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SINA - Q3 2019 SINA Corp Earnings Call

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OVERVIEW:

Co. reported 3Q19 non-GAAP net revenues of \$558.8m, non-GAAP net income attributable to SINA of \$67m and non-GAAP diluted EPS of \$0.94.



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*

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to SINA's Earnings Conference Call for the Third Quarter of 2019. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker 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 third 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 SINA's 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 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 may 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 financial highlights for the third 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 third quarter 2019 results. SINA's net revenue for the third quarter were \$558.8 million and an increase of 1% or 5% on a constant currency basis.



Operating income was \$170 million, representing an operating margin of 30%, flat year-over-year.

Net income attributable to SINA was \$67 million, and the diluted EPS was \$0.94.

Now let's turn to key financial items. SINA's online and advertising revenues for the third quarter were \$461.1 million, a decrease of 5% or 1% on a constant currency basis, primarily due to a decline in portal ad advertising revenues and a negative currency translation impact.

Let me start with Weibo's business. In the third quarter, Weibo continued to deliver robust user growth with MAU reaching 497 million in September, and the average DAUs reaching 216 million, underpinned by Weibo's distinguished positioning as the leading social media platform in China.

As Weibo celebrated its 10th anniversary this August, we are grateful that Weibo has gained a sustainable momentum to grow our community and weathered this through many rounds of market challenges. Leveraging ongoing product optimization and diversified content ecosystem, Weibo has evolved into China's go-to platform to discover trends and engage in public conversations around topics of interest. Along with our relentless efforts to strengthen our differentiator as the social media, we are also focused on incubating new products to further tap into user's diversified interest and admin and drive value for our growing community in the longer term.

On monetization, Weibo's online and advertising revenue for the third quarter were \$412.5 million, up 1% or 5% on a constant currency basis.

Weibo's key accounts business grew 6% or 10% on a constant currency basis. The FMCG sector and the luxury brands continue to outperform as we attract their high customer accounts to embrace the platform, leveraging a wide spectrum of social ad products compelling ad designs rising influence of KOLs, which altogether better fulfill customers integrated branding plus performance marketing demand.

On the flip side of the tech sector, particularly mobile handsets, exhibited tepid growth amid the 5G transitional period with limited promotion activities, while entertainment industry faced a near-term challenge due to a lackluster content schedule with tightened regulations.

Weibo SME sector was up 1% or 5% on a constant currency basis in the third quarter, since the industry has not witnessed a turnaround yet, and there's the unfavorable supply and the demand market dynamics. We continue to see impression growth on both annual and sequential basis demonstrating team's step-up efforts in developing new customers and retaining existing customer spend through scaling up automatic ad placement, enhancing ad relevancy and sales channel optimization. Nevertheless, our SME revenue growth was still impacted by the pricing discrepancy on a year-over-year basis, though the -- sequentially, pricing has been stabilized.

Industry-wise, we are pleased to see solid performance of app downloads in the consumption-related sectors and the modest recovery of online gaming industry. Despite that, the growth was largely offset by ad budget cutback from certain large ticket item category with tough comps last year under the current market macro uncertainties and market competition.

Turning to portal business. Portal ad revenue for the third quarter were \$50.1 million and a decrease of 33% or 30% on a constant currency basis, mainly resulted from ad budget cutbacks for SME customers as well as certain brand industries such as automobile.

Turning to non-advertising business. SINA's nonad revenue for the third quarter were \$97.7 million, up 38% or 43% on a constant currency basis. The increase was mainly driven by incremental revenue from SINA's fintech operation and Weibo's live streaming business. Portal non-ad revenue for the third quarter were \$47.8 million, up 98% or 105% on a constant currency basis, primarily fueled by the greater momentum of our micro loan facilitation.

Two years upon consolidation of the business line, we're encouraged by team's ability to navigate through regulatory landscape and scale up the operation by driving our loan origination while -- which were fostered by strong customer demands and diversified funding sources.

Turning to gross margin. Gross margin for the third quarter was 80%, flat year-over-year. Advertising gross margin was 83% compared to 82% last year. Non-advertising gross margin for the third quarter was 62%, down from 70% last year, primarily due to the relative lower gross margin for the acquired live streaming business of Weibo.



Now moving on to the operating expenses. In the third quarter, operating expenses totaled \$274.9 million, down 1%. Operating income increased 1% to \$170 million, representing an operating margin of 30% flat year-over-year.

