position. And we remain extremely focused on developing Garena's global platform, which we see as a key strategic asset in the long run.

Next, let me share with you how we are thinking about resource allocation for this period. Broadly speaking, Shopee LATAM and Brazil in particular, as well as R&D, would be our top two focus areas for investment. Our investment and the overall impact on the bottom line is likely frontloaded, as unit economics and profitability for our businesses generally improve with scale.

Firstly, we will continue to invest in Shopee LATAM with a focus on Brazil. Of course, it would be much easier operationally for us to just focus on the seven existing core markets for Shopee. However, we strongly believe that by investing prudently and sustainably in Shopee LATAM and Brazil in particular, we will generate significant value for our shareholders in the long run.

While we do not underestimate the challenges of any new market expansion, I would also like to highlight that we have established track records seven times in the seven highly diverse and complex markets of Southeast Asia and Taiwan. When we started in each of those markets in 2015, we had significantly less resources, experience, and know-how and as a result, faced a much more formidable competitive landscape than we currently do in our market expansion. Moreover, our growth trajectory in each existing core market has generally followed certain patterns whereby we are able to first manage strong user and order growth with improving efficiency, and then achieve market leadership and profitability with scale. As I will share in greater detail when we discuss the segment results, Shopee Brazil has already achieved strong user traction, meaningful commercialization and fast improving unit economics just two years after entering the market. This gives us further confidence in managing growth in this market.

Achieving success in Brazil, which is the sixth most populous country in the world where the profitability model for marketplaces has also been long proven, would allow Shopee to substantially expand its total addressable market, significantly enhance its competitiveness as a global e-commerce platform, and further diversify its businesses across the world.

Secondly, our technology and R&D capabilities are already a strong competitive moat for us, and we aim to invest in deepening this advantage. Our scale, market leadership, and ability to leverage efficiencies across our entire ecosystem position us very well to continue to build core strengths in tech.

We intend to ramp up investments in R&D to continually provide better and greater varieties of service offerings and features to our users, as well as to maximize our long-term growth potential. The results of some of these investments are already visible across our business in fast-evolving offerings and features. Such offerings and features range from UGC tools in Free Fire, user engagement features on Shopee, and fintech products under SeaMoney, to shared technology platforms, improved security and risk management infrastructure, and enhanced commercialization and financial underwriting systems. Just to name a few.

These investments are both necessary for our current operations and highly important to our future growth. We strongly believe that our investments in technology will continue to serve as a key competitive moat across our ecosystem.

Having discussed the near to mid-term plan, I would also like to share our longer-term view about the future we are working very hard towards. As we look ahead, it is clear that consumer activities and experiences are increasingly converging online at the intersection of content, commerce, and community. It is also clear that agile, adaptable companies that can successfully tap into active, engaged, and social communities will have a unique advantage as we move into this new era.

Our three core businesses collectively offer immersive and interactive digital, social and commercial experiences to large global communities, supported by our fast-growing digital financial infrastructure and deep online-offline operational capabilities. We therefore believe that our ecosystem comprises a complete consumer tech and innovation stack that is distinctively relevant to the new opportunities being presented.

All the business investments and decisions we are making today are intended to also best position us to best serve the changing needs of fast growing digital-native generations.

Let us now discuss the performance of our group and each of our businesses in the fourth quarter and the full year of 2021, and our outlook for 2022.

At the group level, GAAP revenue increased 106% year-on-year to 3.2 billion dollars and gross profit was 1.3 billion dollars, up 146% year-on-year, for the fourth quarter. Meanwhile, for the full year of 2021, GAAP revenue grew by 128% year-on-year to reach 10 billion dollars and gross profit reached 3.9 billion dollars, up 189% from 2020.

Garena's bookings for the full year hit 4.6 billion dollars and Shopee's GAAP revenue reached 5.1 billion dollars. Both businesses performed in line with our recently raised full year guidance.

For 2022, we currently expect bookings for digital entertainment to be between 2.9 billion and 3.1 billion dollars. With many economies reopening further in the fourth quarter and into this year, we have observed some moderation in online activities and fluctuations in user engagement. Moreover, due to unanticipated government actions, as we previously reported in a press release, Free Fire is currently unavailable in the Google Play and iOS app stores in India. Our guidance therefore takes into consideration these headwind factors.

The midpoint of the guidance of 3 billion dollars reflects our current expectations that our bookings for 2022 will be close to the level in 2020 while also considering the uncertainty in India. While we will continue to assess the longer-term trends as our markets continue to evolve, we remain highly confident in the long-term prospects of our digital entertainment business.

