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SINA - Q1 2019 SINA Corp Earnings Call

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## OVERVIEW:

Co. reported 1Q19 non-GAAP net revenue of \$472.5m and non-GAAP net income attributable to SINA of \$28.9m or \$0.40 per diluted share.



## CORPORATE PARTICIPANTS

**Bonnie Yi Zhang** *SINA Corporation - CFO*

**Guowei Chao** *SINA Corporation - Chairman & CEO*

**Sandra Zhang** *SINA Corporation - IR Officer*

## 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*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the SINA's Earnings Conference Call for the First Quarter of 2019. (Operator Instructions) I must advise, this conference is being recorded today, the 23rd of May 2019.

I would now like to hand the conference over to your first speaker for today, Ms. Sandra Zhang. Please go ahead, ma'am.

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### **Sandra Zhang** - *SINA Corporation - IR Officer*

Thanks, operator, and hello, everyone. Welcome to SINA's Earnings Conference Call for the First Quarter 2019. Joining us today are our Chairman and CEO, Charles Chao; and our CFO, Bonnie Zhang. This call is also being broadcast on Internet and is available through our IR website.

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 statements 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 discussions today include non-GAAP measures, which mainly exclude stock-based compensation and certain other items. We use non-GAAP measures to gain a 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 also discuss non-GAAP measures for Weibo, which applied the same methodologies we use to calculate non-GAAP measures at the SINA group level. After management remarks, we will open the lines for a brief Q&A session.

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

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### **Bonnie Yi Zhang** - *SINA Corporation - CFO*

Thank you, Sandra. Thank you all for joining our conference for today. Let me walk you through the operational and financial highlights for the first quarter. Before the detailed financial review, I would like to remind you that my prepared remarks would focus on non-GAAP results, and all the comparisons are on a year-over-year basis unless otherwise noted.

Let's start with an overview of the first quarter 2019. SINA's net revenue for the first quarter was -- were \$472.5 million, an increase of 8% or 14% on a constant-currency basis. SINA's operating income was \$114.2 million, an increase of 21% or 28% on a constant-currency basis. Net income attributable to SINA was \$28.9 million and the diluted EPS was \$0.40.



Now let's turn to key financial items. SINA's online advertising revenue for the first quarter was \$388 million, an increase of 6% or 12% on a constant-currency basis. The growth was primarily driven by an increase of \$38.2 million from Weibo advertising revenue, and it was partially offset by the decrease in portal advertising as well as negative currency translation impact.

On the monetization front, Weibo's online advertising revenue for the first quarter was \$341.1 million, up 13% or 20% on a constant-currency basis. Weibo key account business continued its strong momentum, with advertising revenue growing 31% or 39% on a constant-currency basis. The growth was fueled by the FMCG sector, which well adopted Weibo through differentiated social marketing tools to enhance brand awareness, accumulate social assets and leverage KOLs' influence to connect and engage with a broader Internet audience through Weibo. The sector also demonstrated a stronger resilience in the macro uncertainty by virtue of its industry nature.

Weibo SME sector grew 5% or 12% on a constant-currency basis. The growth was mainly derived from e-commerce sector, which team focused on enhancing targeting capability and optimizing tailor-made ad products to drive higher ROI for these customers. However, the growth from new initiatives were largely offset by market demand constraint from O2O categories in online gaming sector, primarily due to macro challenges, regulations and a competition in the ad inventory supply.

Turning to portal, portal ad revenue for the first quarter was [46.9 million] (corrected by company after the call), a decrease of 27% or 22% on a constant-currency basis, mainly resulted from budget cutbacks from SME customers.

Turning to now advertising business. SINA's ad revenue for the first quarter were \$84.5 million, up 19% or 26% on a constant-currency basis. The increase was derived from the incremental revenue from Weibo's live streaming business and SINA's fintech. Portal non-ad revenue for the first quarter were \$32.3 million, up 34% or 42% in constant currency. The increase of portal non-advertising revenue was driven by the increase in revenue from the micro loan facilitation business, which was underpinned by substantial growth of transactions facilitated through SINA's fintech platform.

Turning to gross margin. Gross margin for the first quarter was 76%, flattish year-over-year. Advertising gross margin was 79%, up from 78% prior year. Non-ad gross margin for the first quarter was 63%, slightly down from 64% last year.

Now moving on to operating expenses. In the first quarter, operating expenses totaled \$245.3 million, up 3%. Sales and marketing expenses took approximately 30% of SINA net revenue, down 1 percentage point from last year, largely attributable to a more disciplined execution of channel marketing strategies.

Operating income grew 21% to \$114.2 million, representing an operating margin of 24%, up from 22% last year.

