

Taiwan Mobile
1Q21 Results Conference Call
May 4, 2021

Jamie Lin, President: Good afternoon. Welcome to Taiwan Mobile's first quarter 2021 earnings conference call. Before I start our presentation, I would like to direct your attention to our disclaimer page, which states:

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Next let's turn to business overview, I will start with the highlights of the quarter.

1Q21 Highlights

In the first quarter, we saw decent top-line performance across our key businesses.

For telecom, our mobile service revenue turned YoY positive in March, benefiting from our growing 5G user base and continued monthly fee lifts from 4G to 5G upgrades.

Our e-commerce business, momo, continued its upbeat momentum, posting 25% YoY growth in e-commerce revenue in the first quarter.

Lastly, our broadband business delivered double-digit YoY revenue growth as we continued to cross-sell to our pay-TV and mobile customers.

As a result, consolidated revenue jumped by 11% YoY in the first quarter, a significant acceleration from the 7% YoY growth recorded a year ago.

Let's turn to slide 5 for a closer look at our mobile business.

5G Mobile Business – Growth Engine #1

Underpinned by our industry-leading 5G infrastructure roll-out with 3.5GHz high-speed band, Taiwan Mobile was the first telecom operator to reach 50% 5G population coverage, certified

by the NCC. With more than 6,000 3.5GHz base stations built, we are close to covering 70% of mobile traffic.

Superior product offering remained front and center in our 5G strategy. TWM offers the most comprehensive 48-month rate plan choices that bring most premium 5G handsets to \$0 bundled price. At the same time, our 5G Double Play, 好速成雙 in Chinese, and 5G momobile, mo 幣多 in Chinese, products leverage group resources to appeal to home broadband and e-commerce users in a way only Taiwan Mobile can. As a result, the monthly fee uplift in users upgrading to 5G reached 26% in the first quarter, resulting in a YoY increase of post-paid smartphone user ARPU in March, the first time since the 499 frenzy in 2018 or 34 months to be more precise.

Customers love the better coverage, better product offerings and better services we provide. As a result, our churn rate further declined to 0.85% in the first quarter and we expect it to remain at low levels.

Let's go to slide 6 for an update on our e-commerce business.

momo – Growth Engine #2

Despite a high base in online shopping demand spurred by the COVID-19 outbreak a year ago, we still grew e-commerce revenue by 25% YoY in the first quarter this year on the back of market share gain, while the total number of transactions increased by 21% YoY.

Going forward, as we ramp up the construction of our southern distribution center and further expand our satellite warehouses and in-house delivery fleet, we expect the share-gain momentum to continue.

In terms of synergies within the group, on top of allowing customers to pick up deliveries from TWM stores, offering free MyMusic streaming service to momo's VIP customers, and the momobile bundles mentioned earlier, we are in the process of building even more significant cross-selling programs.

Thanks to scale economies and operating leverage, e-commerce EBITDA soared by 58% YoY in the first quarter. Note that payment processing fee as a percentage of revenue decreased, as its private label credit card accounted for 23% of B2C sales in the quarter.

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

Broadband – Growth Engine #3

In the first quarter of 2021, we continued to fare better than our MSO peers in the YoY trends of basic TV subscriptions and broadband service penetration.

Demand for faster home broadband access including our 4G/5G Double Play packages continued to swell, lifting broadband revenue by 12% YoY. This more than offset the decline in basic TV revenue and turned overall CATV revenue positive at a 1% growth YoY vs last year's 1% decline YoY. EBITDA's YoY trend also stabilized.

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 first quarter of 2021, our consolidated revenue grew by 11% on a YoY basis, on the back of our robust e-commerce business and stabilizing telecom business. Mobile service revenue's YoY decline further narrowed and turned positive in March, which helped telecom revenue turn to a 2% YoY growth in the quarter.

Telecom EBITDA's 9% YoY drop was a result of higher subsidies from our upselling strategies and longer handset bundle contracts. However, the YoY drop narrowed sequentially, partially attributable to the low roaming business base from March onwards.

Our CATV business saw a stabilization in EBITDA's YoY trend, driven by broadband. However, EBIT turned to decrease YoY as D&A turned to increase YoY, due to our ongoing investment in broadband and new set-top-boxes.

momo continued on its growth trajectory propelled by robust e-commerce business, which posted a 25% growth in revenue and a 58% surge in EBITDA in the first quarter.

Let us move to Results Summary.

Results Summary

Similar to the previous quarter, 5G D&A and higher marketing costs weighed on the YoY performance of our consolidated operating income, while combined operating income of CATV and momo increased by 25% YoY in the first quarter. That said, consolidated EBITDA's YoY decline narrowed sequentially and already turned positive YoY in March.

Let's move on to Balance Sheet Analysis.

Balance Sheet Analysis

On the asset side, inventories rose YoY because of momo's business expansion, and a low base a year ago due to the undersupply of iPhone 11 amid the pandemic. PP&E rose on the back of 5G network rollout and land purchase for momo's southern distribution center.

As for liabilities, accounts & notes payable increased YoY in the first quarter on the back of our growing e-commerce business, but was partially offset by the supply tightness of iPhone 12 Pro. Higher 5G equipment payable to Nokia along with growing online purchases from mobile users are reflected in the YoY rise in other current liabilities. Net debt to equity/EBITDA improved sequentially as a result of lower cash capex.

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

Cash Flow Analysis

The YoY decrease in operating cash inflow was due mainly to higher handset subsidies from our longer handset bundle plans, larger payment made in the quarter due to the late release of iPhone 12 in the fourth quarter last year, and lower iPhone availability amid COVID-19 related supply shortage a year ago.

Other than 5G related capex and license fees which caused the QoQ and YoY drop respectively, the main investing activity in first quarter was momo's full divestment of Taiwan Pelican Express shares.

Cash capex rose YoY in the first quarter on the back of 5G deployment, which started in the second half of 2020, but has declined sequentially, resulting in a QoQ improvement in free cash flow. We also expect to receive the government's 5G subsidies by end of this year.

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

2020 Earnings Distribution

Jamie: On May 4th 2021, Taiwan Mobile's Board approved the proposal to distribute NT\$12.1bn in cash dividends, translating to around 4.3% yield to shareholders.

Dividend per share is NT\$4.30 on 2.81bn shares, excluding treasury shares held by 100%-owned subsidiaries. Post earnings distribution, there will be NT\$38.5bn of excess reserves remaining.

Awards and Recognition

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:

Taiwan Mobile is currently growing at full speed and expects to further accelerate as our 3 main growth engines, 5G, momo and broadband, continue to gain traction. As a result, we are on track to reach our 2021 guidance for consolidated EBITDA. Given that 5G capex has peaked, our free cash flow should also improve over time.

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