

Taiwan Mobile
3Q22 Results Conference Call
November 10, 2022

Jamie Lin, President: Good afternoon, everyone. Welcome to Taiwan Mobile's 3rd quarter 2022 earnings conference call. Before I start our presentation, let's first go over our disclaimer as always:

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

Business Overview

In the 3rd quarter, we continued to see solid momentum across our three main growth engines, namely 5G, e-commerce and home broadband. Our mobile service revenue grew YoY for the 6th consecutive quarter, reaching 2.5%. This was driven by the YoY increase in smartphone postpaid ARPU amid the new iPhone launch and continued 5G conversion. E-commerce revenue rose by 14% YoY, outperforming our peers. Broadband revenue recorded a 9% YoY lift, thanks to steady demand for faster home connectivity.

As a result, consolidated revenue went up by 8% YoY in the 3rd quarter. This offset the impact from higher subscriber acquisition costs due to the earlier launch of the new iPhone vs. last year and led to flat consolidated EBITDA for the quarter.

For the first three quarters of 2022, consolidated EBITDA growth was 3% YoY vs. our full-year guidance of 1-3%.

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

Mobile – Growth Engine #1

In the 3rd quarter, our postpaid subscriber net adds hit 51,000 while 5G penetration in our smartphone postpaid user base reached 25%. Monthly fee uplift from the renewals remained steady at about 25%.

Our unique bundles now account for about 15% of our smartphone postpaid subscriber base and remain instrumental to ARPU improvement. The momobile bundle (or “mo幣多” in Mandarin) continued to gain momentum, and its users’ contribution to momo’s e-commerce revenue grew further to 6.7% in September, up from 4.9% a quarter ago, adding resilience to momo’s top line. Our Double Play bundle (or “好速成雙”) continued to add subscribers, especially in \$999 or above rate plans section, providing healthy tailwind to ARPU. Disney+ subs surged QoQ in the 3rd quarter, boding well for customer stickiness.

In September, we launched a sub brand in the consumer segment called “OP Life” (or “OP 響樂生活” in Mandarin), along with its first product line, “OP Home Cinematic Suites” (or “OP 影音劇院組”). It is a one-stop shop that allows customers to effortlessly enjoy state-of-the-art home theater experiences through seamlessly integrated bundles of TVs, routers, speakers and set-top boxes, along with Taiwan Mobile’s unique services such as MyVideo, GeForce NOW and Disney+, at a fraction of their total listed prices. We are very pleased to share that the initiative gained solid initial traction among premium users, as 60% of the sign-ups were for \$1399 or higher rate plans, much greater than the average ratio.

On the other hand, thanks to our wide variety of unique and appealing rate plans and add-on services, as well as our strategy to focus on 48-month contracts since 5G launch, our postpaid monthly churn rate stayed at a low level of 0.85% in the 3rd quarter.

Separately, our game publishing business had another strong quarter, with its revenue rising 64% YoY. Roaming business also recovered nicely, albeit off a low base. On the enterprise side, data & access, cloud and IoT services all delivered healthy growths in the quarter.

Now let’s turn to page 6 for updates on our e-commerce business.

momo – Growth Engine #2

As the pandemic eases in Taiwan, the retail industry is observing a short-term YoY demand spike for brick-and-mortar stores. Despite this, momo once again outperformed its e-commerce peers and delivered a 14% revenue increase in the 3rd quarter, implying further market share gain.

As for profitability, momo's EBITDA fell YoY this quarter. In addition to higher marketing expenses, momo is also finetuning its logistics efficiency. That said, momo's pricing power remained strong, with a B2C take rate standing at 13.15% in 3Q22, 38bps higher than the FY21 average of 12.77%.

Although there are short-term headwinds, we believe momo's secular growth story is very much intact, given the relatively low e-commerce penetration in Taiwan. Our continuous investments in logistics should ensure that our leadership position will be further solidified and the popularity of momo card and momobile bundles will only lend to momo's moat. In the 3rd quarter, about 25% of momo's deliveries were done by its own in-house fleet. Moreover, the Southern and Central Distribution Centers are expected to come online in the next few years. These investments will help expand the coverage area of our rapid delivery services and pave the way for mid to long-term growth.

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

Broadband – Growth Engine #3

In the 3rd quarter, we continued to outperform our MSO peers in the YoY trends of basic TV subscriptions and broadband service penetration.

Steady demand for faster home broadband as well as the success of our Double Play bundles led to sequential increases in broadband subs and ARPU. The ratio of broadband subscribers, including Double Play package takers, who signed up for speeds of 500Mbps or higher rose by 38% YoY. As a result, broadband revenue grew by 9% YoY in the quarter.