Under the GAAP measure, nonoperating income for the first quarter of 2019 was \$77.7 million compared to a nonoperating income of \$22.6 million for the same period last year. Nonoperating income for the first quarter included an \$80.8 million net gain on sale of investment, fair value changes and impairment on investments, which is excluded under non-GAAP measure; a \$13.1 million net interest and other income; and a \$16.3 million net loss from equity method investment, which is 1 quarter in arrears. Please refer to our earnings release for a more detailed information about nonoperating items for the same period last year.

Turning to tax. Under GAAP measure, income tax expenses were \$65.2 million in the first quarter compared to \$18.8 million last year, largely attributable to the deferred tax liability recognized from the fair value changes of investment. Net income attributable to SINA in the first quarter was \$28.9 million or \$0.40 dilutive net income per share.

Now let's -- let me turn to the balance sheet and cash flow items. As of March 31, 2019, SINA's cash, cash equivalents and short-term investments totaled \$2.1 billion compared to \$2.3 billion as of December 31, 2018. For the first quarter, net cash provided by operating activities was \$93.5 million, capital expenditure totaled \$10 million and depreciation and amortization expenses amounted to \$11.1 million.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We have the first question from the line of Eddie Leung.

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

Couple of questions. The first one is about your full year guidance. Just wondering if there is any update on the full year revenue guidance for the SINA group. And then secondly, I heard one issue on the first quarter advertising weakness on SINA portal is (inaudible) SME cutting their advertising budgets. So could you talk about the key accounts' budgeting process from 2019? For example, what are the top 5 advertising categories for SINA portal and what's the trend?

### Bonnie Yi Zhang - SINA Corporation - CFO

Eddie, I think with the macro situation right now, I'm sure you're aware we just finished our Weibo's conference call. So the growth rate of advertising for Weibo for second quarter we have trimmed down in terms compared to the market expectation. So I think, initially, the market expects about 20% of growth on a constant-currency basis. And right now we are reporting about -- somewhere about 7% to 10% of growth on constant currency. So that would effectively have impact on the SINA group as total. Same logic will be applied to the SINA portal as well. I think we're talking about -- from total advertising revenue for the full year compared to the initial estimates we have been given in the early part of the year, we see that forecast being challenging in the current market conditions. So I would say that number need to be further discounted, probably, I would say, another 10% to 15% discount. Most of the -- I think the large part will come from the Weibo part, even though we still hold the relative positive for the latter part of 2019, as some segments we see recovery progress at this moment. But just with the large uncertainties for other industry or the macro condition, we would rather be very cautious.

For the nonadvertising part, I think our estimates continue to be relative consistent with the initial numbers we communicated last time. So that would be the comments on your total full year guidance part. On the SME cutback, yes, so for the portal part, yes, we have experienced quite significant decline in the SME revenue. I think that goes back to the overall industry issue right now. On the one side, you have relative weak demand, and on the other -- on the supply side, we see a surge of the ad inventory. So that has led to the cutback. I think 2 things: one is, you see ad budgets get more focused to those large platform -- top platform in the marketplace; second thing, I think, which everyone is experiencing is the decline in the CPM or the CPC price. So these are the, I think, 2 factors driving the SME cutback.

For the key accounts, goes back to -- I think you're asking the question on the industry performance. The top industry for portal, the key industry continued to be -- I think FMCG has become even more -- percentage-wise getting higher. So FMCG is -- I'm sorry, the financial segment is the largest segment for key accounts. That takes about 21%. The second comes in as the auto. Even though, I think, auto has been relative weak, but still it's big. It continued to be the large segment for SINA. It takes about 20%. But that percentage has significantly come down compared to prior quarters. If I remember correctly, auto segment used to be in the 30s, even in the 40s for SINA group for the portal business. The third category is the IT. Those are -- we're talking about the telecom, the cellphone makers. They take about 14%. FMCG is not like Weibo. That comes at fourth place, takes about 11% of our total key accounts revenue. And number five is Internet service. That comes at about 7%.

### Operator

We have the next question from the line of Juan Lin.

**Juan Lin** - *86Research Limited - Research Analyst*

I have 2 questions. The first one is SME pricing. You mentioned that due to the [surge of] supply of inventories and also macro slowdown, there is price -- CPM decline across the board for SME business. So I wondered whether we are already seeing SME pricing in terms of year-over-year decline already bottomed and then going forward reach the most critical factors for SME pricing to improve from here. So if we rank the factors, including the macro improvement, regulatory improvement on certain categories and also our own effort in expanding user base, including (inaudible) and also competition, how should we look at the ranking? And the second question is key account brand advertising. So since SME advertising to be gradually concentrating on the top platforms, especially the platforms that have been releasing a lot of incremental inventories, I wonder if you have also noticed a similar trend for KA advertiser.

