Taiwan Mobile
2Q23 Results Conference Call
August 7, 2023

Jamie Lin, President: Good afternoon, everyone. Welcome to Taiwan Mobile's 2nd 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.

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

2Q23 Highlights

In 2Q23, consolidated revenue rose by 5% YoY, underpinned by solid output from our three core engines namely, 5G, e-commerce and home broadband.

During the quarter, our mobile service revenue growth accelerated again to 6% YoY, the fastest pace since 5G service launch in 3Q20, while our smartphone postpaid subs also saw a healthy 2.3% YoY uptick. These great results were mainly driven by our unique bundles, steady 5G conversion, improving 4G pricing environment, and further recovery of roaming revenues.

Meanwhile, momo continued to outperform its peers and recorded a 6% YoY growth in e-commerce revenue during the quarter.

Our home broadband business also delivered 6% revenue growth in 2Q23, aided by our expanding footprint.

With telecom service revenue growing another 6% YoY during the quarter, telecom EBITDA rose to the highest level since 4Q19. As a result, we broke our company record in terms of consolidated EBITDA during a quarter.

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

Mobile – Growth Engine #1

During 2Q23, we continued to execute our "Sustainable Growth Foundation" strategy exceptionally. Our smartphone postpaid ARPU grew by 2.8% YoY and hit the NT$700 mark, lifted by unique bundles, 5G renewals and roaming revenues which recorded 30% sequential growth and has returned to over 70% of pre-COVID levels as international travel further recovered.

Our unique bundles, i.e. momobile, Double Play, Disney+ and OP Life, continued to fortify rate plan mix improvements. Accumulated users across these unique bundles rose further and accounted for 21% of our smartphone postpaid user base by the end of 2Q23. Our momobile bundles continued to gain traction with users, while 60% of our Double Play users are on $999 or higher rate plans, which is notably higher than the company average. As for OP Life bundles, half of users are on $1399 or higher rate plans and the proportion of users on 48-month or longer contracts is much 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 0.73% in 1H23, setting another company record on a half-year basis.

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

momo – Growth Engine #2

Given an already high revenue base and further recovery of leisure and physical retail, momo's e-commerce revenue growth decelerated to 6% YoY in 2Q23, albeit higher than industry growth. Our e-commerce business profitability was also ahead of the pack in the quarter.

On the logistics side, we had built 55 warehouses as of quarter-end, 4 more than a year ago, while our active SKUs reached 4.6mn. The southern distribution center should be up and running early next year, with the central distribution center to follow in a few years. This will expand the coverage area of our rapid delivery services.

As for momo coin and its ecosystem, we will continue to focus on broadening its usability.

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

Broadband – Growth Engine #3

In 2Q23, we continued to focus on growing our cable broadband business. 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 65% YoY. As a result, broadband revenue grew by 6% YoY in 2Q23.

While we only rank as the #4 largest MSO with an 11% footprint for basic TV services, we have expanded our cable broadband coverage to 85% of the country by leveraging our Double Play bundles.

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, everyone. Let's start with Performance by Business.

In 2Q23, consolidated revenue rose by 5% YoY, driven by solid performance in our telecom business. Mobile service revenue grew YoY for 9 quarters in a row, thanks to ARPU improvement amid steady 5G conversion and benign 4G pricing. This, along with the healthy expansion of fixed-line service revenue, allowed us to record our highest telecom service revenue since 4Q18. As a result, telecom EBITDA increased by 2% YoY and helped our consolidated EBITDA reach a historical high.

The decline in momo's EBITDA was attributable to slower e-commerce revenue growth and weaker legacy businesses. However, its e-commerce take rate was stable YoY.

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

Let's go to Results Summary.

Results Summary

With healthy performances in our three core engines – 5G, e-commerce and home broadband, consolidated revenue rose by 5% YoY in 2Q23.

Our cash costs and expenses increased YoY during the quarter, owing to solid demand for our unique bundle plans, which made up 21% of our postpaid smartphone subscribers.

Consolidated operating income recorded a 2% YoY uptick in 2Q23, hitting a new high since 1Q20, driven by healthy telecom EBITDA growth and a muted rise in D&A expenses.

