

**Taiwan Mobile**  
**4Q20 Results Conference Call**  
**February 25, 2021**

**Jamie Lin, President:** Good afternoon everybody. Welcome to Taiwan Mobile's fourth quarter 2020 investor conference call. Before I start our presentation, I would like to direct your attention to our disclaimer page, which states:

The information contained in this presentation, including all forward-looking information, is subject to change without notice, whether as a result of new information, future events or otherwise, and Taiwan Mobile Co., Ltd. (the "Company") undertakes no obligation to update or revise the information contained in this presentation. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is the information intended to be a complete statement of the Company, markets or developments referred to in this presentation.

Now, let's turn to business overview. I will start with operational highlights for 2020.

**2020 Operational Highlights**

Looking back at 2020, our mobile business in the second half took the lead in 5G infrastructure build out, which resulted in significantly better 5G coverage than peers. That, coupled with the release of attractive 5G smart devices, including Samsung Note 20 and iPhone 12 lines, served as tailwinds and kicked off the revenue turnaround of the business. By the end of 2020, we successfully signed up more than 465K 5G users, representing 6.4% overall and 8% postpaid penetration, leading the industry. More importantly, our postpaid smartphone monthly fee has recorded sequential growth since September 2020.

Our momo e-commerce business, on the other hand, continued to post robust momentum both on the top- and on the bottom-line, as we increased our market share following continued investment in industry-leading logistic infrastructure and leveraged our group's resources, such as direct store pick-up and cross-selling to mobile customers.

2020 net income came in ahead of management guidance by 1%. Headwinds from 5G-related D&A and plunged roaming business due to travel restrictions amid COVID-19 were more than offset by SG&A savings and momo's better-than-expected contribution.

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

### **Mobile Business in 5G Era**

Increasing 5G handset options coupled with the popularity of 5G unlimited data plans starting at \$1399 spurred the faster-than-expected 5G adoption and provided solid upselling momentum for our mobile business.

In the fourth quarter, close to 90% of our 5G sign-ups opted for \$999+ plans, while over 80% of customers who signed up for iPhone 12 series bundles opted for \$1399+ plans. As a result, monthly fee lift for users upgrading to 5G reached 24% since launch, hence the aforementioned sequential improvement in our postpaid smartphone monthly fees.

Furthermore, our Double Play bundle (unlimited mobile data + high speed home broadband) continued to be a major attraction for subscribers in the fourth quarter, with 24% of new sign-ups opting for 500Mbps+ home broadband services.

Our efforts in customer retention via differentiating bundle plans have paid off, evidenced by our falling postpaid churn rates in the past few years. With our strategy to lock in high ARPU customers into longer bundle contracts, we expect the churn rate to remain at low levels going forward.

Let's go to slide 6 for an update on our cable TV business.

### **CATV Business – propelled by Broadband**

In the fourth quarter of 2020, we continued to fare better than our MSO peers in the YoY trends of basic TV subscriptions and broadband service penetration.

Supported by the growth in TV content aggregation revenue and accelerating broadband momentum, CATV revenue went up by 5% YoY in the fourth quarter. Meanwhile, demand for faster home broadband access including the Double Play packages continued to swell, lifting cable broadband-related revenue by 11% YoY. Coupled with YoY declines in D&A, EBIT grew 5% in the quarter.

Last but not least, let's take a look at our growth engine, momo, on slide 7.

### **momo – the Growth Engine**

As the e-commerce leader in Taiwan, momo continued to grab market share from both online peers and offline retailers, and delivered smashing results during the Double 11 shopping festival. For the full year, the total number of orders surged by 36%.

Logistics remains a key focal area for momo. In addition to ongoing expansion of the in-house delivery fleet, which already accounted for 11% of its last mile delivery, three more satellite warehouses were added in the fourth quarter. This takes the total number of satellite warehouses to 22, 8 more than a year ago, further increasing our lead in infrastructure capabilities.

As a result of increasing scale and operating leverage, momo's 2020 e-commerce EBITDA margin improved meaningfully from 2019, resulting in the 55% boost in absolute EBITDA numbers. Payment processing fee as a percentage of revenue also dropped, as its private label credit card already accounted for 27% of its B2C sales in the fourth quarter.

