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SINA - Q2 2019 SINA Corp Earnings Call

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OVERVIEW:

Co. reported 2Q19 non-GAAP net revenue of \$530.4m, non-GAAP net income attributable to SINA of \$54m and non-GAAP diluted EPS of \$0.76.



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*

Thomas Chong *Jefferies LLC, Research Division - Equity Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to SINA's earnings call for second quarter 2019. (Operator Instructions) I must advise you that this conference is being recorded today, Monday, 19th of August 2019.

I'd now like to hand the conference over to your speaker/host 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 second quarter 2019. Joining us today our Chairman and CEO, Guowei Chao; and our CFO, Bonnie Zhang. This call is also being broadcast on 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 includes 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 discuss non-GAAP measures for Weibo, which apply the same methodologies we use to calculate non-GAAP measures at the SINA group level. After management remarks, we'll open the lines for a brief Q&A session. With that, I would like to turn the call over to our CFO, Bonnie.

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 the financial highlights for the second quarter 2019. 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 second quarter 2019 results. SINA's net revenue for the second quarter were \$530.4 million, a decrease of 1% or increase of 5% on a constant currency basis.

Operating income was \$152.8 million, a decrease of 4% or an increase of 2% on a constant currency basis.

Net income attributable to SINA was \$54 million and the diluted EPS was \$0.76.



Now let's turn to key financial items. SINA's online advertising revenue for the second quarter were \$433.6 million, a decrease of 5% or an increase of 1% on a constant currency basis, primarily due to a decline in portal advertising revenue and a negative currency translation impact.

Let me start from Weibo's business. Weibo's user growth reaccelerated meaningfully compared with Q1, with MAU adding approximately 21 million users quarter-over-quarter reached 486 million in June, and the average DAU adding approximately 8 million users to 211 million.

On top of the solid user growth, we are encouraged to see strong performance of the user engagement as well with daily feed refreshment and video views booking double-digit growth on both annual and sequential basis.

Leveraging a cluster of breaking news and social events, initially released on Weibo during the quarter. The strong user performance also pointed to the traction of our revamped user props, which empowers our community to more easily discover and consume relevant trends and topics and engage in public conversations of their interest.

Our ongoing product improvement will continue to manifest itself in delivering organic user growth and further deepening user engagement, positioning us well to better to capture wallet's share of the digital ad budget when the overall market becomes less demand constrained.

On monetization. Weibo's online advertising revenue for the second quarter was \$370.7 million flat or up 6% on a constant currency basis. Weibo's key accounts business grew 12% or 19% on a constant currency basis. The FMCG sectors continue to drive the growth, demonstrating resilience amid the macro uncertainties and its advanced status in employing Weibo's differentiated social marketing product to compound that campaign effect from product launch to brand loyalty and ultimately sales conversion.

The entertainment sector surprised on the upside and delivered the solid performance despite the industry headwinds, leveraging Weibo's unique strength in viral distribution and the KOL/IP marketing around these blockbuster shoots -- shows.

Weibo SME sector was down 6% or flat on a constant currency base in the second quarter, since the unfavorable supply demand dynamic persisted. We executed well in our initiative to tap into undermonetized industries and develop new clients, optimize sales channel and drive better ROI for existing customers, which exhibited positive trajectory for the SME sector in this quarter. However, the growth of these new initiatives was offset by the ad budget cut back from certain O2O categories and online gaming sector. We expect these efforts will take multiple quarters to compound to meaningful impact on the top line.

Turning to portal. Portal ad revenue for the second quarter was \$63 million, a decrease of 25% or 21% on a constant currency basis, resulted from the ad budget cut backs from SME customers.

Turning to nonadvertising business. SINA's nonad revenue for the second quarter were \$96.8 million, up 20% or 28% on a constant currency basis. The increase was mainly derived from the incremental revenue from SINA's fintech business and Weibo's live streaming platform. Portal nonad revenue for the second quarter were \$41.1 million, up 47% or 56% on a constant currency basis. The increase of the portal nonadvertising revenue was driven by the strong performance of our micro loan facilitation business, underpinned by robust growth in the loan origination volume delivered as teams continue to optimize product mix, diversified funding source and enhanced operating efficiencies.

