

**Taiwan Mobile**  
**3Q21 Results Conference Call**  
**November 4, 2021**

**Jamie Lin, President:** Good afternoon, everyone. Welcome to Taiwan Mobile's third quarter 2021 earnings conference call. Before I start our presentation, let's go over our disclaimer first as always:

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Now, let's start with our business overview. Please turn to page 4 for the highlights of the quarter.

**3Q21 Highlights**

As we can see from the slide, all three of our main growth engines delivered solid top-line expansions in the third quarter.

Revenues from both our mobile services and broadband business posted faster YoY increases than the previous quarter. Meanwhile, momo's e-commerce revenue growth was slightly lower than the second quarter due to a COVID-related high base, but its YoY trend remained robust.

As a result, our consolidated EBITDA for the quarter rose by 9% YoY to a level that is higher than the third quarter of 2020 and the third quarter of 2019. For the first three quarters, consolidated revenue and EBITDA increased by 18% and 5% respectively, both well ahead of our full year guidance.

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

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

In the third quarter, our mobile service revenue's YoY growth accelerated as we delivered strong YoY ARPU improvement. This was mainly driven by continued 5G upselling, as the monthly fee uplift from customers upgrading to 5G remained at about 26% in the quarter.

The take-ups of our exclusive Double Play (or 好速成雙 in Mandarin) and momobile (or mo 幣多 in Mandarin) packages remained solid. We expanded our MSO partnership this quarter and as a result, our Double Play footprint now covers over 70% of the island's households. On the other hand, momobile users' contribution to momo's e-commerce revenue reached 1.6% in September, increasing from 1.1% three months ago.

The launch of the iPhone 13 series on September 24 also provided more fuel to our upselling momentum, as majority of the sign-ups opted for \$1399 or higher 5G rate plans. To better position ourselves against future ARPU erosion and churn, we continue to focus on our 48-month contracts, providing the best value for our customers by offering the greatest bundle options. Currently, our 48-month program accounts for close to 30% of our \$999 or higher 5G user base and 49% of our YTD iPhone bundles.

To leverage intra-group synergies to further add to our 5G momentum, we have recently launched the Open Possible co-branded credit card with Fubon Bank. It offers a host of card holder benefits, including a rebate of up to 5.5% for carrier bills, the highest in the industry by a wide margin.

Open Possible card is well received by the market, so far yielding 2X more issuance vs. its predecessor that was launched in 2017. The growing card holder base will bode well for 5G, our direct carrier billing business and customer loyalty.

Last but not least, as you may have seen in the news, Disney+ is the latest addition to Taiwan Mobile's technology and media services portfolio. We are the exclusive telecom partner of this highly anticipated streaming service in Taiwan and we look forward to unveiling attractive bundle packages very soon.

As we increase our lineup of products and services to offer unique values to different market segments, we expect our momentum to continue while churn to remain low going forward.

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

## **momo – Growth Engine #2**

Coming off a high second quarter base boosted by COVID, our e-commerce revenue saw a slight sequential decline in the third quarter. However, YoY growth remained strong at 38%, with the total number of transactions increasing by 44% YoY.

Thanks to economies of scale and operating leverage, momo's e-commerce EBITDA soared by 102% YoY, translating to 172bps of EBITDA margin expansion to 5.4% in the third quarter.

Looking ahead, as e-commerce penetration of the retail market still has plenty of room to grow in Taiwan, the construction of the southern distribution center, along with the continuous expansion of our satellite warehouse network and in-house delivery fleet, should allow momo to continue to outgrow its peers.

In addition, our investment in TIKI, Vietnam's leading B2C e-commerce player, will also serve as a platform for our e-commerce business to grow beyond Taiwan.

Now, let's look at our broadband business on the next page.

## **Broadband – Growth Engine #3**

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

As demand for faster home broadband persisted even after the alert level was lowered in July, subscribers and ARPU both saw sequential increases. This resulted in an expansion of broadband revenue growth to 14% YoY in the third quarter, where Double Play remained a significant contributor to the growth.

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

## **Performance by Business**

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

In the third quarter of this year, consolidated revenue grew by 20% on a YoY basis, supported by robust e-commerce business and improving telecom business. Mobile service revenue's YoY growth expanded with steady ARPU improvement, which helped increase telecom revenue growth to 7% YoY in the third quarter.

Our strengthening top-line performance and the government subsidies TWM started recognizing in August helped telecom EBITDA grow even more YoY in the third quarter. Although telecom D&A continued to rise YoY given our 5G investment, the sequential hike further subsided thanks to our front-loaded rollout strategy. As a result, telecom EBIT decline narrowed significantly to 4% YoY in this quarter.

