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SINA - Q4 2019 SINA Corp Earnings Call

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OVERVIEW:

Co. reported 4Q19 non-GAAP net revenue of \$590.7m, non-GAAP net income attributable to SINA of \$82.7m and non-GAAP diluted EPS of \$1.17.



CORPORATE PARTICIPANTS

Bonnie Yi Zhang *SINA Corporation - CFO*

Guowei Chao *SINA Corporation - Chairman & CEO*

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CONFERENCE CALL PARTICIPANTS

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 the SINA's Earnings Conference Call for the Fourth Quarter of 2019. Please be -- (Operator Instructions) Please be advised that today's conference is being recorded.

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. Thank you for your patience. Welcome to SINA's Earnings Conference Call for the Fourth Quarter and Fiscal Year 2019. Joining us today are 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 discussion today includes non-GAAP measures, which may exclude stock-based compensation and certain other items. We use non-GAAP measures to take -- gain a better understanding of SINA's comparative operating results and future prospects. Please refer to our earnings release for more detailed information on the reconciliation of GAAP to non-GAAP measures.

During the call, we may 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'll open your 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 fourth quarter and fiscal year 2019. Before the detailed financial review, I would like to remind you that my prepared remarks would focus on non-GAAP results and all comparisons are on a year-over-year basis, unless otherwise noted.



Let's start with an overview of the fourth quarter and the fiscal year 2019 results. SINA's net revenue for the fourth quarter were \$590.7 million, an increase of 4% or 5% on a constant currency basis. SINA's operating income was \$174.9 million, an increase of 10% or 11% on a constant currency basis. Net income attributable to SINA was \$82.7 million, an increase of 43% or 45% on a constant currency basis, and the diluted EPS was \$1.17.

Full year 2019 net revenue were \$2.15 billion, an increase of 3% or 7% on a constant currency basis. SINA's operating income in 2019 increased to 5% or 9% on a constant currency basis to \$611.9 million, representing an operating margin of 28%. Full year 2019 net income attributable to SINA was \$232.6 million, and our diluted EPS was \$3.26.

Now let's turn to key financial items. SINA's online advertising revenue for the fourth quarter were \$460.9 million, a decrease of 5%, due to a decrease in Weibo and portal advertising revenue as well as negative currency translation impact. SINA's full year online advertising revenue totaled \$1.74 billion, down 3% or up 1% on a constant currency basis, mainly owing to a decline in portal advertising revenue.

Let me provide you with an overview of Weibo's operational and financial performance for the year 2019. We are very delighted to see Weibo's user community base surpassing 500 million milestone with MAU reaching 516 million in December 2019, adding approximately 54 million users on year-over-year basis. Average DAU reached 222 million in December, and we are particularly excited to know even more robust growth in engagement metrics such as usage frequency, feed refreshments and daily video views.

In 2019, leveraging our indispensable social media functions and a reinforcing network effect, we delivered strong user performance with a disciplined sales and marketing spend, leaving us ample room to invest in new initiatives and opportunities.

Recently, in the midst of novel coronavirus outbreak, we will demonstrate tremendous value in advocating nationwide prevention, broadcasting breaking news, connecting individuals and resources as well as raising charity donations. As China's leading social media platform, we are proud to contribute to defeating the virus with Weibo's massive reach, real-time feature and viral distribution capabilities.

We are also encouraged by the early traction of Oasis, underpinned by synergies with Weibo, distinct content vibe as well as a series of effective operational efforts. Moving into 2020 with the great user momentum and positive retention trends seen recently, we expect to step up our promotional activities to drive the penetration of the Oasis, so that a broader community could embrace the platform to share their moments of life, engage in an enjoyable way and discover inspiration ideas which will lay the foundation for future monetization opportunities.

On the monetization front, Weibo's online advertising revenue for the fourth quarter were \$405.9 million, down 3% or 1% on a constant currency base. Weibo's key accounts business decreased 7% or 6% on a constant currency basis, primarily dragged by a cutback in barter transaction revenue and the reduction of handset shipments, which negatively impacted key accounts growth by approximately 6%. Industry-wise, the continued solid growth from the FMCG sector and luxury brands was offset by a downturn pressure in the entertainment sector, which had faced the regulation headwinds. Weibo's SME sector was down 2% or 1% on constant currency base, as the unfavorable demand and supply dynamics of the performance end market continues to weigh on the growth of our SME sector, despite of our efforts to navigate through these challenges. Ad revenue from Alibaba grew 20% or 21% on a constant currency base, back on to the growth trajectory, as Weibo deepened the cooperation with Alibaba to drive value for its platform and partners during the eCommerce promotional season.