Turning to gross margin. Gross margin for the second quarter was 77% compared to 81% last year. Advertising gross margin was 81% compared to 83% last year. Nonadvertising gross margin for the second quarter was 60% down from 68% last year due to the relative lower gross margin of the acquired live streaming business of Weibo.

Now moving on to operating expenses. In the second quarter, operating expenses totaled \$256 million, down 6%. Sales marketing expenses decreased 20% year-over-year and took approximately 27% of SINA's net revenue, which was down 6 percentage points from last year, largely attributable to disciplining the channel marketing approach and the cost efficiency achieved in marketing campaigns.

Operating income decreased 4% to \$152.8 million, representing an operating margin of 29% compared to 30% last year.

Under GAAP measure, nonoperating income for the second quarter was \$19.7 million compared to an income of \$1.2 million last year. Nonoperating income for the second quarter, mainly including \$15.7 million net interest and other income and \$4.3 million net earnings from equity method investments, which is reported on a quarter in arrears. Please refer to our earnings release for more detailed information about nonoperating items for the same period last year.

Turning to tax. Under GAAP measure, income tax expenses were \$46.7 million in the second quarter compared to \$27.9 million last year, a result from the deferred tax charges recognized from the fair value changes of our investments.

Net income attributed to SINA in the second quarter was \$54 million or \$0.76 dilutive net income per share.

Now let me turn to the balance sheet and cash flow items. As of June 30, 2019, SINA's cash, cash equivalents and short-term investments totaled \$2 billion compared to \$2.3 billion as of December 31, 2018, mainly resulted from continued investment activities.

For the second quarter, net cash provided by operating activities was \$128.6 million, capital expenditures totaled \$5 million and the depreciation and amortization expenses amounted to \$11.6 million.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Alicia Yap from Citigroup.

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

I have a question related to your fintech business. It looks like SINA's fintech business continues to hold up relatively well especially the last 2 quarters. Could management share with us how do you define SINA positioning in the business? And what type of medium- and longer-term target and initiative that SINA hopes to achieve in the overall fintech business?

Guowei Chao - *SINA Corporation - Chairman & CEO*

Alicia, this is Charles. Regarding the fintech business, and we have talked about that for many quarters. And we always believe that the vertical areas are the areas that we can expand on business for portal, the SINA existing business. And so fintech is the area that -- with a lot of potential as well. I always believe this is area with a lot of potential to grow. And we continue to believe that the companies, especially big Internet platforms, with the data, with the user traffic has the advantage in developing this business. So we have been doing this for a few years now, and I think I would continue to be investing in this area. And thus, the numbers you have seen in the last couple of quarters speaks for itself that we have been -- grow this area pretty nicely. And of course, we have been very cautious in terms of all the regulatory policies as well as license requirement for this particular area, and also being very cautious in terms of developing business, and that we do not actually grant credit I mean, to the users that are less qualified basically. So we have very stringent rules in terms of meeting the borrowers from platforms. So currently, we have pretty much limit ourself in the micro loan business and also limit our micro loan business to our existing users on platform. So we have a better, I mean, track and understanding of the data and also the credit ratings. And so that actually helps us grow our business as well as to actually contain our -- better rate to a pretty low percentage. So going forward, probably we're following the same strategies in terms of our fintech business, and on the one hand, we will continue to grow this business, and to make sure that we can enhance our ability to have the data mining and to actually have better quality customers going forward as well.



On the other hand, that we can also, I mean, make sure that we'll actually -- whatever we do we'll follow the regulatory policies. And these are the 2 areas that we're very much concentrated on. And we believe that, as I said, this is a business with lot of potential. And you can see all the big Internet players have invested heavily in this area. And -- so I think we have a very good potential here. But we're very cautious and -- in terms of our execution, to put it this way, so that we can control our risk.

Operator

Your next question comes from the line of Thomas Chong from Jefferies.

Thomas Chong - *Jefferies LLC, Research Division - Equity Analyst*

I have a few questions. One is about the advertising sentiment for key categories in portal. How is it versus Weibo, about the performance for different key categories? And my second question is, it looks that the OpEx is controlling very well in the second quarter. How should we think about the trend in operating expenses? And my last question is about our M&A strategies, given the reasons Weibo foreign offering?

