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# EDITED TRANSCRIPT

2498.TW - Q4 2013 HTC Corporation Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 10, 2014 / 7:00AM GMT



## CORPORATE PARTICIPANTS

**Sally Kuo** *HTC Corporation - IR*

**Chialin Chang** *HTC Corporation - CFO*

## CONFERENCE CALL PARTICIPANTS

**Arthur Hsieh** *UBS - Analyst*

**Richard Kramer** *Arete Research - Analyst*

**Robert Yen** *Goldman Sachs - Analyst*

**John Lewis** *SGJI - Analyst*

**Alvin Kwock** *JPMorgan - Analyst*

## PRESENTATION

### Operator

Welcome everyone to HTC's 2013 fourth quarter results conference call and webcast in English. Today with us we have CFO, Mr. Chialin Chang; Vice President of Finance, Mr. [Edward Wang]; and Investor Relations, Ms. Sally Kuo. All lines have been placed on mute to prevent background noise.

After the presentation there will be a question-and-answer session for investors and analysts. Please follow the instructions given at that time if you would like to ask a question.

For your information, this conference call is now being broadcast live over the Internet. Webcast replay and English transcript will be available within an hour after the conference is finished, and Chinese-translated transcript will be available within a week after the call is finished. Please visit [www.htc.com](http://www.htc.com) under the Investors section.

And now I would like to introduce Ms. Sally Kuo, Investor Relations. Ms. Kuo, you may begin.

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### Sally Kuo - HTC Corporation - IR

Thank you Operator. Good morning, good afternoon, and good evening, ladies and gentlemen. Welcome to HTC's 2013 fourth quarter analysts call. This is Sally Kuo, Investor Relations at HTC.

The event is now being broadcasted live via HTC's website at [www.htc.com](http://www.htc.com). If you are joining us through the dial-in line, your call is now being placed on mute. As this conference is being broadcasted by investors around the world, we will conduct this call in English only.

The format for today's call will be as follows. First, I will help to summarize our operations for the fourth quarter 2013, followed by our guidance for the first quarter 2014.

Afterwards, HTC CFO, Mr. Chialin Chang, will lead the Q&A session.

Before we begin, I would like to draw your attention to the disclaimer statement on page 2 of the presentation slides.

Please note that this presentation contains forward-looking statements. These statements are based on our current expectations. Actual results may differ materially from our expectations, and the Company undertakes no obligation to update these forward-looking statements going forward.



Please turn to page 3 for the fourth quarter 2013 overview. Fourth quarter -- in page 3, you can see our fourth quarter financial highlights.

Our revenue in fourth quarter came in at TWD42.9 billion, with gross margin of 17.8%, and operating margin of negative 3.7%. Net profit was TWD0.31 billion, for EPS at TWD0.38 per share.

And our product innovation in China, HTC signed a strategic partnership agreement with China Mobile to become one of its first TD-LTE devices providers. And we also launched a mid-range HTC Desire 700 dual-SIM, HTC Desire 601, and HTC Desire 500 across Europe, Asia, and Middle East, providing unique HTC Zoe, HTC BoomSound, and HTC BlinkFeed experience at affordable prices.

We also unveiled award-winning HTC One in a sophisticated new color, Champaign Gold. It will be available across Europe and Asia with a number of partners.

We also introduced 4G-LTE version of the two flagship devices, HTC One and HTC Butterfly s in Taiwan with three major operators, reiterated HTC's leadership in communication technology in 4G era.

Turn to page 4, you will see other business updates. We launched "The Most Beautiful Smartphone" campaign through an interactive outdoor billboard at Times Square in New York City, boosting digital engagement with consumers and activation through the holiday sales season.

"The Ultimate Smartphone Photo Booth" consisted of 130 HTC One phones shooting from 540 degrees of actions and toured across major cities in the United States showing off the vivid and true-to-life image captured by HTC's groundbreaking UltraPixel Camera. The video received more than 5 million views on YouTube alone.

HTC also signed a patent and technology collaboration agreement with Nokia and settled all pending patent litigation between two companies. The full terms of the agreement are confidential.

And let's turn to page 5, will give you an overview on our revenue and operating profits.

And page 6 is an overview of our gross margin and operating margin. On page 7 and 8, were financial overview for un-audited income statement and balance sheet. On page 9 is our guidance for the first quarter 2014.

Our revenue is expected to be in the range of TWD34 billion to TWD36 billion. Our gross margin is expected to be at 21.75% plus or minus 0.25%. Our EPS guidance is expected to be in the range of negative TWD2.6 to negative TWD2.1.

