Taiwan Mobile

1Q21 Results Conference Call

May 4, 2021

Jamie Lin, President: Good afternoon. Welcome to Taiwan Mobile's first quarter 2021 earnings conference call. Before I start our presentation, I would like to direct your attention to our disclaimer page, which states:

The information contained in this presentation, including all forward-looking information, is subject to change without notice, whether as a result of new information, future events or otherwise, and Taiwan Mobile Co., Ltd. (the "Company") undertakes no obligation to update or revise the information contained in this presentation. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is the information intended to be a complete statement of the Company, markets or developments referred to in this presentation.

Next let's turn to business overview, I will start with the highlights of the quarter.

1Q21 Highlights

In the first quarter, we saw decent top-line performance across our key businesses.

For telecom, our mobile service revenue turned YoY positive in March, benefiting from our growing 5G user base and continued monthly fee lifts from 4G to 5G upgrades.

Our e-commerce business, momo, continued its upbeat momentum, posting 25% YoY growth in e-commerce revenue in the first quarter.

Lastly, our broadband business delivered double-digit YoY revenue growth as we continued to cross-sell to our pay-TV and mobile customers.

As a result, consolidated revenue jumped by 11% YoY in the first quarter, a significant acceleration from the 7% YoY growth recorded a year ago.

Let's turn to slide 5 for a closer look at our mobile business.

5G Mobile Business – Growth Engine #1

Underpinned by our industry-leading 5G infrastructure roll-out with 3.5GHz high-speed band, Taiwan Mobile was the first telecom operator to reach 50% 5G population coverage, certified by the NCC. With more than 6,000 3.5GHz base stations built, we are close to covering 70% of mobile traffic.

Superior product offering remained front and center in our 5G strategy. TWM offers the most comprehensive 48-month rate plan choices that bring most premium 5G handsets to $0 bundled price. At the same time, our 5G Double Play, 好速成雙 in Chinese, and 5G momobile, mo 幣多 in Chinese, products leverage group resources to appeal to home broadband and e-commerce users in a way only Taiwan Mobile can. As a result, the monthly fee uplift in users upgrading to 5G reached 26% in the first quarter, resulting in a YoY increase of post-paid smartphone user ARPU in March, the first time since the 499 frenzy in 2018 or 34 months to be more precise.

Customers love the better coverage, better product offerings and better services we provide. As a result, our churn rate further declined to 0.85% in the first quarter and we expect it to remain at low levels.

Let's go to slide 6 for an update on our e-commerce business.

<u>momo – Growth Engine #2</u>

Despite a high base in online shopping demand spurred by the COVID-19 outbreak a year ago, we still grew e-commerce revenue by 25% YoY in the first quarter this year on the back of market share gain, while the total number of transactions increased by 21% YoY.

Going forward, as we ramp up the construction of our southern distribution center and further expand our satellite warehouses and in-house delivery fleet, we expect the share-gain momentum to continue.

In terms of synergies within the group, on top of allowing customers to pick up deliveries from TWM stores, offering free MyMusic streaming service to momo's VIP customers, and the momobile bundles mentioned earlier, we are in the process of building even more significant cross-selling programs.

Thanks to scale economies and operating leverage, e-commerce EBITDA soared by 58% YoY in the first quarter. Note that payment processing fee as a percentage of revenue decreased, as its private label credit card accounted for 23% of B2C sales in the quarter.

Now, let's take a look at our broadband business on the next slide.

Broadband – Growth Engine #3

In the first quarter of 2021, we continued to fare better than our MSO peers in the YoY trends of basic TV subscriptions and broadband service penetration.

Demand for faster home broadband access including our 4G/5G Double Play packages continued to swell, lifting broadband revenue by 12% YoY. This more than offset the decline in basic TV revenue and turned overall CATV revenue positive at a 1% growth YoY vs last year's 1% decline YoY. EBITDA's YoY trend also stabilized.

Now let me turn the presentation over to Rosie for Financial Overview.

Performance by Business

Rosie Yu, CFO & Spokesperson: Good afternoon. Let's start with Performance by Business.

In the first quarter of 2021, our consolidated revenue grew by 11% on a YoY basis, on the back of our robust e-commerce business and stabilizing telecom business. Mobile service revenue's YoY decline further narrowed and turned positive in March, which helped telecom revenue turn to a 2% YoY growth in the quarter.

Telecom EBITDA's 9% YoY drop was a result of higher subsidies from our upselling strategies and longer handset bundle contracts. However, the YoY drop narrowed sequentially, partially attributable to the low roaming business base from March onwards.

Our CATV business saw a stabilization in EBITDA's YoY trend, driven by broadband. However, EBIT turned to decrease YoY as D&A turned to increase YoY, due to our ongoing investment in broadband and new set-top-boxes.

momo continued on its growth trajectory propelled by robust e-commerce business, which posted a 25% growth in revenue and a 58% surge in EBITDA in the first quarter.

