

**Taiwan Mobile**  
**4Q21 Results Conference Call**  
**February 22, 2022**

**Jamie Lin, President:** Good afternoon, everyone. Welcome to Taiwan Mobile's 4<sup>th</sup> quarter 2021 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's start with business overview. Please turn to page 4 for 2021 highlights.

**Business Overview**

In 2021, all three of our main growth engines pumped on all cylinders and delivered solid top-line expansions, resulting in a 17% YoY increase in our 2021 consolidated revenue.

Thanks to ARPU recovery through successful upselling, mobile service revenue increased YoY, the first time since 2016. Despite an already high base, our e-commerce business delivered a 35% revenue surge in 2021. As for our home broadband business, its revenue growth further expanded to 13% amid COVID-induced demand and excellent traction of our Double Play packages.

Underpinned by the top-line expansions we just mentioned, 2021 consolidated EBITDA turned to a 6% YoY growth, exceeding the guidance we gave, that is flat to slightly down, by a wide margin.

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

### **5G Mobile – Growth Engine #1**

For Taiwan Mobile, 5G penetration more than doubled during 2021, at the same time lifting monthly fee by 26% for those customers that have upgraded. As a result, mobile and telecom service revenues both turned to YoY growths for the full year.

The upselling was achieved through the bundling of premium handsets such as the iPhone 13 and Google Pixel 6 series, with a focus on 48-month plans, as well as our unique Double Play (好速成雙) and momobile (mo 幣多) packages. Close to 60% of our Double Play subs were for \$999 or higher rate plans by the end of 2021 and our coverage footprint was over 70% of Taiwan's households. In addition, momobile users' contribution to momo's e-commerce revenue reached 1.9% in December, a significant increase from the 0.4% a year ago.

Meanwhile, carrying Disney+ as the exclusive telecom operator partner provided solid traction to our mobile business. We expect it to continue to help us promote premium rate plans, increase customer stickiness, and create cross-selling opportunities.

Finally, our customers continue to love our ability to offer them better products and services, and as a result, postpaid monthly churn has further declined by 9bps to a historical low of 0.87% in 2021. As we enhance our lineup of products and services to offer unique values to different market segments as well as continue to focus on 48-month contracts, we expect our growth momentum to continue and churn rate to remain low going forward.

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

### **momo – Growth Engine #2**

As the leading e-commerce platform in Taiwan, momo delivered stellar results during the annual Double 11 shopping festival, with its e-commerce revenue reaching a historical high in the 4th quarter. For the full year, revenue grew 35% for the second year in a row, as customer number and stickiness continued to increase.

Thanks to economies of scale and operating leverage, momo's e-commerce EBITDA soared by 80% YoY, translating to 128bps of margin expansion to 5.2% in 2021.

On the logistics side, 5 more satellite warehouses were added in the 4th quarter, bringing the total number to 30, that's 8 more than a year ago. In addition to the on-going construction of the southern distribution center, we secured land for the central distribution center as well. Coupled with the continuous build-out of the satellite warehouse network and in-house delivery fleet, momo is well-positioned to continue outperforming its peers.

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

### **Broadband – Growth Engine #3**

In the 4th quarter, we continued to outperform our MSO peers in the YoY trends of basic TV subscriptions and broadband service penetration.

Sustained demand for faster home broadband led to sequential increases in broadband subs and ARPU throughout the year. This resulted in a 13% YoY increase in broadband revenue in 2021, where Double Play was a significant contributor to growth. Broadband strength also helped CATV revenue and EBITDA both turn to YoY growth for the full year, the first time since 2015.

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 4<sup>th</sup> quarter of 2021, consolidated revenue grew by 17% on a YoY basis, supported by robust e-commerce business and improving telecom business. Mobile service revenue grew YoY with steady ARPU improvement, resulting in a 2% telecom revenue growth in the quarter.

Thanks to increasing revenues, well-managed marketing costs, and the government subsidies for 5G network construction, telecom EBITDA rose YoY, marking the third consecutive quarter of YoY growth.

momo continued on its growth, bolstered by e-commerce, where its revenue grew by 33% YoY in the quarter. Despite higher marketing expenses associated with the Double 11 shopping festival, EBITDA surged by 44% YoY, thanks to economies of scale and operating leverage.

CATV EBITDA increased by 3% YoY in the 4<sup>th</sup> quarter, underpinned by solid broadband revenue momentum.

Let's go to Results Summary.

### **Results Summary**

In the 4th quarter, besides solid top-line growth, telecom and CATV EBITDA continued to see YoY hikes while momo remained a key contributor to the YoY rise in consolidated EBITDA. As 5G D&A's impact on telecom profitability started subsiding, 5G upselling and momo's upbeat performance helped consolidated operating income grow 9% YoY in the 4th quarter. The YoY

jump in net income was mainly due to a high base from equipment write-offs. Excluding the write-offs, net income still increased YoY for this quarter.

For the full year, thanks to mobile service revenue growth YoY, sustained e-commerce momentum, and rising broadband demand, consolidated revenue grew 17% and consolidated EBITDA turned to 6% growth in 2021. Both exceeded our full year guidance released in the beginning of the year.

Let's move to Balance Sheet Analysis.

### **Balance Sheet Analysis**

On the asset side, cash increased QoQ and YoY, due to higher free cash flow inclusive of subsidies from the government. Receivables climbed YoY due to momo's revenue increase and TWM's direct carrier billing services.

