

Q4 & FY 2023 Earnings Prepared Remarks

Minju:

Hello everyone, and welcome to Sea's 2023 fourth quarter and full year earnings conference call. I am Minju Song, from Sea's 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 Chief Executive Officer, Forrest Li, President, Chris Feng, Chief Financial Officer, Tony Hou, and 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 2023. 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 am happy to share that we have achieved our first full year of annual profit since our IPO.

In 2023, we achieved profitability, strengthened our market leadership for our e-commerce business, grew our digital financial services business, and stabilized the performance of our digital entertainment business. We have emerged with a much stronger balance sheet with our cash position increasing to 8.5 billion dollars as of the end of 2023, demonstrating the discipline and prudence we have applied in our investments over the past year. Looking ahead, we expect 2024 to be another profitable year.

Let me recap our performance at the individual business level in 2023, and share the key strategic focus for each business in 2024. Starting with Shopee.

First, Shopee's investments since July last year have paid off. I am pleased to report that, despite an environment of intensified competition in Southeast Asia, we believe we had a meaningful gain in market share between the start and the end of 2023. We are happy to have solidified Shopee's market share in the region, and we intend to maintain our market share in 2024. We expect Shopee's full year GMV growth to be in the high teens range and its adjusted EBITDA to turn positive in the second half of this year.

To retain and strengthen our competitive advantage, Shopee's three operational priorities in 2024 are improving service quality for buyers, enhancing the price competitiveness of our product listings, and strengthening our content ecosystem.

On service quality for buyers, we will do more to optimize key aspects of the buyers' experience such as delivery speed and consistency, return and refund processes, and customer service. These are areas we already excel in, and will continue to improve on.

On keeping our product listings price competitive, we will continue to work more with sellers who have more upstream supply chain access, and provide more fulfillment, marketing, and shop management services to our sellers.

On content, we will deepen and broaden engagement with creators, sellers and partners across the content ecosystem and better integrate live streaming and short form video into the shopping experience.

Let me now highlight some of Shopee's achievements in the fourth quarter. During the quarter, Shopee delivered strong results with both top-line growth acceleration and bottom-line improvement. Shopee's GMV and orders grew 29% and 46% year-on-year and 15% and 13% quarter-on-quarter, respectively, resulting in solid market share gains across our markets. Meanwhile, Shopee's adjusted EBITDA loss improved by 35% sequentially. Adjusted EBITDA loss per order improved by 43% quarter-on-quarter.

On logistics, we opened five new sorting centers and 385 new first and last mile hubs across our Asia markets and extended our logistics network further to improve our coverage. Through more automation, tighter planning, better routing and other operational improvements, our platform logistics cost per order in Asia decreased by 12% year-on-year in the fourth quarter. This was partly driven by our own logistics network cost per order decreasing by 20% from the same period last year.

We are also seeing good progress made on delivery speed. In Indonesia, in December 2023, more than half of the orders from buyers in Java were delivered within two days. We will continue to improve logistics service quality in terms of both speed and consistency. At the same time, we are also expanding premium services such as next day delivery and introducing new features. For example, we commenced return-on-spot services in Indonesia and Vietnam. This initiative has resulted in higher trust and increased purchase frequency from our buyers, particularly those who are new to Shopee. Our e-commerce logistics network is now one of the most extensive and efficient in our markets, and a strong competitive moat for us.

We have rapidly ramped up live streaming e-commerce, which accounted for around 15% of our physical order volume in Southeast Asia last December. With the scale and leadership achieved, unit economics of the segment also improved meaningfully quarter-on-quarter.

Shopee Brazil continued its strong performance in the fourth quarter. Its contribution margin loss per order improved by nearly 90% year-on-year. This was driven by improvements in both user monetization and cost efficiency. We believe we have achieved cost leadership in logistics through scale and operational efficiencies, which have been and will be key to our success in this market.

Turning to our digital financial services segment.

SeaMoney has delivered a strong year in 2023, primarily attributed to our consumer and SME credit business. Our journey to build the credit business dates back to 2019. We initially started by introducing SPayLater consumption loans in response to Shopee buyers' strong need for such services. Subsequently, we extended our offerings to cash loan services to both buyers and sellers on Shopee. This underscores our user-centric approach, and the unique advantage offered by the Shopee ecosystem for SeaMoney to quickly achieve critical scale and profitability.

2023 was the first year of positive profit for SeaMoney, with full year adjusted EBITDA of 550 million dollars. As of December 31, 2023, our consumer and SME loans principal outstanding was 3.1 billion dollars, a 27% increase year-on-year. 2.5 billion dollars of that was on the book. Consumer and SME loans active users for the fourth quarter, defined as credit users with loans outstanding by the end of the quarter, was over 16 million, a 28% increase year-on-year.

In 2024, we will continue to invest in user acquisition for our credit business, both on and off Shopee platform as we see significant upside in our markets. As we scale, we will remain prudent on risk management.

In addition to our credit business, SeaMoney is also growing our digital banking and insurance services to capture future business opportunities in the digital financial services segment. We expect SeaMoney to continue its robust growth in 2024.

