

Taiwan Mobile
3Q19 Results Conference Call
November 8, 2019

Jamie Lin, President: Good afternoon, ladies and gentlemen. Welcome to Taiwan Mobile's third quarter 2019 investor conference call. Before I start our presentation, I would like to direct your attention to our disclaimer page, which states:

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Let us start with the business overview, I will start with the operating performance of our telecom business.

Stabilization in Telecom Market

Please turn to page 4.

In the third quarter, Taiwan Mobile outgrew the overall market in telecom revenue as we rolled off the tougher pre-499 base in service revenue, and recorded strong device sales from ICT projects and increased handset sales.

Thanks to mobile rate-plan profit rationalization and superior spectrum yield, Taiwan Mobile posted the smallest YoY decline in telecom EBIT for the third quarter.

Versatility

Now let us talk about Taiwan Mobile's versatile telecom strategy. With the launch of iPhone 11, we saw an upbeat increase in our third quarter iPhone bundle sales. Additionally, our ongoing upselling effort via promoting non-handset bundle plans yielded strong results: sign-ups for NT\$999 and higher rate plans more than doubled during the quarter.

The collaboration within group companies also took further steps during the quarter, as we introduced new digital convergence plans, which consist of high-speed broadband and unlimited mobile data services. The launch of the Taiwan Mobile store pick-ups for momo

purchases has significantly broadened business opportunities for both parties as well.

As for the enterprise segment, ICT, cloud, and IoT services recorded healthy growth on the back of new customer wins and increasing demand for M2M connectivity.

For IoT connectivity, we saw tailwind on connected cars and smart lighting and we expect it to accelerate in the next few quarters.

Resilience in Pay-TV Business

Turning to our pay-TV business.

Again, we fared better than other leading MSOs, with smaller losses in basic TV subscription and much higher broadband & DTV adoptions with the help of convergence. Not only did we continue to increase broadband and DTV penetration in our cable TV customer base, we also made more strides in higher-speed broadband take-up.

momo's Dominance in B2C Market

Moving on to momo, as we mentioned last quarter, momo remains one of the few e-commerce platforms that have delivered stable profits. In the third quarter, momo once again outpaced its peers by growing its B2C revenue by 31% YoY, thanks to higher average ticket size and number of transactions, increasing SKUs, plus collecting via Taiwan Mobile.

Overall gross margin was stable despite the rising contribution from 3C and home appliance in the B2C product mix, while operating margin also grew YoY, as a result of cost rationalization in TV shopping business and operating leverage from B2C business.

Now let me turn over the presentation to Rosie for our financial overview.

Performance by Business

Rosie Yu, CFO & Spokesperson: Hi, good afternoon.

In the third quarter of 2019, the YoY decline in pre-IFRS 16 telecom EBITDA decelerated to 4% as we rolled off the tough pre-\$499 base and had lower dealer commission, interconnecting costs and spectrum usage fees.

Pre-IFRS 16 cable TV EBITDA dipped by 5% YoY due to market competition but EBIT still grew by 13% as a result of falling depreciation of set-top boxes.

As for momo, in addition to its robust revenue growth, EBITDA surged by 26% YoY in the third quarter.

Let us move to the results summary page.

Results Summary

We are delighted to see that the YoY trend in overall operating income turned positive for the first time this year. In addition to the easier base mentioned earlier, effective cost control in momo's legacy business and its strong operating leverage were key factors in bringing about the solid performance. Meanwhile, the uptick in dividend income and the decrease in interest expenses caused non-operating expenses to plummet.

Overall, operating income for all major businesses was within management expectations for the first three quarters and net income reached 77% of the company's full year guidance.

Balance Sheet Analysis

Let's look at the balance sheet.

On the asset & liability front, the YoY surge in cash and accounts payable was driven mainly by momo's payments that were delayed by the typhoon holiday on Sep 30th, followed by momo's continuous growth and a more optimistic iPhone launch.

Gross debt declined by 15% YoY, following CB holders' conversion.

As for shareholders' equity, the increase in paid-in capital and capital surplus reflect the conversion of our CB, which had an outstanding balance of NT\$2.27bn at the end of the third quarter.

Looking at the ratios, the sequential hike in current ratio was within the seasonal pattern as we paid the accrued dividends payable in the third quarter. Benefiting from lower debt, our net debt to pre-IFRS 16 EBITDA remained at a low level of 1.16x.

Cash Flow Analysis

Moving onto our cash flow analysis.

Now that rental expenses are classified as financial cash flow as opposed to operating cash flow after the adoption of IFRS 16 this year, comparing on the same base, our third quarter pre-IFRS 16 operating cash flow still showed a YoY increase, even with the exclusion of the

typhoon holiday payable increase.

The increase in investing cash outflow was due to a higher inflow from the guarantee deposits we took back in the third quarter, a year ago.

As for financing activities, the net outflow was a result of dividend payments, which were mostly funded by an expansion in short-term borrowings.

The cumulative capex for the first three quarters declined YoY as we approached 4G spending late cycle, combined with momo's high capex base from the warehouse built last year.

After adjusting for the typhoon related one-off payment delay, our free cash flow for the first three quarters was flat YoY owing to lower capex and higher operating cash flow.

Now let me turn the presentation back to Jamie for event updates and key message.

5G Spectrum Auction

Let us turn to the 5G spectrum auction slide.

This slide summarizes the key information with regards to the upcoming 5G spectrum auction.

The auction is scheduled to begin on 10th of December this year and we expect it to conclude late December or early January next year. For the mainstream 3.5GHz frequency band, a total of 270MHz are available for auction with a floor price of NT\$24.3bn. The rollout requirement is 1000 base stations and 50% population coverage in 5 years.

Note that the rollout obligation applies to ALL successful bidders, regardless of bandwidth won. Furthermore, the second stage of the auction may not take place if the bidders come to an agreement with regards to location after the first stage of the auction.

CAPEX Update

Now moving on to our capex update.

momo's board of directors approved an additional capex of NT\$630mn to purchase a parcel of land for its South Distribution Center. Subsequently, Taiwan Mobile's FY19 consolidated capex guidance was revised to NT\$7.1bn from NT\$6.4bn previously.

Awards and Recognition

The second part of this slide summarizes the awards and recognitions we received in the third quarter for your reference.

Key Message

Finally, to wrap up our presentation, this slide summarizes the key message that we would like to deliver:

Margin disciplines have contributed to our operating income growth in third quarter 2019. Free cash flow stability provides good visibility to shareholder returns.

Looking ahead, efforts to extend our business value chains would be a long-term growth driver for Taiwan Mobile, besides satisfactory earnings growth contribution from e-commerce business.

Thank you. Now, I would like to open the floor up for Q&A session.