

## Q4 & FY 2022 Earnings Prepared Remarks

### Minju:

Hello everyone, and welcome to Sea's 2022 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. 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 full year of 2022. 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.

2022 was another year of evolution for us. Given the macro uncertainties, we pivoted decisively late last year to focus on efficiency and profitability. As a result, we began to see meaningful improvements in the bottom-line. For the fourth quarter, our net income and total adjusted EBITDA both turned positive. Moreover, we generated 320 million dollars of cash from operations in the quarter.

It has not been an easy journey. We could make these significant shifts within such a short period of time only because of the collective efforts of our Sea team as a whole, and the very strong determination and resilience that our team has demonstrated. We took the hard path, but we believe this is the right path to achieve long-term success.

As we continue this transition and manage sustainable growth going forward, we have adopted the approach of doing less but doing it better.

First, we sharpened our focus on the areas with the greatest potential across our businesses. We exited or downsized operations in non-core markets, streamlined our game pipeline with divestments and project closures, and deprioritized non-core initiatives. These measures brought immediate cost improvements. More importantly, they allowed us to focus our managerial, operational and financial resources on doing the core things better.

Meanwhile, we focused on doing better for our users across our digital ecosystem. At Shopee, we continued to optimize customer services, seller management and logistics. At Garena, we worked to improve the accessibility and content quality of our core games. We have also been leveraging SeaMoney's strong synergies with the rest of our ecosystem to better serve the under-addressed financial needs in our markets. I will elaborate more in detail during the segment discussion.

Given the macro uncertainty and our recent strong pivot, we continue to closely monitor the market environment, and adjust our pace and fine-tune our operations accordingly. As a result, there may be near-term fluctuations in our results and performance. However, we remain highly confident in the long-term growth potential of our markets and highly focused on capturing this opportunity.

More importantly, our determination and ability to execute towards profitability enable us to start 2023 on a much stronger footing.

Let's now discuss each business segment in detail.

Starting with e-commerce. I am pleased to share that Shopee's adjusted EBITDA turned positive for the first time in the fourth quarter of 2022. The improvements we achieved in core marketplace revenue and operating costs were key factors driving fourth quarter profitability.

In the fourth quarter, GAAP revenue was 2.1 billion dollars, up 32% year-on-year. This was mainly due to strong growth in core marketplace revenue. Within the core marketplace revenue, both transaction-based fees and advertising revenue increased as we deepened monetization and saw greater investments by sellers on our platform to serve buyers better. Full year performance generally mirrored the trends of the fourth quarter, with GAAP revenue growing 42% from 2021.

In terms of operating costs, we made improvements across each of the major expenses in the fourth quarter. GAAP sales and marketing expenses improved by 34% quarter-on-quarter and 55% year-on-year, driven by more targeted investments across shipping incentives and brand marketing. There were also sequential improvements in R&D and G&A expenses.

Now looking at each region. In our Asia markets, we recorded a positive adjusted EBITDA of 320 million dollars in the fourth quarter. This represents a significant improvement from the previous quarter, which had an adjusted EBITDA loss of 217 million dollars. In our other markets, the adjusted EBITDA loss also decreased by more than 50% quarter-on-quarter to 124 million dollars. In Brazil, we continued to enjoy strong improvements in unit economics. Our contribution margin loss per order decreased by 54% from the previous quarter to 47 cents.

During 2022, we have been able to drive meaningful improvements in logistics costs to our ecosystem. This will remain an important area of focus going forward. We believe that lowering the cost to serve will be key to our long-term growth by unlocking large, underserved user segments across our markets. While we have already seen early results from these efforts, there is still greater room for improvement.

In addition to cost management, we remain highly focused on improving user experience. For example, we have been systematically reviewing and optimizing our process management for customer services. We focus not only on setting key metrics and targets for general user experience but also on more proactive management of tail cases. On logistics, we have been working to provide a more efficient and reliable experience to our users. This includes reducing wait time, minimizing delivery losses, and providing a more seamless in-app experience to both sellers and buyers in managing logistics.