For full year 2019, Weibo's online advertising revenue grew 2% or 6% on a constant currency base with key accounts and SME delivering 12% and 4% growth, respectively, on a constant currency basis. On the key account side, Weibo continued to showcase the unique value proposition and penetrated into a broader customer base. The FMCG sector and luxurious brands led the growth as we refined our social app process to underscore KOLs' influence and a compounding effect from multiple ad campaigns to further tap into these customers to integrate a brand-plus performance marketing demand.

The entertainment industry on the contrary underperformed in 2019, mainly due to lackluster content schedule, amid tightened regulation. On the SME side, the stabilization of SME app business was a mixed result of the unfavorable demand and supply dynamic of the performance end market and our initiative to navigate through market challenges. Although the performance end market in 2019 was challenging in many ways, we had a chance to take a step back to reorganize our go-to-market approach, drive automatic ad placement and launch differentiated ad products, which we believe would fundamentally improve our advertising ROI and monetization efficiency in the long run.

Turning to portal, in 2019 against a tough competitive landscape, SINA's mobile media property continued to expand user base. With the average DAU of SINA News app and the SINA Finance app growing approximately 26% and 88%, respectively, on a year-over-year basis. On the flip side, portal advertising business saw a downturn trend due to macro challenges and competition. Portal ad revenue for the fourth quarter were \$56.5 million, a decrease of 16%. Full year 2019 portal ad revenue were down 25% or 22% on a constant currency basis, mainly resulted from ad budget cutbacks from SME customers as well as certain brand industries, such as automobile and Internet services.

Turning to nonadvertising business. Nonad revenue for the fourth quarter were \$129.8 million, up 51% or 53% on a constant currency basis. The increase was mainly driven by triple-digit growth in SINA's fintech business, which generated \$75.2 million revenue in the fourth quarter. Full year 2019 nonad revenue were up 32% or 38% on a constant currency basis, primarily driven by the great momentum of our micro loan facilitation revenue, and to a lesser degree, incremental revenue contributed from live broadcasting.

Amidst headwinds in the advertising market, we are glad that our early investments in the fintech areas to diversify our revenue stream gradually bear fruit, with micro loan facilitation business picking up as the new growth driver. Building upon strength in traffic, funding source and brand equity, we substantially scaled up our fintech business in 2019, delivering \$196.3 million revenue, up 94% year-over-year.

Turning to gross margin. Gross margin for the fourth quarter was 77% compared to 79% last year. Advertising gross margin was 82% compared to 83% last year. Nonad gross margin for the fourth quarter was 63%, up from 56% last year, benefiting from better gross margin profile of SINA fintech. Full year gross margin was 78% compared to 79% in 2018. Full year advertising gross margin was 81%, flat year-over-year. Full year nonad gross margin was 62% compared to 64% last year.

Now moving on to operating expenses. In the fourth quarter, operating expenses totaled \$282.8 million, down 2% year-over-year. Full year operating expenses totaled \$1.06 billion, down 1% year-over-year, remarkably, sales and marketing expenses took approximately 28% of SINA's revenue, down 4 percentage points from last year, which speaks to Weibo's improved cost efficiency in channel investments, considering the above expectation user growth and engagement. Operating income grew 10% to \$174.9 million, representing an operating margin of 30%, up from 28% last year. Notably, the non-Weibo operating margin turned positive this quarter, (technical difficulty) disciplined spending and operational leverage from our fintech business. Full year operating income grew 5% to \$611.9 million, representing an operating margin of 28%, flat year-over-year.

Under GAAP measure, nonoperating loss for the fourth quarter of 2019 was \$208.4 million compared to nonoperating loss of \$12.6 million for the same period last year. Nonoperating loss for the fourth quarter of 2019, mainly included \$177.8 million impairment on company's investments in Yixia Technology, which is excluded under non-GAAP measure; number two, a \$19.2 million net loss from fair value changes of investments, which is excluded under non-GAAP measure; number three, a \$10.4 million net earnings from equity method investments, which is the reported one quarter in arrears; number four, a \$15.3 million net interest and other income.