Non-operating expenses went up YoY on the back of higher financing costs from rising interest rates, as well as a high base in disposal gains. As a result, net income grew by 1% YoY in 2Q23.

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 YoY, along with momo's business expansion.

Long-term investment swelled YoY, due to valuation gains and our strategic investments in cloud services and new economy businesses.

As for liabilities, other current liabilities went up sequentially following AGM's approval of dividend payments. NT$37.2bn of excess reserve remains available for future dividend top-up.

Despite a bond issuance of NT$6.5bn (for 5 years @1.537%) during the quarter, gross debt declined by 6% YoY to NT$63.21bn as we repaid short-term borrowings. Therefore, the proportion of long-term borrowings increased to over 70%, up from 62% a year ago.

Benefiting from decent free cash flow generations, our net debt to EBITDA fell to 1.47x in 2Q23, the lowest since 4Q19.

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

Cash Flow Analysis

2Q23 operating cash inflow rose by 13% YoY, thanks to steady telecom EBITDA growth, as well as good handset inventory turnover.

Investing cash outflow decreased YoY, as both capex and investments came off from a high base a year ago, associated with momo's distribution center and our participation in Line Bank's rights issue last year.

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

Benefiting from improving operating cash inflow and decreasing cash capex, 1H23 free cash flow calculated on a pre-IFRS 16 basis increased by 10% YoY to NT$6.81bn, translating into an annualized free cash flow yield of 5.1%.

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

Awards and ESG Recognitions

Jamie: It's my greatest pleasure to share that in Institutional Investor's 2023 Asia Executive Team rankings announced in June, Taiwan Mobile was voted the No.1 telecom company in the Rest of Asia rankings for the second year in a row. We also received the "All-Star" status as we won first place in all categories. More importantly, we were the only Taiwanese telecom company to make it in the much more competitive Overall Asia rankings, which included our much bigger Mainland China peers, and placed first in the sector by scoring the highest in Best CEO, Best CFO, Best IR Program, Best IR Team, Best ESG, and Best Company Board categories.

I would like to take this opportunity to express our sincerest gratitude to our investors and covering analysts. We could not have achieved this without your trust and support, and we remain committed to improving further. Thank you, guys. We really appreciate every single one of your votes.

I would also like to share some of our recent ESG highlights. Taiwan Mobile has declared 2023 as the starting year of our Biodiversity Conservation and is committed to achieving Zero Deforestation by 2050. To reach this goal, we have embarked on 4 new projects, including the introduction of TNFD, the Taskforce on Nature-related Financial Disclosures, to better inform stakeholders of our strategy and governance regarding nature-related risks and opportunities.

Furthermore, our "Solar for Good" project, which combines social care and green energy initiative, has already built solar power systems and generated stable income for 6 NPOs. The 7th year of this project has just kicked off. If you are interested in supporting this meaningful project, please do contact my colleagues over at the IR team.

Next, let's turn to Page 15 for a special announcement we would like to make.

2023 Capex Budget Additions

On August 4, 2023, the Board approved network related capex budget additions for 2023. Total capex budget will be NT$15.653bn, with actual cash payments subject to the actual progress of the network deployment.

Key Message

Finally, to wrap up our presentation, here is the key message we would like for you to take away with.

TWM continues to fire on all cylinders, with our unique bundles momobile, Double Play, Disney+ and OP Life propelling our telecom service revenue. Coupled with steady growth in e-commerce and home broadband, our 2Q23 consolidated EBITDA reached an all-time high. Free cash flow also went up by 10% YoY during the first half of this year, reflecting our strong fundamentals. Meanwhile, we are one step closer toward establishing a sustainable foundation for long-term growth.

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 relates to cash costs going up because of the increase in bundle subscribers. Could you give us an idea of how you see the trajectory of that unfolding? Is it going to remain high for the coming quarters? What I'm seeing is that you'll have lower retention costs over the next couple of years but how do you see that panning out? The second one is to get an update on the Taiwan Star situation.***

Jamie: We don't see the trajectory of cash costs, especially spending on handset subsidies, to continue going up much further. Like you said, we do expect this investment to bring benefits in the long run, such as lower churn rate and retention costs. In terms of the Taiwan Star deal, it is still pending FTC approval, but the regulatory filing has been accepted, which means that they will have to give us the final decision on our application no later than mid-November.