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 2020, our consolidated revenue grew by 13% on a YoY basis, mainly driven by momo's robust e-commerce business. Mobile service revenue saw a sequential recovery which helped narrow telecom revenue YoY decline to 1% in the quarter.

In the quarter, our telecom EBIT recorded YoY drops, mainly due to higher subsidies from upselling strategies and longer handset bundle contracts, plummeting roaming business due to travel restrictions, and 5G spectrum amortizations.

For our CATV business, although 4<sup>th</sup> quarter EBIT still rose by 5%, the YoY decline in D&A further narrowed in the quarter, with investments in broadband and set-top-box.

momo continued on its growth trajectory in the 4<sup>th</sup> quarter, propelled by its seasonally and structurally strong e-commerce business, posting a 30% surge in revenue and further expanding its EBIT by 42% in the quarter.

Now let us move to Results Summary.

### **Results Summary**

In 2020, consolidated revenue was roughly in line with Company forecast, supported by our robust e-commerce business.

Despite 4<sup>th</sup> quarter operating income falling short, attributable to higher-than-expected

marketing costs associated with much faster 5G adoption, full year operating income beat forecast thanks to SG&A savings and momo's contribution. Combined EBIT contribution of momo and CATV reached 28% of our FY20 consolidated operating income.

FY20 non-operating expenses were significantly below Company projections, due mainly to lower-than-expected financing costs along with higher-than-expected dividend income from investees. Net income reached 101% of our full year 2020 guidance.

Let's move on to Balance Sheet Analysis.

### **Balance Sheet Analysis**

On the asset front, PP&E rose YoY and QoQ on the back of the 5G network rollout and land purchase of momo's southern distribution center. The acquisition of 5G spectrum resulted in the YoY surge in concession.

On the liability front, we managed to reduce bank borrowings in 4<sup>th</sup> quarter, aided by healthy operating cash flow generated in the quarter. The YoY rise in net debt to EBITDA was associated with the incremental debt we took on for 5G spectrum acquisition.

As for shareholders' equity, the YoY and QoQ changes in paid-in capital and capital surplus were insignificant as the majority of our convertible bond had already been converted.

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

### **Cash Flow Analysis**

The YoY surge in 4<sup>th</sup> quarter operating cash inflow was attributable mainly to a low base from a year ago, as 3Q19 payables such as iPhone 11 inventory, merchandise, and tax were postponed to 4Q19 by the typhoon holiday.

Other than 5G related capex, the main investing activity in 4<sup>th</sup> quarter was the sale of Taiwan High Speed Rail shares.

The YoY rise in cash capex reflects our 5G infrastructure roll-out, having built around 6000 base stations by the end of 2020. The difference vs. our capex guidance will be paid in 2021.

Our full year 2020 free cash flow calculated with pre-IFRS 16 operating cash flow was NT\$16.2bn, translating into a free cash flow yield of 5.8%.

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

### **Awards and Recognition**

**Jamie:** Let's look at page 14. This page summarizes the awards and recognitions we received during the quarter, for your reference.

Now, let me walk you through our 2021 guidance on slide 15.

### **2021 Guidance**

In 2021, we expect consolidated revenue growth to accelerate to 12-15%, up from 6.8% in 2020, lifted by our momo and mobile businesses.

To ensure growth, we will be investing in mobile subscriber acquisition and retention, focusing on longer contracts to lock in ARPU and prevent future churn, along with adding premium cable broadband subscribers. As a result of these investments, we expect combined EBITDA to be flat to slightly down in 2021.

Separately, we expect the government's 5G-related subsidies to offset part of our rising 5G D&A but the benefits will not be significant until 2022.

For 2021 capex, a total of NT\$11.8bn was approved by the board, of which telecom capex is to be halved compared to 2020, as we are ahead of the pack in terms of the number of 5G base stations running at 3.5GHz frequency band. Cable TV capex is to increase to facilitate cable broadband business growth, and momo capex is to rise due to the construction of its new South Distribution Center.

