**Taiwan Mobile**
**3Q23 Results Conference Call**
**November 15, 2023**

**Jamie Lin, President:** Good afternoon, everyone. Welcome to Taiwan Mobile's 3rd quarter 2023 results conference call. Before I start our presentation, let's first go over our disclaimer as per usual:

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Alright. Now let's take a look at our business overview. Please turn to page 4 for highlights of the quarter.

## 3Q23 Highlights

In 3Q23, our consolidated revenue rose by 7% YoY, underpinned by solid outputs from our three core engines, namely 5G, e-commerce and home broadband.

Our mobile service revenue growth accelerated to 7% YoY, from 2% for the same quarter a year ago, marking the highest YoY increase for a quarter since 5G service launch 3 years ago. This was driven mainly by a reliable pace of 5G conversion, the success of this year's iPhone launch, robust recovery in roaming business, as well as the turnaround of our 4G business, which I will talk about later.

Meanwhile, momo continued to outperform its peers and posted a 7% YoY e-commerce revenue growth during the quarter.

Our home broadband subscribers grew by 5% YoY at the same time as we continued to cross-sell mobile and pay-TV customers.

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

**Mobile – Growth Engine #1**

During 3Q23, TWM's mobile business continued to execute our "Sustainable Growth Foundation" strategy methodically. As a result, our smartphone postpaid ARPU is now back at 715 NTD, a 4-year high, with a YoY growth rate of 5.6%, marking the 10th straight quarter of YoY increase. Note that the YoY growth rate was 2.5% a year ago, which means we have more than doubled the YoY expansion speed. Consequently, our mobile service revenue has returned to its early 2019 levels. These positive outcomes were mainly driven by our unique bundles, effective upselling on contract renewals, as well as further recovery in roaming revenues, which rose 15% sequentially in the quarter.

Upselling is one of the 2 key pillars in our SGF strategy. As you can see from the chart on the top right, when our customers renew their contracts from 4G to 5G, we have consistently delivered over 40% monthly fee lifts. The tricky part is when they stick with 4G during renewals, which used to result in lower monthly fees and hence was a drag to our ARPU. However, since 2Q23, we have successfully turned our 4G business around, thanks to the team's remarkable efforts in executing our SGF strategy, especially on upselling customers to our unique 4G bundles. The monthly fee lift for 4G-to-4G renewals further expanded to +2% this past quarter. Due to this, on a blended basis, the monthly fee uplift from all renewals has been steadily rising to reach +10% in 3Q23. Given the 5G penetration in our smartphone user base is only at 34% as of 3Q23, which you can see on the bottom right chart, there's still a long runway ahead for sustained ARPU growth.

Adoption of our unique bundles, namely momobile, Double Play, Disney+ and OP Life, have continued to grow further and now account for 24% of our smartphone postpaid user base. It bodes well for customer loyalty, evidenced by a postpaid monthly churn rate of 0.81% in 3Q23. As a result, our smartphone postpaid subs saw a healthy 2% YoY uptick. As you can clearly see, our SGF flywheel has ramped up speed. We will continue to push it.

Next let's turn to page 6 for updates on our e-commerce business.

**momo – Growth Engine #2**

We continued to see middling growth in our e-commerce revenue in 3Q23 as consumers allocate their discretionary spending toward leisure activities, especially during summer months. That said, our e-commerce EBITDA margin was still resilient and ahead of the pack.

On the logistics side, we added one more warehouse during the quarter, taking the total number of distribution facilities to 56, that is 5 more than a year ago. The southern distribution center is slated to be up and running by early next year, with the central distribution center to follow in 2027. This will expand the coverage area of our rapid delivery services and further widen the moat.

As for momo coin and its ecosystem, we continue to focus on broadening its usability. By the end of 3Q23, our momobile user base has grown to 735,000 and now contributes 12.4% of momo's e-commerce revenue.

