

Taiwan Mobile
1Q20 Results Conference Call
April 30, 2020

Jamie Lin, President: Good afternoon everyone. Welcome to Taiwan Mobile's 1st quarter 2020 investor conference call. Before I start our presentation, I would like to direct your attention to our disclaimer page, which states:

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Let's look at the business overview, I would like to start with the operational highlights of Q1 2020.

1Q20 Operational Highlights

First I would like to point out 3 key highlights in our Q1 results.

Point number 1: While the telecom operating environment continued to be challenging, Taiwan Mobile managed to deliver outstanding results in Q1, posting EBIT growth across all of our businesses.

Point number 2: Ahead of 5G commercial launch in 3Q, we are accelerating our infrastructure roll-out and early-bird sign-ups.

And point number 3: The boom of Stay-at-Home Economy triggered by COVID-19 has boded well for our e-commerce business, momo, while increased demand for high speed home broadband access has provided solid tailwind for our wireline business.

Versatility in Telecom Business

As a result of our upselling efforts through our Double Play bundles and 5G early bird plans, the average monthly tariffs of our new sign-ups for both bundle and SIM-only plans increased significantly in Q1.

On the enterprise side, demand for IoT connectivity continued to be solid with 36% YoY increase in the quarter. The enterprise wireline business which represents close to 10% of our telecom service revenue, posted a healthy 4% YoY growth, of which cloud, ICT and IoT revenues grew by 36% YoY.

Resilience in Pay-TV Business

Let's turn to Resilience in Pay-TV page. Once again, we fared better than other leading MSOs, posting a smaller loss in basic TV subscriptions and much higher broadband & DTV penetration, aided by our cross-selling efforts, especially through the Double Play product.

The percentage of customers subscribing to speeds of 100Mbps and higher improved by 6ppts from a year ago.

On the financial side, with 38% YoY decline in D&A, EBIT saw a 10% YoY growth in the first quarter.

momo – the Growth Engine

Last but not least, let's take a look at momo, our star business. In Q1, benefiting from stronger demand from Stay-at-Home economy, momo's B2C revenue grew by 35% YoY as people stocked up on essential items.

Not only did the number of transactions per customer increase 14% YoY, momo also added one satellite warehouse in Q1, taking its total number of satellite warehouses to 15, 10 more than a year ago, as it continued to take more pocket share from the brick and mortar retailers while widening its lead over its peers.

Despite rising logistics costs, momo's e-commerce EBIT grew by 45% YoY, which is higher than its revenue growth, thanks to margin expansions. That helped momo set a significant milestone in our group, scoring No.2 in bottom line contribution, outpacing Pay-TV two quarters in a row.

Superior Overall Performance

And finally, I would like to end my section of the presentation with the Superior Overall Performance slide, which shows in Q1, Taiwan Mobile delivered the best results among the Big 3, posting YoY growth in revenue, EBIT, and net income. Our guidance achievement ratio was also the best among the three major players.

Now with that, let me turn over the presentation to Rosie for our financial overview.

Performance by Business

Rosie Yu, CFO & Spokesperson: Good afternoon. Let's look at the Performance by Business on page 10. In the first quarter, these businesses have proven to be resilient even in times of COVID 19 crisis.

In the 1st quarter of 2020, our consolidated revenue grew by 7% YoY, mainly driven by momo's robust e-commerce revenue growth.

While telecom and cable TV EBITDA declined YoY, at the EBIT level, both showed YoY growth, as D&A continued to taper off. Therefore, all three major businesses saw YoY growth in EBIT, and the rate of growth accelerated to 6% vs. previous quarter.

Let us move to the results summary page.

Results Summary

Overall, our operating income for all major businesses exceeded guidance in 1Q20.

Non-operating expenses came in lower-than-expected on account of lower interest expenses.

As a result, net income exceeded our 1st quarter guidance by 12%.

Balance Sheet Analysis

Now let's look at the balance sheet.

On the asset side, concessions surged after making the payment for the 5G spectrum in February.

On the liability front, to lock in long-term capital in a low interest rate environment, we completed the NT\$20bn corporate bond issuance during the quarter with maturities ranging from 5 to 10 years at interest rates ranging from 0.64% to 0.72%. Accordingly, gross debt saw a YoY increase to NT\$67bn in 1Q20. Despite taking on more debt after the 5G spectrum auction, net debt to EBITDA only rose to 1.81x while interest coverage ratio further improved.