Next, we expect GAAP revenue for e-commerce to be between 8.9 billion and 9.1 billion dollars representing 76% year-on-year growth at the midpoint of the guidance. This strong outlook, particularly against the very high base of 2021, reflects our deeper engagement with consumers and small businesses across our markets, vastly expanded e-commerce addressable markets and continued improvements in commercialization.

I am also excited to share our 2022 outlook for the digital financial services segment for the first time. SeaMoney made strong progress in 2021 as we continued to scale our mobile wallet services and launched more products and services which saw successful adoption across the ecosystem. We anticipate that these trends will continue and SeaMoney will scale further to become another important growth engine for us. We expect GAAP revenue for SeaMoney for this year to be between 1.1 billion and 1.3 billion dollars representing 155% year-on-year growth at the midpoint of the guidance.

Let's now turn to our businesses in more detail.

Beginning with digital entertainment. In the fourth quarter, Garena generated bookings of 1.1 billion dollars, an increase of 7% year-on-year. Adjusted EBITDA was 56% of bookings at 603 million dollars. Quarterly active users reached 654 million, up 7% from a year ago, and quarterly paying users were 77 million, an increase of 6% year-on-year. For the full year of 2021, Garena recorded bookings of 4.6 billion dollars, up 44% year-on-year. Adjusted EBITDA was up 40% compared to 2020 at 2.8 billion dollars, representing 60% of bookings.

During the fourth quarter, online games momentum moderated somewhat given the reopening trends in many of our markets. That said, it is worth emphasizing that Free Fire continues to have one of the largest and most engaged user communities of any game in history. According to data.ai, previously known as App Annie, for the third year in a row, Free Fire was the number one most downloaded mobile game globally in 2021. Free Fire also ranked second globally by average monthly active users for all mobile games on Google Play in the fourth quarter and full year.

Free Fire also retained its leadership as the highest grossing mobile game across both iOS and Google Play in Southeast Asia and Latin America for both the fourth quarter and full year, based on data.ai. We have maintained this leading position in Southeast Asia and Latin America for ten consecutive quarters. Furthermore, Free Fire was the highest grossing mobile battle royale game for the fourth consecutive quarter in the U.S., according to data.ai.

We remain committed to investing in content in Free Fire to enhance user experience and uplift user engagement. For that, we have a comprehensive pipeline in place that includes partnerships, original and user-generated content, and e-sports activities.

For example, this month, we have a crossover event with Assassin's Creed, one of the most popular global video game franchises. And we are also excited to have BTS, one of the world's most streamed artists worldwide, enter the universe of Free Fire as our global brand ambassador in the coming months.

Additionally, we have seen strong engagement with user-generated content through modes like Craftland, our recently introduced map editor feature. Since launch, the most popular Craftland maps are subscribed by close to 40 million users so far. We will continue to encourage user-generated content by enhancing creator features and accessibility. We believe that the strong user reception to Craftland is a positive indicator of the initial success to encourage user participation in content creation and to build Free Fire into an increasingly open platform and is well aligned with major emerging industry trends such as the metaverse.

Besides Free Fire's strong performance, the other games in our portfolio continue to perform well. For example, Arena of Valor has grown year-on-year in 2021 across both active users and bookings, despite being in its fifth year of operations.

In 2022 and beyond, we expect to expand our portfolio with more games across diverse genres such as multiplayer action, role-playing, sandbox, and casual games.

Over the long-term, our priority remains sustaining and growing our existing major franchises while diversifying our games portfolio. Our strong and growing self-development capabilities will be a key component of this diversification effort. Our teams are working on multiple prototype games across different genres and stages. In due course, we expect to bring more self-developed games to market. We also continue to actively acquire and invest in top talent and game IPs to further expand our capabilities across genres and geographies. Meanwhile, we will keep growing our publishing relationships, leveraging our unique set of strengths across diverse global markets. We believe that this comprehensive approach to portfolio diversification will allow us to identify and execute around the largest games trends in the years to come.

More importantly, we see games as one of the most engaging and immersive forms of entertainment, bringing communities from across the world together to play and interact, that will play a vital role in shaping the virtual experiences of users. And we are well positioned to capture new opportunities that arise, given our core competency in developing highly social, immersive, and interactive global game platforms with live operations at scale. Therefore, we are highly focused on maximizing the long-term potential of Garena. We see it as our key to potentially greater success in a future world where activities, experiences, interactions, and consumption are increasingly virtual.

