

Q2 2024 Earnings Prepared Remarks

MC:

Hello everyone, and welcome to Sea's 2024 second 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 second 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 a solid quarter for us, with our strong momentum from Q1 continuing into Q2. All three of our businesses have shown both strong growth and higher profitability.

Before I dive into each business's results, I wanted to share some observations of our Southeast Asian markets. Generally, retail and consumer spending trends in the region have remained healthy, with domestic consumption continuing to be a main driver of economic performance in many markets. This sets a very strong macro foundation for our e-commerce business.

We are happy with Shopee's market share in Southeast Asia, and our sizable lead over our peers in the region. We are seeing more market share consolidation, and an industry-wide take rate increase. We believe this will move the industry toward profitability and sustainability, and we welcome this trend.

With the strong results delivered in the first half and our outlook for the rest of the year, we expect that Shopee will become adjusted EBITDA positive from the third quarter. We are also revising up our guidance for Shopee's 2024 full year GMV growth rate to the mid-twenties.

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

Starting with e-commerce.

As we have shared before, Shopee's operational priorities are to deepen our competitive moats on three fronts: enhancing our price competitiveness, improving service quality to customers, and strengthening our content eco-system. This strategy is paying off: over the past two quarters, Shopee has been able to post healthy, sustainable growth while also improving its profit profile.

One area we are placing greater focus on is improving our ad take rate. Currently, our ad take rate is lower than the industry average we observe in more mature e-commerce markets. To us, this represents a good opportunity to improve our monetization. Over the quarter, we have made it easier and more attractive for sellers to join our ad platform. We also have a dedicated tech team working on improving our ad bidding algorithms to help sellers achieve higher returns from their advertising spend. So far, the results have been encouraging: the number of sellers who pay for ads has increased by more than 20% year-on-year this quarter. We believe there is still plenty of upside and we will continue to push on this front.

We have also launched Live Ads across our Asia markets, allowing streamers, including both merchants and creators, to insert ads into Shopee Live. This feature has been very well received: in Indonesia in June, one in four active streamers paid for Live Ads. This feature helps streamers boost their sales efficiency while increasing our ad take rate, enhancing our content eco-system, and improving our live streaming unit economics.

On improving our service quality to customers, our logistics capabilities continue to differentiate us: in a survey, 50% of buyers in Java, Indonesia cited "Fast Delivery" as their reason for choosing Shopee. We have continued to integrate more closely with our many logistics partners to widen our coverage and deliver packages faster. SPX Express, in particular, has managed to improve delivery speed while also reducing its cost. In the second quarter, more than 70% of SPX Express orders in Asia were delivered within three days of order placement, with cost per order declining 8% year-on-year.

Another initiative to enhance customer service quality has been improving the buyer return-refund process, a common pain point in e-commerce. Earlier this year, we launched a 'Change of Mind' returns feature in our Asia markets, letting buyers initiate no-questions-asked returns within 15 days. We paired this with data-driven tech improvements to make the overall return-refund process highly predictive and efficient. As a result, in the second quarter, more than half of our return-and-refund cases in Asia were resolved within one day. Making this process fuss-free makes buyers more willing to complete purchases, driving up user stickiness and repurchase frequency. In Malaysia, we saw a more than 10% increase in average basket size among buyers who raised 'Change of Mind' return requests compared to before the feature was launched.

I share these examples to demonstrate how we consistently execute on our operational priorities every quarter. We believe this approach will strengthen our market leadership in the long term.

Next, turning to digital financial services.

SeaMoney has continued its strong momentum in growing its loan book and profit while remaining prudent on risk management. Both revenue and adjusted EBITDA have grown very well year-on-year.

Consumer and SME credit business continues to be the primary driver of SeaMoney's revenue and profit growth. We are making good progress on deepening our credit product penetration both on-Shopee and off-Shopee.

Our large Shopee user base is a unique advantage. It enables us to acquire new customers very cost-efficiently, by promoting the right products at the right time to the right users. In the second quarter, we registered over 4 million first-time borrowers of our credit products, a figure that has more than doubled compared to one year ago.

We have also expanded our off-Shopee credit use cases. In Indonesia, we partnered with over 1,000 electronics stores to introduce customized SPayLater loans for mobile phone sales. We were the first player in the market to provide instant credit approval for this category at scale. We will continue to explore more credit use cases in our markets.

With all these efforts, we have grown our loan book size to three and a half billion dollars at the end of June, up almost 40% year-on-year. Notably, our non-performing loans metric held steady at the end of the quarter – in fact, it improved slightly from the previous quarter.