Guowei Chao - *SINA Corporation - Chairman & CEO*

I can I mean take one up -- one by one, okay? Regarding the advertising area, and if you look at the portal business, I'm sure that we have already elaborated the -- some of key areas for the Weibo. And for portal, I think if you look at our business, it's also between KA and SMEs. And the KA is doing relatively okay, but SME is not doing very well. And I think the key area for the KA, we have seen some of the challenges in the automobile industry for KA, mainly because of this entire industry actually is not doing very well as you have seen probably in some of the data in the market, that the automobile sales in the second quarter actually was down by at least 20% year-over-year. And that is a question to reckon. And that actually has a sort of impact on our portal advertising business in that particular area. We have seen similar trend in this area, although our Weibo auto business is doing okay, but in terms of our portal, because we do not have enough product to support this budget allocation. So we have seen pretty significant downturn in automobile advertising for this particular sector on portal. And for other sector, actually we have seen -- some of the bright spot is actually in our financial service. And we have been pretty much focused on financial vertical area I mean for our news and for the financial APP. And so we also developed a separate sales force for financial service for the portal business. And that sector actually is doing much better, I mean, compared to last year, and we see that momentum also going very well. But in terms of the size of the business, I mean it's just smaller -- much smaller than automobile business. So it has potential, but in terms of net dollar impact, I mean it's still negative for the KA business. And for FMCG, and we have seen some strong growth in the Weibo area, but it's not something that's very good for portal because we do not have right product for FMCG advertising for portal business. And for other categories, I mean, I think it's -- they are less important, but on overall basis you have seen some of the downtrend for the portal KA areas for other sectors. And for the SME, in this area we have particularly facing challenge in the portal business because our overall inventory is not significant if you look at the traffic of mobile news app versus our mobile portal. And you see some of -- slight increase of model -- mobile APP news app and in terms of traffic, but in terms of mobile portal we've seen a slight decrease. So net-net, we're not only increasing our inventory too much for our mobile news business. And -- but if you look at the entire market demand supply, and you have a lot of supplier in mobile news app business in terms of advertise inventory. So SME in terms of scale and hence, everything else is not really competitive in the market. So actually we see quite significant downturn in SME business for the portal. So that actually is the overall, I mean, summary in terms of our ad business for portal. And in terms of OpEx, and I think the trend definitely -- I mean in light of this kind of market situation and our advertising by revenue trend, we obviously try to control costs much more tightly. So we have implemented stringent cost control measures for portal, and we will continue to do so in the remaining of the year and maybe go into the next year. And so on overall basis, I think our -- we're still going to scale down cost base for our portal. But with the exception that we might expand our investment in the financial area and sports areas, so these are 2 vertical areas with the quite strong momentum in terms user growth and then revenue growth. So these areas we'll probably more focus upon in terms of our overall growth. But with the remaining of the portal areas, we will scale down little bit in terms of cost. And with M&A strategies and -- I think we will be very cautious. I mean on SINA side we're quite cautious in terms of our M&A because this market is quite unstable right now. And -- so with a lot of APP and Internet companies going away that this particular market is either you're something that's very big or I mean your investment just going to 0. So we'll be very cautious in this kind of market condition.



In terms of Weibo, we'll be more focused on investment areas that they'll have the ability to establish or enhance our ecosystem for the entire Weibo in terms of the content, in terms of user base and in terms of advertising. In terms of SINA's areas, we'll probably will be more focused upon some of the vertical areas with the a lot of potential financial and sports. And also that -- they will be looking into some of the new areas that will potentially have some big hit, like we have increased our investment in automobile autonomous driving company called TuSimple this quarter -- in the second quarter by almost USD 90 million. We believe this area -- this company is leading position in the world, and we see a lot of potential there in those areas. We believe that we can invest more, but for other areas we'll be more cautious.

Operator

I'd now like to hand the conference back to Ms. Sandra Zhang for the closing remarks.

Sandra Zhang - SINA Corporation - IR Officer

This wraps up our conference call today. Thank you for joining us, we'll see you next quarter.

Operator

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

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