This wraps up the content of our presentation. And now I would like to turn the podium to HTC CFO, Mr. Chialin Chang.

Operator, please start the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

Thank you ladies and gentlemen. We will now begin the question-and-answer session. Kindly leave the time to investors and analysts. For media, please contact HTC PR team after the call if any questions. (Operator Instructions) Arthur Hsieh, UBS.

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### Arthur Hsieh - UBS - Analyst

My first question is with regard to the first quarter margin guidance. I think you're indicating a potential margin improvement, especially after this fourth quarter [witness] what could be driving the first quarter gross margin improvement?

**Chialin Chang** - HTC Corporation - CFO

Thank you Arthur, and first of all, welcome everybody here coming back from the Chinese New Year. Happy new year to everyone.

Arthur, in terms of your question, let me just give you a background on quarter four. Quarter four, our margin on a gross margin side is slightly below what we initially guided. It came in at around 17.8%.

Let me give you some explanation behind this number. We actually took a one-time warranty-related charge. That is equivalent roughly about 2%. So if we add it up, you have about 19.8%.

And obviously as we talk about, from quarter to quarter, each quarter we had various degree the inventory adjustment related to our provision we intend to do from a [cost] prudent perspective.

With that background, let me talk about the quarter one. Quarter one the margin came in -- what we projected, is going to come in higher than quarter four for two main reasons. One, due to the product mix; second, we would not have that kind of one-time adjustment like we had in quarter four.

Adding a little bit more, our inventory adjustment in terms from a prudent perspective here, it will be less in this quarter compared to the last quarter. So those resulted to a higher margin forecast.

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**Arthur Hsieh** - UBS - Analyst

Sorry, could you further elaborate? In terms of the product mix, do you suggest that the contribution from the new product will account for a meaningful percentage in the first quarter?

And secondly, in terms of the warranty policy, after these adjustment, could you remind us what is warranty expense ratio in terms of provision to the overall sales, is it changed from the previous level?

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**Chialin Chang** - HTC Corporation - CFO

We would not -- we do not comment on how we should adjust, given this is the sensitive information for competitive reason there. We'll continue to maintain that the kind of warranty ratio here, at just the end of last year here, as we look at the overall picture here, we decided to make some small adjustment as resulting in the quarter four.

So that's number one. Number two on the product mix, I'll talk more when question comes -- is going to ask (inaudible) more on that, but so far it's coming with the product mix. In the coming quarters -- in the coming months here we're going to gradually have more and more new products coming out which I'll elaborate a little later, but they're related to both.

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**Arthur Hsieh** - UBS - Analyst

All right. My second question is with regard to the OpEx. In the first quarter, I think as well as in the fourth quarter last year, I think it's being in the range like TWD9 billion to TWD10 billion. So I'm wondering, is this a level that management is comfortable that's the right scale of the operation, and going forward that's probably the lowest level that should maintain the overall scale of the business?

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**Chialin Chang** - HTC Corporation - CFO

Yes, so Arthur, let me answer in the following way. I think we're comfortable with the current OpEx level. And then we're not -- we're maintaining the OpEx level for growth. We're not going to retrenching, I have to be very clear on that. And then we're comfortable with this current infrastructure and operating model resulting in an operating expense positioning us for a better growth.

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**Arthur Hsieh** - UBS - Analyst

And my last question is more of a full-year kind of outlook. I know you don't really provide a full-year guidance, but would you give us some idea about the potential upside from this year given that you pretty much had the downside in the expense? So what could be driving the recovery for this year?

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**Chialin Chang** - HTC Corporation - CFO

Let me provide the following way here. First of all, obviously, the whole year 2014 is a very forward-looking statement, so we need to be careful when making that statement. So I'll refer to -- as Sally just said in the beginning about all the disclaimer.

With that said, I want to highlight a couple of things. One, we believe this quarter one will be the lowest quarter that we see. We're seeing a sequential increase in the coming quarters for 2014. Number two, we believe 2014 we're going to see both the revenue and profitability growth.

Number three, I don't want to make full adjustment into second quarter specifically, but given where we are and a lot of people have questioned here, we expect we're going to be profitable in second quarter. We also expect not only the revenue growth here. We expect 2014 will be a profitable year for HTC.

And if I want to elaborate a little bit more just to anticipate some of the questions coming from that, I'll say the following. One, I believe we have a lot more robust portfolio outside the flagship. So our mid-end and also affordable part of it will be stronger compared to the same time last year when we go into 2013.

And this portfolio, as we've been communicating with quite a lot of the major operators in terms of carriers or channel partners, they're all very excited about our product lineup.

