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SINA - Q4 2018 SINA Corp Earnings Call

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OVERVIEW:

Co. reported 4Q18 non-GAAP net revenues of \$570.4m, non-GAAP net income attributable to SINA of \$57.7m and non-GAAP diluted EPS of \$0.80. Expects 2019 revenues (assuming US dollar and RMB exchange rate of CNY6.75 to \$1) to be CNY16.5-17.5b or \$2.44-2.59b.



CORPORATE PARTICIPANTS

Guowei Chao *SINA Corporation - Chairman & CEO*

Sandra Zhang *SINA Corporation - IR Officer*

Yi Zhang *SINA Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Alicia Yap *Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research*

Eddie Leung *BofA Merrill Lynch, Research Division - MD in Equity Research and Analyst*

Juan Lin *86Research Limited - Research Analyst*

Wendy Huang *Macquarie Research - Head of Asian Internet and Media*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the SINA's earnings conference call for the fourth quarter 2018. (Operator Instructions) I must advise you, this conference is being recorded today, Tuesday, the 5th of March 2019. I would now like to hand the conference over to your first speaker for today, Ms. Sandra Zhang. Thank you. Please go ahead.

Sandra Zhang - SINA Corporation - IR Officer

Thanks, operator, and hello, everyone. Welcome to SINA's earnings conference call for the fourth quarter and fiscal year 2018. Joining us today are Chairman and CEO, Charles Chao; and CFO, Bonnie Zhang. This call is also being broadcast on the Internet and is available through our IR website at ir.sina.com.

Now let me read you the safe harbor statement in connection with today's conference call. Our discussion today will contain forward-looking statements, which involve inherent risks and uncertainties that may cause actual results to differ materially from our current expectations. SINA assumes no obligation to update the forward-looking statement in this call and elsewhere. For detailed discussion of these risks and uncertainties, please refer to our latest Annual Report on Form 20-F and other filings with the SEC. In addition, I would like to remind you that our discussion today include non-GAAP measures, which mainly exclude stock-based compensation and certain other items. We use non-GAAP measures to gain better understanding of SINA's comparative operating results and future prospects. Please refer to our earnings release for more detailed information on reconciliation of GAAP to non-GAAP measures. During the call, we may discuss non-GAAP measures for Weibo, which applied the same methodology we use to calculate non-GAAP measure at the SINA group level. After management remark, we will open the lines for brief Q&A session.

With that, I would like to turn the call over to our CFO, Bonnie.

Yi Zhang - SINA Corporation - CFO

Thank you, Sandra, and thank you all for joining our conference call today. Let me walk you through the operational and financial highlights for the fourth quarter and fiscal year 2018. Before the detailed financial review, I would like to remind you that our prepared remarks would focus on non-GAAP results, and all the comparisons are on a year-over-year basis unless otherwise noted. In addition, in order to provide investors with comparison under the same basis, I may also indicate our revenue or expenses figures under the old accounting guidance, which excludes the revenue or expenses related to barter transactions and adds back to value-added tax to the reported current period financials.



Let's start with an overview of the fourth quarter and fiscal year 2018 results. SINA's net revenues for the fourth quarter were \$570.4 million, an increase of 14%, or 20% on a constant-currency basis. SINA's operating income was \$159.6 million, an increase of 7%, or 12% on a constant-currency basis. Net income attributable to SINA was \$57.7 million and diluted EPS was \$0.80.

Full year 2018 net revenue grew 33% to \$2.1 billion primarily driven by the growth momentum of Weibo business, which grew 49% on a year-over-year basis. On the earnings side, SINA's operating income in 2018 increased to 23% to \$581.5 million, representing an operating margin of 28%. Full year 2018 net income attributable to SINA was \$227.1 million and our diluted EPS was \$3.07.

Now let's turn to key financial items. SINA's online advertising revenue for the fourth quarter were \$484.3 million, an increase of 14% or 20% on a constant-currency basis. The growth was primarily driven by an increase of \$84.7 million in Weibo advertising and marketing revenues and was partially offset by the decrease in portal advertising revenue as well as negative currency translation impact. SINA's full year online advertising revenue totaled \$1.79 billion, up 36% led by a 50% growth in Weibo's advertising dollars.