Full year nonoperating losses totaled \$115.1 million compared to a nonoperating income of \$88.5 million in 2018. Nonoperating loss in 2019 mainly included: one, \$165.3 million net gains from fair value changes and investments, which is excluded under non-GAAP measure; number two, a \$342 million impairment on company's investments, mainly including the aforementioned impairment on Yixia Technology, which is excluded under non-GAAP measures; and number three, \$64.1 million net interest and other income.

Turning to tax. Under GAAP measure, income tax expenses were 60 -- \$6.6 million in the fourth quarter compared to \$14.3 million last year, largely attributable to increase in tax deduction based on preferential tax policy upon approval from relevant authorities. Full year income tax expenses totaled \$146.5 million compared to \$129.1 million in 2018. Non-GAAP income tax expenses in 2019 were \$97.4 million compared to \$91 million in 2018.

Net income attributable to SINA grew 43% to \$82.7 million in the fourth quarter or \$1.17 diluted net income per share. Full year net income attributable to SINA amounted \$232.6 million or \$3.26 diluted net income per share.

Now let me turn now to the balance sheet and cash flow items. As of December 31, 2019, SINA's cash, cash equivalents and short-term investments totaled \$2.9 billion compared to \$2.3 billion as of December 31, 2018. The increase was mainly due to net proceeds received from Weibo's senior



note offering and was partially offset by continued investment activities. For the fourth quarter, net cash provided by operating activities was \$301.7 million. Capital expenditure totaled \$8.5 million and depreciation and amortization expenses amounted to \$11 million.

On a full year basis, net cash provided by operating activity was \$744 million, capital expenditures totaled \$29.5 million and depreciation and amortization expenses amounted to \$44.6 million. Free cash flow totaled \$714.5 million with \$609.9 million contributed from Weibo and a \$104.6 million from non-Weibo segments, representing improved cash-generating capabilities from both sides.

Let me briefly summarize the execution of our share repurchase program expired in December 2019. Under this program, we have repurchased 2.2 million shares for approximately \$82.1 million. On December 30, 2019, our Board of Directors has authorized a new share repurchase program, under which the company may repurchase up to USD 500 million of its ordinary shares over the next 12-month period.

Heading into 2020, we'll continue to navigate through the uncertainties from both the demand and supply sides of the advertising market and diversified revenue stream in response to the market challenges. We anticipate a near-term downside risk from the evolving situation of the coronavirus outbreak in China, which has been significantly impacting business operation, affecting advertiser sentiment and marketing activities as well as weighing on fintech business. At this moment, we are not able to estimate the full year financial impact brought upon by the epidemic. As such, we will not provide an annual revenue guidance for fiscal year 2020 until we have a better visibility into the year.

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

QUESTIONS AND ANSWERS

Operator

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

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

May I have 3 questions on the fintech business. The first one is, maybe, Charles, could you talk about your plan to grow the business going forward, especially in terms of any new products and services? And secondly, could you also share some color on the main user segment that you have obtained it in the fintech business? For example, the age profile, the income level, et cetera. And then finally, any impact from the coronavirus outbreak on the fintech business?

Guowei Chao - SINA Corporation - Chairman & CEO

Eddie, thank you. And so I will talk about the fintech business a little bit. As you can see, we had a pretty good quarter in the [fourth quarter] (corrected by company after the call) 2019, with strong revenue growth and also pretty good profitability in the [fourth quarter] (corrected by company after the call). But according to the New Year 2020, I think we are facing 2 challenges that's very important here. One is actually the decrease in the rate of interest rates we can charge on micro loans because of the more tightened regulations in China. And I probably read some news and articles that the overall maximum rate you can charge for micro loan have decreased significantly. So that will impact our overall revenue growth and also the profitability in 2020.

And another challenge, of course, is the -- you mentioned in your third point is the coronavirus, the virus outbreak, and that actually has had pretty significant impact on us right now. First, it has impact on the -- our ability for the collection, for the -- during this period. And so that will impact the bad debt rate we will have on the micro loan, we see quite a pickup in the bad debt rate here. And secondly, given the uncertainty of evolving situation, we're also scaling back our loan balance in this particular sector because we'll make sure we have a pretty good control in terms of the capability of the long way actually loan out. And given the situation, want to take a more conservative approach to only loan the money to the ones that have higher qualifications in terms of their ability to pay based on big data.



