Taiwan Mobile

1Q23 Results Conference Call

May 8, 2023

Jamie Lin, President: Good afternoon, everyone. Welcome to Taiwan Mobile's 1st quarter 2023 earnings conference call. Before I start our presentation, let's first go over our disclaimer as per usual:

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. (or hereafter 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 that we are done with the housekeeping, let's head straight to business overview. Please turn to page 4 for highlights of the quarter.

1Q23 Highlights

In 1Q23, consolidated revenue rose by 8% YoY, underpinned by solid momentum from our three core engines namely - mobile, e-commerce and home broadband.

During the quarter, our mobile service revenue YoY growth accelerated to 5.4%, the fastest pace since 5G service launch in 3Q20. Our smartphone postpaid subs also exceeded 5.8mn, rising by 2.3% YoY. This was driven by our unique bundles, continued 5G conversion, improving 4G pricing environment, and recovery of roaming business.

On the other hand, momo continued to outperform its peers and recorded double-digit e-commerce revenue growth in the quarter.

Our home broadband business delivered 7% revenue growth in 1Q23, aided by our expanding footprint.

With telecom service revenue growing at 6.2% YoY, the highest level since turning positive in 2Q21, telecom EBITDA and consolidated EBITDA both saw a 3% YoY uptick in 1Q23.

Next let's turn to page 5 for a closer look at our mobile business.

Mobile – Growth Engine #1

Our smartphone postpaid ARPU growth accelerated to 3.3% YoY in 1Q23, from 1.5% a year ago. So more than double. In addition to steady monthly fee uplift from unique bundles and 5G renewals, our roaming revenue recorded another 47% sequential increase and recovered to over 60% of pre-COVID levels as international travel further recovered. Moreover, our handset bundles sold during the quarter grew 12.7% YoY, outperforming the overall handset market which was down by 7% during the quarter. This also contributed to our superior ARPU and MSR growths.

Our unique bundles, including momobile, Double Play, Disney+ and OP Life, continued to support rate plan mix improvement. Accumulated users across these product lines rose further and passed the 1mn user milestone, accounting for 19% of our smartphone postpaid user base. momobile users' contribution to momo's e-commerce revenue grew to 9.7% by the end of March, up from merely 3.5% a year ago. Meanwhile, close to 60% of our Double Play users are on $999 or higher rate plans, notably higher than the company average. As for OP Life bundles, over 50% of sign-ups were for $1399 or higher rate plans and the proportion of users on 48-month or longer contracts was significantly higher than that of our regular 5G handset bundles.

This wide variety of offerings, as well as the ongoing investment in longer handset bundle contracts, helped enhance our customer stickiness and resulted in a postpaid monthly churn rate of 0.71% in 1Q23, setting another record low in company history.

Now let's turn to page 6 for updates on our e-commerce business.

momo – Growth Engine #2

Despite an already high revenue base, momo managed to maintain double-digit top-line growth without sacrificing its profit margins. Both e-commerce take rates and EBITDA margin were stable on a YoY basis, resulting in a 12% YoY rise in e-commerce EBITDA.

On the logistics side, we had 55 warehouses as of quarter-end, 7 more than a year ago, while total warehouse space rose by 31% YoY. The southern distribution center should be up and running towards the end of this year or early next year, with the central distribution center to follow in a few years, expanding the coverage area of our rapid deliveries and raising the bar for the industry.

As for momo coin and its ecosystem, we will continue to focus on broadening its usability and introducing customer loyalty programs dedicated to our momobile bundle users. In fact, we will be hosting our first-ever momobile members day on May 20th. During that day, a wide variety of deals exclusive to momobile users will be available on momo's platform for 24 hours. We expect events like this to further enhance stickiness and help us gain wallet share.

I am excited to announce that TWM has recently launched its very own Buy Now, Pay Later service, called OP Pay Later or 大哥付你分期 in Mandarin, which means "Big brother can pay first then you can pay in installment." It launched on momo on April 27th. This innovative payment solution offers a seamless experience for TWM postpaid users. There's no need for registration, ID uploads, or approval waiting times. When checking out on momo, customers can effortlessly select OP Pay Later to complete their purchases in just three simple steps. This marks TWM's pioneering venture into the Telco Finance sector. By harnessing our extensive user base, data, and AI models, we are able to determine the ideal credit limit for each customer. This ensures increased financial flexibility for them while also reducing the risk of overspending. We anticipate that these services will contribute to significant growth and an expanded competitive edge for both TWM and momo.

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

Broadband – Growth Engine #3

In 1Q23, we continued to outperform our MSO peers in broadband service penetration. Steady demand for faster home connectivity and our Double Play bundles led to healthy YoY increases in broadband subs and ARPU. Our subscribers who opted for speeds of 300Mbps or higher rose by 72% YoY. As a result, broadband revenue grew by 7% YoY in 1Q23.