In digital entertainment, Garena has done well in enhancing and optimizing game experiences for its players. For instance, we have continuously introduced fresh and highly localized content to Free Fire. In the fourth quarter, we collaborated with Lamborghini to allow players to drive their cars in-game. We also recently announced our collaboration with JKT48, an idol group from Jakarta, as our Indonesian brand ambassador. These partnerships excite and delight our players, and enable us to nurture our local communities.

I am happy to share that we are seeing improved user acquisition and retention trends for Free Fire. In 2023, Free Fire was the most downloaded mobile game globally according to Sensor Tower. We are pleased that these positive trends are continuing into 2024. In February, Free Fire achieved more than 100 million peak daily active users. It remains one of the largest mobile games in the world. With this positive momentum, we currently expect Free Fire to grow double-digits year-on-year for both user base and bookings in 2024.

To conclude, we are pleased to see positive trends in both growth and profitability for all three of our businesses. We will continue to invest for the future with discipline and focus.

I would also like to take this opportunity to thank our employees, users, investors, and partners for your continued support throughout this journey.

With that, I will 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 5% year-on-year to 3.6 billion dollars in the fourth quarter, and 5% year-on-year to 13.1 billion dollars for the full year of 2023. This was primarily driven by the improved monetization in our e-commerce and digital financial services businesses. Our total adjusted EBITDA was 127 million dollars in the fourth quarter of 2023, compared to an adjusted EBITDA of 496 million dollars in the fourth quarter of 2022. For the full year of 2023, our total adjusted EBITDA was 1.2 billion dollars, compared to an adjusted EBITDA loss of 878 million dollars for the full year of 2022.

On e-commerce, our fourth quarter GAAP revenue of 2.6 billion dollars included GAAP marketplace revenue of 2.3 billion dollars, up 23% year-on-year, and GAAP product revenue of 0.3 billion dollars. Within GAAP marketplace revenue, core marketplace revenue, mainly consisting of transaction-based fees and advertising revenues, was 1.6 billion dollars, up 41% year-on-year as a result of platform growth and improved monetization. Value-added services revenue, mainly consisting of revenues related to logistics services, was 0.7 billion dollars, down 5% year-on-year as a result of higher revenue net-off against shipping subsidies. For the full year of 2023, GAAP revenue of 9.0 billion dollars included GAAP marketplace revenue of 7.9 billion dollars, up 27% year-on-year, and GAAP product revenue of 1.1 billion dollars.

E-commerce adjusted EBITDA loss was 225 million dollars in the fourth quarter of 2023, compared to an adjusted EBITDA of 196 million dollars in the fourth quarter of 2022. 2023 full year adjusted EBITDA loss improved by 87% year-on-year to 214 million dollars.

For our Asia markets, we had an adjusted EBITDA loss of 193 million dollars during the quarter, compared to an adjusted EBITDA of 320 million dollars in the fourth quarter of 2022. In our other markets, the adjusted EBITDA loss was 32 million dollars, narrowing meaningfully from last year, when losses were 124 million dollars. Contribution margin loss per order in Brazil improved by nearly 90% year-on-year to reach negative 5 cents.

Digital financial services GAAP revenue was up by 24% year-on-year to 472 million dollars in the fourth quarter and up by 44% year-on-year to 1.8 billion dollars for the full year of 2023. Adjusted EBITDA was up by 96% year-on-year to 148 million dollars in the fourth quarter of 2023 and up by 341% year-on-year to 550 million dollars for the full year of 2023.

Digital entertainment bookings were 456 million dollars in the fourth quarter and 1.8 billion dollars for the full year of 2023. GAAP revenue was 511 million dollars in the fourth quarter and 2.2 billion dollars for the full year of 2023. Adjusted EBITDA was 217 million dollars in the fourth quarter and 921 million dollars for the full year of 2023.

Returning to our consolidated numbers, we recognized a net non-operating income of 32 million dollars in the fourth quarter of 2023, compared to a net non-operating income of 35 million dollars in the fourth quarter of 2022.

For the full year, our non-operating income was 208 million dollars, compared to a loss of 13 million dollars for the full year of 2022. The improvement was mainly due to higher interest income for the full year of 2023, as compared to the full year of 2022.

We had a net income tax expense of 77 million dollars in the fourth quarter of 2023, compared to net income tax credit of 43 million dollars in the fourth quarter of 2022. For the full year, our net income tax expense was 263 million dollars, compared to 168 million dollars for the full year of 2022.

As a result, net loss was 112 million dollars in the fourth quarter of 2023, as compared to net income of 423 million dollars in the fourth quarter of 2022. For the full year, net income was 163 million dollars, as compared to net loss of 1.7 billion dollars for the full year of 2022.

At the end of the fourth quarter of 2023, cash, cash equivalents, short-term and other treasury investments were 8.5 billion dollars, representing a net increase of 566 million dollars from the previous quarter. The increase includes proceeds of approximately 370 million dollars from lower securities purchased under agreements to resell relating to our banking operations. From the first quarter of 2024 onwards, we will include this as part of other treasury investments as these are highly liquid marketable securities.

With that, let me turn the call to Minju.

Minju:

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