### **Key Message**

Finally on page 16, to wrap up our presentation, here is the key message we would like for you to take away:

With momo firing on all cylinders and mobile ARPU seeing an uplift from better 5G coverage and more compelling bundles, accelerating top line growth will be our No.1 priority in 2021. We believe that this will translate into greater shareholder value in the long run.

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

## **Q&A**

**Jack Hsu, SinoPac Securities:** *I have two questions. My first question is about the expense. We have this situation where we need to recall the A32 handset. Could you give us some color about how many we need to recall? How does this recall affect the income statement in 2020, 2021? Is that included in our guidance for 2021?*

**Jamie:** With the A32, the recall has been progressing better than we expected, with most customers opting for a pure software update. On top of that, around 10% of the customers who are opting for a phone upgrade are opting for a retention contract with us, with our supplier paying for the additional subsidy. So right now, we are expecting the impact to our income statement to be neutral.

**Rosie:** Zero impact.

**Jack:** Zero?

**Rosie:** Yes, meaning our supplier will reimburse us for all the claims or costs associated with the recall.

**Jack:** Yes, okay. My second question is, do we have any target regarding 5G subscribers at the end of 2021? Do we have figures about 5G base stations in Taiwan and our target for 2021? How many base stations have you deployed at the end of 2020?

**Jamie:** In terms of 5G user target, we're observing a pace of around 1% to 1.5% penetration per month. Right now, we don't expect that to change course throughout the rest of the year. In terms of 5G base stations, like Rosie said, we already built close to 6,000 3.5GHz high-speed 5G base stations and we're leading the pack in terms of deployment so we will be building methodically this year.

**Jack:** So can we expect the coverage in Taiwan to be above 80% at the end of the next year?

**Jamie:** Right now we're expecting to be covering close to 70% of the traffic by the end of this year.

**Neale Anderson, HSBC:** *Two questions please. The first one relates to the telecom business, if you could give us any more color on the specific moving parts. I see you're guiding for revenues up 4%-6% YoY and you say your postpaid trend is improving since*

**September. So what's the split this year between prepaid and postpaid and are you expecting more equipment revenue? In terms of EBIT, is it correct to say that there will be quite a big incremental increase in D&A from your 5G investment in the 5G spectrum? Is that what you expect to drag down the telecom EBIT in 2021? The second one relates to the broader company guidance. You're not putting out EBIT or net income guidance. I was wondering why that was.**

**Jamie:** Let me clarify, the first question you're asking is postpaid in terms of percentage of revenue?

**Neale:** Well, just to get your sense of which way the different moving parts are going in the telecom business. It seems that you should get quite a good positive effect from 5G adoption through this year, and you said that's already coming through in postpaid, but I guess it sounds like that's going to be offset at the EBIT line by higher D&A. So I was just hoping for more color around that, whether I've got the right understanding.

**Jamie:** So in terms of the 4%-6% growth with our telecom business, it's partly from our ARPU growth and postpaid growth, and partly from our expectation that handset sales will grow. The percentage of customers opting for a handset bundle will be higher. Yes, the D&A will be a headwind to our bottom line. The reason why we're only giving a guidance is because we're following the international practice.

**Billy Lee, Credit Suisse AG: I've got 2 questions here. The first question is just on the number side. What is the 5G penetration right now? Second, I also want to get more color from you regarding the ARPU uplift. What was the average ARPU uplift when 4G customers upgrade to a 5G contract?**

**Jamie:** By the end of 2020, our 5G penetration amongst all customers was 6.4% and amongst postpaid users was 8%. When a user upgrades to 5G, the monthly fee lift is, on average, 24% since launch until the end of 2020.

**Jack Hsu, SinoPac Securities: I have 2 questions. My first question is, we mentioned that ARPU will grow in 2021, how will ARPU grow in 2021? Is that from the 5G launch or are there other reasons for the growth of ARPU in 2021?**

**Jamie:** Yes, one of the main drivers will be customers upgrading to 5G. Like I said, it will

produce a 24% monthly fee increase when they do that. On top of that, we're also expecting some of our tech businesses to produce meaningful contribution. For example, in our game publishing business, we worked with world-class game developer Riot to publish their popular title League of Legends: Wild Rift, which already garnered almost 2.5 million monthly active users since the first month. On top of that, our other tech businesses, such as direct carrier billing, is expected to grow healthily in 2021.