Let me provide you with an overview of Weibo's operational and the financial performance for the year 2018. Weibo's MAU reached 462 million in December 2018, representing a net addition of approximately 70 million on a year-over-year basis, outpacing the overall growth of Chinese Internet population in 2018. On top of solid user base expansion, Weibo's user engagement continue to improve with average DAU reaching 200 million in December 2018. Weibo has become a designated place for public and social interaction, events, discovery and a discussion as well as interest exploration. These unique attributes have helped the platform to attract and accumulate increase amount of organic traffic.

Moving into 2019. We will continue to leverage the indispensable function of Weibo equipped with effective channel investment to further grow the scale of the platform and enhance the overall engagement and the time spent on Weibo.

On the monetization front. For full year 2018, Weibo further demonstrated its unique value proposition to advertisers and delivered a resilient advertising revenue growth of 50% on a year-over-year basis. We continue to see momentum of a key account business, which grew 77% in 2018 nearly driven by the continued growth in ARPA spending and a good expansion in customer base. The strength in key accounts business was due to around Weibo's massive user base and the differentiated social advertising product as well as the broad-based industry coverage. We're particularly encouraged that by the increasing adoption of a KOL marketing among brand advertisers as we showcase the KOL's distinguished value in creating brand awareness, reaching target audience and enhancing conversion performance.

From industry perspective, FMCG and IT products and the luxury brands and entertainment sectors all exhibited a high growth rate in 2018, which speaks to the better ramp up -- resonance of our social marketing solutions in the brand advertising community. Product-wise, we are also delighted to key accounts embrace our customized ad solutions designed for the sweet spot of our traffic growth such as video and search at product.

The SME sector, on the other hand, faced some challenge and underperformed the overall advertising business, amidst macro and the regulation headwinds and industry competition. Specifically, we saw ad budget cutback from off-line customers in the second half of 2018 is partially for big-ticket item category and the short of ad demand from gaming sectors due to the new game license requirement. The soft ad demands from these customers also adversely impacted on the ad bidding vibrancy on our platform. However, these challenges were partially mitigated by expanding customer coverage in more resilient sectors such as social eCommerce and a cultivating native ad demand from platform content generators.

Turning to portal. Portal ad revenue for the fourth quarter were \$67.4 million, a decrease of 29% or 22% under the old accounting guidance in a constant-currency basis. Excluding the accounting change and unfavorable currency impact, portal business was negatively impacted by the ad budget cutback of SME customers operating in sectors under tightened regulations such as fintech and online gaming. Full year 2018 portal ad revenue were down 9% or 5% under the old accounting guidance.

Portal's mobile ad revenue continued to pick up growing 27% on a full year basis and contributing approximately 81% of total Portal ad revenues, significantly up from 59% last year.

Turning to non-advertising business. Non-ad revenues for the fourth quarter were \$86.1 million, up 13% or 19% under the old accounting guidance. The increase was mainly attributable to the incremental revenue from the acquired live broadcasting business by Weibo in this quarter and the continuing growth of Weibo membership fee.

Portal non-ad revenue for the fourth quarter were \$24.7 million, down 21% primarily due to the weakness of payment business given the further [divinings] of P2P platforms as we have communicated in previous conference calls.

On the other hand, the microloan facilitation business gradually recovered as we optimize funding sources, launched the new products and improved operational efficiency to navigate us through the regulation changes. Full year 2018 non-ad revenue were up 18% over 25% under the old accounting basis, benefiting from the increased Weibo membership revenue and incremental revenue contribution from Yi Zhibo.

Turning to gross margins. Gross margin for the fourth quarter was 79%, up from 75% last year. Advertising gross margin was 83%, up from 77%. The increase in advertising gross margin was mainly a result from our revenue reporting changes from gross to net basis. Non-advertising gross margin for the fourth quarter was 56%, down from 65% last year attributable to lower gross margin of Yi Zhibo in the fourth quarter. Full year gross margin was 79% compared to 74% in 2017. Full year advertising gross margin was 81%, up from 76% in 2017. Full year non-advertising gross margin was 64%, down from 66% last year.

Now moving on to operating expenses. In the fourth quarter, operating expenses totaled \$288.6 million, up 27%. Under the old accounting guidance, which excluding marketing expenses related to barter transaction, OpEx would have increased by 8% year-over-year. Sales and marketing expenses took approximately 26% of SINA's net revenue, down 1 percentage point from last year. Full year operating expenses totaled \$1.07 billion, up 55% or 38% under the old accounting guidance. Other than the inclusion of barter transaction value as part of the sales marketing expenses, the increase to channel marketing and the further expansion in product and technology teams were the key factors driving the OpEx growth.