**Bonnie Yi Zhang** - *SINA Corporation - CFO*

I think for SME, you're asking a question -- probably just go through the sequence of your question. At this point, we haven't seen the price being bottomed out. I think on the previous calls with Weibo, Gaofer indicated even in the month -- current month, we'll continue to see price down for the CPM. So that trend probably will continue for a period of time. I don't have relative -- or affirmative answer in terms of when that trend will be reversal. So -- but I think one thing we do need to pay attention to the comps, right? So I think first half 2018, while every platform was running in a very high growth rate and the relative robust demand for ad, so I would think going to the second half of 2018 with the ease -- as the comps become relatively easier, so you might see at least the decline trend could slow down or even might go into a period of time that price go into a flattish sort of a trend on a year-over-year basis. So that would be my personal taking on that.

So to reverse that course, one thing, I think, there's elements that's noncontrollable by the company. But I would rather to pay a bit more attention on those 1 element we would be able to control. I think the 2 things, one is to create demand. One is coming from the -- the demand part really comes with more customers. So as you have more customer bidding on your inventory, you will relatively have a tendency your price will go up. I think that's one key, and that's something we could work on. And I believe we already addressed some of those initiatives in the previous call, as internally, we have been reshuffled our distribution channel, have redesigned our incentive scheme for SME teams as well as the agency rebates. So these efforts really is coming to attract new demands from customers. And also, some of the new segments, we'll probably -- historically, we'll not put too much efforts or attention to, and these are the area we're spending more resources. So that's the one thing on the demand side. And more customers, the more bidding process -- more bidding on the platform.

The other thing is the product -- the another controllable element will be the product. I think the product is -- we redesigned some of those SME products based on the experience we had on our key accounts. So these are the ones we could distinguish our value proposition from other platforms. So for example, using more KOLs; for example, those data package that's specifically designed for certain industry customers. So these are the things, I think, on our end what we could address in the next -- right now we started to address, and I think we are seeing some progress in the current quarter and probably more in the quarters to come.

So for the comments on the macro order, also the inventory supply, I think that goes back to my point that those are elements we would not be able to control. So there -- eventually, I think that will reach to a balanced level, but when and how this will come or realize, I think, at this point, we have very little visibility to comment on that. So then go back to your question on the key accounts, you have been asking whether the key accounts have been repeating the same sort of path of SMEs. I would say, at this moment, we haven't seen any indicators. I think I did make a comment on the Weibo's call that based on the frame contracts we have signed year-to-date, we see quite meaningful growth on the frame contracts, even with the current macro situation and a number of difficulties customers experiencing. I think our key accounts, we have very distinguished value proposition and different ad products offered in the marketplace. So those are unique aspects that support our continued growth in this particular customer segment.

And also on the budgets part, we've been talking in the past that key accounts budgets are not only the marketing budgets with e-commerce being penetrated by various -- on the customer level, big brands are going to using e-commerce a lot more frequent compared to years ago. So we're talking about 2 sets of budgets: marketing dollars brand budgets and the e-commerce budgets. So we are -- I think our team is really not only addressing the traditional brand issue or the brand coverage audience group type of thing, we also in the marketplace compete for the brand e-commerce dollars as we demonstrated particularly with [Ali's] alliance that we can offer very unique data points for those customers.



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**Operator**

We have the next question from the line of Alicia Yap.

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

I have questions related to the nonad revenue line. So looks like this line is not too bad for this quarter, it's doing quite well. Is that treatment by your fintech? Even we should have (inaudible) the tough comp. And what have you done to revive the business? And any comments on the progress of the overall fintech strategy? Just one quick follow-up on macro, if I may. So given SINA has been through a full macro cycle, how would you characterize what we have seen so far for the ad budget [sentiment] this year versus the previous cycle?

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**Bonnie Yi Zhang** - *SINA Corporation - CFO*

On the fintech part, I think last year, it's a year for the company to make a lot of adjustments to respond to the regulatory changes. We've been spending resources [plus time] to adjust our products to ensure those products are well in compliance with the updated rules and regulations. I think the -- and for 2019, it's -- I think by first quarter, we are ready to capture the high-growth market in the segment. We continue to believe that SINA has its very unique advantage in the fintech business. A typical fintech requires a few elements: one is traffic -- your traffic; second, your brand and what we call the credibility of a platform; third is the funding resource. So I think for SINA, the first 2 are very well addressed by the current resource we have. We do have strong traffic flow from Weibo, and we do have good support from SINA News app and SINA Finance app in terms of quality, users and users that has intention and ability to borrow money. And SINA's brand equity has been built for years, and that's very essential for fintech business to be accepted in the marketplace and to be distinguished from other smaller platform.

