

Taiwan Mobile
4Q22 Results Conference Call
February 24, 2023

Jamie Lin, President: Good afternoon, everyone. Welcome to Taiwan Mobile's 4th quarter 2022 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 2022.

2022 Highlights

Taiwan Mobile's 2022 consolidated revenues rose by 10% YoY, to over NT\$170bn, setting a new record. This was propelled by solid output by our three core engines – 5G, e-commerce and home broadband.

5G postpaid penetration steadily increased during the year, driven by the iPhone 14 series as well as our unique bundles, namely momobile (or mo幣多 in Mandarin), Double Play (好速成雙), Disney+ and OP Life (OP響樂生活). As a result, smartphone postpaid ARPU climbed by 1.6% YoY while our bundled mobile service revenue growth accelerated to 2.6% YoY.

For e-commerce, momo's 2022 consolidated revenue rose by 17% YoY, setting another record high and crossing the NT\$100bn milestone, despite a COVID-related high base. Home broadband continued to see double-digit revenue growth, as demand for Double Play bundles remains favorable.

With more benign competition in the telecom industry, consolidated EBITDA grew 4% YoY, beating our full-year guidance and reaching an all-time high.

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

Mobile – Growth Engine #1

4Q22 marked the 7th consecutive quarter of YoY improvements in smartphone postpaid ARPU and mobile service revenue, driven by accelerated 5G conversion that was in turn aided by the new iPhone, as well as stable 4G pricing. The monthly fee uplift from the renewals to 5G remained steady at 24% during the quarter.

In addition to iPhone 14 bundles, our unique rate plan packages continued to play a key role in upselling customers. As of 4Q22, 17% of our smartphone users were on one of these bundles, up from 15% in the previous quarter. momobile users' contribution to momo's e-commerce revenue further advanced, reaching 8.4% in December, vs. 6.7% a quarter ago. Meanwhile, we expanded the footprint of Double Play bundles by 18%, with 60% of our users on \$999 or higher rate plans, providing steady tailwind to ARPU. Disney+ bundles continued to see sign-up momentum while OP Life bundles had 50% of the sign-ups on \$1399 or higher rate plans and a significantly higher proportion of users on 48-month or longer contracts than that of our regular 5G handset bundles.

On top of our wide variety of unique rate plans and add-on services, our continuous investments in 48-month handset bundles since 5G service launch also started to pay off, resulting in a lower postpaid monthly churn rate of 0.84% in 2022. I am pleased to share that this churn rate dropped even further this January, to a historical low of 0.66%.

Our game publishing business also had another solid quarter, delivering a 43% YoY rise in its revenues. We had secured exclusive distribution rights to the iconic "League of Legends" title last November and saw elevated momentum on the back of its launch in January. Roaming business grew as well, reporting a 38% QoQ revenue boost as international travel gradually recovered. On the enterprise side, data & access, cloud and IoT services segments all delivered healthy growths.

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

momo – Growth Engine #2

Despite a COVID-driven high base for Taiwan's e-commerce players, momo's top-line improved by 19% in 2022, outgrowing its peers by a wide margin. A higher e-commerce take rate also demonstrated our increasing scale advantage. EBITDA margin fell YoY, given a very tough base in 2021 when demand skyrocketed, but overall, e-commerce EBITDA still grew 10% YoY.

On the logistics side, we had 54 warehouses as of year-end, 10 more than the year before, while total warehouse space rose by 16% YoY. The southern distribution center should be up and running by the end of 2023, with the central distribution center to follow in a few years, expanding the coverage area of our rapid deliveries and raising the bar for competition.

As for momo coin and its ecosystem, we will continue to focus on broadening its usability by onboarding group companies and popular third-party products and services. We will also introduce customer loyalty programs dedicated to our momobile bundle users to enhance stickiness and gain wallet share. Together, these will lead to further growth and a wider moat.

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

Broadband – Growth Engine #3

In 4Q22, we continued to outperform our MSO peers in the YoY trends of basic TV subscriptions and broadband service penetration.

Steady demand for faster home broadband as well as the success of our Double Play bundles led to sequential increases in broadband subs and ARPU. Total broadband subscribers, including those on Double Play bundles, who opted for speeds of 300Mbps or higher, rose by 79% YoY. As a result, broadband revenue grew by 10% YoY in the quarter.

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 4Q22, consolidated revenue rose by 12% YoY, as our three core engines all delivered YoY growths. Mobile service revenue grew YoY for 7 quarters in a row, thanks to ARPU improvement amid continuous 5G conversion and benign 4G pricing.

Telecom EBITDA saw a 3% YoY uptick in 4Q22 as telecom service revenue's YoY growth reached a 7-quarter high. Telecom D&A YoY growth decelerated to the lowest level since turning positive in 4Q20, causing telecom EBIT to grow 8% YoY for the quarter.

momo's EBITDA YoY growth accelerated to 17% in 4Q22, aided by higher take rates and operating leverage of its e-commerce business.

CATV EBITDA was stable as broadband momentum compensated for pay-TV decline.

Let's go to Results Summary.

Results Summary

In 4Q22, consolidated operating income rose by 10% YoY, reflecting top-line growth, accelerated EBITDA YoY growths in telecom and momo, along with muted D&A increase.