Sales and marketing expenses as a percentage of revenue was 25% in 2017 and 32% in 2018, respectively. Under the old accounting guidance, full year sales and marketing expenses as a percentage of revenue increased to 2 percentage points from prior year to 27%, which was in line with our expectation as we strategically prioritized platform growth versus margin expansion for Weibo and the SINA Media property in response to the intensified competition from mobile traffic in China.

Operating income grew 7% to \$159.6 million, representing an operating margin of 28%, down from 30% last year. Full year operating income grew 23% to \$581.5 million, representing an operating margin of 28%.

Nonoperating loss under GAAP measure was \$12.6 million in the fourth quarter compared to a nonoperating income of \$7.7 million last year. Nonoperating income in fourth quarter included; a \$23 million net loss on sale of investments, fair value changes and impairment on investments, which is excluded under non-GAAP measures; a \$15.1 million net interest and other income; and a \$4.7 million net loss from equity-method investments. Please refer to our earnings release for more detailed information about nonoperating item for the same period last year. Full year nonoperating income under GAAP measures totaled \$88.5 million compared to nonoperating income of \$35.7 million in 2017.

Turning to tax. Under GAAP measure, income tax expenses were \$14.3 million in the fourth quarter compared to \$17.2 million last year. Full year income tax expenses totaled \$129.1 million compared to \$74.7 million in 2017 attributable to higher profits generated in 2018 and the deferred tax provision recognized for the fair value changes of investments. Net income attributable to SINA in the fourth quarter was \$57.7 million or \$0.80 in diluted net income per share. Full year net income attributable to SINA amounted to \$227.1 million or \$3.07 diluted net income per share.

Now let me turn to the balance sheet and cash flow items. As of December 31, 2018, SINA's cash, cash equivalents, and short-term investments totaled \$2.3 billion compared to \$3.4 billion as of December 31, 2017. The decrease of SINA's cash, cash equivalent, and short-term investments was primarily due to continued investment in SINA Tech business and the companies that are supplemental to the Weibo's growth system. In addition, we executed a 249.3 million share repurchase in 2018 and completed the redemption of our convertible bonds of \$153.1 million in the fourth quarter. In this quarter, net cash provided by operating activities were \$138.9 million, capital expenditures totaled \$17.1 million, and the depreciation and amortization expenses amounted to \$11.9 million. On full year basis, net cash provided by operating activities was \$311 million, capital expenditures totaled \$262.2 million, and depreciation and amortization expenses amounted to \$41.2 million.



Heading into 2019, we are seeing the resumption of game license approval and a series of government stimulus policies such as tax cuts and the supportive measure implemented in the domestic private sector, which may serve as catalyst for revenue growth. However, we continue to face challenges in tightened regulation of content scrutiny and online finance as well as macro uncertainties eroding on advertisers sentiments. In light of these factors, we estimate our 2019 revenue to be between RMB 16.5 billion and RMB 17.5 billion, or USD 2.44 billion and USD 2.59 billion, which assumes U.S. dollar and RMB exchange rate of RMB6.75 to \$1. It represents an annual growth rate of 18% to 25% on a constant-currency basis. Such revenue forecast includes the recognition of \$10.4 million in deferred license revenue from Leju. This forecast reflects our current and preliminary view and is subject to change.

With that, operator, please open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have our first question coming from the line of the Eddie Leung of Bank of America Merrill Lynch.

Eddie Leung - BofA Merrill Lynch, Research Division - MD in Equity Research and Analyst

Just a question on the media portal. Weibo management, there has been an increasing demand from the KA on a performance-based advertising. We have heard similar trends from the digital agency, as well, especially when the KA is under pressure. So just wondering if this opportunity could also be somehow captured by the media portal basis? So that's my question.