Now let's turn to e-commerce.

Shopee had a great year in 2021 as the business scaled and strengthened its market position across both new and existing markets. For the quarter, Shopee's GAAP revenue grew 89% year-on-year to reach 1.6 billion dollars. It recorded gross orders of 2 billion, an increase of 90% year-on-year, and saw GMV grow 53% over the same period to reach 18.2 billion dollars.

The strong performance contributed to strong results for the full year of 2021 where Shopee achieved GAAP revenue of 5.1 billion dollars, up 136% year-on-year. The full year's gross orders totaled 6.1 billion,

up 117% year-on-year, and GMV reached 62.5 billion dollars, an increase of 77% from 2020. Monetization improved across all revenue components with GAAP revenue as a percentage of total GMV rising from 6.1% in 2020 to 8.2% in 2021.

Our strong revenue growth shows how more merchants across the market trust the Shopee platform and understand the value we deliver to them. Our leading market position is also evident in strong brand recognition and engagement from consumers on Shopee. It was the top e-commerce brand in YouGov's "Best Global Brands 2021" and ranked sixth overall. In terms of engagement, our buyers shopped on Shopee over 6 times a month on average in the fourth quarter with Indonesia's monthly order frequency exceeding 8 times. We are very pleased with the progress made around engaging our buyers and will continue to deliver more value to them.

According to data.ai, Shopee ranked first in the Shopping category globally by downloads in the fourth quarter and the full year. In the same category, for Google Play, Shopee ranked first globally by total time spent in app and second by average monthly active users in the fourth quarter and the full year. During the same period, Shopee also continued to be the top ranked app in the Shopping category across both iOS and Google Play, in each of Southeast Asia and Taiwan by average monthly active users and total time spent in app. In Indonesia, Shopee was ranked the number one app across these same metrics with gross orders growing around 88% year-on-year during the fourth quarter.

We have also scaled our presence in Brazil serving the local sellers and buyers. During the fourth quarter and the full year, Shopee was ranked first by downloads and total time spent in app, and second by average monthly active users, for the Shopping category, according to data.ai. In the fourth quarter, Shopee Brazil recorded more than 140 million gross orders, growing at close to 400% year-on-year, and more than 70 million dollars of GAAP revenue, up by around 326% year-on-year. We believe our offering provides a new and fresh online shopping experience that caters to the underserved segments of the Brazilian market. We see Brazil as a new growth market for us, and we are very excited about its growth prospects and the long-term value we can deliver to the ecosystem.

Meanwhile, we continue to see efficiency gain as we scale. For Shopee Southeast Asia and Taiwan, the adjusted EBITDA loss per order before HQ costs allocation was 15 cents in the fourth quarter, an improvement from 21 cents in the fourth quarter of 2020. As shared earlier, we believe Shopee is on track to achieve positive adjusted EBITDA before HQ costs allocation in Southeast Asia and Taiwan by this year.

Our newer markets have also made progress, with adjusted EBITDA loss per order before HQ costs allocation improving consistently in every quarter in 2021. Specifically in Brazil, our adjusted EBITDA loss per order before HQ costs allocation improved by more than 40% year-on-year during the fourth quarter to below 2 dollars.

Across all our markets, our total adjusted EBITDA loss per order was 45 cents in the fourth quarter, an increase from 41 cents for the fourth quarter of 2020. This increase was attributable to the increasing contribution from the newer markets which are at a much earlier stage of development. These markets are both growing faster and incurring higher adjusted EBITDA loss per order than Southeast Asia and Taiwan. For the full year, our total adjusted EBITDA loss per order across all markets was 42 cents, improving 9% compared to 2020.

Over the past couple of years, we accelerated the growth of Shopee by quickly adapting and serving our buyers and sellers through the pandemic. We also successfully strengthened our competitive position in Southeast Asia and Taiwan as well as Brazil. Going forward, we expect Southeast Asia and Taiwan to keep growing healthily, while we further strengthen our market leadership and execute towards profitability. In our new growth market, Brazil, we are focused on efficient and sustainable growth as we continue to scale and improve our service offerings to local sellers and buyers.

Finally, our digital financial services business, SeaMoney, performed well in the fourth quarter and full year of 2021. In the fourth quarter, GAAP revenue was 198 million dollars, up 711% year-on-year driven by the growing adoption of our products and services. For the full year of 2021, our GAAP revenue grew 673% year-on-year to reach 470 million dollars.