As for shareholders' equity, the increase in paid-in capital and capital surplus is reflective of the conversion of our convertible bond, which had an outstanding balance of only NT\$0.93bn at the end of 1st quarter.

Cash Flow Analysis

Now let's look at the Cash Flow. In 1Q20, the YoY increase in operating cash flow was due

mainly to the undersupply of iPhone 11 amid the pandemic, which resulted in the decrease in mobile handset inventory. The QoQ increase stemmed from higher outflows in 4Q19 as momo's 3Q payables were delayed into 4Q.

Investing cash outflow surged as we spent NT\$30.66bn to acquire 5G spectrum.

On the financing front, to pay for the 5G license fees, NT\$24.09bn was raised through short-term bank borrowings and corporate bond issuance.

With capex falling YoY as we approached the tail-end of 4G investment cycle, free cash flow calculated with pre-IFRS 16 operating cash flow, excluding 5G licensing fees, reached NT\$6.56bn, up 20% YoY.

Let me turn the presentation over to Jamie for event updates and key message.

Event Updates: 2019 Earnings Distribution

Jamie: Thanks Rosie. So let's take a look at Event Updates. With lower visibility into the broader economic outlook, the Board has proposed to pay DPS of NT\$4.75, ie 70% of our 2019 free cash flow. That translates into around 4.4% dividend yield, based on today's closing price, same level as a year ago.

Awards and Recognition

Next I'd like to turn to the Awards and Recognition page. This page summarizes the awards and recognitions we received during the quarter, for your reference.

Key Message

Finally, to wrap up our presentation, here is the key message we would like for you to take away.

B2C e-commerce as well as subscription-based wireless, broadband and enterprise solutions are increasingly essential to everyday life under this new normal. As such, we are better poised for the extended stress on the economy caused by COVID-19.

Secondly, investing in critical areas like 5G, broadband, and e-commerce remains our top priority as we accelerate growth and our transformation into a 'Tech+Telco' group. At the same time, we will strive to resume FCF stability in a sound manner so that we could uphold our commitment to shareholders.

With that, I would now open the floor up for Q&A session

Q&A

James Wang, UBS: *So my first question is about how you're looking to position the 5G products. In Taiwan, most customers are accustomed to unlimited data plans in 4G. In 5G, how do you entice customers to pay a bit more for this new product? The second question is about the government subsidy fund, that's looking like it's going to be about TWD 60 billion. When do you think that's going to be in place and how do you think that's going to help operators like ourselves?*

Jamie: So in terms of positioning the 5G product, right now, it looks like there is a sort of consensus in the marketplace. The Big 3 players are all offering early bird packages at around TWD 1,400 tariffs, and right now, we're seeing pretty healthy early bird sign-ups from our customer base. Hopefully with 5G, ARPU erosion will happen a bit slower than 4G. For your question number two, there has been some sort of framework in terms of these subsidy funds, but so far, we haven't received any confirmed details. We'll need to wait until things are clearer, to be able to share that with you guys.

Neale Anderson, HSBC: *Two questions please. The first is on the mobile service revenue, down 9% YoY or 7%, depending on the accounting standard. I wonder if you have any better visibility for when that might start to stabilize? The second question is on the D&A. You've been able to offset the impact for both Pay-TV and mobile with lower depreciation and amortization in the first quarter. Do you expect that to continue, that lower D&A into the third quarter, and then we get some of the 5G costs coming through? Is that how you're thinking about it?*

Jamie: So in terms of mobile service revenue decline, in the recent quarters we have been observing a stronger preference for SIM-only plans from customers that are renewing their contracts with us. We suspect that's due to this period leading to 5G. More customers are waiting to buy 5G phones instead of investing in 4G phones. So in this period, we do not want to use heavy subsidies to entice them to buy 4G phones, only for them to come back in a few quarters and say that they really wanted a 5G phone. So that is why we're observing a larger-than-peers mobile service revenue decline. But if you look at our bottom line, we are actually doing much better than our peers. And yes, we're expecting it to stabilize within the next 2 quarters, especially when 5G rolls around. The people that are waiting to upgrade to 5G phones will be then increasingly up for a phone bundle plan. In terms of D&A, I'll let Rosie speak a little bit on it.

Rosie: Well, D&A, after the 5G launch, will go up inevitably as you can imagine. So that will be a fact in the second half of this year.