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

**<u>Broadband – Growth Engine #3</u>**

In 3Q23, the unit's revenue and EBITDA were both resilient, as we continued to focus on growing our cable broadband footprint. Steady demand for faster home connectivity as well as our cross-selling efforts led to a 5% YoY increase in broadband subs. With existing broadband users, we focused on upgrading them to higher speeds. As a result, our subscribers who opted for speeds of 300Mbps or higher rose by 57% YoY.

While we only rank as the $4^{th}$ largest MSO with an 11% footprint for cable TV services, we have expanded our cable broadband coverage to 85% by teaming up with most of the leading MSOs in the country via our Double Play bundles.

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

**<u>Performance by Business</u>**

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

In 3Q23, consolidated revenue rose by 7% YoY, driven by solid performance in our telecom business. Mobile service revenue grew YoY for 10 quarters in a row, thanks to ARPU improvement amid steady 5G conversion and benign 4G pricing. This, along with the healthy expansion of fixed-line service revenue, allowed us to record our highest telecom service revenue since 4Q18. As a result, telecom EBITDA and consolidated EBITDA both went up by 4% YoY in 3Q23.

momo's EBITDA increased YoY, due to improved efficiency in its logistics network.

Growing broadband subs and good traction in our cross-selling bundles kept CATV EBITDA steady YoY during the quarter.

Let's go to Results Summary.

**Results Summary**

With healthy performances in our three core engines – 5G, e-commerce and home broadband, consolidated revenue rose by 7% YoY in 3Q23.

Consolidated operating income recorded a 5% YoY uptick in 3Q23, driven by healthy telecom EBITDA growth and a muted rise in D&A expenses.

Non-operating expenses went up YoY on the back of higher financing costs from rising interest rates, lower exchange gains in USD assets, as well as a high base in momo's disposal gains. As a result, net income grew by 3% YoY in 3Q23.

Let's move on to Balance Sheet Analysis.

**Balance Sheet Analysis**

Starting with assets, receivables rose YoY, owing to an increase in postpaid subscribers and monthly fee contributions from our mobile bundle plans, along with momo's growth.

As for liabilities, the YoY climb in payables was driven by the launch of new iPhone and Google Pixel phones, as well as momo's business expansion.

Gross debt rose QoQ to $71.6bn on account of bank borrowings to fund our dividend payment in the quarter.

A NT$37.2bn legal reserve and capital surplus is available for future dividend top up.

Benefiting from decent free cash flow generations and growing EBITDA, our net debt to EBITDA fell YoY to 1.71x in 3Q23, the lowest 3Q level in the past 4 years.

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

## Cash Flow Analysis

Operating cash inflow increased by 12% YoY in 3Q23, thanks to steady telecom EBITDA growth, good handset inventory turnover and cash receipts from SI projects.

Investing cash outflow rose YoY in 3Q23, mainly attributable to higher 5G government subsidies received a year ago. Year to date, both capex and other investing cash outflow decreased YoY, leading to a NT$2bn drop in overall investing cash outflow.

As for financing activities, 3Q23 cash outflow declined YoY, reflecting the timing difference in momo's dividend payment (2Q in 2023 vs. 3Q in 2022).

On the back of stable operating cash flow and a 21% fall in investing cash outflow, free cash flow calculated on a pre-IFRS 16 basis for the first three quarters increased by 10% YoY to NT$11.42bn, translating into an annualized free cash flow yield of 5.7%.

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

## TWM – TST Merger Update

**Jamie**: First let's take a look at where we are with the merger with T Star. We received the conditional approval from the Fair Trade Commission on October 11$^{th}$, following NCC's approval back in January this year. We are now at the final stage of the process and have set the merger effective date for December 1$^{st}$ this year.