**Jack:** Just one follow-up question, we talked about the game business. How much of our revenue is related to the game? Do we have any of these figures?

**Jamie:** I'm sorry, at this point we will not be disclosing that figure.

**Jack:** Okay. We say it is small now, but will this business grow in the following year, maybe 2 or even 3 years?

**Jamie:** Yes. Compared with our mobile business, the revenue contribution percentage is not huge but it will produce a healthy growth momentum for us.

**Jack:** Okay, I see. Is the volatility of this kind of business large or not? I'm not quite familiar with this kind of business.

**Jamie:** When we look at the game industry, there are games that are a short-lived. There are also games that have a really long shelf life. The game that we're publishing with Riot is the mobile version of the League of Legends game. The League of Legends game has been in the market for over a decade and it's still one of the most popular e-sports games in the world so we're expecting the Wild Rift version, the mobile version, to be a relatively long shelf life product.

**Jack:** Okay, I see. It's a very good business and I hope it will grow a lot. My second question is about ARPU growth. Do we have any target for ARPU growth? For mobile or the CATV? Do we have targets for ARPU at the end of 2021?

**Jamie:** Yes, internally, we have very aggressive targets but unfortunately, we are not disclosing related measures publicly at this point.

**Jack:** I see. But will that grow maybe above 10% at least at the end of 2021?

**Jamie:** I think by that time, we'll take a look. I think in our presentation, we have some clues



right? We're saying 5G penetration will be 1%-1.5% per month and then users upgrading to 5G would produce a 24% monthly fee lift. I think that's enough clues to make a model around it.

**Kaz Soma, Fidelity:** *Just quickly on your EBITDA margin guidance, could you help me understand what the primary reason is for EBITDA margin deterioration? You're expecting a pretty healthy top line growth but you're expecting EBITDA to be flattish almost. Is that because of 5G? Because you're going to have more tower sites and each base station will consume more electricity? Is that the primary reason or is it something else?*

**Jamie:** I think there are two drivers behind it. Number one, if you look at the numbers that we're giving, you can guess that a big portion of the growth would be produced by our e-commerce business, which naturally has a lower EBITDA margin versus our mobile business. Then on our mobile side, we're going to drive revenue growth through longer contracts and higher ARPU bundle products, which would mean that we need to put down a higher subsidy now and reap the benefits 2-3 years down the road. That will also help us minimize our churn. So essentially, this year, we're investing for the future. That's why we're not expecting our EBITDA margin to grow as fast as our top line. However, we think that the investment will produce the best longer-term shareholder value.

**Kaz:** Okay. My next question is, your management recently mentioned in a newspaper interview that Taiwan Mobile is seeking to create an Amazon of Southeast Asia or Asia in the next 10-15 years. So I'd like to better understand what your ambitions about this would be. What is your investment plan for the Southeast Asian expansion in terms of e-commerce going forward?

**Jamie:** Yes. Right now momo is spearheading our Southeast Asia expansion. They have set up a pretty strong foothold in Thailand and are implementing measures there to accelerate their growth in that market. Next, momo will be looking for partners in other major Southeast Asia economies and enter their B2C e-commerce industries. Right now, if you look at Southeast Asia, they're still in the early days of e-commerce penetration. Like we talked about in previous conference calls, the economy usually starts from a C2C model and as the e-commerce markets mature, there will be a transition into the B2C model. momo, having expertise in B2C, is waiting for the right timing to enter markets such as Indonesia, Vietnam, or Philippines, with the right partners. That is our Southeast Asia expansion strategy #1. Somewhere in the near future, our other tech business models will also find the right timing to expand, following momo's footsteps, across Southeast Asia. We'll have more information this year regarding

when we are doing that.

**Kaz:** Okay, that's very interesting. Regarding your tech ambition, do you have any plan to launch or enhance your e-wallet strategy? One of your competitors, like Shopee, has been putting a lot of effort to increase e-wallet in Taiwan or in Southeast Asia. I understand that credit card penetration in Taiwan is pretty high so people are not really underspending. Would you like to put more effort in enhancing your ambitions for e-wallet or is it not your focus anymore?

