

**Taiwan Mobile**  
**2Q21 Results Conference Call**  
**August 5, 2021**

**Jamie Lin, President:** Good afternoon, everyone. Good to have you at this edition of Taiwan Mobile earnings conference call. Before we begin, let's go over our disclaimer first as always:

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Alright, now let's head straight to business overview. We will start with highlights of the quarter on page 4.

**2Q21 Highlights**

In the second quarter of 2021, our 3 growth engines, namely 5G, e-commerce and home broadband, all gained further momentum. As a result, YoY growth of our consolidated revenue expanded to 23% for the quarter, the highest among our peers, and accelerated from 6% a year ago and 11% for the previous quarter.

Our e-commerce revenue surged by 45% YoY to a record high during the quarter, boosted by consumers' stay-at-home purchasing needs and momo's superior logistics and fulfillment capabilities, which we will talk about shortly.

Our telecom business, on the other hand, reported YoY growth both on mobile service revenue and on EBITDA for the quarter, the first time in over 4 years, driven mainly by consistent ARPU lift from our subscribers upgrading to 5G.

Consolidated EBITDA grew by 10% YoY as a result, our highest growth rate in over 5 years. And I want to highlight that all of these record-setting results were achieved while the vast majority of our team members worked from home for the bottom half of the quarter as the country went into level III alert since mid-May. So kudos to my coworkers. You guys are really awesome!

Next let's turn to page 5 for a closer look at our mobile business.

### **5G Mobile Business – Growth Engine #1**

At its one year mark, our 5G service's postpaid user base has now grown to almost 900K, underpinned by our warp speed infrastructure roll-out and superior product offerings.

Despite some impact on our store traffic since the level III alert, our outstanding bundle packages gained further momentum amid growing home broadband and online shopping demand. These include Double Play or 好速成雙 in Chinese, which offers 4G/5G mobile services bundled with high speed home broadband starting at NT\$799 a month, and momobile or 幣多 in Chinese, which rewards mobile subscribers as they make more purchases on momo. We also saw YoY increases in direct carrier billing and gaming revenues as people consumed more entertainment at home. Coupled with a steady ARPU uplift in our users upgrading to 5G, and as a result, a growing 5G user base, our smartphone postpaid ARPU turned to a YoY increase in the second quarter.

Customers loved our unparalleled product offerings and value added services, such as myVideo, MyMusic, GeForce NOW, League of Legends Wild Rift and Valorant, and as a result, our churn rate further declined from 0.97% a year ago to 0.77% in the quarter, decreasing by 20 basis points. Going forward, we expect it to remain at low levels.

Now let's go to page 6 for an update on our e-commerce business.

### **momo – Growth Engine #2**

The heightened online shopping demand as people stayed at home has served as a strong tailwind for momo's e-commerce business. In the second quarter, e-commerce revenue grew by 45% YoY to a record high, with the number of transactions rising by 48% YoY.

The surge in demand was a true test to all e-commerce companies' infrastructure and adaptability. And the result speaks for itself. momo's investments in our satellite warehouse network and hybrid logistic capabilities leading to this point allowed us to capture the influx in demand better than any of our peers, accelerating momo's market share gain. We also seized the opportunity to offer better incentives for our momobile bundle plan users in June, providing extra momentum to both momo and our mobile business.

Going forward, as the market moves into a new normal, the ramp up of our southern distribution center's construction and the further expansion of our satellite warehouse network and in-house delivery fleet will provide tailwinds to our share-gain momentum.

In terms of profitability, bolstered by scale economies and operating leverage, e-commerce EBITDA's YoY growth soared to 129%, while its EBITDA margin widened to 5.5% in the second quarter.

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

### **Broadband – Growth Engine #3**

In the second quarter, we continued to outperform our MSO peers in the YoY trends of basic TV subscriptions and broadband service penetration.

More importantly, demand for faster home broadband access continued to grow amid work and study from home, lifting cable broadband line of revenue by 12% YoY and more than offset the decline in basic TV revenue.

Now let's turn to the next slide to talk about our accelerated transformation during and post pandemic.

### **Accelerated Transformation amid COVID-19**

On this slide, I would like to share with you how Taiwan Mobile has responded to the challenges brought about by the COVID outbreak in Taiwan. During the first outbreak in the beginning of 2020, we immediately activated our business continuity plan and segregated our entire company into A/B teams that can fully back up each other. At the same time, we started making all the necessary investments and preparations to make broad-based work from home a viable option.

That is the reason why when the country went into level III alert in mid-May this year, we were able to immediately shift all of our back office employees to remote work. Additionally, we make use of telecom data to monitor country-wide work from home trends and adjusted the opening hours and locations of our stores accordingly, resulting in better workforce safety without having to sacrifice operating results. Our record-setting quarterly performance showcased both our resilience and the efficacy of our strategy.

