

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 CATV 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

On 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 30, 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\$0.63bn 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.

Q&A

Jack Hsu, SinoPac Securities: *I have two questions. First is regarding capex; we see that capex increased from the second quarter. Is this for new base stations or is it for something else? My second question is about 5G. The auction will start in December; can you give us some color about the 5G spectrum strategy?*

Rosie: For your first question, mobile capex in the third quarter increased slightly from the second quarter. It was more of a timing issue but for the whole year, our mobile capex will still be within the guidance. 2019 capex will still be lower than 2018.

Jamie: In terms of 5G auction strategy, overall, we have expressed that we are going to be methodical about it. We see it as a 10-20 year process. We are going to participate but we are going to be rational about it.

Jack: Just one follow up question, could you give us your viewpoint on the iPhone 11? Sales in telco has been good, do you think it can beat the sales revenue in 2017 or 2016?

Jamie: We continue to observe stronger iPhone sales than the previous year and right now, we are feeling pretty good about it. When the party will end is a harder question but of course, we would like the party to go on for a long time.

Peter Milliken, Deutsche Bank: *A question about the 5G auction: any thoughts on the costs of rolling out 1000 base stations and 50% population coverage on the 3.5GHz? Related to that, is it expected that all five telcos will bid in the auction?*

Jamie: In terms of cost, we are expecting each station to cost anywhere between USD \$100k-200k depending on the actual vendor and technology we choose. If you multiply that by 1000 and add the cost for the core network, then you get a pretty close ballpark number of the actual capex you have to spend in terms of rolling out the first 1000 stations. In terms of covering 50% of the population, it takes around 4000-6000 stations depending on your deployment strategy.

Peter: Thank you for that. Has there been any word whether all five companies are still looking to bid?

Jamie: All five mobile carriers have submitted their applications but we have no idea if other players are committed to participating in the bidding. Also, there will be an interview process and there is a slight chance the authorities might disqualify applicants if they so deem it.

Peter: Got it. One final question, your key message on the last page of the presentation includes a statement: "Looking ahead, efforts to extend business value chains would be long-term growth drivers for Taiwan Mobile." Those business value chains, is that referring to momo and IoT-type of things or is there more to it I might be missing?

Jamie: Yes Peter, I think you got us correct. We talked a little bit about the collaboration or the convergence between our mobile business and our cable business, as well as our telecom business and our e-commerce business. Looking forward, we see this type of vertical integration as a key growth driver for our longer-term value generation.

Amber Lee, Yuanta Securities: *I have one follow up about cost for base stations. That number was for 5G, what about 4G? What was the cost in the past years?*

Jamie: 5G base stations are 2-4x more expensive than 4G. If you want to look at the multiple, that is the ballpark.

Jack Hsu, SinoPac Securities: *I have two questions. First question: will we change our*

financial forecasts for the whole year? My second question is about the cable business. Recently we got information from your peers; they say price competition is still fierce. What is that strategy for your company to face this kind of situation?

Rosie: We do not have any plan to change our forecast for this year. For cable TV competition, the current competition is not in the areas that we provide services. Longer-term, we will sell more services into the same household. That is the way we grow the business.

Jamie: If you look at DTV and broadband penetration, we are one of the highest among our peers and we are also growing at one of the fastest speeds in those two services within the realm of home business. One of the reasons for this is the convergence bundles we offer as a group. Going forward, we see an acceleration in terms of providing bundled packages through our convergence program so we are probably going to grow our DTV and broadband products much faster than our peers.

Jack: Just one follow up question, could you give us the depreciation cost for cable TV for the whole year or just one quarter?

Rosie: If you go on our website, we do have the details you are looking for.