Now, let me pass the virtual mic over to our CFO, George Chang, for Financial Overview.

Performance by Business

George Chang, CFO & Spokesperson: Good afternoon. Let's start with Performance by Business.

In 1Q23, consolidated revenue rose by 8% YoY. This was fueled by a 10% YoY rise in momo's revenue and faster telecom revenue growth. Mobile service revenue grew YoY for 8 quarters in a row, thanks to ARPU improvement amid continuous 5G conversion and benign 4G pricing.

Coupled with healthy expansion of fixed-line service revenue, telecom service revenue reached the highest level since 2Q19.

Our cash costs and expenses rose YoY in 1Q23, due to solid demand for our unique bundle plans, which made up 19% of our postpaid smartphone subscribers. This is 3x higher compared to a couple of years ago. As a result, telecom EBITDA saw a 3% uptick in 1Q23.

Although momo's YoY EBITDA growth decelerated in 1Q23 on the back of declines in its legacy TV/catalog businesses, its core e-commerce business' profit margins were actually quite stable YoY.

Broadband growth compensated for the drop in pay-TV subscriptions and kept CATV EBITDA steady YoY.

Let's go to Results Summary.

Results Summary

In addition to the strong top-line expansion, healthy EBITDA growth, along with muted D&A increase, led to a 5% YoY rise in consolidated operating income in 1Q23.

Non-operating expenses went up YoY due to higher financing costs from rising interest rates and a higher base in 2022 from higher investment gains. As a result, net income was flat YoY in 1Q23.

Let's move on to Balance Sheet Analysis.

Balance Sheet Analysis

Starting with assets, receivables rose YoY, owing to an increase in postpaid subscribers and monthly fee contributions from our mobile bundle plans. Inventories grew in a similar manner, driven by momo's business expansion and sufficient supply in smartphones.

Long-term investment swelled YoY, due to our strategic investments in cloud services, sharing economy and food delivery platforms during 2Q-4Q of 2022. Sequentially, the balance is largely flat, as we adopted a more prudent approach to investing during this quarter.

Gross debt saw a mild uptick to NT$69.6bn from a year ago but decreased from the previous quarter. About 70% of the long-term borrowings due in one year will be refinanced by a new 5-year social bond in 2Q23.

As net debt and EBITDA both rose YoY, net debt to EBITDA ratio was stable.

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

Cash Flow Analysis

Despite a 1.4% YoY rise in cash earnings, operating cash inflow did not increase in the quarter. This is because momo had a larger decrease in payables in 1Q23 than a year ago.

Investing outflow declined YoY as we pared back on acquisitions during the quarter.

As for financing activities, our healthy free cash flow generation allowed us to reduce the short-term borrowings.

Telecom capex edged higher, as we built 3000 more 5G base stations on the 700MHz band over the past year. But as you may recall from our previous announcements, on a full-year basis, 2023 telecom capex will decline YoY, so we do expect FCF to rise this year.

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

2022 Earnings Distribution

Jamie: On May 3rd, TWM's Board approved the proposal to distribute NT$12.1bn in cash dividends, translating to c.4.2% yield to shareholders.

Dividend per share is NT$4.30 on 2.82bn shares, excluding treasury shares held by 100%-owned subsidiaries. Post earnings distribution, there will be NT$37.2bn excess reserves available for future dividend distribution.

Merger with T-Star

On February 24th, both TWM and T-Star's boards reached an agreement on a new share exchange ratio of one T-Star share for 0.03260 TWM shares vs. one for 0.04508 shares previously.

204mn TWM shares are planned to be issued vs. 282mn previously, effectively lowering the equity dilution by around 30%.

The deal is still pending approvals from the Fair Trade Commission and the Taiwan Stock Exchange.

Awards and Recognition

On the next page, we have summarized 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 with.

We are confident that our three primary growth engines: 5G, momo, and home broadband, will continue to strengthen our market position and enhance group synergies. TWM is dedicated to maximizing shareholder value through two key initiatives: 1) seamlessly integrating with T-Star following approvals from the FTC and TWSE, and 2) executing our Telco+ strategies to provide meaningful applications, including e-sports games and "TelcoFin" services, while capitalizing on our expanding customer base, data and AI capabilities.

With that, we open the floor for questions. You are welcome to send your questions via the chat box on the webcast page. We will begin by addressing the telephone line questions before moving on to queries from the webpage. Operator, please go ahead.

Q&A

Neale Anderson, HSBC: ***I have two questions please. The first one is on the churn rate, particularly as it relates to the bundled users and the 4-year contract. I assume that the 19% on bundled plans have a lower churn rate than the overall blended rate. If that's correct, where would you expect the postpaid churn rate to go and what would be the impact, in terms of retention costs? The second question, routinely asked I believe, is the delta between 4G customers upgrading to 5G. Do you expect that to remain high? People spending more as they move to 5G?***

Jamie: Yes, your thesis is right. The 19% on unique bundles do produce a lower churn rate. Our plan is to grow that penetration much higher than 19% going forward and expect it to bring down churn rate over time. How low it will go is hard to predict but we expect this trajectory to continue. As for your second question, we do see a steady uplift from people converting from 4G to 5G and we do not expect that trend to go away any time soon.