PP&E remained stable as 5G capex cycle had already peaked, while non-current contract assets increased YoY as we featured 48-month premium handset bundle contracts.

As for liabilities, the YoY climb in payables was driven mainly by momo's e-commerce growth.

Stronger free cash flow and conversions of our convertible bond which matured in November last year, helped improve both current ratio and gearing in the 4th quarter of 2021.

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

### **Cash Flow Analysis**

In the 4th quarter, despite a YoY increase in EBITDA, higher iPhone payables a year ago resulted in a YoY decrease in operating cash inflow. For the full year, the 5% YoY drop in operating cash inflow was driven by the rise in contract assets brought about by our longer contract period handset bundles.

In 2021, the YoY changes in investing and financing cash flows mainly reflected lower cash capex, which is net of government subsidies in 2021, and 5G license payments in 2020, respectively.

Free cash flow calculated with pre-IFRS 16 operating cash flow reached NT\$17.08bn in 2021, translating into a free cash flow yield of 6.1%.

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

### **Awards and Recognition**

**Jamie:** Thank you Rosie. Let's go to page 14 for Awards and Recognitions. This page summarizes the awards and recognitions that we received during the quarter, for your reference.

Next, let me walk you through our guidance for 2022.

### **2022 Guidance**

In 2022, we expect consolidated revenue to grow by 15-17% YoY, underpinned by our 3 growth engines. Please note that this guidance does not take into account our pending merger with T-Star as the deal still requires regulatory approvals.

To ensure growth, we will prudently invest in mobile subscriber acquisition and retention, focusing on upselling via our growing unique bundle options, and increasing our premium cable broadband subscribers. As a result of these efforts, we expect consolidated EBITDA to grow by 1-3% in 2022.

For 2022 capex, a total of NT\$11.2bn was approved by the Board, where 5G capex will decline YoY. momo's capex will rise for e-commerce logistics center expansion, while cable TV's investment for broadband growth will continue.

### **Key Message**

Finally, let's turn to page 16 to wrap up our presentation, here is the key message we would like for you to take away with:

In 2021, TWM delivered better-than-expected results and demonstrated our special ability to go to the market with unique offerings that cater to the needs of our customers. Going forward, we expect to continue to allocate capital to growth areas, including the acquisition of Taiwan Star and synergy creation post-merger, as well as emerging opportunities in smart logistics, web3, metaverse and Southeast Asia, in order to grow our customer base, meet their growing digital demands and gain a greater share of their overall spending.

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

## Q&A

**Neale Anderson, HSBC:** *Two questions please. The first one relates to the final slide: emerging opportunities in smart logistics, web3, metaverse and Southeast Asia. Could you give us a little more detail on what your priorities are and where you believe TWM has an edge? The second question relates to the EBITDA guidance. I understand you're probably being conservative, but it does look low relative to the performance you achieved in 2021. Would it be possible to get a bit more color on where you think things might slow down, relative to the performance in 2021?*

**Jamie:** Thank you Neale. Those are the 4 key areas we will focus on in terms of emerging opportunities for 2022. Smart logistics will mainly be for supporting momo's growth. To capture web3 opportunities, we are looking into working with AppWorks startups. We are also developing services we can go to the market with, for the metaverse. As for Southeast Asia, we have already made investments in startups like TIKI and we're looking to increase our synergy with them.

**Jamie:** In 2021, we saw a demand surge due to COVID-19, resulting in a high base for momo EBITDA and broadband EBITDA. Taking that factor away from our guidance, this was management's best projection on what we can achieve for the year.

**Neale:** Thank you very much. Can I just follow up on the investment side? Do you have any parameters in terms of the amount or the size of the investments you might make in any of those areas or in total?

**Jamie:** The Board has a framework in place to evaluate the appropriate amounts of investment and it is probably above my pay grade to discuss that. But as you know, good opportunities are hard to come by, so it's more important to focus on finding these opportunities instead of thinking of investment as some sort of operation we can predict.

**Sara Wang, UBS:** *Two questions from me. First question is that given 5G capex already peaked, shall we expect a decline in total capex next year? The second question is related to the first question. Given that we have already observed a continuous improvement in our free cash flow as well as earnings, do we have any plans on increasing dividends?*

**Jamie:** I don't think we can comment on capex for next year. There are a few factors in play here. One is that we need to continue investing in logistics to support momo's growth and it's hard to predict the capex needed in 2023 to help momo maintain its leadership position. It is also above our pay grade to discuss dividend policies as it is decided by the Board.

**Rosie:** Having said that, we are always very committal to a stable dividend policy and have factored this into all our plans.

**Peter Milliken, Deutsche Bank:** *Let me start with my statement first. I'm looking forward to the day when I have a phone that lasts for 4 years. That would be a first. I'm curious as to what happens to your users when they break their phones, or something happens to it. What are the terms and how do you avoid that issue or any customer problems that may come out of it?*

**Jamie:** Are you referring to customers that have signed a longer period contract?

**Peter:** Yes.

**Jamie:** Got it. Number one, they can purchase an insurance with the phone that they acquire from us. Usually, a significant percentage of customers would do that so whenever something happens to their phone, insurance will cover it. On top of that, a significant percentage of our users prefer to bring their own device so some of them might switch to a new phone, that they hopefully bought from momo, in the middle of their 48-month contract. Those are some of the activities at play in the market right now.

**Jamie:** If there are no further questions, I guess we should call it a day. Thank you everyone for joining our conference call and we look forward to having you next time.

**Rosie:** Thank you.