We now have 21 million consumer and SME loans active users, up almost 60% year-on-year. Looking forward, we will continue to invest in growing our user base efficiently and effectively, as our markets are still under-penetrated and present sizable opportunities. A large user base will be a cornerstone of future growth for SeaMoney, especially as we introduce more product offerings.

Finally, turning to our digital entertainment business.

Garena's two years of hard work and taking a user-centric approach are paying off. We have delivered a strong quarter, with more than 20% year-on-year growth in bookings, mainly contributed by Free Fire.

At the end of June, Free Fire released a 7th anniversary version update, our largest in-game event of the year. We brought back classic weapons, made a documentary on Free Fire's history, and hosted a story wall where users could share their past experiences with the game. The campaign was very successful; our players really enjoyed revisiting their fond memories of the game's early years.

Free Fire's unique strength is its large, highly engaged, and loyal gamer base. I am very proud to share that, every single day throughout Q2, Free Fire had more than 100 million daily active players. This reinforces our conviction that Free Fire is an evergreen franchise.

Free Fire also manages to keep growing, thanks to the strong word-of-mouth effect we see from our large user base. According to Sensor Tower, Free Fire was the most downloaded mobile game globally in the second quarter. Free Fire's organic social pull is highly valuable, especially in today's world where getting users to download and try new content can be hard and costly.

We are also excited about launching Need for Speed: Mobile in Taiwan, Hong Kong and Macau later this year in partnership with Tencent and Electronic Arts. We are pleased to be able to bring this high-quality game with a classic IP to our gamer community.

To conclude, we are happy with the strong results the three businesses have achieved in the first half. Thank you, as always, for your support.

Before I hand over the call, I am pleased to announce that two new independent directors have joined our Board. Dr Silvio Savarese is a leading expert in AI, and Ms Jessica Tan is a highly accomplished leader in financial services. I am glad that Silvio and Jessica are willing to lend us their deep expertise and guidance on these two areas which will be critical in shaping Sea's future.

In addition, Tony will be stepping down from our Board, and will continue to serve as our CFO. With these changes, our seven-member Board has a majority of independent directors.

Thank you very much. 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 23% year-on-year to 3.8 billion dollars in the second 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 448 million dollars in the second quarter of 2024, compared to an adjusted EBITDA of 510 million dollars in the second quarter of 2023.

On e-commerce, Shopee's gross orders grew 40% and GMV increased by 29% year-on-year. Our second quarter GAAP revenue of 2.8 billion dollars included GAAP marketplace revenue of 2.5 billion dollars, up 33% 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 1.8 billion dollars, up 41% year-on-year. Value-added services revenue, mainly consisting of revenues related to logistics services, was 0.7 billion dollars, up 16% year-on-year.

E-commerce adjusted EBITDA improved quarter-on-quarter, with losses narrowing to 9 million dollars in the second quarter of 2024, compared to an adjusted EBITDA loss of 22 million dollars in the first quarter of 2024 and an adjusted EBITDA of 150 million dollars in the second quarter of 2023.

For our Asia markets, we continued to achieve positive adjusted EBITDA following our first quarter of 2024 results, recording 4 million dollars during the quarter, compared to an adjusted EBITDA of 204 million dollars in the second quarter of 2023. In our other markets, the adjusted EBITDA loss was 13 million dollars, narrowing meaningfully from last year, when losses were 54 million dollars. In Brazil, unit economics continued to improve, as we achieved a positive contribution margin per order of 9 cents for the quarter, as compared to a loss of 24 cents in the second quarter of 2023.

Digital financial services GAAP revenue was up by 21% year-on-year to 519 million dollars. Adjusted EBITDA was up by 20% year-on-year to 165 million dollars.

As of the end of June, our consumer and SME loans principal outstanding reached 3.5 billion dollars, up almost 40% year-on-year and 8% quarter-on-quarter. Non-performing loans past due by more than 90 days as a percentage of total consumer and SME loans was 1.3% at the end of the quarter.

Digital entertainment bookings were 537 million dollars, up 21% year-on-year and 5% quarter-on-quarter. GAAP revenue was 436 million dollars. Adjusted EBITDA was 303 million dollars.

Returning to our consolidated numbers, we recognized a net non-operating income of 56 million dollars in the second quarter of 2024, compared to a net non-operating income of 108 million dollars in the second quarter of 2023.

We had a net income tax expense of 61 million dollars in the second quarter of 2024, compared to net income tax expense of 62 million dollars in the second quarter of 2023.

As a result, net income was 80 million dollars in the second quarter of 2024, as compared to net income of 331 million dollars in the second quarter of 2023.

With that, let me turn the call to MC.

MC:

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