Now let me pass the virtual mic over to our new CFO, George Chang, for Financial Overview.

Performance by Business

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

In the 3rd quarter of 2022, consolidated revenue rose by 8% YoY, as our three growth engines all delivered YoY growths. Mobile service revenue grew YoY for six quarters in a row, thanks to ARPU improvement amid continuous 5G conversion and benign 4G pricing. In fact, our smartphone postpaid ARPU has seen 16 consecutive months of YoY increase.

In terms of profitability, telecom EBITDA came in flat YoY in the 3rd quarter, mainly due to higher subsidies associated with an earlier release of the new iPhone vs. last year.

momo's profit performance in the 3rd quarter reflected its efforts to reach the optimal level of logistics efficiency, along with increased marketing expenses.

CATV EBITDA remained resilient as broadband momentum offset pay-TV weakness.

Let us go to Results Summary.

Results Summary

With healthy momentum from mobile, e-commerce and home broadband, consolidated revenue rose by 8% YoY in the 3rd quarter. This offset the aforementioned subsidies for the early iPhone release and resulted in a flat consolidated EBITDA YoY. The YoY change in non-operating expense was mainly driven by gains from momo's overseas investment disposal and foreign exchange revaluation.

For the first three quarters of the year, consolidated EBITDA increased by 3.45% YoY, that's compared to our full-year guidance of 1-3% growth, thanks to well-managed subscriber acquisition costs and income from 5G government subsidies, in addition to revenue growth. Excluding the one-time tax credits we received in the 1st quarter of 2021, year to date net income would have increased by 5% YoY.

Let's move on to Balance Sheet Analysis.

Balance Sheet Analysis

On the asset side, receivables grew YoY in the 3rd quarter owing to momo's business expansion, together with higher monthly fees from our unique bundles and further 5G conversion.

Long-term investment climbed YoY, on the back of our ventures into cloud services, food delivery platforms, etc.

Right-of-use assets rose YoY, along with momo's warehouse expansions. Non-current contract assets jumped QoQ and YoY due to more 48-month or longer handset bundle contracts. Our strategy of increasing the proportion of longer contracts should cushion the impact from potential pricing changes down the road.

As for liabilities, payables saw a YoY uptick driven by momo's business growth, as well as the sales from the new iPhone and Google phones.

Gross debt went up QoQ on account of bank borrowings to fund our dividend payment in the quarter. The YoY rise in other non-current liabilities reflected the cash we received from 5G government subsidies.

Benefiting from decent free cash flow generations, our net debt to EBITDA declined YoY to 1.77x in the 3rd quarter.

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

Cash Flow Analysis

5G government subsidies were classified under operating cash flow in 3Q21 but were moved under investing cash flow from 4Q21 onwards. Therefore, 3Q22 operating cash flow would have increased by 15% YoY on a like-for-like basis, thanks to telecom business strength.

Cash capex shrank as 5G investment had peaked, resulting in lower investing cash outflow.

On the financing front, cash outflow grew YoY, due to momo's higher cash dividends and lower cash inflow from borrowings, given declining capex.

Year to date, cash capex fell by 16% YoY and only reached 51% of our full-year guidance. This is in-line with our expectations as payments for our network consolidation with T-Star and part of momo's new distribution centers will not be made this year.

Free cash flow calculated on a pre-IFRS 16 basis was stable at NT\$10.35bn for the first three quarters of the year, translating into an annualized free cash flow yield of 5.1%.

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

Awards and Recognition

Jamie: 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 with.

Seeing dependable increase in 5G penetration, solid traction of our unique bundles and growing group synergies, we will keep our full-year EBITDA growth guidance unchanged. Looking ahead, we will maintain a disciplined approach while we broaden our high-value customer base and maintain our growth momentum.

With that, we open the floor for questions. You are welcome to send your questions via the chat box on the webcast page. We will begin by addressing the telephone line questions before moving on to queries from the webpage. Operator, please go ahead.

Q&A

Neale Anderson, HSBC: *I have two questions please. The first is related to the operating cost increase in the quarter. You said that it was mostly due to the change in the timing of the iPhone release. I'd like to know if you've seen any other inflationary cost pressures, maybe labor or utility cost? Or is majority of this increase really related to the change in the timing of the iPhone? Second question is regarding the pending merger approval and the spectrum discussion. Can you give us the latest update on that? Timing, expectations, next steps, and your views, if you can.*

Jamie: Thank you Neale. I think I'll take your second question first then hand it over to George for the first question. In terms of the T-Star merger, it's still pending regulators' approval – namely NCC and FTC. The NCC Chair publicly said that he hopes the agency can reach a decision within three months so we're optimistic that things will move a little bit faster from this point on. For your first question, George, can you talk about it?