Peter Milliken, Deutsche Bank: ***My questions is about the bundled service, OP Life. Can you explain a little bit about what OP Life is? I believe that you give people a large screen TV and some content related to that, is that correct?***

Jamie: Right now, we have two products under OP Life. One is a home theater bundle, which includes a large screen TV, soundbar, Wi-Fi and other home theater-related products. Since these are bigger-sized items, more customers are opting for higher rate plans and longer contracts. The other one is the game player series, where we bundle products such as Sony's PS5 and VR2 gaming devices along with handheld cloud gaming consoles like G Cloud from Logitech.

Peter: Right, I see. That's interesting. You also mentioned earlier on the cable TV front that you are the 4th largest Pay-TV operator but you have 85% of the country covered by broadband. Can you remind me how you get the extra coverage? Is that just reselling other cable TV operators in other areas or is there another way you're doing that?

Jamie: We work with third-party MSOs, bundling their home broadband service into our Double Play packages, in order to achieve our footprint. KBro is one of them.

Sara Wang, UBS: ***I have one question regarding capex. What is the key reason for increasing the budget for 2023? Why did you decide to increase the capex before the merger, given the potential network synergy with T-Star?***

Jamie: The approved capex is related to the merger with T-Star. We do need to spend some capex in order to integrate the two networks and achieve maximum synergy. We will not be spending until we get the green light from FTC.

Sara: Which area will we spend on to facilitate this network synergy with T-Star?

Jamie: T-Star has 9k base stations and we have around 13k base stations. We need to consolidate the base stations so we will need to move a lot of equipment. That's basically where we will be spending the capex.

CHATBOX QUESTIONS

I would appreciate it if you shed some light on the additional capex. Where will it be invested in? Will it be for core network construction, in relation to the T-Star merger? Why are you adding such huge chunk of capex at this moment? Is it triggered by your

competitors' moves? What will Taiwan Mobile's edge be? How long do you think it will take before the high capex goes away?

Jamie: Just like we said, the additional capex is for the T-Star merger and investments we need to make to integrate the two networks. Most of the capex will be spent on consolidating T-Star base stations that will continue to operate into Taiwan Mobile base stations. The reason why we asked the board to approve the capex right now is because we may get the green light from FTC any day now. We want to be able to start investing to accelerate the synergy extraction of the network integration as soon as we get FTC's approval. In terms of capex, as we communicated earlier, we do not expect it to continue to grow much further. We started accelerating our unique bundles since 3Q last year so on a YoY basis, you can expect things to normalize starting Q3 this year.

George: If I may just add a little bit: please bear in mind that we are not going to have our next board meeting for at least another three months. As Jamie mentioned, we may get FTC approval anytime between now and the next couple of months. We do need the board's "OK" before we can spend the money so we would have had to call an extraordinary board meeting, which is a little inconvenient. This capex should not come as a surprise, it's all planned. If you recall last year, when we announced the merger, we said that we expect to spend a certain amount of money and we expect to generate some synergies from the consolidation. It's good timing to ask for board approval right now since we can get FTC's green light at any moment.

Can you talk about your growth strategy in the telco business, other than 5G for consumers?

Jamie: On top of our sustainable growth foundation strategy for consumers, we also have a Telco+ strategy where we leverage the special assets we are able to generate by operating our telecom business. I like to call these assets "gifts." We combine these "gifts" with services, which I call "gift-as-a-service." One example is our number masking product, a service that is being widely adopted by e-commerce, food delivery and taxi dispatch businesses. A proxy phone number is used whenever customers call each other or talk on the phone, preventing other parties from getting the real phone number of users and the leakage of private customer information. Another one is our anti-phishing service, a 24/7 monitoring service that detects potential phishing websites that imitate our enterprise customers' IP, minimizing the damage it may cause and protecting their brand reputation. This has been adopted by many large enterprises in the financial services and manufacturing sectors. These two are examples of how we leverage our core strengths, developed by our consumer telecom business, and turn them into our "gifts-as-a-service" business. Going forward, we will continue to develop more of these services and expect them to bring meaningful revenue and profit to our group as a whole.