While in time the pandemic will certainly go away, the transformation that took place for us during this time is here to stay. Taiwan Mobile will emerge as a hybrid organization, which will in turn accelerate our growth and evolution into a regional tech + telco group.

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 on page 10.

In the second quarter of this year, consolidated revenue grew by 23% on a YoY basis, supported by robust e-commerce business and improving telecom business. Mobile service revenue showed YoY increases since March, which helped expand telecom revenue's growth to 5% YoY in the second quarter.

With a smaller YoY rise in handset subsidies and a normalized base in roaming business vs. the previous quarter, telecom EBITDA turned to a YoY increase in the second quarter. Although telecom D&A continued to post YoY growth given our 5G investment, the sequential hike diminished as a result of our front-loaded roll-out strategy.

Our CATV EBITDA's YoY trend stabilized, driven by broadband.

momo continued its growth trajectory propelled by e-commerce which recorded a 45% revenue growth YoY and 129% EBITDA surge YoY in the second quarter.

Now let's move to Results Summary.

## **Results Summary**

5G D&A still weighed on our telecom profitability, but successful 5G upselling and momo's upbeat performance helped consolidated operating income turn to a YoY rise in the second quarter.

The difference in the YoY trends of pre-tax income and net income was mainly due to a YoY climb in net income attributable to minority interest.

For the first half of this year, consolidated revenue and EBITDA were both ahead of our full year guidance released earlier this year.

Let's move on to Balance Sheet Analysis.

## **Balance Sheet Analysis**

On the asset side, the YoY increase in cash was mainly driven by momo's business expansion. PP&E rose on the back of our 5G network rollout since the second half of 2020, while non-

current contract assets climbed YoY as we featured rate plans with longer contract periods.

As for liabilities, momo's rapid expansion in the second quarter resulted in an uptick in payable YoY, while inventory growth was constrained due to shorter inventory turnover & receivable days than payable days. Other current liabilities spiked YoY, reflecting the larger 5G equipment payable to Nokia and momo's dividend payable.

Net debt to equity/EBITDA improved in the second quarter, thanks to higher EBITDA and momo's strong cash generation capabilities.

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

### **Cash Flow Analysis**

In the second quarter, operating cash inflow increased YoY, thanks to better cash earnings in our telecom and e-commerce businesses, as well as the scale effect from momo's negative cash conversion cycle.

For investing cash flow, although cash capex rose sequentially in the second quarter, it was lower in the first half of 2021 than the second half of 2020 when we kicked off 5G roll-out.

Financial cash outflow dropped YoY in the second quarter, due to the repayment of short-term borrowing a year ago, and a different timing of momo's dividend payment vs. last year.

With better operating cash flow along with stabilized capex, free cash flow improved both QoQ and HoH. Free cash flow calculated with pre-IFRS 16 operating cash flow reached NT\$7.66bn in the first half of 2021, translating into an annualized free cash flow yield of 5.3%.

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

### **Awards and Recognition**

This page summarizes the awards and recognitions we received during the quarter, for your reference.

### **Key Message**

Finally on slide 16, to wrap up our presentation, here is the key message we would like for you to take away with:

We have weathered through telecom EBITDA compression and restored its YoY growth

in 2Q21, while accelerating momo's EBITDA upswing. This turnaround in our operations shows our strategic resilience amid the pandemic. The societal shift to "everything from home", where the world increasingly relies on digital connectivity for work, education and more will lay the foundation for our continuous expansions going forward. In this new normal, our accelerated transformation into a regional tech+telco group will position us for even faster growth while creating further long-term value for shareholders.

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

### **Q&A**

**Neale Anderson, HSBC:** *I have one question about the EBITDA trend. Your guidance at the start of the year was for a flat to 2% decline in EBITDA, but in the first half you reported a 3% increase. Is that because in the second quarter, momo and telecom business recovered faster than expected? How does that affect your outlook for the second half? Do you expect cost to increase or these trends to continue?*

**Jamie:** Thank you Neale. Yes. The telco business and momo are both doing better than we expected. Right now, we're not revising our guidance but we also don't expect things to significantly worsen in the bottom half of the year.

**Neale:** Could I follow up? You mentioned momobile. Could you give any more details on that? How many subscribers do you have? What is the potential opportunity in linking your telecom services with momo?

**Jamie:** We're not disclosing the number of subscribers yet but I can say that it's contributing more than 1% to momo's revenue already.

**Jamie closing remarks:** Thank you guys for joining us for this edition of the earnings call. We're very happy with the results and I'm also very proud of our team. I hope you guys stay well and healthy. We look forward to meeting you again in our next earnings call. Thank you.