So number three is the funding issue. I think that's a part of the efforts we were able to address in the last 12 to 18 months with the one side being more compliant with the regulations and on the other side has the fund resources be ready for us to expand the platform. So I think all these elements are attributable to the growth in the fintech area. We maintain relatively optimistic for this segment for the rest of the year, as we believe there will be good recovery in the segment.

In general, we take very cautious steps in terms to grow and expand for our micro loan business. We still believe that this is a -- we need to be very well balanced in terms of risk and reward. We've taken very conservatively accounting approach to record our revenue and to ensure our reserve for -- delinquency in the loans are very well addressed in the -- in our P&L. So with that, like I said, we're relatively optimistic in the growth for this segment for the rest of the year.

In terms of the macro part for the budget, I think I'm sure you have a lot of channel checking. We -- from a company perspective, I think we already have been communicated with the market even in the very early part of 2018. It will be very challenging. Just -- we see even the macro data has recovered a little bit in the first quarter, but that recovery doesn't seem to be last long enough. The month of April data hasn't been that impressive from all different perspectives. So that, in our view, was the heat up of the trade war that will continue to weigh on the sentiment in the ad industry.

And ad industry, in general, respond a little bit later to the economic cycle. It comes just with budgets planning and people's decision on things. So in general, you see a few quarters' lag. So I think the sluggish growth perspective probably will continue to go into the second half. Particularly for those large segments like auto, we don't expect that will have a fast recovery in the marketplace. However, few other segments, for example, gaming with the clarity on the regulation part; education, I think that's another big segment, they got hit pretty bad in the fourth quarter, even part of the first quarter, will start to see some activities. But whether that would have continued to recover in a pace we have seen, I think largely resigns company's own P&L. I'm sure you see all the sales and marketing for large Internet companies are cutting back. So that has no difference to the traditional companies we're talking about. And it also depends their profitability level. So that would be driving the sustainability of whether the recovery will continue.



**Guowei Chao** - SINA Corporation - Chairman & CEO

Alicia, let me just add a couple of points to Bonnie's comment, your last question on the macro impact. I mean, yes, we have seen many cycles -- experienced many cycles in the past. And I would say the difference this time is that previously, I mean, for every cycle, you see Internet markets to grow and also that at a low time of the macro condition, I mean, you see more traditional customers adopt Internet for marketing. And also, you're probably aware that a lot of demand for Internet marketing actually also coming from the Internet service itself, like gaming, like e-commerce, like O2O, these type of -- fintech, these type of demand. And so in the previous cycles, you saw more and more these kind of demand from the new sectors, I mean, for Internet services and in addition to the more adoption by traditional customer for Internet marketing.

So in the previous cycles, you see maybe macro economic condition might be bad, but still see the demand increase for Internet marketing, although maybe in the downtime, the marketing demand increase is slower, but it is still increasing every time. At this time, I think the difference is that the Internet market is not really growing too fast. As you know that the Internet population in China has come to a very slow growth right now. The competition nearly is for the time spent at different site, different app. And with more player coming to the markets, you have a lot more suppliers, as you can see the impact on the SME customers, I mean, in terms of pricing, in terms of total revenue, allocations between different sites, so on so forth. But I think this time, probably it is more challenging -- much more challenging than we have seen before.

And in addition to that, as Bonnie just mentioned, macroeconomic condition is not going to recover very quickly. That will have impact on both KA and SMEs. For the KA, I think on the Weibo side, we are still very competitive as we have lot of advantages over other players in this market to grow markets at a pretty healthy rate. But SME side, we are facing more competition, and you can see from the results. And for the portal side, I think the hit is on both KA and SME. On the KA side because the portal is more reliant on the financial, auto, FMCG, IT, Internet, these 5 sectors, and we're probably still very strong in the financial area because SINA Finance is very strong, and it was still growing in the market very well. But on auto side, on the FMCG side, on the Internet side, I think we are hit by the market conditions pretty badly. So it's like you're going to see growth in the financial area probably more than offset by the decline in other sectors you have seen. So it's a challenging market. And I think we will get better if auto market starts to recover. And SME side probably on the portal side is also very challenging because Internet scale priced more in the market. And so in terms of the competition, I think our portal SME customer -- business will be disproportionately affected more -- high degree and so this is another challenging market. So overall, I think it's different from before, more challenged and -- but I hope that when the market starts to recover, our Weibo business will grow faster and, hopefully, we're going to also catch up on the SME side for portal if we can continue to grow our user base for our mobile applications. That will be probably an overall summary for your question.

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**Operator**

I would like to hand the call back to Sandra for any closing remarks.

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**Sandra Zhang** - SINA Corporation - IR Officer

Thanks, operator. This concludes our conference call today. We'll see you next quarter.

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**Operator**

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

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