Guowei Chao - SINA Corporation - Chairman & CEO

Hey, Eddie. Regarding the KA performance-based advertising, yes, you're right. I mean, for Weibo, obviously, this is a very good opportunity for them because it has a large user base with a lot of usage by users and hence, a lot of data for the targeting. And so this is a good base for pay performance-based advertising. And, in fact, a good percentage of our performance-based advertising provided by the big customers on a Weibo platform. But for portal, it's a different story. Portal has never been a good platform for performance-based advertising due to the nature of the content and user-based behavior. And if you look back 20 years, I mean, whether it's on PC or on the mobile portal or on the news app and these are not very good base for the performance-based advertising because historically, I mean, the user data is not available for a lot of targeted advertising. I think things has been changed a little bit with the news app, which provides a lot of data and the targeting metrics but is still, I mean, given the the scale of the news app line now, this is not very good base for KA performance-based advertising. So now, I think we can generate more revenue for KA customers by providing brand advertising for these customers. This is true for PC and for mobile portal as well as mobile news app for now.

Operator

Next question is from Ms. Alicia Yap of Citigroup.

Alicia Yap - Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

Charles and Bonnie and Sandra. Very quickly, wonder if you, on the Weibo side, if you could share with us how much of the 1Q revenue guidance embedded the Yi Zhibo consolidations and also if you could give some colors in terms of the margin impact from the Yi Zhibo, any level on a consolidated level for Weibo in the 2019 level? And also related to that is the business synergies. What could we expect on the business synergies side after consolidating Yi Zhibo?



Guowei Chao - SINA Corporation - Chairman & CEO

I'm not sure too much about the guidance for Weibo, how much is coming from Yi Zhibo. I think it's still not that significant. But on the other hand, in terms of margin impact, it is quite significant, I mean, in a way for the gross margin on an overall basis for Q1 and for entire year, if we keep growing that revenue because that growth -- that revenue itself is off very low gross margin. And so when we are actually in the process of reviewing this business to see, I mean, we're not really too much focused on the revenue growth for the business but -- hence, rather than, I mean, we are more focused on the net margin impact for the business. So this is the area we're reviewing right now. But currently, I think it will have like 1% to 2% of the negative impact on the gross margin on an overall basis but that may change given our review of the business in this particular area and to see if we can increase and improve or reduce the negative impact on a gross margin by this business by focusing more on the profit side instead of revenue side. But for Q1, I think the revenue impact is not that significant and maybe Bonnie, will give you more color may be off the line.

Yi Zhang - SINA Corporation - CFO

Okay. I can do that.

Operator

We have Juan Lin of 86Research.

Juan Lin - 86Research Limited - Research Analyst

Thanks for taking my questions. So my question is for -- on Weibo in terms of competition. I wondered, first, what do you see the trend could be in terms of the pricing for the news feed ad this year, and how should we foresee the dynamics of the competition for news feed ads? And then secondly, so in terms of competition for content creators, should we expect the competition for content to be intensified or to be less competitive as compared to last year. And whether there is any financial impact to the expected in terms of companies as addition?

Guowei Chao - SINA Corporation - Chairman & CEO

I didn't get the second question right, Lin.

Yi Zhang - SINA Corporation - CFO

It's the content creator. Competition content creator.

Guowei Chao - SINA Corporation - Chairman & CEO

So are you saying we're going to pay the content creators for the...

Yi Zhang - SINA Corporation - CFO

Acquisition.



Guowei Chao - SINA Corporation - Chairman & CEO

Acquisition. This is probably the better question for Weibo, but I'll try to answer this question on a more high level here. I think that there's no question. I mean if you look our business in 2018, and much of the trend is that we're growing our KA business quite well. And SME business for both Weibo and the Portal are negatively impacted by the market trend. And there's multiple factors from demand side and also from supply side since supply side is, obviously, you have a lot more inventories provided by a big number of competitors. And this trend will continue in 2019. So we're still going to see a lot of competition in this area, a lot more inventories and hence, more pressure on the pricing. So, for now, we cannot really quantify exactly what, kind of, impact there will be on the total pricing side for SME for the performance-based advertising in the news feed area. I think it's still going to be very competitive, but we cannot quantify at this point. I think our guidance somehow reflect that, kind of, impact from pricing in terms of revenue growth for SMEs for now. And hopefully, we're going to solve this problem by -- on one hand, more demand from certain sectors that have impacted by the macroeconomic conditions and also certain policies. And on the other hand, enhance our ability to improve our algorithm for better targeting, so it generate more results, better results for customers based on the same inventory. And so these are the direction we're heading to. But to answer your question, we still think that the pricing for the news feed advertising will be very competitive this year, we just cannot quantify that. And in terms of our cost for the content creators and the content acquisitions. I don't think -- for the Weibo platform, we don't intend to pay for the content. This is our general principle. And for certain incentives providing -- provided for the KOL, we'll do that but more on a small scale basis to incentivize their creation of content and the contribution of content. But as a principal, we do not really wanted to pay too much content cost for any content creation or content acquisition on the Weibo platform because this is the nature of the social media platform. People actually, kind of, create own content and to share with the users. And this will continue to be the trend. So hence, we're not going to expect that we're going to increase -- we're going to increase or create too much content cost on an overall basis for Weibo this year.

