

## Q3 2020 Earnings Prepared Remarks

### Minju:

Good evening and good morning everyone, and welcome to Sea's 2020 third quarter 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 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 quarter. 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.

We are very happy to report another quarter of strong performance across our business.

We continued to see robust user growth and deepening of user engagement on each of our platforms during the quarter. We believe the accelerating shift to digitalization in our global markets is a sustaining trend. As the market leader in our core segments, we are well positioned to capture the growth opportunities presented by this acceleration. Our strong financial and operational results for the quarter once again underline our ability to execute well and seize a disproportionate share of the fast-growing markets.

On a group level, our quarterly GAAP revenue grew 99% year-on-year to reach 1.2 billion dollars. Gross profit grew 101% year-on-year to reach 407.6 million dollars.

We also recorded very strong bottom-line results, with adjusted EBITDA reaching 120.4 million dollars. This further demonstrates the strength and efficiency of our business model. We will continue to drive rapid growth with efficiency as we further extend our market leadership.

In line with our strong results, we are raising our guidance for both digital entertainment and e-commerce for the full year of 2020.

In digital entertainment, we believe our very strong performance in the third quarter will sustain through the fourth quarter. As a result, we now expect bookings for digital entertainment to exceed 3.1 billion dollars, representing over 75% growth from 2019. This revised guidance represents an increase of more than 59% from the midpoint of the previously disclosed guidance.

We also expect GAAP revenue plus sales incentives net-off for e-commerce to exceed 2.3 billion dollars. The revised guidance represents a more than 144% increase from 2019, and a more than 31% increase from the midpoint of the previously disclosed guidance.

These revisions reflect both the strong historical performance we have achieved so far this year and our continued positive outlook moving into the fourth quarter.

Let me start with digital entertainment. The third quarter was another standout quarter for Garena with strong performance across all our key metrics.

Bookings were 944.7 million dollars, up 110% year-on-year. Adjusted EBITDA was 584.5 million dollars, up 120% year-on-year, representing 62% of bookings.

The strong performance was driven by robust active and paying user growth. Quarterly active users reached 572.4 million, an increase of 78% year-on-year. Quarterly paying users reached 65.3 million, up 124% year-on-year and represented over 11% of quarterly active users. We are particularly encouraged by the strong active and paying user growth for the quarter. This reflects our ability to continually deliver high quality content that attracts and engages users.

Free Fire sustained its strong performance. According to App Annie, it continued to be the highest grossing mobile game in Latin America and Southeast Asia in the third quarter.

A key factor in Free Fire's continued success is our ability to consistently deliver high-quality content tailored for the tastes and preferences of our huge global user base. In recent months, Free Fire partnered with celebrities such as Bollywood actors and global artists to create playable characters and other in-game content inspired by these celebrities. For example, in September, we released a playable character of a Bollywood star who was the lead actor in the highest-grossing Indian film in 2019. We have also worked with a popular global artist to create another song exclusively for Free Fire which is played inside the game. Within two weeks of being launched, the song was streamed more than 25 million times across various online platforms.

We introduced more social and community features into the game. For example, the new training ground feature has been highly popular with our users. This is an area within the game where players can meet and hang out socially. So far, about one in four of our players spends time there every day on average. This and other social features further strengthen the network effect and stickiness of the game.

On the same note, our esports community continues to thrive. Free Fire tournaments held during the quarter have accumulated over 150 million online views to date. In August, we hosted a national tournament for Brazil spanning two months. This tournament has recorded over 47 million online views to date. We are also extending the reach of our esports events beyond our strong online audience. For example, the grand finals for Free Fire Indonesia Masters 2020 Fall was broadcasted on national TV reaching an even broader fanbase online and offline.

Our highly local and interactive content and community activities increase the affinity our users have with Free Fire. These efforts also ensure that the game stays fresh and relevant for our users over time. This in turn grows our user base and improves engagement.

As we move into the fourth quarter and look to 2021, we will continue to focus on providing the global Free Fire community with captivating content and fresh and engaging experiences – both within the game and through our social and community features. We are confident that there is a very long runway ahead for this franchise.

Turning to e-commerce. Shopee had another great quarter. Building on our momentum and leadership, we continued to capture more share of our region's rapidly expanding e-commerce segment. We also continued to deliver more value to our sellers and buyers while deepening monetization and driving efficient growth.

Shopee recorded 741.6 million gross orders, up 131% year-on-year, and GMV of 9.3 billion dollars, an increase of 103% year-on-year. GAAP revenue for the third quarter was 618.7 million dollars, up 173%

year-on-year. We also continued to drive efficiencies across the business with adjusted EBITDA loss per order decreasing by 48% year-on-year to 41 cents during the quarter.

In the third quarter, Shopee continued to rank as the number one in the Shopping category across Southeast Asia and Taiwan by downloads, average monthly active users, and total time spent in app on Android, based on App Annie. On a global level, Shopee was also the second most downloaded app in the Shopping category according to App Annie.

