

Sea Limited (NYSE:SE)

Investment Committee Pitch

Overview

Overview

Connor McDowall



Information

| | | | |
|----------------------|-------------------|-------------------------|------------|
| Current price | \$ 31.02 | Market cap | \$13771.8m |
| 52 week range | \$10.52 – \$38.00 | Enterprise value | \$12109.6m |
| Ticker | NYSE:SE | 1 year return | 116% |

- Founded in 2009 in Singapore, formerly known as Garena Interactive Holding Limited
- Sea ('The company') is a digital services company with a focus on gaming, eSports, eCommerce and digital finance
- Three core services, Garena (a gaming platform), Shopee (a mobile eCommerce service) and AirPay (a digital payments product), all which complement each other
- Primarily focuses on the South East Asia region in Taiwan, Thailand, Vietnam, Indonesia

Business

Garena

Product



Explanation

- Garena+ is an online game and social platform with an interface similar to instant messaging platforms. The platform's functionality includes: buddy lists, chats, game progress and achievements, virtual currency, micro-transactions.
- Localise and publish international developers' games on the platform. Titles include: League of legends, Age of Empires, FIFA Online and Call of Duty Mobile
- Garena host competitive and social tournament including the Garena Premier League where teams across south east asia compete in LoL tournament. Garena World 2019, a eSports show case had the peak viewers, hours watched and air time for the tournament at 1,007,840 (367%), 14,720,086 (340%) and 238 (34%) hours respectively.
- Digital entertainment revenue saw 27% revenue growth compared to a 23% increase in the cost of service for digital entertainment. Revenue generated from advertising and microtransactions
- <https://www.garena.sg>

Shopee

Product



Explanation

- Shopee is a consumer-to-consumer (C2C) and business-to-consumer (B2C) hybrid model marketplace. Shopee does not charge sellers fees/commissions and listing fees
- Shopee is in a growth phase, implementing a classic network model. The platform is monetized through paid advertising at the moment. The platform competes with Lazada (46% MS) and 11street (13%) by not charging sellers fees/commissions. Their market share by site visits is 23%. Shopee grew desktop and mobile visits by 98% between 2017 and 2018, reducing Lazada's lead by 62%, becoming its closest competitor.
- The platform is an asset-light marketplace as Shopee does not hold any inventory or warehousing, relying on third parties for logistics capabilities. Shopee partners with over 70 courier service providers across its markets
- Ecommerce and Other Services Revenue grew 469% between 2017 and 2018 with Ecommerce and Other Services Cost of Services growing 316%. In 2018, revenue was greater than cost of service
- <https://shopee.com>

Product



Explanation

- South East Asia, especially Thailand, is dependent on cash. There is an agenda to move to a cashless society.
- AirPay, started out in 2014 as an e-wallet to facilitate online transactions for the Garena gaming platform. The service has evolved to provide a wide range of payment services for both physical and digital goods including utility bills, phone credit, movie tickets, and e-commerce.
- Two services, Airpay counter where users can top up the e-wallet with cash at convenience stores, internet cafes and mom/pop shops. There are 100,000 Airpay counters to date. Airpay app with. In addition, Airpay has partnered with Mastercard to deliver a virtual prepaid card as not all debit cards can be used for online payments.
- Airpay facilitates growth on both the Garena and Shopee platforms.
- <https://app.airpay.in.th/en/home>