Turning to nonoperating items. Under the GAAP measure, nonoperating loss for the third quarter of 2019 was \$4 million compared to a nonoperating income of \$77.3 million for the same period last year. Nonoperating loss for the third quarter 2019 included a \$25.5 million net loss on sales investments, fair value changes and impairment of investments, which is excluded under our non-GAAP measures; number two, \$19.9 million net interest and other income; and number three, \$1.6 million net earnings from equity method investments, which is reported 1 quarter in arrears. Please refer to our earnings release for more detailed information about nonoperating items for the same period last year.

Turning to taxes. Under GAAP measure, income tax expenses were \$27.9 million in the third quarter compared to \$68.1 million last year, largely attributable to a reversal of deferred tax charges recognized from the fair value changes of investments.

Net income attributable to SINA in the third quarter was \$67 million or \$0.94 diluted net income per share.

Now let me turn to balance sheet and cash flow items. As of September 30, 2019, SINA's cash, cash equivalents and short-term investments totaled \$2.9 billion compared to \$2.3 billion as of December 31, 2018, mainly resulting from net proceeds received from Weibo's senior notes offered.

For the third quarter, net cash provided by operating activities was \$220.2 million, capital expenditures totaled \$6 million and depreciation and amortization expenses amounted to \$10.9 million.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Eddie Leung from Bank of America.

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

May I have 2 questions? The first one is about your advertising mix because we heard that some of the key industries are having particular pressure this year. So wondering if you could give us an update of your top advertising industries and how has that changed from last year, let's say? And then secondly, we also heard that and saw Weibo incubating new products are, for example, like Oasis. So just wondering whether SINA, the portal media business has any plans to incubate any new products, including any development in fintech?

Guowei Chao - SINA Corporation - Chairman & CEO

Okay, Eddie. Regarding the first question, advertising revenue mix, and you probably know, historically, I mean we're pretty strong in -- I'm talking about the portal side, okay, in the automobile sector, financial sector and also on some of the FMCG and areas and also for electronic products. I think all these sectors, I mean, has a negative trend this year, I'm talking about 2019, for different reasons. Of course, automobile, in general, are not doing very well, as you probably know. And it's over a year, probably, that auto sales is down about 20%, so that also impact the margins quite significantly, I'm talking about the impact of the advertising dollars, quite significantly for that particular sector.

And if you look at the Q3 for portal business, that particular sector was down probably 23%, which probably was in line with the market. And also for the financial sector, I mean, 2 aspects, of course, we are actually gaining more marketing dollars for the brand advertising for large financial institutions, I mean, in this year. But also -- we are also losing a lot of marketing dollars from a lot of fintech companies. Because as you probably



know, this particular sector is undergoing a lot of regulatory scrutiny and a lot of companies having closed down or having in trouble getting their budget.

So this is another sector that was quite big, but also on a net-to-net basis was also negatively impacted. And FMCG was a large sector that's differing very big in the Internet space. But unfortunately, portal is not getting too much share from that because, historically, we have sports and some campaign-related inventories for FMCG. But now, I think for this particular year, we're not getting too much marketing share for FMCG because we're not really having another IP content relating to this particular area. And in general, I think FMCG is doing very well on Weibo, but actually not doing very well on portal. So on an overall basis, these are some of the big sectors and on an overall basis, on portal, we are actually having some negative trends.

Going forward, I think the trend will be similar, except maybe automobile itself will stabilize because based on current quarter situation, I think the entire auto market has kind of stabilized a little bit and, hopefully, the marketing dollars for automobile industry also will stabilize.

And in terms of new product, yes, and as we have talked about already in the previous call for the Weibo and for SINA, we actually don't have a plan for a lot of new products. And the areas we have been focused upon, the vertical areas, you probably know that, like SINA Finance and SINA Sports. And both sectors, I think, are doing relatively well, and we're going to continue investing in these 2 vertical areas in terms of mobile app and also a lot of activities of -- to develop these vertical areas even further. And I hope that answers your question.

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

Sure.

Operator

The next question comes from the line of Alicia Yap from Citigroup.

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

My question is related to the solid year-over-year growth of the nonad revenue. Believe a large part of this growth is driven by the fintech business. So could you share with us your latest thoughts and the strategy for the fintech business, the growth outlook and how should we think about this revenue line into 2020? And then do you think the regulatory policy that affecting the fintech business is largely behind us now, any upcoming or potential new regulation that could emerge in the coming months?