In our largest market, Indonesia, Shopee continued to further extend its market leadership. It registered over 310 million orders at a daily average of around 3.4 million orders, an increase of over 124% year-on-year. It was also ranked first in Indonesia by average monthly active users, downloads, and total time spent in app on Android, in the Shopping category in the third quarter, according to App Annie.

As e-commerce grows in importance across the region, we have been focused on delivering more value for our merchants across the Shopee ecosystem. For example, in addition to the Google partnership announced last quarter, Shopee launched a new strategic partnership with five leading global media agencies. This program is designed to equip these agencies with in-depth e-commerce knowledge, tools, and skills so they can help more brands and retail merchants scale and succeed on Shopee.

Further, we help merchants create better Shopee experiences to engage consumers. Shopee Live is one example. Sellers have found this feature helpful in driving user engagement and retention with measurable results. Shopee Live recorded over 48 million hours watched in the third quarter.

Our momentum has carried forward into a record-breaking 11.11 Big Sale shopping festival. We were heartened to see our SME sellers recording an incredibly successful sales event through the Shopee platform. In particular, the newer sellers who joined the 11.11 Big Sale for the first time saw 10 times more orders than an average day.

We have built powerful bonds of affinity with our users and today Shopee is one of the most recognized and best-loved brands across our communities. In YouGov's recently published 2020 Global Best Brands ranking, Shopee was the number 8 ranked brand globally and, together with Amazon, represent the two e-commerce brands in the world's top 10 ranking.

As we continue to solidify and extend our market leadership in ecommerce, we will stay focused on providing the best long-term value for our users and building a healthy and sustainable ecosystem for our region.

Moving on to SeaMoney, we saw the same strong growth momentum observed across Garena and Shopee during the quarter. Our mobile wallet total payment volume for the quarter exceeded 2.1 billion dollars with quarterly paying users surpassing 17.8 million.

SeaMoney continued to deepen its integration with Shopee, leveraging Shopee's rapid growth and extensive reach to scale efficiently and effectively. In October, more than 30% of Shopee's total gross orders across our markets combined were paid using our mobile wallet. We also continued to expand our suite of online and offline third-party use cases and partnerships in the third quarter. This has further increased the usage and brand awareness of SeaMoney across our communities.

We see a significant opportunity ahead of SeaMoney and believe that we can capture it in a highly efficient manner by building on our core use cases. Our focus remains on scaling the business to enable more consumers and merchants to benefit from the ease and convenience of our digital solutions.

In closing, the strong momentum from the first half of the year has carried on into the third quarter and beyond. Our third quarter performance is a testament to our ability to quickly adapt to the rapidly evolving needs and preferences of our communities. While we are benefiting from secular tailwinds and the rapid push towards digitalization, we remain very focused on strong execution to capture the growth opportunities.

From highly local and deeply engaging content on Garena games to Shopee's new partnerships, we will continue to listen to and innovate around our users.

As we move towards the end of 2020 and into 2021, we are further extending and solidifying our market leadership position across all the key segments of the digital economy in our region. Our conviction in the scale of the opportunities ahead for Sea over the long-term is growing even stronger. We remain committed to serving our communities with technology, and enabling them to benefit from the growth of the digital economy in the long run.

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 quarterly 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 grew by 99% year-on-year to 1.2 billion dollars, which was mainly driven by continued monetization efforts in our e-commerce business in the past quarters as well as growth of our digital entertainment business, especially our self-developed game, Free Fire.

The 110% year-on-year growth in digital entertainment bookings to 944.7 million dollars and 73% year-on-year growth in GAAP revenue to 569.0 million dollars were primarily driven by the increase of our active user base and deepened paying user penetration, and in particular, the continued success of our self-developed game Free Fire.

Digital entertainment adjusted EBITDA was 584.5 million dollars, an increase of 120% year-on-year, mainly due to strong top line growth and our self-developed game accounting for an increased share of bookings.

Our e-commerce GAAP revenue of 618.7 million dollars included 'GAAP marketplace revenue' of 467.1 million dollars, up 164% year-on-year, and 'GAAP product revenue' of 151.6 million dollars, up 208% 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 301.6 million dollars as we continued our investments to fully capture the market opportunity in the region. We will continue to invest prudently and drive high quality growth with increasing efficiency.

Digital financial services GAAP revenue was 14.4 million dollars, an increase of 766% year-on-year from 1.7 million dollars in the third quarter of 2019. Adjusted EBITDA loss was 149.3 million dollars in the third quarter of 2020, compared to a loss of 33.6 million dollars in the same period of 2019. This was primarily due to our continued efforts to drive mobile wallet growth in our markets and expand the suite of online and offline third-party use cases and partnerships.

Returning to our consolidated numbers, we recognized a net non-operating loss of 74.3 million dollars in the third quarter of 2020, compared to a net non-operating income of 9.8 million dollars in the third quarter of 2019. Non-operating loss in third quarter of 2020 was primarily due to higher interest expense and foreign exchange loss.

We had a net income tax expense of 46.4 million dollars in the third quarter of 2020 which was primarily due to withholding tax and corporate income 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 346.0 million dollars in the third quarter of 2020, as compared to 175.2 million dollars for the same period in 2019.

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.