Jack Hsu, SinoPac Securities: *I have 2 questions. My first question is, do we have any goal for 5G subscribers by the end of 2020 and 2021? My second question is, right now we see few 5G phones in the market. I'm also convinced that if there are not enough 5G phones, the 5G environment cannot be built easily. Do we see any sign that there will be more 5G phones available publicly in the second half of 2020?*

Jamie: Regarding the goal for 5G subscribers, all we can say is, we're aiming to increase our market share in the 5G market. But it really depends on the speed that the market adapts to this new technology. Right now it's hard for us to comment exactly on the absolute number of 5G subscribers that we're targeting to acquire. For the second question in terms of 5G phones, based on the information we're getting from the OEMs, it looks like there will be around 20 SKUs by the end of the year. We suspect that there will be enough variety for the end-consumers that want to upgrade to 5G. They will have great plans to choose from. And based on our understanding, there will be high-end, mid-level, and low-end phones, so it'll have enough options to serve different segments of the market. I hope that answers your question.

Jack: Yes. Just one follow-up question. What's the average price of the phone? Will the average price be below USD 500?

Jamie: Based on our understanding, there will be products in the \$500 or less range. There will also be products in the \$500-\$1,000 range. And of course, products above the \$1,000 range. So really, there will be options for everybody.

Billy Lee, Credit Suisse AG: *I've got 3 questions. The first one is, can you talk about your dividend policy? I noticed that the dividend is down for the first time in quite a while. What's going to be the dividend policy going forward? Is it based on free cash flow? Or is it going to be based on the earnings per share? The second question is about the 5G launch. So far, has the launch been affected by the COVID-19 outbreak? And how many base stations are you going to build this year? The third question is, could you provide us an update on your cooperation strategy with potential partners like Taiwan Star and APT?*

Rosie: Let me answer your dividend policy question first. This year is a very difficult year for the Board to make a decision on the dividend. As you all understand, the COVID-19 brings a lot of uncertainty. So just as Jamie mentioned, with lower visibility into the broader economic outlook, the Board has proposed to pay an DPS of TWD 4.75. Looking forward, I have no answer for you but we are very committal to a stable dividend policy. However, given current situations, we think it could be in the best interest of the shareholders to pay TWD 4.75 this year. But for the future, I don't have a clear answer for you because if you look back, the DPS not only hinges on EPS or free cash flow. It depends. So it's always decided by the Board every April.

Jamie: In terms of 5G base station, right now we're looking to build as aggressively as, if not more aggressively than, all of our peers, leading into the early deployment of 5G. In terms of the exact number of base stations, it's sort of a strategic decision so please forgive me for not being able to share the exact number of base stations. In terms of collaboration with smaller players, all I can comment is that the industry is always talking; we're always talking to each other in terms of what kind of collaboration we can have. Right now, nothing is set in stone yet. So please allow me to provide no comment for now and when we have a more solid progress, please be assured that I will share them with you.

Billy: Sure, thank you. Just another question. Earlier I raised a question about the impact of COVID-19 on the 5G launch schedule. Are you seeing any impact so far?

Jamie: Right now, we're seeing no impact. If anything, countries that are hit harder by COVID-19, especially those that are in lockdown, their 5G rollout activities have been slowed down. That makes equipment more readily available for countries like Taiwan so right now, I think things are neutral.

Jack Hsu, SinoPac Securities: *Just 2 questions. My first question is, will the company add more stores in Taiwan? Will that help the development of TWM's future? My second question is, what are our tariff plans for 5G in 2020?*

Jamie: Right now, if you look at telecom players, especially among the Big 3, all of us are in the process of consolidating our stores. But if you look at Taiwan Mobile, we're actually reducing fewer stores than our Big 3 peers. So essentially, we're stabilizing in terms of our store numbers. Going forward, will we add more stores again? It really depends on the 5G take-up speed and the need for us to invest in some of the local, faster growing markets. So right now, that's an option but we haven't committed to any strategies yet. In terms of 5G rate plan, like I

communicated with James from UBS before, right now, it looks like the Big 3 players have come to a consensus on a rate plan of around TWD 1,400. We are the first telecom company in the Taiwanese market to offer that early bird product sign-up for people who are interested in 5G and we're seeing healthy sign-ups from our existing 4G customers. So, we don't expect the actual 5G rate plan to be too far from the TWD 1,400 prevailing rate level in the market. But in terms of how fast the ARPU will erode, that is something we'll need to observe.