For the full year of 2022, consolidated revenue reached a historical high. Consolidated EBITDA also set an all-time high, growing 4% YoY and beating our guidance of 1-3%, thanks to better-than-expected telecom performance.

The YoY increase in non-operating losses mainly stemmed from a tough base in disposal gains and higher financing costs amid rising interest rates. Excluding the one-off tax benefits from the previous year, net income would have increased by 3.5% YoY in 2022.

Let's move on to Balance Sheet Analysis.

Balance Sheet Analysis

On the asset side, receivables rose QoQ and YoY in 4Q22 owing to higher monthly fee contributions from our mobile bundle plans. Inventories grew in a similar manner, driven by the new iPhone and Google smartphones, related accessories, as well as momo's business expansion.

Long-term investment climbed YoY, due to our ventures into cloud services, sharing economy, etc.

As for liabilities, the YoY uptick in payables was attributable to momo's e-commerce business growth.

Long-term borrowings due in one year swelled from a year ago. That said, we are in the process of issuing new straight bonds and will seek new funding facilities, in order to lift the proportion of our long-term borrowing.

Benefiting from our EBITDA growth, net debt to EBITDA ratio decreased YoY and QoQ.

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

Cash Flow Analysis

Thanks to improving EBITDA growths in our telecom and e-commerce businesses, operating cash inflow increased by 9% YoY in 4Q22.

Investing cash outflow saw an uptick in 4Q22 due to a high base in 5G government subsidies. Excluding subsidies, investing cash outflow would have decreased by 9% YoY.

For the full year, cash earnings showed steady YoY growth, while operating cash flow declined as we made more payments for handsets and accessories.

The spike in 2022 investing cash outflow reflected the NT\$2bn YoY rise in momo's capex payments and an increase in long-term investment.

Financing activity had more outflows in 2022 as we paid off some bank borrowings in contrast to inflows from more borrowings a year ago. In addition, momo increased its dividend payments in 2022.

Full-year free cash flow calculated with pre-IFRS 16 operating cash flow reached NT\$15.74bn, translating into a free cash flow yield of 5.9%.

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

Awards and Recognition

Jamie: This page summarizes the awards and recognitions we received during the quarter, for your reference.

2023 Capex Guidance

Earlier this year, the Board approved of a NT\$12.8bn consolidated capex for 2023, where 5G capex will decline YoY. momo's capex will rise alongside its e-commerce distribution center expansion, while cable TV's investment in broadband growth will continue.

We note that momo's actual capex payment in 2023 should be similar to last year, despite a NT\$6.83bn capex budget.

Board Resolutions

This morning, our Board resolved to issue an unsecured corporate straight bond with a total amount no larger than NT\$6.5bn and a tenure of no longer than 10 years, as we aim to increase the proportion of our long-term borrowings.

Key Message

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

In 2022, Taiwan Mobile delivered resilient results, with best-in-class top-line performance and 5% operating income growth. Telecom free cash flow expanded, alongside momo's rising profits and strong cash position. Looking into 2023, we expect revenue growth momentum similar to recent levels to trickle down to our consolidated EBITDA amid favorable market dynamics, on a pre-merger basis.

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: *Two questions please. I think many of us on the line will be interested in your views on NCC's merger decision. Can you comment on that, particularly on the spectrum element? The second is on 5G outlook. The trends continue to look favorable: churn is coming down and long-term contracts are increasing. Are you able to give any expectations on ARPU growth or revenue impact of 5G this year? In other markets, the benefits from 5G tend to slow down a little bit as we reach the levels of penetration where Taiwan is now. However, I'm thinking that because 4G prices were lower, the positive benefits can continue. Are you able to quantify that, if you do agree with that assumption?*

Jamie: Thank you, Neale. In terms of NCC's merger decision, like we expressed before the Lunar New Year, our independent directors on the Board concluded that the decision is borderline breaching NCC's fiduciary duty. In terms of spectrum, if we do end up proceeding with the merger, having to give back half of T-Star's low band spectrum by end of next June would be

quite cumbersome but will not have significant impact on our business. In terms of 5G ARPU lift sustainability, like I said in our presentation, we're observing a 24% monthly fee lift, which is not too far from where we were a year ago. Like you said, 4G ARPU was low enough in Taiwan so the dynamics here might be a little different from other countries.

Neale: On the first question, can you appeal the NCC decision or is that final?

Jamie: There are ways you can appeal that, but the duration of that appeal might take years. In the meantime, if we do proceed with the merger, we will do other things to make sure we still provide state-of-the-art service to customers.

Neale: What is the timeline for your decision? I know the final approval is with the Fair Trade Commission, but do you expect to decide in-line with them?

Jamie: If we do go ahead with that, the actual merger would likely be in Q3 or Q4. In terms of the actual deal itself, the two sides are still in negotiation. Hopefully, we will have some news to share very soon.

Online question (Kaz Soma, Fidelity): *What is your December 2022 dividend outlook?*

George: I think it's a little bit too early to talk about dividend as we still need approval from the Board. But on a standalone basis, the ballpark number will probably be similar to what we have been paying in the past. The big "if" is if we are going to proceed with the T-Star merger, so please stay tuned for that.

Note: The other online questions were already answered earlier so we will not be repeating them in this transcript.