Taiwan Mobile

4Q18 Results Conference Call

January 31, 2019

James Jeng, President: Good afternoon. Welcome to Taiwan Mobile's fourth quarter 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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For the business overview, I will start with the operating performance of our telecom business.

Increase in Free Cash Flows

For telecom service revenue and telecom EBITDA, we provide investors with YoY changes on both pre-IFRS and reported basis. Despite the adoption of IFRS15 starting from 2018, **we believe the pre-IFRS numbers better reflect our operating results and cash generation capabilities.**

In 2018, our pre-IFRS telecom service revenue declined by 8% YoY, mainly due to higher take-up rate of SIM-only plans, softer demand for high-end smartphones, and lower domestic roaming and voice revenues.

However, thanks to higher penalty income and lower expenses, **our pre-IFRS telecom EBITDA for full year 2018 increased by 3% YoY.** With prudent capex control, we further increased our free cash flow to NT$21.3bn.

Cross-Selling Supporting Growth

For the **video streaming** business, by teaming up with leading cable MSOs, we continue to expand our customer base from mobile users to fixed broadband users with big screens. In 2018, aided by richer video line-ups, we increased customer stickiness by doubling our monthly active users while the number of video viewed reached 4 times that of previous year. As a result, revenue from video streaming grew around 20% YoY.

For the **fixed broadband** business, we saw a 6% YoY increase in the subscriber base, thanks to effective cross-selling. With the fixed broadband penetration rate of our pay-TV reaching only 40% in 4Q 2018, there is still room to grow. A larger fixed broadband subscriber base also bodes well for our video streaming business in the future.

Enterprise Business – The Bright Spot

As to our **enterprise business**, ICT stood out with 94% YoY revenue increase while cloud and IoT also grew steadily. Our cooperation with Quanta and Asustek to build a national level AI cloud platform was the key highlight for the ICT business in 2018.

momo – Crown Jewel

Now let us move on to **momo's** operational highlights.

In 2018, momo's **total revenue** grew by **26% YoY** on the back of strong momentum from B2C e-commerce division, where average ticket size grew by 8% YoY, and number of transactions grew by 24% YoY. The **total EBITDA** also grew by **15% YoY.**

Let me turn the presentation over to Rosie for the financial overview section.

Performance by Business

Rosie Yu, CFO & Spokesperson: In the fourth quarter, **consolidated revenue decreased by 1% YoY** as momo's strong revenue growth largely offset the decline in telecom business. **Pre-IFRS 15 EBITDA increased by 3% YoY**, thanks to lower handset subsidies and channel commissions in the telecom business.

For full year 2018, **consolidated revenue grew by 1% YoY**. In addition to momo's strong growth, our mobile value-added services, cloud, IoT and ICT services also grew steadily throughout the year. While **pre-IFRS 15 EBITDA grew by 3% YoY**, downward bundle sales adjustment to the **reported financials**, which had no cash flow impact, increased by NT$2bn YoY.

Results Summary

In the fourth quarter of 2018, strong showing from momo and lower non-operating expenses resulted in a 27% YoY increase in net income. We missed 4Q guidance due to lower-than-expected high rate plan and high-end phone bundled sales, despite that pre-IFRS profit came in better than expectations.

For full year **2018, revenue was 4% lower** than the Company's expectations, owing to customers' shifting appetite to lower-tier rate plans. That said, through business diversification and rigorous cost and expense rationalization, both our operating and net income achieved Company's guidance, making Taiwan Mobile **the only one amongst the big 3 telecom operators that achieved EPS guidance for 2018.**

Balance Sheet Analysis

Now let's move on to balance sheet analysis.

On the **asset front**, the YoY decrease in current asset was driven by declines in receivable and contract assets, as handset replacement cycle lengthens and demand for high end smartphone wanes. The YoY decrease in other current assets was due to lower guarantee deposits in 2018.

For non-current assets, concession and equipment values came off YoY reflecting the end of 3G service, while the increase in other non-current assets was related to the adoption of dealer commission capitalization accounting treatment since the beginning of 2018.

On the **liability front**, our gross debts decreased nicely YoY as we paid down debts with healthy free cash flow.

In terms of **financial ratios,** our net debt to EBITDA ratio improved to 1.4x and our current ratio also rose to 69% vs. 57% a year ago. **ROE** at the end of 2018 stood firmly above 20%.

Cash Flow Analysis

For the full year, **the YoY decrease of operating cash inflow** was mainly related to changes in accounts payables as a result of falling handset sales.

As for **investing cash flow, the YoY decrease in outflow** was due to lower capex, higher license fee base in previous year, and more cash released from guarantee deposits with the regulator.

In terms of **financing cash flow,** the main outflow item in 4Q18 was the repayment of the 7-year corporate bond. For the full year, we issued unsecured corporate bond of NT$15bn in April 2018 which helped pay down short-term and long-term debts.

With **capex falling by 13% YoY**, full year 2018 **free cash flow** reached NT$21.28bn, up 4% YoY, translating to **free cash flow yield** of 7.3%.

Let me turn the presentation over to James for 2019 guidance and event updates.

2019 Guidance

James: In terms of 2019 outlook,

For telecom business - In 2019, NB-IoT, cloud service, IDC business and OTT related services will be on their upward trajectory.

Mobile monthly fees in 2019 are expected to be similar to current levels while lower voice minutes of use and mobile interconnecting rate will weigh on mobile ARPU.

Despite our effort in mobile offering differentiation and customer acquisition cost reduction, we expect a **10% YoY decline in telecom EBIT** due to three major factors: 1) lower ARPU due to the $499 frenzy, 2) no $499-related penalty income in 2019, and 3) no domestic roaming revenue in 2019.

For other businesses, the combined EBIT of our cable TV business and momo will represent 21% of our total EBIT in 2019, with respective EBIT growth rates of 10% for cable TV and 5% for momo.

Stable free cash flow generation is expected in 2019 as savings in cash capex compensates for the decline in operating cash flow.

For Capex guidance:

Out of the total capex of $6.4bn planned for 2019, we expect telecom capex to decline by 25% YoY, cable TV capex to increase by single-digit percentage point, and momo capex to halve despite continued business expansion due to high base from 2018 for its mega automated warehouse.

Event Updates

The next page shows our event updates.

First, the Board resolved to participate in establishing LINE Bank, an online-only bank, with investment amount of NT$500M for a 5% stake.

Second, the recognitions we've received in the fourth quarter of 2018 for your reference.

Key Message

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

> With strong footholds in e-commerce and OTT services plus leveraging expanding residential broadband user base on content bundling, Taiwan Mobile is better positioned than other telcos in Taiwan. The growing cloud, AIoT, and ICT businesses, coupled with capex downtrend, will support TWM's stable free cash flow generation capabilities and future growth.

Now I would like to open the floor for the Q&A section.