Product

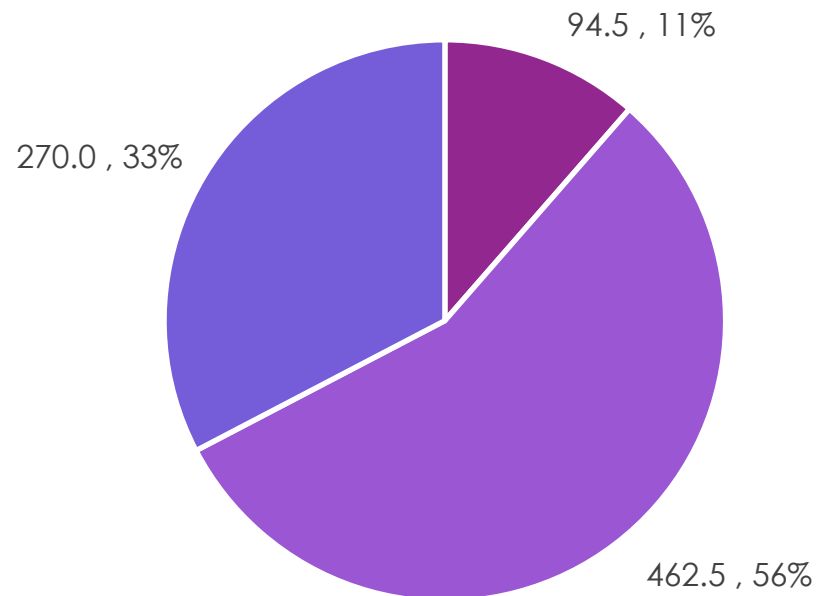


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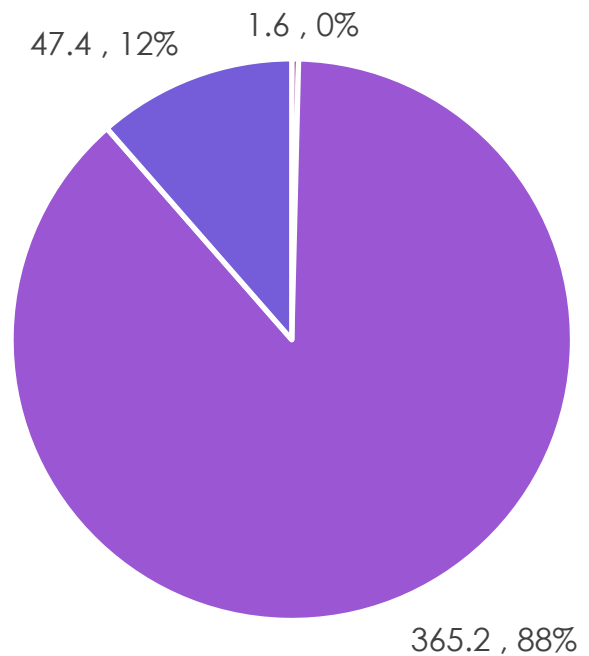
Revenue Breakdown