In fact, we already communicated the entire 2014 what we intend to do. So all we need to do is to deliver. So that's on the product portfolio side.

Number two, on the flagship side I will not be able to give you specific timing here. I'll just urge the team to -- everybody to tune in [with] the excitement in the coming days and weeks.

On the M8, it's codename for last year, our flagship product, we had year-over-year growth on the flagship product in 2013 versus 2012, as I indicated in previous earning call. We aim to tap into that momentum, hopefully look for the incremental growth going into 2014.

More importantly, our flagship product readiness is a lot better compared to last year. We feel a lot more comfortable in terms of the overall delivery time to market and everything, that kind of readiness, we feel comfortable and confident. That's the second point I will highlight.

The third point I will highlight here, we will have an exciting campaign, a marketing campaign. We'll be able to communicate better with end consumer here. We'll be able to run a better campaign compared to we had last year. So we look forward to that.

With all the combination resulting, I believe that we should have a better 2014 in terms of revenue and profitability. So I'll just stop here.



**Arthur Hsieh** - UBS - Analyst

Thank you. Looking forward to the better portfolio. That's it from my end.

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**Operator**

Richard Kramer, Arete Research.

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**Richard Kramer** - Arete Research - Analyst

Two questions; one is you've made a major commitment over the years to Microsoft, but this didn't really seem to bear much fruit in terms of market share. Do your full-year numbers for 2013 include any platform support payments from Microsoft that might go away if you didn't keep up that commitment in 2014?

And looking out at 2014 now, do you think you're going to continue supporting Microsoft now that they own Nokia, and will you consider using another OS if it was supported by -- in a particular local market or by a particular operator?

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**Chialin Chang** - HTC Corporation - CFO

Okay. Richard, you can go on with the second question. I'll answer --

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**Richard Kramer** - Arete Research - Analyst

Okay. The other question I have is -- there's two other simple ones. One is last year you put a lot of emphasis on marketing BlinkFeed and BoomSound and things like that and talked in Mobile World Congress about being more targeted with your marketing. Are you going to take the same approach with your flagship products this year, i.e., try to develop your own sub-brands or will you take another approach?

And then the third question is really what are you going to do with the cash that you have? It's now roughly 50% of your market cap. Are there any plans to do anything other than pay a normal dividend that you usually do?

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**Chialin Chang** - HTC Corporation - CFO

Let me answer your question regarding the Microsoft platform and specific platform you talk about and also the Nokia. Obviously, this is a pretty extensive topic, so it's probably not appropriate for me to comment on the specifics here. But I want to just say something so we're heading to the right direction here.

HTC and Microsoft, going back in the old days, if you recall, our first smartphone, if I recall, is based on the Microsoft platform here. So HTC has traditionally been maintaining a very good relationship and working model with Microsoft. And if you recall our US headquarters also based in Seattle there. So people there, they know each other very well.

In terms of the question into 2014 here we do not see the kind of relationship we have with Microsoft changed with their acquisition or eventual acquisition of Nokia. We'll continue to maintain that kind of the working relationship with Microsoft. In terms what's going to come out of that kind of partnership and the working together, I will not be able to comment at this point.

And on your second question, in terms of the -- in terms of cash level, and I'll relate to the sub-brand as you talk about here. In terms of cash level here, we're comfortable with our current cash level in terms the working capital and other cash needs.

We do feel like this current cash level is required (inaudible) [levity] for growth. I understand when you say the cash level currently is a certain percentage of our market cap.

Obviously, long term, we want to create shareholder value, and in that process hopefully our share price will increase resulting to an increase of market cap. So that kind of ratio actually varies.

We don't have intention to give out the so-called special dividend and special payout at this point in time. We believe we can use that cash to better create shareholder value by growing the Company.

That's the second point I want to answer. The third one in terms when we talk about the BoomSound and BlinkFeed, I don't have the data with me in terms of the -- how many -- on the BlinkFeed side, how many [page view] being done, but a supermajority HTC user use the BlinkFeed, and there's a certain percentage that use on a [monthly] basis. The number is actually pretty exciting.

And the BlinkFeed, it's a information gatherer. It's not just a information gatherer, and you socialize a lot of stuff. And also our partners want to work with us in leveraging that from -- the front page BlinkFeed [thing]. That will continue on. It's one of the HTC competitive strengths from the user-experience perspective.

And BoomSound, as I talked about it last year when we finished our investment -- eventual divestment of our investment into Beats we talked about it, BoomSound is going to be our continued promotion in terms of how to provide user the kind of sound quality experience.