George: Sure. Neale, to answer your question, YTD, we haven't seen that much inflationary impact. Please bear in mind that the major cost items for our business are network costs and subscriber acquisition costs, i.e., handset subsidies and channel commissions. Other items such as manpower and electricity are not that significant so, YTD, we haven't seen that much of an impact to our business.

Neale: Got it, thank you very much. Just to come back to you regarding the merger, the regulators will consider the merger proposal at the same time as the spectrum consideration, is that right? There will be a decision on both? Having to divest some of the spectrum will be announced at the same time, is that your understanding?

Jamie: They will make a decision in terms of 1) whether they will greenlight the merger or not; and 2) what the additional responsibilities will be, if they were to greenlight our merger. The

handling of the spectrum will be one of the additional items they will give to us. Upon which, we can still decide whether the deal is fair or not.

Sara Wang, UBS: *I have two questions. My first question is regarding the 3rd quarter service revenue or EBITDA growth. It seems to be lower than peers. May I ask if there are any significant reasons for this? My second question is regarding the approval from NCC or FTC. Do you think there are other hurdles to getting the approval, besides the spectrum or having to keep lower-end pricing plans? Do you see a risk for a potential further delay to the 3-month timeline mentioned by NCC?*

Jamie: In terms of 3rd quarter mobile service revenue growth, there are different ways to calculate it so I'm not sure if we're comparing apples to apples. In terms of EBITDA, based on the number we're getting from our handset partners, we sold much more handset bundles than our peers this quarter, which resulted in a short-term headwind for our EBITDA. Also, because the government is essentially giving us 5G base station subsidies in correlation to our 3.5GHz spectrum bidding cost, we're getting a bit less of that from the government. On top of that, we're not engaged in spectrum and network sharing with a smaller player like our peer. In terms of additional hurdles for the merger deal, I think the regulators will also be cautious in terms of how we plan to take care of T-Star's employees. Like we communicated before, we're going to keep 97% of their employees, from the managers down to the staff members, so we don't foresee that being a big issue. In terms of things that regulators look at besides spectrum and more economic rate plans, they also look at how you take care of employees. George, do you have anything to add?

George: Regarding Sara's first question, looking at the monthly data from one of our competitors, I think our mobile service revenue growth was actually quite similar to our closest peer. In terms of EBITDA, yes, I admit that on a consolidated basis, our EBITDA was a little impacted by momo's business this quarter. I think we mentioned upfront that for the 3rd quarter, momo's EBITDA declined a little bit, on a YoY basis, due to higher costs on the logistics side.

George: By the way, for all investors on the phone or online, starting from this quarter, we will also take questions online so feel free to write to us through the chat box.

Online question: *What are the key hurdles for NCC's decision regarding the proposed merger?*

George: Jamie, do you want to reiterate that a bit?

Jamie: Sure. Similar to Sara's second question, I think the key hurdles are: 1) spectrum; 2) taking care of the more underprivileged T-Star customers; and 3) taking care of their existing employees. I think the Taiwan Mobile team did a great job during the public hearing addressing all these issues and I think NCC is considering our proposals. At this point, I don't expect these to be huge hurdles for the deal.

George: For our overseas friends, maybe you have already seen the press. NCC officials publicly stated that they will speed up the process to reach a decision within the next few months.

Jamie: Yes, the NCC Chair did communicate publicly that he promised lawmakers he will lead the commission to a decision within three months.

Online question: *Your 5G penetration is already at 25%. How do you plan to uplift the remaining 75% of 4G customers?*

Jamie: That's a good question. Whenever people buy a 5G phone, majority of them will sign up for a 5G service so I think our bread and butter is working with phone companies to bring appealing 5G phones to the marketplace. On top of that, we also have different products that we continue to market to customers to entice them to upgrade to 5G, such as momobile, Double Play, Disney+ and our newest product line, our OP Home Cinematic Suites bundles. We'll continue to come to the market with creative bundles for the remaining customers who are not highly interested in swapping to a 5G phone but are interested in other 5G offerings.

George: If I may add to that, at the beginning, Jamie mentioned that these unique bundles already account for 15% of our smartphone postpaid customer base. If you look at it on a bundle basis, the ratio will be even higher. I think the good thing about these unique bundles are: 1) it helps differentiate us from competitors; 2) it usually creates group synergies, such as momobile; and 3) being the proprietary usually implies higher profitability as well.