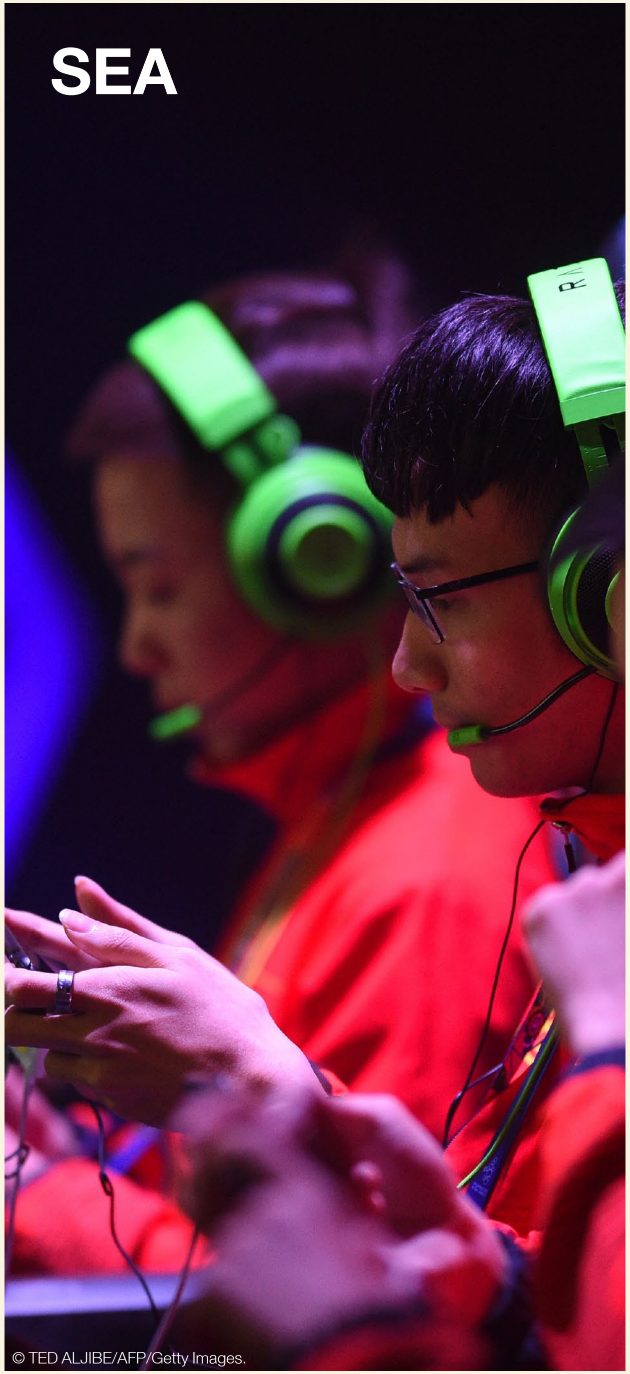

What it does

Founded as a Singapore-based gaming distributor in 2009,

SEA has grown into the leading gaming, e-commerce, and digital finance company in South East Asia and increasingly beyond.

It isn't a business that is defined by a given geography or vertical, but more of an active deployer of growth capital across underserved customers across the world.

Why we own it

- The global gaming market is now the biggest entertainment industry and growing rapidly with SEA the dominant player in its region. Its largest franchise, Free Fire has hundreds of millions of users producing the cash flows to seed expansion in other segments.
- Shopee's social features, gamification and empowerment of third-party merchants has led it to increasingly dominate in a region where online penetration is still a small fraction of total retail.
- The broader opportunity in digital payments, credit, savings, and wealth is enticing considering around three quarters of SEA's target customers in some regions are underbanked or unbanked.
- Founder Forrest Li is a long-term visionary – relentlessly prepared to solve problems from first principles in a highly decentralised way.

How it could be worth many times more

- The gaming business can continue to deepen its relationship with a huge user base and achieve success with a pipeline of proprietary and third party games. It could plausibly reach upward of 1.2bn users in total and roughly $10 a year per user, with some users paying directly and others monetised indirectly, on a c.33% net margin that contributes about $4bn of free cash flow across the gaming business.
- Some of the fastest GDP growth in the world, increasing online penetration, share gains and new geographies can all work to grow Shopee's Gross Merchandise Value. We could imagine >$600bn in 10 years at 25% growth over that period. At 10% take rates and 30% margins for a capital-light model, that's an additional c.$15-20bn annualised cash flow.
- Add in the potential growth in finance and additional verticals. There's enough here to justify a valuation in the hundreds of billions with a lot of room for surprise in both directions.

Where we might be wrong

- Dilution of the entrepreneurial, experimental culture due to breakneck speed of expansion. Broadly, that they bite off more than they can chew.
- Both local and global competition intensifies, limiting market share expansion.
- SEA's pipeline of proprietary and third-party games underwhelm.
- Regulation of perceived-foreign entrants into new markets.

Short 10 Questions

Can sales double in the next five years? 1

Consistently rapid revenue growth so far in the context of almost limitless market depth.

Ten years and beyond? 2

Increasing online penetration and economic growth in core region, and expansion to new verticals and countries.

Competitive advantage? 3

Strongly social elements in both games and e-commerce, gaming talent, cash stream to subsidise other markets and Tencent relationship.

Is the business culture different? 4

Hyper decentralised model empowering diverse local market nuance and decision making.

Customers like you? Contribute to society? 5

Huge engagement of users, encouraging local merchants and servicing the underbanked.

Are returns worthwhile? 6

Gaming division churning out cash. E-commerce and finance not yet.

Will they rise or fall? 7

Underlying health of gaming and e-commerce business strong. Sales and marketing costs low. Margins can settle at c.20% over time.

How is capital allocated? 8

Technology build, nascent finance expansion and e-commerce globalisation.

Could it be worth 5x as much? 9

Gaming cash flow powers e-commerce and finance expansion.

What doesn't the market understand? 10

Mercurial company that resists categorisation. Market is very reluctant to put stock in differentiated and energised cultures. Scepticism of e-commerce profitability.

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