And we believe with a combination of hardware and software we can provide a very unique user experience on the sound part of it. And if I can elaborate on the Zoe side, in terms of the camera experience, the people on call using HTC phone hopefully enjoy that, that will continue.

So on the BoomSound, on the BlinkFeed, on the Zoe, that's the kind of -- I wouldn't call it sub-brand product feature, we name it so people can recognize this is HTC unique innovation, that will continue on.

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**Richard Kramer** - Arete Research - Analyst

And just to clarify, did you get Microsoft platform support payments the same way Nokia did last year? And will you consider doing any other OS other than Microsoft and Android? Do you have the R&D resources to do a third operating system?

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**Chialin Chang** - HTC Corporation - CFO

I don't know what the Nokia support you refer to, so it's probably not appropriate to comment on. I won't be able to comment specifically anything we have, whether there is or not with Microsoft, except what I just commented before. That's number two.

The third thing here is we're happy we have so far in terms of the platform we're working on, historical at this point here, given the current status here. In the future, it's very hard to probably comment on sort of future looking, especially this is a -- like you referred to, but we're happy where we are today.

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**Operator**

Robert Yen, Goldman Sachs.

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**Robert Yen** - *Goldman Sachs - Analyst*

I have two quick questions. First it's related to the Nokia settlement. Apparently, this is a very important settlement for HTC, but just hoping to get some clarity. Is the settlement or the cross-licensing to stay with Nokia after the Microsoft acquisition or actually the [agreement] will actually carryover to Microsoft going forward?

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**Chialin Chang** - *HTC Corporation - CFO*

I think the -- first of all, I need to be careful in answering your question in terms of Nokia settlement because I would not be able to comment anything beyond what we disclosed to the -- in the regulatory filing.

And to say a small joke, our general counsel, internal in-house counsel [has joined] making sure I don't comment beyond that. But I will say the following.

First of all, I have in front of my desk here a couple of news reports about a lot of speculation here, but I hope I can just stop that speculation by saying that we believe this agreement -- and it's not a license agreement, I can make it clear it's a technology collaboration agreement. So, if you refer to the press release or the regulatory filing, we can get into more details with our legal counsel to talk about it.

It would not have material, financial impact, and when I meant material, financial impact, I don't use the word loosely, I used it very carefully when it comes to this setting here. So I just want to make sure that we don't have that kind of wild speculation as I read some the reports here because we don't believe that it will have material impact on that. Second thing here, it's my understanding it's our agreement with Nokia, the company.

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**Robert Yen** - *Goldman Sachs - Analyst*

Let me ask another way. Can you give us guidance for any, like, potential prediction you would not be under attack by either Nokia or Microsoft going forward; is that a correct understanding?

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**Chialin Chang** - *HTC Corporation - CFO*

I would not -- we would not be attacked by Microsoft. What -- this is an agreement with Nokia.

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**Robert Yen** - *Goldman Sachs - Analyst*

But you cannot comment whether this agreement will transfer to Microsoft when Microsoft acquire Nokia, when they --

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**Chialin Chang** - *HTC Corporation - CFO*

No, I just said this is agreement with Nokia.

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**Robert Yen** - *Goldman Sachs - Analyst*

Okay.

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**Chialin Chang** - *HTC Corporation - CFO*

My understanding is it's very -- it's probably not appropriate for me to comment on a specific [deal]. My understanding of Microsoft impending purchase -- impending the completion of purchase of Nokia is for Nokia handset.





**Robert Yen** - *Goldman Sachs - Analyst*

Yes.

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**Chialin Chang** - *HTC Corporation - CFO*

Yes.

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**Robert Yen** - *Goldman Sachs - Analyst*

Okay. Understood. My second question is, earlier you commented on the expectation that HTC hopes to see sequential growth for the entire 2014, and the first quarter being the bottom.

If I remember [correctly], you also made similar comment in early part of 2013 expecting 2013 to be a sequential growth year, when the first quarter of 2013 to be the bottom. Apparently that didn't happen. So I just want to know if there's any better visibility or confidence you see this year that makes you more, like, confident in giving this kind of guidance versus last year?

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**Chialin Chang** - *HTC Corporation - CFO*

Yes. So let me answer your question now, hopefully finished on the Nokia part. Let me answer your questions here. If I recall correctly here, we can pull back to look at what exactly I said. I don't remember, and I don't recall I said back in quarter one 2013, I said that would be a bottom and we're looking for the increase.

What I did say in 2013 here, I hope at that time -- I hope, we want to have -- what we aim for is a sequential revenue growth. That's what I said. We can go back and correct exactly what I said.