Quarterly active users across our SeaMoney products and services reached 45.8 million, up 90% year-on-year.

In the fourth quarter and full year 2021, we further expanded our digital financial service offerings across credit, insurtech and digital bank services. For example, we launched SeaBank in Indonesia during the latter half of the year with strong traction in terms of user growth. We also obtained a bank license recently in the Philippines.

In Indonesia, which has the most comprehensive set of products and services among our markets, over 20% of the quarterly active users have used multiple SeaMoney products or services in the fourth quarter. We view this as a highly positive indicator of the strong efficiencies we can leverage in bringing new digital financial service offerings to the large and fast-growing user base in our entire consumer internet ecosystem. In particular, we see Shopee and SeaMoney as both highly synergistic with one another and enjoy a strong flywheel effect in their scaling.

The total payment volume of our mobile wallet was close to 5 billion dollars in the fourth quarter, up 70% year-on-year, and 17.2 billion dollars for the full year, up 120% year-on-year.

In 2021, we grew our mobile wallet services across both on-platform and off-platform use cases leveraging our growing ecosystem of products and services. This further drives a positive flywheel effect that allows us to benefit through higher growth and better efficiency as we drive adoption across both consumers and merchants. In the fourth quarter, we expanded our payment acceptance points to include key merchants like AirAsia in the Philippines, 7-Eleven in Malaysia and Subway in Thailand.

We believe there are many other large opportunities within our markets that SeaMoney can address. We are looking forward to rolling out more digital financial products and services in 2022 as we continue serving the underserved in our ecosystem with technology.

At the same time, as the business grows with our communities adopting more financial services and products, we are also excited to see that SeaMoney is on track to achieve positive cashflow by next year.

To conclude, I am proud of the progress our team has made in 2021 both in scaling our businesses and serving our communities. We believe we are very well positioned to continue strengthening our market leaderships while focusing on sustainable and efficient long-term growth.

We are highly confident that the learnings and the resilience we built over the past years will only further enhance our ability to execute on our long-term strategies and continue to deliver significant value to our communities and stakeholders.

I would also like to personally and on behalf of Sea thank our stakeholders and friends for your continued long-term support. We hope to return your trust and investment in us with continued strong execution and focus on the long-term success of the company.

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 106% year-on-year to 3.2 billion dollars in the fourth quarter, and 128% year-on-year to 10.0 billion dollars for the full year of 2021. This was mainly driven by the growing adoption of products and services across our e-commerce and digital financial services businesses, as we continue to deepen the engagement with our users, as well as growth of our digital entertainment business.

Digital entertainment bookings grew 7% year-on-year to 1.1 billion dollars in the fourth quarter, and 44% year-on-year to 4.6 billion dollars for the full year of 2021. GAAP revenue was up 104% year-on-year to 1.4 billion dollars in the fourth quarter and 114% year-on-year to 4.3 billion dollars for the full year of 2021.

Digital entertainment adjusted EBITDA was 603 million dollars in the fourth quarter and 2.8 billion dollars for the full year of 2021.

On e-commerce, our fourth quarter GAAP revenue of 1.6 billion dollars included GAAP marketplace revenue of 1.3 billion dollars, up 104% year-on-year, and GAAP product revenue of 0.3 billion dollars, up 48% year-on-year. For the full year of 2021, GAAP revenue of 5.1 billion dollars included GAAP marketplace revenue of 4.1 billion dollars, up 156% year-on-year, and GAAP product revenue of 1.1 billion dollars, up 83% 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 878 million dollars in the fourth quarter and 2.6 billion dollars for the full year of 2021 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 198 million dollars in the fourth quarter and 470 million dollars for the full year of 2021. This represents year-on-year growth of 711% and 673% for the quarter and full year respectively. The growth was primarily due to increasing traction as we continued to expand our suite of service offerings. Adjusted EBITDA loss was 150 million dollars in the fourth quarter and 617 million dollars for the full year of 2021. 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 71 million dollars in the fourth quarter of 2021, compared to a net non-operating loss of 124 million dollars in the fourth quarter of 2020. For the full year, our net non-operating loss was 132 million dollars, compared to loss of 180 million dollars for the full year of 2020. Our non-operating loss for the fourth quarter and full year ended December 31, 2021 was primarily due to interest expense on our convertible notes.

We had a net income tax expense of 106 million dollars in the fourth quarter of 2021 and 333 million dollars for the full year of 2021. 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 was 483 million dollars in the fourth quarter of 2021 and 1.6 billion dollars for the full year of 2021.

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.