The macro environment remains uncertain, and there are still headwinds on consumption in our markets. With our recent pivot, we are showing a positive bottom-line for the first time. As such, our focus this year will be to continue to solidify the efficiency gains and optimize the cost structure across our markets. In our Asia markets, we will work to further strengthen our leading position and profitability. In Brazil, we will focus on driving the business towards profitability to capture the significant opportunity in this new market. GMV will largely remain an output for us in the near term.

It is important to reemphasize our long-term focus on sustainable growth for Shopee. In our view, e-commerce penetration in our markets remains low as compared to its full potential relative to offline retail. Our markets also enjoy highly favorable demographical trends in terms of their large and growing digital populations. This is further supported by the long-term economic growth potential across our markets. The key question presented to us at this stage is how much of these underserved needs for online

consumption we can sustainably address. This determines the size of the profitable TAM we will be able to capture. We believe a large part of the answer lies in our ability to continue to improve the cost structure of our ecosystem through creativity, technology, operational excellence and most importantly, an unwavering commitment to serve our users. We believe everything we are doing now is to best position us to achieve sustainable growth, profitability, and defensibility of our ecosystem in the long run.

Now let's turn to digital entertainment.

In 2022, online games as a market was broadly impacted by ongoing moderation in user engagement and monetization. Our games experienced similar trends.

During the fourth quarter, Garena's GAAP revenue was 949 million dollars and bookings were 544 million dollars. Quarterly active users reached 486 million with 44 million quarterly paying users. The paying user ratio and average revenue per user remained relatively stable quarter-on-quarter. For the full year of 2022, GAAP revenue was 3.9 billion dollars with bookings at 2.8 billion dollars.

Despite the ongoing moderation, we remain highly focused on sustaining our current core games. We prioritize user engagement by offering better and more enjoyable experiences in our games. We have targeted initiatives for existing and returning users. We have also been streamlining game content to improve accessibility and gameplay for all users across diverse markets.

In managing cost efficiency, we have comprehensively reviewed our publishing and self-development pipeline in line with our principle of doing less but doing it better. As a result, we have divested and closed certain projects, and remain selective about high potential projects to better direct our resources.

This year, we will focus on solidifying our strengths in core games and communities, while continuing to position ourselves to pursue long-term growth opportunities as they arise.

Lastly, on our digital financial services business.

SeaMoney's GAAP revenue was 380 million dollars in the fourth quarter of 2022, up 92% year-on-year. Adjusted EBITDA also turned positive for the first time at 76 million dollars for the fourth quarter. The improvement in profitability was driven by both strong topline growth and optimization of sales and marketing spend. For the full year of 2022, GAAP revenue was 1.2 billion dollars, growing 160% year-on-year and adjusted EBITDA loss was 229 million dollars. As of the end of the fourth quarter, the total loans receivable on our balance sheet was 2.1 billion dollars, net of allowance for credit losses of 239 million dollars.

Our SeaMoney business is a highly synergistic part of our digital ecosystem. For example, our mobile wallet has resulted in lower transaction costs and a more seamless transaction experience on Shopee. Shopee in turn has allowed the mobile wallet to grow its user base and build user habits more efficiently. With Shopee, our credit business is able to leverage a large captive user base, a highly relevant use case with significant scale, and a wealth of user insights for more effective underwriting. At the same time, Shopee benefits as consumers enjoy more flexible payment options, access to credit, and greater affordability. We expect our digital insurance, wealth management and bank businesses to enjoy similar synergies with our e-commerce platform to serve the large, underserved communities in our markets. We see SeaMoney as an important long-term growth engine for us. We will continue to prioritize the ecosystem strategy in pursuing this significant opportunity with efficiency and profitability.

To conclude, our performance in the fourth quarter was an important demonstration of our ability to focus on profitability and deliver meaningful results.

This is a testament to the strength and resilience of our underlying business model and the execution capabilities of our teams.

Although we expect macro uncertainty to continue to cloud the horizon in the near-term, the long-term potential of our businesses and markets remains vast. We plan to capture these opportunities while delivering strong and sustained shareholder returns over time.

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 7% year-on-year to 3.5 billion dollars in the fourth quarter, and 25% year-on-year to 12.4 billion dollars for the full year of 2022. This was primarily driven by the improved monetization in our e-commerce and digital financial services businesses, partially offset by lower GAAP revenue in our digital entertainment business.