## Post-merger Network Consolidation

I think this is also a good time to revisit our network consolidation plans post Taiwan Star merger. The top left chart illustrates our combined spectrum portfolio, with TWM and T Star blocks each marked with orange and purple colors. As you can see, the new TWM will have 100MHz of spectrum on the 3.5GHz frequency band, which is the most valuable and the most effective frequency for 5G services. As we discussed before, 3.5GHz intra-band carrier aggregation technologies have been supported by iPhones since 2021, i.e. iPhone 13 onwards, and an ever-increasing lineup of Android models, including Samsung S22. This will allow phones to take full advantage of the maximum speed our 100MHz spectrum has to offer, with virtually no efficacy loss from the non-continuity. TWM sees no technical difficulties turning on this relatively mature technology that our current equipment already supports. Moreover, in terms of providing capacity to both consumer and enterprise users, having two blocks actually gives us more flexibility to dynamically dedicate resources towards the most demanding customers at any given moment.

As for spectrum for 4G service, the return of 10MHz will not affect the total 4G spectrum available to users as we wind down T Star network's 3G service, take TST's 10MHz spectrum on the 2100MHz band originally dedicated for 3G use and refarm it for 4G use. So on a net-net basis, total 4G spectrum available for our combined users will remain at the same level, while the number of stations increases. This will create a better net experience for users on both sides.

Regarding the capex additions we've announced previously, here are some recurring benefits we target from these one-off capex in network consolidation: electricity savings as we shut down T Star's 3G network and part of its 4G equipment; rental savings as we tear down most, if not all, of T Star's 4G sites; less capex in the future since we will be upgrading and moving T Star's 5G equipment to new sites; and opex savings from rents and leased lines etc. I hope this helps you better understand the great benefits we are getting out of this deal.

**Awards and ESG Recognitions**

On this page, I am delighted to share some achievements we attained this quarter as we continue to be recognized for our commitment to best ESG practices.

During the quarter, Taiwan Mobile became the first and only telecom company in Asia whose 1.5°C-aligned science-based emissions reduction targets to reach net zero by 2050 were validated by the SBTi.

We were also named in the Financial Times and Statista's Climate Leaders, ranking 2$^{nd}$ in the Asia-Pacific region as the only Taiwanese telecom company on the list, and were included in the FTSE4Good TIP Taiwan ESG Index for the 6$^{th}$ consecutive year.

We received awards for talent sustainability and corporate social responsibility from Commonwealth Magazine and won the Special Award for Digital Resiliency at the 2023 IDC Future Enterprise Awards as well.

Last but not the least, we published our first TCFD report, improving our transparency around climate risks and opportunities.

**Key Message**

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

As our flywheel continued to pick up speed, Taiwan Mobile delivered a solid set of operating results in the third quarter, with growth acceleration seen in our core business. Steady rise in 5G penetration, our unique bundles and Telco+Tech strategies, win-win collaborations with group companies, as well as our integration with Taiwan Star will continue to provide a tailwind to our longer-term performance.

With that, let's open the floor for questions. Just a reminder: we are currently in the quiet period due to new share issuance for the merger, and therefore we will not be able to disclose any forward-looking information during this call.

If you are participating online, you are welcome to send your questions via the chat box. We will begin by addressing the telephone line questions before moving on to the web. Operator, please go ahead.

**Q&A**

**Neale Anderson, HSBC:** ***I have a question on the mobile business, particularly Double Play. You've been expanding the Double Play push for about 3 quarters now so what I'm interested in is: To what extent do you think the cost and profit profile/trend might change? Looks like you have good migration to 5G, what about cost outlook from the Double Play side?***

**Jamie:** In terms of Double Play, we're seeing much stronger take-up on higher rate plans. In terms of EBITDA profile, it's not that much different from handset rate plans. So essentially, either customers opt for handset rate plans or Double Play rate plans. The profitability profiles are quite similar.

**Neale:** Thank you. If I could follow up, you've also been focusing on longer-term contracts for 3-4 years. Are you able to disclose the proportion of smartphone or 5G customers tied in for longer periods of time?

**Jamie:** It's a double-digit percentage.

**Neale:** The quiet period; so, you can't discuss the order of timing and areas of savings you mentioned on slide 15? Can you give any indication on which you'd expect to see sooner, or which would take longer to develop? Or is that off-limits?

**Jamie:** The consolidation of base stations will happen rather quickly so we expect to start seeing savings from rent and leased lines sooner.