**Jamie:** We don't think operating a wallet as the best strategy in terms of serving people's payment needs. We think that users would have different types of payment needs under different scenarios, and we want to solve some of them if it makes sense for both the customers and us. If you look at our direct carrier billing business, it's amongst the largest in Taiwan. It's essentially solving many of our customers' needs to buy virtual items off of Google Play and App Store when they don't have the proper instruments to pay for them. It has also grown to a pretty significant size. On top of that, we also have peer-to-peer payment functionalities that we implemented in our M+ Messenger. In terms of payment volume, it's also one of the top players in the market. We don't advertise that but it solves a very specific need for people and people are using it, and every month it's growing. So these are 2 examples of us doing things to solve users' payment needs at the right scenario. Going forward, we're going to implement a few more of these but so far we don't foresee ourselves running an e-wallet per se.

**Kaz:** Okay, that's very helpful. My last question is, how would you describe the current competitive environment for 5G? Is it stable or do you think differently?

**Jamie:** Right now, I would say that the 5G competition landscape is less cutthroat than 4G and it's probably partly because of the high entry barrier. The fact that spectrums are auctioned off at such a high price and that base station unit prices are higher than 4G, gives the players less incentive to act irrationally.

**Ryan Jin, UBS:** *My first question is on the 5G ARPU uplift of 24% you guided. I know that you have just elaborated on some of the factors that are leading to ARPU growth but do you foresee this 24% being maintained in the coming quarters? I do think that it is higher than what has been previously guided by other peers; I think it was around 10%-15%. How should we think about the 24% going into the next few quarters? My second question is on the partnership with momo. I know there may be some*

***opportunity areas for Taiwan Mobile to build a private 5G network in momo's warehouses and satellite warehouses. Can we get some updates on that?***

**Jamie:** In terms of the staying power of the 24% monthly fee lift, it's hard to say at this point because early adopters would be interested in signing up for a higher rate plan but they will also be coming off from a relatively higher rate plan. So over time, as 5G penetrates through the consumer base, you would have people coming off a lower and lower average ARPU. Yes, the absolute number of their new ARPU might be lower than early adopters but I'm not sure if the percentage difference will be that much different. We're just essentially saying that maybe 24% will remain but it's the absolute numbers that are moving downwards. Then in terms of the momo 5G private network partnership, it has been progressing steadily. When we have more progress, more milestones, we will be sharing them.

**Billy Lee, Credit Suisse AG:** ***Are we having a guidance for earnings or EPS and dividend this year? I noticed there isn't an EPS or earnings guidance, which we had last year, so just wondering if we have that number. Also, what's the outlook for dividend payout?***

**Rosie:** We don't have a guidance for EPS anymore, to follow international practice, just as Jamie mentioned. On DPS, it will be decided by the Board every April so I have nothing to share with you. As you all know, we are very committed to a very stable dividend policy.

**Kaz, Fidelity:** ***Just a technical question: how do you account for government subsidies going forward? I just want to better understand how government subsidies will affect your financial statement, especially P&L, because it may affect depreciation expenses.***

**Rosie:** It will be booked in other income.

**Kaz:** Okay. So, you will invest right? You will do capex and then you will recognize depreciation from that investment? Separately, you just book government subsidies in the P&L? That's how it works?

**Jamie:** Yes, the government subsidies will be booked into other income. You can think of it as a deduction item to the D&A.

**Kaz:** Okay, that's very helpful. My last question is, how do you think about network sharing with other operators going forward? For example, Far EasTone tied up with APT. Do you think

it makes sense to do network sharing with someone else or are you happy with the current situation?

**Jamie:** In the long run, we think yes, it will make economic sense to do network sharing with the right partners. Right now, we're not engaged in any such discussion and we're pretty happy with how things are going so far. Like I said, we led the pack in terms of 3.5GHz high-speed 5G rollout and we're also leading in terms of 5G penetration. So the fact that we can move rather quickly is beneficial in the beginning of a rollout.

**Jack Hsu, SinoPac Securities:** *I have one question. Could you give us the quarterly guidance? Maybe the first quarter or the first half of the year's revenue guidance?*

**Rosie:** We don't do quarterly guidance now.