On e-commerce, our fourth quarter GAAP revenue of 2.1 billion dollars included GAAP marketplace revenue of 1.8 billion dollars, up 43% year-on-year, and GAAP product revenue of 0.3 billion dollars. For the full year of 2022, GAAP revenue of 7.3 billion dollars included GAAP marketplace revenue of 6.2 billion dollars, up 52% year-on-year, and GAAP product revenue of 1.1 billion dollars.

E-commerce adjusted EBITDA turned positive for the first time in the fourth quarter, at 196 million dollars. The improvements were mainly from more targeted investments in our sales and marketing spending, deepened monetization and other optimization of our cost structure. Adjusted EBITDA for the fourth quarter was also positively impacted by approximately 80 million dollars of accruals reversal, resulting from changes in previous estimations of certain expenses, as we made the management decision to strongly pivot to a clear focus on cost efficiency. 2022 full year adjusted EBITDA loss improved by 34% year-on-year to 1.7 billion dollars.

Digital entertainment bookings were 544 million dollars in the fourth quarter, and 2.8 billion dollars for the full year of 2022. GAAP revenue was 949 million dollars in the fourth quarter and 3.9 billion dollars for the full year of 2022.

Digital entertainment adjusted EBITDA was 258 million dollars in the fourth quarter and 1.3 billion dollars for the full year of 2022.

In the fourth quarter of 2022, we also recognized an impairment of goodwill charge of 178 million dollars, pertaining to certain historical investments for the digital entertainment business. Impairment of goodwill is excluded from segment adjusted EBITDA calculations, as it is not reflective of the underlying trend in our current quarter operating performance.

Digital financial services GAAP revenue was up by 92% year-on-year to 380 million dollars in the fourth quarter and up by 160% year-on-year to 1.2 billion dollars for the full year of 2022. This was mainly driven by the growth in our credit business. Adjusted EBITDA turned positive for the first time at 76 million dollars in the fourth quarter and adjusted EBITDA loss was 229 million dollars for the full year of 2022. Improvements in the bottom-line were driven by both strong topline growth and optimization of sales and marketing spend.

As of the end of the fourth quarter, total loans receivable was 2.1 billion dollars, net of allowance for credit losses of 239 million dollars. Non-performing loans past due by more than 90 days as a percentage of our total gross loans receivable declined from less than 4% in the third quarter to less than 2% mainly due to the shortening of loan write-off period in a certain market from 180 days to 120 days in the fourth quarter

based on our assessment of historical credit losses. Without this change in write-off period, the ratio would be about 5%.

Returning to our consolidated numbers, we recognized a net non-operating income of 35 million dollars in the fourth quarter of 2022, compared to a net non-operating loss of 71 million dollars in the fourth quarter of 2021. Our non-operating income for the fourth quarter was primarily due to a 200 million dollars net gain from 2026 Convertible Bond repurchase, partially offset by investment losses recognized amid lower valuations in the broader market.

For the full year, our net non-operating loss was 13 million dollars, compared to loss of 132 million dollars for the full year of 2021.

We had a net income tax credit of 43 million dollars in the fourth quarter of 2022, compared to net income tax expense of 106 million dollars in the fourth quarter of 2021. The income tax credit was primarily due to recognition of deferred tax assets from certain tax losses carried forward from our e-commerce business, partially offset by income tax incurred by our digital entertainment business. We recognized the deferred tax assets as we assessed that it is more likely than not that our future taxable income will be sufficient to allow the deferred tax asset to be utilized. For the full year, our net income tax expense was 168 million dollars, compared to 333 million dollars for the full year of 2021.

As a result, net income was 423 million dollars in the fourth quarter of 2022, as compared to net loss of 616 million dollars in the fourth quarter of 2021. This included negative impact of 178 million dollars impairment of goodwill related to certain historical investments for the digital entertainment business, and positive impact of 200 million dollars net gain on debt extinguishment, as well as positive impact of approximately 130 million dollars in accruals reversal. For the full year, net loss was 1.7 billion dollars.

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. As usual, our Group Chief Corporate Officer, Yanjun Wang, will lead this part.