Operator

We have Ms. Wendy Huang from Macquarie.

Wendy Huang - Macquarie Research - Head of Asian Internet and Media

We have seen lots of the tiers in the Internet industry business, there be actually a lot of restructuring, streamlined approach and therefore, see the kind of cost-saving and margin stability. So should we actually expect the SINA group as well as Weibo to also actually streamline the operation to see cost-effectiveness into 2019?

Guowei Chao - SINA Corporation - Chairman & CEO

There's no question about that. I think that cost control has been seen across industry in the sector and we're not an exception here. And so we actually have started to -- I mean, cost control measures in areas for Weibo and also for the Portal business and so that applies may be to the -- our headcount maybe our market spending in channels and so on and so forth. And so we are going to look into our cost efficiency much more closely this year. And so if you look at Weibo, I mean, we're going to -- we have a reasonable gross target for our revenue but, on the order hand, we want to control our cost much better in this area so that our operating margin will be maintained, I mean, going into 2019. And for the portal business, I think we're going to do the same, probably the cost measure will be more tightened in this area so that the revenue growth will be slow but we're going to see better-operating margin for our new Weibo business this year compared to last year. So this is our target. And there's no question we're going to put more measures in terms of cost control in every areas that can improve our operating efficiency.

Operator

We have [Jin Yoon Newfit Research]

Yi Zhang - SINA Corporation - CFO

This is actually, the last question we take. So it's...

Unidentified Analyst

Can you guys hear me?

Yi Zhang - SINA Corporation - CFO

Yes.

Unidentified Analyst

I think most of my questions have been answered already, but I still wanted to just, kind of, talk about the health of the SME side of the business. Just kind of wondering, what's kind of a bigger -- what is the bigger threat to the SME business, is it the macro environment or is it competition? One of the things that you guys you talked about on pricing is that time, Bonnie, I think you mentioned that pricing declined. Are you mentioning that pricing actually declined in absolute dollar terms or a decline as a percentage versus last year? Could you clarify that and also the competitive environment around what's more a bigger pressure is macro or a competition from other outlooks?

Yi Zhang - SINA Corporation - CFO

[Jin] I think that it's a really mixed results from the macro that we see very weak demand in certain industries segment. I think Ms. Bonnie mentioned -- probably mentioned in the prepared remarks, large scale -- high-ticket dollar categories, certain industry segment that were affected by regulation and the policy changes has created -- these are the additional impact from -- in other than the macro situation. But we're not denying the competition also plays a role in terms of the additional inventory being supplied in the market. So you're looking at the situation that on the one equation, you have less demand for all these reasons, and on the other hand, you have more inventory available for people to bid on. So that has come down the direct results for this, is the pricing become less -- become the key for business. When I say pricing coming down, I'm talking about pricing year-over-year -- on a year-over-year basis, it's been coming down. So -- but that's simply in absolute dollars. Compared to last year, it's a decreasing trend. So that's the current situation. I think to respond to this scenario, we talked about further expanded the demand side, there are certain categories we have not being paid too much attention in the past, which now we have to turn the resources and focus around. And also on the technology side, the most effective way to raise the price is to increase the conversion rate or when you put through rate it, it starts getting higher, you're getting effective higher [ECPM.] So these are the -- I think the 2 key measures we're currently undertaking. Hopefully, down in the next few quarters, we will see some of those results.

Operator

Ladies and gentlemen, that's the end of our question-and-answer session. I would like to hand the conference back over to the presenters. Ms. Sandra Zhang.

Sandra Zhang - SINA Corporation - IR Officer

This concludes our conference call for today, thank you for joining us. We'll see you next quarter.

Operator

Ladies and Gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.



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