Guowei Chao - SINA Corporation - Chairman & CEO

Let me answer the second question first, maybe. Yes. I'm not sure of the policy, yes, has, I mean, stopped or whatever, I mean, because we cannot predict, I mean, what the policy trend will be. And -- but the -- based on the situation in the last several quarters, you'd probably have seen a lot of new policies and regulations in this particular area, which has, I know, basically significantly increased barrier for this particular business and also has significantly reduced the number of players in this particular sector.

So as I think this probably work has continued, there will be more regulatory policies in this area, which we could not predict, I mean, when and the how it will come. And -- but coming back to our own strategies and as we elaborated many times before, this is the vertical area, we believe, we will be very much focused upon because, I mean, at the end of the day, if you look at a lot of companies in these sectors, which have been doing well, but there have been gone mainly because I think they are not, I mean, addressing a lot of advantages we're possessing here like user base and also data and -- which we believe that's very important. So eventually, if you look at the revenue and -- versus the cost you have, the cost really related to customer user acquisitions in terms of the bad debt, these type of, of course, the cost of capital. And assuming the cost of capital is the same, then the cost of user acquisition and for data becomes more important because, I mean, they are the ones who were determined what kind

of margin you will have for the fintech business. And we believe there were one of the few companies in China, which will possess this kind of data and the user base.

And so I think we're predicting that the environment was getting tougher in the future, but it may not be bad for our company going forward because there will be much fewer players in this field. And although I think, the margin will be further squeezed a little bit. And -- but in terms of business, we're very much focused upon the micro own business right now. And so given the tightened environment requirement under the regulatory environment, we are offering the users with longer term of the loan, but with a lower rate right now. So this probably will be the trend for a while in the future. And -- but as I said, I mean, it's going to be a very choppy market. But we are determined to be stay in this market, and we believe that we can do well in the long run. And I think that's about it, yes. Thank you.

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

Just quickly on revenue growth trend into 2020.

Guowei Chao - SINA Corporation - Chairman & CEO

That's -- it's difficult to say at this point, but it's very difficult for us to predict. And our approach has been, given that the tougher environment for regulatory policies, we are opting very quiet conservative approach in terms of net revenue booking and forecast so that we will provide adequate reserve for any potential losses we may have because of these changes of the environment. And -- so that's the only thing we feel.

We -- in terms of our revenue growth, we're not going to expand the user too much if that will result in more risk for us. And so we're actually controlling our user acquisition very tightly to make sure we're getting the good customers for our business. And so if there's further, I mean, tightening in terms of regulatory environment, then we may potentially try to control this even further, so we'll have a slower revenue growth for this sector. But this is for short term, actually. In the longer term, we feel quite positive on that.

Operator

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

Thomas Chong - Jefferies LLC, Research Division - Equity Analyst

I have a quick question in terms of content investment. Can management comment about any verticals that we are -- we have some -- we've interest to invest into it, like sports, finance or any other you can share?

Guowei Chao - SINA Corporation - Chairman & CEO

I think we have been talking all around the areas we have been focused upon in terms of vertical areas, other finance and sports. But let's talk about sports first. I think that sports cost -- the media rights for the sports, live video and coverage -- streaming coverage have been going up very, very significantly over the past several years. And I think we're probably not in the position, I mean, to acquire or have the ability to, I mean, acquire all these famous kind of media copyrights videos for the major sports events. And so we're actually creating some of the sports events ourselves with our-self IP, like the 3:3 basketball and the 5:5 football soccer, I mean, gaming and which have gained a lot of attention in the market. And I think we have been doing quite well in developing this IP and also developing our IP content to generate revenues for advertising for sponsorship for these events. And -- but we're not planning to acquire a lot of major events -- media rights for the events in the area of basketball and soccer because these copyrights and the media rights have gone too much and it's beyond our, I think, capability to absorb the cost.

And in terms of the area for finance. And I think we have always been quite strong in this area and -- but in terms of the content itself, we generate a lot of content ourselves and also we work with all the major financial media companies to get their content. And that's just part of it. And -- but



we're also very much focused upon all these trading data, I mean, for the stock, for the bond, for everything in all markets to enhance our offering for financial data and for the financial services to our users. So we can increase our user base and also increase the stickiness of our user base for financial sector.

And in this area, we have been doing quite well, and we're going to continue to invest in more data, I mean, for financial services and to serve our user base.

Operator

There are no further questions at this time. I would now like to hand the conference back to Sandra.

Sandra Zhang - *SINA Corporation - IR Officer*

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

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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