Let us move to Results Summary.

Results Summary

Similar to the previous quarter, 5G D&A and higher marketing costs weighed on the YoY performance of our consolidated operating income, while combined operating income of CATV and momo increased by 25% YoY in the first quarter. That said, consolidated EBITDA's YoY decline narrowed sequentially and already turned positive YoY in March.

Let's move on to Balance Sheet Analysis.

Balance Sheet Analysis

On the asset side, inventories rose YoY because of momo's business expansion, and a low base a year ago due to the undersupply of iPhone 11 amid the pandemic. PP&E rose on the back of 5G network rollout and land purchase for momo's southern distribution center.

As for liabilities, accounts & notes payable increased YoY in the first quarter on the back of our growing e-commerce business, but was partially offset by the supply tightness of iPhone 12 Pro. Higher 5G equipment payable to Nokia along with growing online purchases from mobile users are reflected in the YoY rise in other current liabilities. Net debt to equity/EBITDA improved sequentially as a result of lower cash capex.

Lastly let's look at Cash Flow Analysis on the next slide.

Cash Flow Analysis

The YoY decrease in operating cash inflow was due mainly to higher handset subsidies from our longer handset bundle plans, larger payment made in the quarter due to the late release of iPhone 12 in the fourth quarter last year, and lower iPhone availability amid COVID-19 related supply shortage a year ago.

Other than 5G related capex and license fees which caused the QoQ and YoY drop respectively, the main investing activity in first quarter was momo's full divestment of Taiwan Pelican Express shares.

Cash capex rose YoY in the first quarter on the back of 5G deployment, which started in the second half of 2020, but has declined sequentially, resulting in a QoQ improvement in free cash flow. We also expect to receive the government's 5G subsidies by end of this year.

Let me turn the presentation back to Jamie for event update and Key Message.

2020 Earnings Distribution

Jamie: On May 4th 2021, TWM's Board approved the proposal to distribute NT$12.1bn in cash dividends, translating to a 4.3% yield to shareholders.

Dividend per share is NT$4.30 on 2.81bn shares, excluding treasury shares held by 100%-owned subsidiaries. Post earnings distribution, there will be NT$38.5bn of excess reserves remaining.

Awards and Recognition

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:

> TWM is currently growing at full speed and expects to further accelerate as our 3 main growth engines, 5G, momo and broadband, continue to gain traction. As a result, we are on track to reach our 2021 guidance for consolidated EBITDA. Given that 5G capex has peaked, our free cash flow should also improve over time.

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

<u>Q&A</u>

Neale Anderson, HSBC: *I have 2 questions relating to the EBITDA decline in the first quarter and how that might evolve going into the second quarter. You mentioned that two of the drivers were upselling costs related to marketing and lower roaming compared to the first quarter last year. Could you give us a little more color on that? Do you expect the first quarter marketing cost to continue to the second quarter or is that likely to taper off or wind down? How large a factor might the roaming part of that be?*

Jamie: In January and February of 2021, we still saw a YoY decline in roaming EBITDA but starting from March, roaming becomes a non-factor on a YoY basis. In terms of marketing cost, we do foresee that to remain pretty consistent as we're investing in longer term growth and longer term uplift in ARPU.

Neale: So just to clarify on the second point, if I remember rightly you were trying to save costs during the latter half of the 4G period in terms of marketing, but with this early stage of 5G, you've increased your marketing costs and that's likely to remain consistent. Is that the right understanding?

Jamie: Right now, we're seeing a healthy ARPU lift of 26% in monthly fees and we want to lock in users for a longer period. That's why we're offering the most comprehensive 48-month $0 bundle plans and we foresee the uptake of that bundle plan to remain relatively consistent over time. Of course, the marketing cost as a percentage of revenue will continue to decrease as our topline continues to grow out of the increase in users upgrading to 5G.

Sara Wang, Morgan Stanley: ***I have 2 questions. First on 5G: how is the 26% 5G ARPU lift calculated? Is it an apple-to-apple comparison? For example, the same person is paying 26% more after migrating to 5G? The second question is on the dividend. It seems we cut dividend for 2020 payment. Going into 2021, since this year will have a full year impact from the 5G spectrum amortization cost vs half year last year, do we see any pressure to cut dividends further?***

Jamie: When the users renew their contract from 4G to 5G, we compare the monthly fee before and after to calculate that number. Right now we're observing a 26% uplift. In terms of dividend, I'll let Rosie talk about it.

Rosie: We have a stable dividend policy, which will be decided by the Board every April. That's all I can share with you.