2018



- Sales of Goods
- Digital Entertainment
- Ecommerce and Other Services

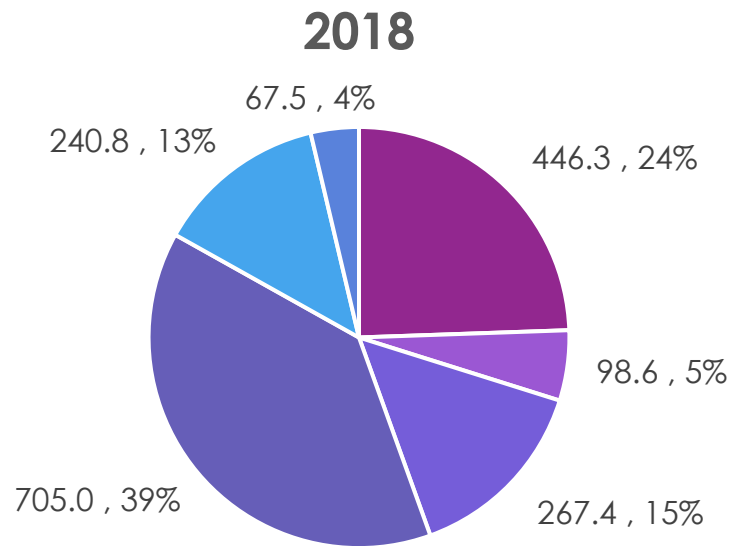
2017



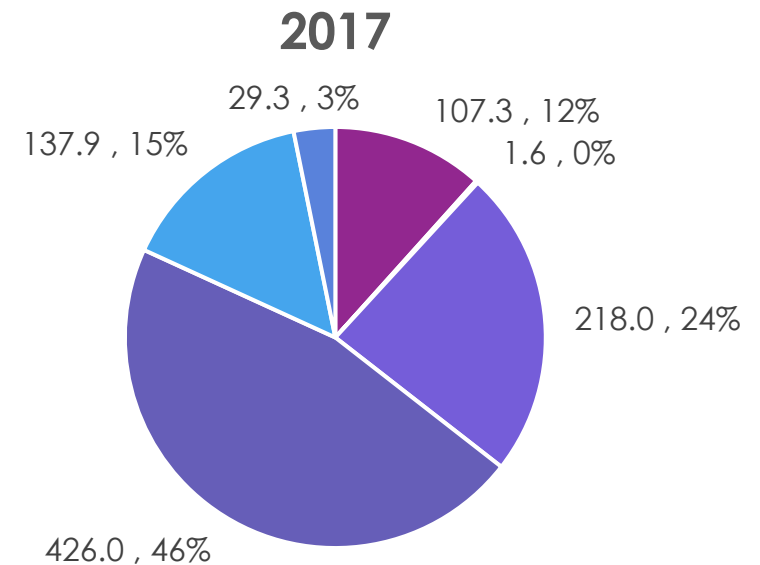
- Sales of Goods
- Digital Entertainment
- Ecommerce and Other Services

University of Auckland Investment Club

Expenses Breakdown



- E-commerce and Other Services
- Cost of Goods Sold
- Digital Entertainment
- Sales and Marketing
- General and Administrative
- Research and Development



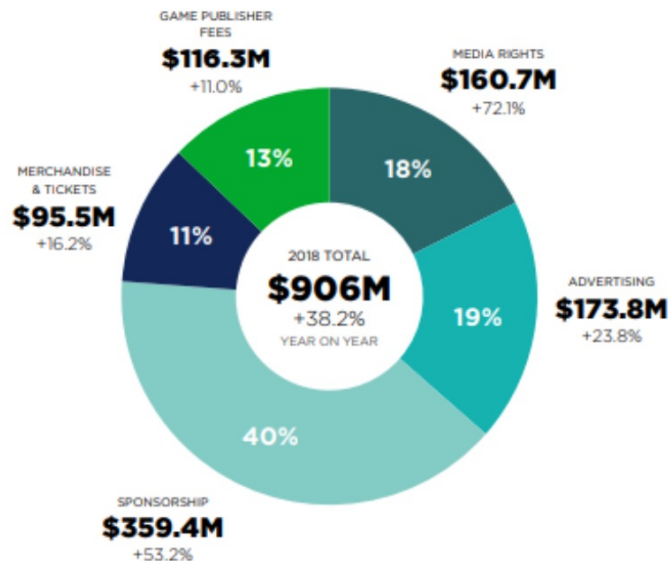
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Industry

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Gaming and eSports

eSports Revenue



Thailand

- 67%** Regions gaming revenue comes from mobile
- 24%** Regions gaming revenue comes from PC
- 9%** Regions gaming revenue comes from console
- 48%** Thai access to internet but growing
- 35Hr** Children have an average of 35 hours of screen time each week

Growth

- 14.4%** CAGR in Total Audience to 2021 (307m occasional viewers, 250m eSports enthusiasts)
- 1.57B** eSports awareness in 2019
- 6.60B** Total hours spent watching eSports in 2018
- 27.4%** CAGR in eSports Revenue Growth to 2021 (1605m total revenues)



SEA: THE WORLD'S FASTEST-GROWING GAMES MARKET

REVENUES PER DEVICE WITH YEAR-ON-YEAR GROWTH RATES | 2019

+29.1% YoY

\$3,304M



Mobile

+8.3% YoY

\$976M



PC

+4.6% YoY

\$360M



Console



\$4.6Bn

Revenues generated by
SEA's games market in
2019, up +22% year on year.





67%

of game revenues in SEA
will come from mobile.