CATV EBITDA increased YoY in the third quarter too, underpinned by accelerating broadband revenue momentum.

momo continued on its growth trajectory, bolstered by e-commerce, where its revenue grew 38% and its EBITDA doubled on a YoY basis in the third quarter.

Let's go to Results Summary.

### **Results Summary**

In addition to solid top-line growth, telecom and CATV EBITDA saw elevated YoY growths in the third quarter. Unlike telecom and CATV, momo EBITDA fell QoQ due to a high base. That said, momo was still a contributor to the YoY increase in consolidated EBITDA.

As 5G D&A's impact on telecom profitability started to diminish, effective 5G upselling and momo's upbeat performance helped consolidated operating income growth expand to 10% YoY in the third quarter. Net income also turned to a YoY increase, the first time since the first quarter of 2020.

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

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

Let's move to Balance Sheet Analysis.

### **Balance Sheet Analysis**

On the asset side, cash increased YoY, mainly driven by our stable operating cash inflow along with much lower capex inclusive of 5G license payment during the past three quarters.

The YoY rise in long-term investment stemmed from our investment in the Vietnamese e-commerce player, TIKI, in the third quarter.

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, the release of the iPhone 13 series and momo's business expansion caused an uptick in payables YoY. Gross debt rose QoQ owing to an increase in bank borrowings to fund our dividend payment. Other current liabilities went down QoQ in tandem.

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

### **Cash Flow Analysis**

In the third quarter, operating cash inflow increased YoY on the back of growing cash earnings from our telecom business, while the QoQ drop reflected the fluctuation in momo's revenue.

For investing cash flow, the YoY rise in the third quarter was attributable to a low capex base and the disposal of Taiwan High Speed Rail shares a year ago, in addition to our investment in TIKI during this quarter.

Financial cash outflow went up YoY as the increase in bank borrowings was smaller than a year ago.

Free cash flow calculated with pre-IFRS 16 operating cash flow reached NT\$10.3bn in the first three quarters of this year, translating into an annualized free cash flow yield of 4.9%.

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

### **Awards and Recognition**

Let's turn to page 14, which summarizes the awards and recognitions we received during the quarter, for your reference.

### **Key Message**

Finally, on page 15, let me wrap up our presentation. Here is the key message we would like for you to take away with:

With our strong market positioning and growing intra-group synergies, we expect our three main growth engines, namely 5G, momo and home broadband, to continue firing on all cylinders. Recent 4G price rationalization will provide additional tailwind to the continued expansion of our EBITDA. With cash flow compression from 5G capex behind us, sequentially

lower cash capex and improving consolidated EBITDA should help strengthen our free cash flow. Looking ahead, TWM will accelerate our strategies to plant ourselves in emerging paradigm shifts, such as metaverse, in order to capture more growth opportunities in the 5G era for our shareholders.

With that, let me open the floor up for Q&A.

#### **Q&A**

**Neale Anderson, HSBC:** *I have a couple of questions on the broadband business. You mentioned that momo saw a sequential decline relative to the second quarter because that was the peak of COVID-19-related restrictions. My question is: How sustainable is your 14% broadband growth? Do you expect that to continue? Are there structural factors that underpin that or is it also a result of COVID-19 or homeworking-related surge? The second question relates to Disney+ and how that might sit with the Pay-TV service, where you booked a 5% decline in revenue in the 3rd quarter. Do you think that could be complementary and reduce that rate of decline? Or is there any risk of cannibalization?*

**Jamie:** In terms of broadband, right now we are observing the momentum to be quite sustainable. On top of that, we are also in the cycle of our first batch of Double Play customers up for contract renewal and choosing higher rate plans to have a better broadband experience. We essentially have 3 growth engines: 1) we're expanding our MSO partnership and our footprint to be able to serve more customers; 2) people's increasing need for broadband; and 3) our existing customers upgrading their broadband plans. So right now, we are not expecting the growth momentum to slow down any time soon. In terms of Disney+, yes, we do have a Pay-TV business, but its market share is relatively smaller. We are also always observing the industry dynamics happening in countries that are a few steps ahead of us, the United States for example. Sooner or later, the cord-cutting will accelerate, and you will either be disrupted, or you will be a disruptor. Our strategy is to work with services like Disney+ and be the disruptor instead of being disrupted. Hope that answers your question.

**Neale:** You mentioned expansion into Southeast Asia for momo. Are you in position to try and quantify that in terms of relative levels of investment? If not now, could you give us any guidance of when you will be able to give us more details on that investment?

**Jamie:** I don't think we have anything to share right now. We are indeed in the process of trying to accelerate that. We will hopefully be able to share more details in the coming quarters.