So talking about that particular point that will relate to your second question, our main user profile for micro loan business. We actually have a different approach in terms of -- we don't know exactly too much profile in terms of user base and the income level, but we use multiple data, especially the data we have on social media to actually give people the credit rating as well as, of course, we use the data, as the private data to collaborate in terms of our user profile to make sure the user we have are the high-quality users. And it works pretty well for us. So for right now, we are going to limit our business into our own platform users, mainly on Weibo to consider risk going forward until we see a more clear picture going forward. And overall, so you're going to see -- because we scaled back our -- the loan volume and also the reduced interest rate, you're going to see some negative impact on our revenue growth as well as the profitability in short term. And -- but in terms of new products and services, I think we're still going to focus upon our micro loan business for now. And we do have around payment and some other fintech business, but in terms of the business volume, they are relatively small. So the major focus was to be our -- on the micro loan business. And the only difference right now this year versus last year, we're going to see reduced rate and as well as probably, sometimes we're going to have a longer period for loan, so that we can have more stable revenues, given the new regulation environment. So I hope that answers your question.

Operator

Our next question is from the line of Thomas Chong of Jefferies.

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

Hope everyone is in good health. My question is about the advertising business, given we have seen the traffic for Weibo, our news app or Auto where we -- lies the very solid trend during this period. Can management comment about the total advertising outlook for this year? I.e., how different advertising categories will perform? And also how the spending for KA and SME will trend for this year?

Guowei Chao - *SINA Corporation - Chairman & CEO*

Okay. Thanks, Thomas. And in terms of the advertising business, and again, let's look back in 2019, you can see some of the decline in both KA advertising revenues as well as SME revenues. I think the KA probably held relatively better than SMEs. But overall, I think it was a very challenging year for us, mainly because of the competition. And also the softening of the overall market from demand side because of the overall macroeconomic conditions in China. And -- but if you look at the numbers, the SMEs were hit harder, mainly, I think, because this market was much more competitive with a lot more of the supply in the market. And given our size in the performance-based SME business for portal business, I think that we're less competitive in this market. So our business was hit harder in this sector. And so overall revenues, I believe, there came down more than 50% year-to-year basis and -- so this was the SME, but the KA actually relatively we held better, especially in the fourth quarter, we actually saw some year-to-year growth in the KA sector. In the fourth quarter, although the growth was not that significant, but it was a good turning point for us.

And when we started this year, 2020, I think, we had a better feeling about the market for overall advertising business for portal in both KA and for SMEs. I think for KA market, mainly because I think that we are actually, for the traffic -- on traffic point of view that we actually grew our news app traffic as well as our SINA Finance traffic pretty well last year. And year-to-year comparison basis, new app grew by 26% in terms of number of users, active use on daily basis. And finance -- SINA Finance grew by 88% on a year-over-year basis. And so that was pretty encouraging. And I think we're gaining more share in the -- in terms of the more mind share among advertisers -- KA advertisers in this market. And SMEs, and where we started the year with -- off a very low base. I think another reason we did not do very well in the 2019, one is because of market, the other was because of internal probably. We had a lot of work to do in terms of our sales channel and organize -- sales organization restructuring. And we think we should do a better job in the 2020, our growth both focus for KA and SMEs. And we are actually off a pretty good start in January, but this was all disrupted by this coronavirus outbreak. And the impact actually in the first quarter was quite significant. And right now, we estimate that probably a 20% -- around 20% drop year-over-year for advertising business in the first quarter. Of course, this is a evolving figure because we don't know what's going to happen in March and really depending on how fast people get back to work and really focus on their business. But right now, we don't see it coming very soon. So I would say the significant impact in Q1 will last. And the impact will last in the entire Q1 probably will last -- also impact Q2 business. So right now, it's very difficult for us to estimate the -- exactly the outlook for the entire year. But if set aside the coronavirus outbreak, and -- we probably will see a little bit better advertising business in this year versus last year.



Operator

Ladies and gentlemen, that concludes our Q&A session. And I'd like to hand the conference back to Ms. Sandra Zhang for closing remarks.

Sandra Zhang - SINA Corporation - IR Officer

Thank you, operator. This concludes 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, and thank you for participating. You may all disconnect.

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