Sara: Got it. Just a follow up question on the dividend, can you share any color on the metrics the Board considers when deciding the dividend? It seems we have raised sufficient equity reserve while all the operating metrics and cash flow are improving. What do you think is the key metric going forward?

Rosie: I'm not in the position to share the metrics with you but they did have a thorough discussion on this and decided on this number.

Jack Hsu, SinoPac Securities: ***I have 2 questions. My first question is about the EBITDA margin rate in the 2021. I'm interested in how we can compare the actual result and the internal forecast.***

Jamie: We only gave a full year guidance for EBITDA YoY, which is between -2% to 0%. Right now, as we said in March, we observed that EBITDA turned positive YoY.

Jack: So does that mean the EBITDA margin rate will be well above our internal forecast?

Jamie: Like I said in our key message, right now we're expecting the Company to achieve our EBITDA guidance for 2021.

Jack: Okay, got it. Will you provide a financial forecast for the second quarter of 2021? We haven't seen our full year financial forecast for this year, so could you give us a forecast about our second quarter 2021?

Rosie: I'm sorry we won't do that.

Jack: Okay. Do we see any second quarter revenue growth? How will our EBITDA margin look like in the second quarter? Do we have any guidance or view for the second quarter?

Jamie: I might have to ask you to refer to our full year guidance. We will not segregate the number into a quarterly basis.

Jack: Okay, but in comparison to the first quarter, what will the direction of the second quarter be? Will we grow in a single digit or something else? Do you have this kind of view that you could provide?

Jamie: Like I said in the key message, we do expect all 3 of our growth engines, namely 5G, momo and broadband, to continue to accelerate. That will be the guidance we provide.

Jack: Just one follow-up question. Could you give us some information about our 5G base station? How many 5G base stations have we deployed until now?

Jamie: Like I said in the presentation, we have deployed more than 6,000 3.5GHz high-speed 5G stations as of today.

Jack: More than 6,000?

Jamie: Yes.

Sara Wang, Morgan Stanley: ***Just one question on 5G. How's the use case we have seen so far from the consumers? Also, there was a concern that Taiwan Mobile might have acquired less sufficient spectrum compared to peers, so given that 5G has been launched for over half a year, do we see any download speed or service feedback from users on our 5G services?***

Jamie: The 5G use case on the consumer side right now is still continuing from 4G. Users are mainly watching videos, playing games, listening to music and conducting live video calls etc. There is no huge difference in their behavior vs 4G, however they are doing all these at a much higher speed and at a much less congested network so they are having a much better user experience. It's also providing a better user experience for some of the users remaining on 4G. At this point, we don't think the fact that we have less spectrum is a disadvantage. If you look at our monthly fee lift and our 5G penetration, I think we're doing as well as any of our peers and we are able to roll out a much wider coverage - which is certified by the NCC - because we saved some cash on the spectrum. In the end, we're providing a much better 5G experience because of the coverage. If you look back, our strategy does lend us some competitive advantage.

Sara: Just one quick follow-up. Given our 5G network roll-out is actually faster than peers, do we see any cost pressure from running the 5G network?

Jamie: Yes. D&A is taking a toll on our bottom-line but we see 5G as a growth engine. If you want to harness the momentum of this engine, you have to be committed to the strategy, so we're going to continue to accelerate the growth of our 5G user base to make the investment worthwhile.

Jack Hsu, SinoPac Securities: ***I have 2 questions. My first question is about the revenue guidance in 2021. In the last earnings call, you mentioned that this year, revenue will rise about 12% overall for the year. However, since momo raised some of their revenue guidance, does that mean your revenue growth guidance for the full year will also change?***

Jamie: At this point, we're not giving a new guidance so we're going to stick to our original guidance.

Jack: Okay got it. My second question is about our announcement on investing in green power in the following years. Could you give us some information on how this kind of strategy will affect our revenue or cost in the following years?

Jamie: We have identified some of the sources of renewable energy to provide lower electricity costs than Taipower. Going forward, we will do this methodically and make sure it's a triple win for both the company, our shareholders, and our environment.

Jack: With this strategy, when will the costs be lower?

Jamie: It is hard to predict at this point because to implement a renewable energy investment strategy, there are many new types of stakeholders who we were not extremely familiar with previously. We're still figuring things out as we go so that is why it's a longer term strategy. We don't expect it to affect our top or bottom line anytime soon.

Jack: Okay got it. We also mentioned that we may invest in building a renewable power plant. Will we be using the energy from the renewable power plant ourselves or will we sell the renewable energy to other companies in the future?

Jamie: First and foremost, we want to satisfy our own usage needs and of course, if we get to a point where we're pretty good at doing this, we might consider commercializing it into a business. However, it's really a longer term thing. We're not expecting any of these to have any material effect in the short term.