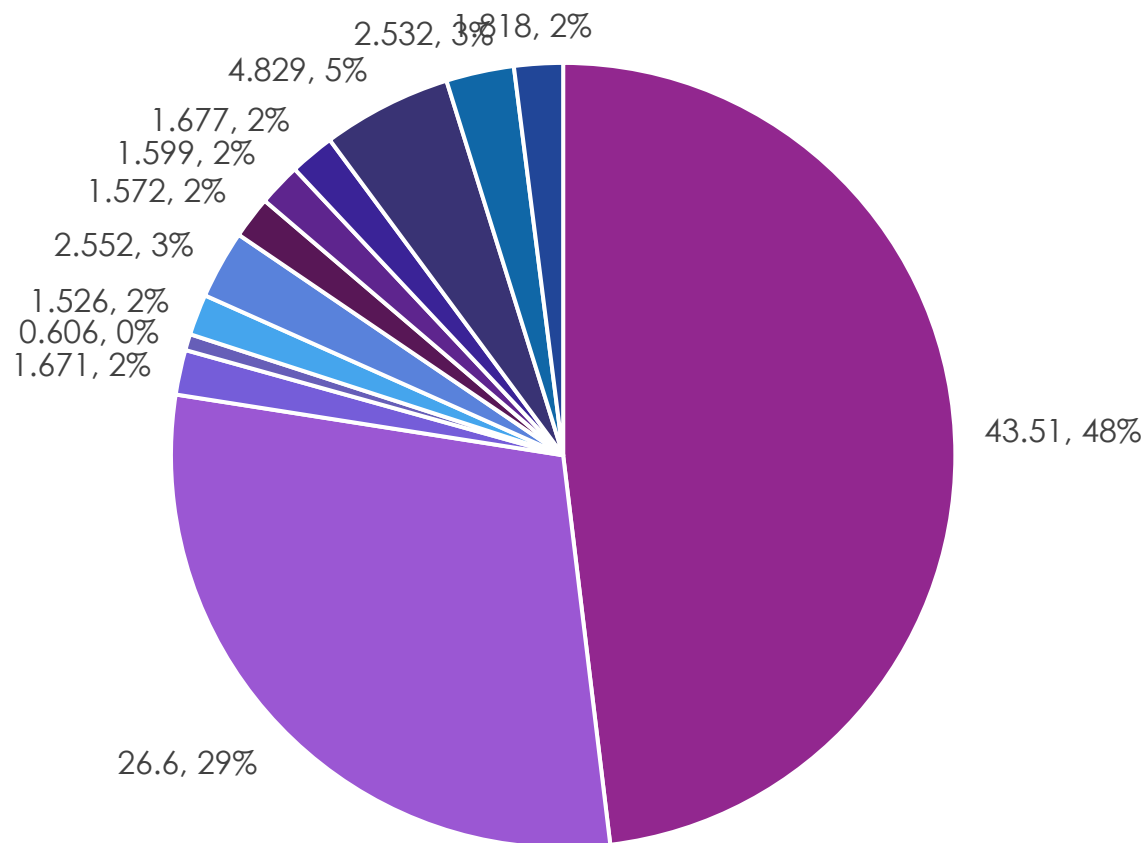
Competitors

- Sea (ML)
- Tencent (NE)
- Moonton (NE)
- NetEase (NE)
- Activision
Blizzard (WS)
- EA (WF)
- Supercell (WF)
- I Got Games (EF)
- NetMarble (EF)

©Newzoo 2019 | Source: Global Games Market Report
newzoo.com/globalgamesreport

| Marketplace Competition | Consumer | Growth |
|--|---------------------------------|--|
| C2C  | 69M Population | 18.2% CAGR for eCommerce spending in Thailand |
| B2C  | 92M Mobile subscriptions | 58.4B Ecommerce market value in Thailand |
| | 57M Internet users | 29.0% B2C share of Thailand eCommerce market |
| | 51M Social media users | 52.0% Online transactions take place via mobile |
| | 49M Mobile social users | |