Sara Wang, UBS: ***I did some calculations for your telecom business. YTD, service revenue growth is 6% but it seems that EBITDA growth is slightly lower, at 3%. May I ask what the key reason for this is? Last year, EBITDA growth was largely in-line or slightly higher than service revenue growth for the telecom business.***

George: Yes. YTD, EBITDA growth is a little bit lower than top-line growth due to a couple of reasons. One of them is that our marketing costs are a little bit higher compared to a year ago. We are seeing an inflation in network costs right now, such as utility or HR-related costs. These offset our revenue growth a little bit.

Jamie: On top of that, as we presented during the briefing, we saw a 12.7% YoY increase in handset bundles sold vs. last year. Since a portion of the subsidies for our handset bundles is front-loaded, accelerating handset bundles will naturally drag down our EBITDA a little bit.

Peter Milliken, Deutsche Bank: ***My questions are about the merger. Do you have an estimated timeline for when it will be completed? The other question is, do you have any thoughts on potential synergies from the merger?***

Jamie: In terms of timeline, right now it's going to be in the bottom-half of the year but it's hard to say when FTC will give us a green light. It's hard for us to give a more precise prediction but we're working very hard to expedite the process. We're also hoping, in the interest of the

2.8mn customers and 2K employees of T-Star, that FTC will speed up its process. As for synergies, we expect the same level of synergies we shared with you in the briefing we gave in 1Q22, when we first announced the deal.

Peter: A follow-up question regarding roaming. You talked about how it's back to 60% of pre-COVID levels. Do you think it's realistic to go back to 100% of pre-COVID levels or have roaming rates and usage patterns changed in a more fundamental way, where people don't want or need to spend as much as they used to?

Jamie: Right now, in terms of inbound travel, it isn't back to pre-COVID peak yet, so I believe there is still some growth momentum there. We are not observing much of a change in behavior for outbound travel so we wouldn't say that it won't go back to pre-COVID levels. Pre-COVID, there was organic YoY increase in outbound and inbound number of travelers so if anything, we don't think the ceiling is set. There should be medium to long-term organic growth possibilities for the roaming business.

<u>CHATBOX QUESTIONS</u>

Since you did not provide guidance for 2023, can you give us some color on your business outlook or latest developments:

Jamie: As we briefed during the presentation, we're seeing quite strong top-line expansion momentum in our telecom business, steady growth from momo and continued demand for home broadband from our cable TV business. We have no reason to believe that these momentums will subside any time soon so, even though we did not give guidance, we can say that it looks like these momentums will continue. We also expect roaming business to continue to recover ass people resume their travels. That's all we can say about the outlook.

Can you elaborate a little bit more on the FTC process? Your competitor said that they submitted the latest round of request for information. Are you in a similar process?

Jamie: The short answer is yes. In terms of the FTC process, they will usually do a few rounds of requesting for information until they are satisfied with what you have provided. From there, they will kick off the official process and will have a limited timeframe to give you a yes or no.

Can you tell us about your medium and long-term outlook for capex?

George: For 2023 capex, as you may recall from our previous announcement when we passed a board resolution, I believe that was in 1Q23, our guidance for telecom capex is down to about NT$5bn. That is significantly lower than a year ago. Looking from a purely FCF telecom perspective, yes, we do expect FCF to increase this year. momo's capex looks to be higher than last year but that's because it covers multi-year plans. They are building a new warehouse in central Taiwan but that doesn't mean that they will spend everything this year. Cash capex will actually be spread over 3-4 years. Don't get it confused with telecom capex, which will be down this year.

Jamie: We don't usually give a medium to long-term guidance but some color we can give is that 5G buildout is already past its peak and after momo's 2 large distribution centers, it's hard to expect that investment would accelerate.

What is the difference between retiring bonds vs. the bonds you are planning to issue, in terms of interest cost?

George: Our debt balance is about NT$70bn. Let's say we do see 30 basis points increase YoY, that's already NT$200mn per year or close to NT$50-60mn per quarter. I believe our first quarter interest cost YoY increase is about NT$50-70mn a quarter. That gives you a ballpark figure of what kind of higher interest cost we are talking about. For this particular bond, we will issue a press release for it.

A small portion of your debt has been refinanced. Does that mean that you will expect continued increasing interest costs?

George: Yes and no. More than half of our debt has been locked in below 1% funding cost via corporate bonds. Perhaps when those expire, which will probably be another 4-5 years for some, we will see interest rate come down. So, the answer is: not necessarily.