2018 B2C Market Share (Millions, 10/18)



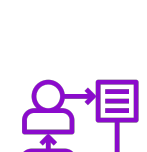







■ Lazada ■ Shopee ■ JD ■ 11 Street ■ Central ■ JIB ■ TescoLotus ■ Se-ed ■ HomePro ■ Chilindo ■ Advice ■ Powerbuy

Global payments

| Competitions | | Consumer | | Growth |
|-------------------|------|---|-------|--|
| 2C2P | | | | |
| Codapay | 1.06 | Low card penetration | 16.4% | CAGR for mobile commerce market in Thailand to 2021 |
| iPay88 | | per capita (0.77 debit, 0.29 credit) | | |
| K-Payment Gateway | | | | |
| Paysbuy | 81% | Bank account penetration | 25.0B | Annual sales generated from mobile sales in 2021 |
| SiamPay / AsiaPay | | | | |
| Thaiepay | 90% | Mobile users plan to shop online in future | 32.0% | Thai tech professionals experience fraud |
| True Money | | | | |
| Unitry | | | | |
| Alipay | 4.0 | Thailand Government's plan to install broadband | ~70m | Monthly visits to top two ecommerce sites (40m Lazada, 30m Shopee) |





Strategy and Competitive Advantage

| Example | Explanation |
|--|--|
|  <p>Ecommerce growth and monetization</p> | <ul style="list-style-type: none"> Continue to grow ecommerce and online payments services Shopee and AirPay. Once both platforms have grown to critical mass, further monetize with advertising and pricing schemes |
|  <p>Exclusive licensing</p> | <ul style="list-style-type: none"> Partnership with Tencent (Garena is an affiliate of Tencent), granted exclusive rights to first refusal for game licenses. Keep core licenses and mitigate risk associated with digital entertainment |
|  <p>Network effects</p> | <ul style="list-style-type: none"> Use Garena network effects to grow the numbers of players, driven by the attraction of social experiences. Use Shopee's platform dynamics to attract more consumers to the platform and subsequently more suppliers, increasing SKU variety. Use AirPay to facilitate spending on both platforms and grow by synergies |
|  <p>Geography</p> | <ul style="list-style-type: none"> Continued focus on Greater South East Asia (GSEA) for the foreseeable future |

| Position | | Explanation |
|---|------------------------|---|
|  | Platform synergies | <ul style="list-style-type: none">Each platform supports the others growth, something many competitors don't have |
|  | Licensing | <ul style="list-style-type: none">Exclusive rights to distribute premium properties (For example League of Legends). |
|  | Cost advantage | <ul style="list-style-type: none">Sea limited is not charging sellers fees / commissions, undercutting competitors while sacrificing revenue. This has lead to significant gains in market share compared to users. |
|  | Strong network effects | <ul style="list-style-type: none">Social experiences lock users in, creating high switch over costs and customer retention |

Risks

Risks

| Initiative | | Explanation |
|---|--------------------|--|
|  | Profitability | <ul style="list-style-type: none"> Sea Limited has not made profit primarily due to significant sales and marketing expenses, in particular promotions including subsidies for Shopee users to expand the ecommerce business. The risk is mitigated as both Shopee and AirPay are growing significantly and competitors have been successful in monetizing similar services |
|  | Licensing | <ul style="list-style-type: none"> A significant proportion of revenue is driven by digital entertainment as both Shopee and Airpay are in early stages of monetization. A small number of games contribute to these revenues, hence losing a major license severely impacts revenue. This risk is mitigated by diversifying revenue streams by bringing more users onto our platform to gain leverage on developers and by monetizing both Shopee and AirPay |
|  | Platform synergies | <ul style="list-style-type: none"> The links between the three platforms may not materialize and drive growth on other platforms. The risk is mitigated by developing dependencies and incentives for using one platform on another. For example, discounts by using AirPay on Shopee and Garena+ |
|  | Fraudulent Lending | <ul style="list-style-type: none"> AirPay has begun distributing small loans to Thai business. These may prove unprofitable and expose the business to new risks. This is mitigated by vetting loan recipients appropriately |