Looking into 2014, I believe this is the first time I said, we believe quarter one is our bottom, obviously everything is forward-looking in that.

I do believe that we -- outside our flagship, which we had a good traction in 2013, we hope we can increase incrementally in 2014. I do believe, and this is my own on-the-field experience as well, working with different operator and channel partners and customers, I do believe we have a good portfolio, position us for 2014, despite the intensified competition which we all know. Every market have their own individual characteristic, but I do believe our portfolio would suit us for 2014.

Let me give you more color. I think beyond first quarter, into the second quarter, I think into second quarter outside our -- we call it M7, basically our flagship in 2013, probably the majority of the revenue contribution, all coming from a new product, and we believe these new products should be competitive. So I'll give you these two data points.

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**Operator**

[John Lewis, SGJJ].

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**John Lewis** - *SGJJ - Analyst*

I had a couple of -- just a couple of quick questions from me. I just want to pick up on something that has been reported in the press about wearable electronics that perhaps HTC is thinking about manufacturing or producing by the end of the year. Can you give us any comment on any product that you are thinking about producing outside of smartphones?



**Chialin Chang** - *HTC Corporation - CFO*

Right, the -- let me comment on this, because I know there's a press report. It's coming out of an interview our Chairman did and I happened to be there, so I heard it. So I want to give people the context. In that context, the question was asked in the following way. Basically the question was asked to our Chairman, that whether she expect -- whether people would expect a HTC wearable product during the Christmas shopping season in 2014, and our Chairman's answer was yes.

So that was the context and that was the response. Let me just elaborate more on your question. It's our -- our Chairman and also our CEO's vision together, what they're seeing is a future, a smart city or smart world. In that smart city or smart world there's going to be different buckets or different categories of products.

They're going to play their roles in [fitting] this world of smart devices, and wearable is a part of it. I won't be able to give you specific timing except just what we talk about in that context and response, in when exactly we're going to introduce the wearable, what type of wearable in there. But I want to give you the background or context in which how we see things, not hopefully (inaudible) [broader] direction in how we think about that kind of "smart devices" for lack of a better word we're going to introduce beyond the smartphones. So I'll only comment on this without giving the specifics.

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**John Lewis** - *SGJI - Analyst*

Okay. Okay, thank you. I think that's pretty clear. Thanks, yes, I think that's pretty clear.

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**Chialin Chang** - *HTC Corporation - CFO*

Thank you.

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**John Lewis** - *SGJI - Analyst*

Okay, just my second question then, on just the OpEx side of things. Just looking at the GPM guidance you've given and the kind of jump into Q1, so the jump Q-Q, irrespective of that 2 percentage points warranty expense, just looking at the sales and marketing costs, considering research and development and administration costs, are you looking this year to restructure the Company at all, such that we may see some cost savings out of your OpEx either on the administrative side or perhaps somewhere overseas in your sales personnel, et cetera?

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**Chialin Chang** - *HTC Corporation - CFO*

Yes, I want to say -- comment on a few things here. First of all, I want to reiterate what I just said here on the OpEx. We're comfortable where we are on the OpEx level.

In there, just to be clear, we cannot -- at least I can say that very clearly. Since I come on board about the -- back in April 2012, we did not make any R&D cut. [We may do] efficiency here and there. We are -- R&D, as I said, is the soul of the Company. We're very proud of it. It's one of our major competitive strengths here.

So we continue to do well in R&D and do the right investment in position for growth. So that I want to say very clearly.

On the G&A side, a big chunk of it -- unfortunately I won't be able to tell you specific, a big chunk of it related to legal expenses. If we have less and less kind of the legal entanglement, then that will -- you may see some incremental saving in that, into the saving and legal expenses, but that's very hard to predict.



On the sales and marketing side here, I'll separate out in sales as well as on the marketing side. On the sales side, we're also very happy with where we are. And I also want to emphasize again, we do not make really so-called cut on the sales marketing infrastructure there.

We may do efficiency here and there, but we're comfortable, we're very proud of our team, their capability and talent globally, not just in Taiwan, on the selling side. So we don't anticipate any major changes on that.

On the marketing side, which is a big bulk of it here, there is a question being asked how we see the budget in 2014 versus 2013. Want to comment on -- that's not how we see things. How we see things here, say, for every TWD1 million we spend in there, or every TWD10 million spend in the marketing, exactly what we plan to do, we want to make sure that we spend more effectively and efficiently. So that's what we're going to be -- to make sure that we get the optimum level in that.

So overall, again, we're not looking for cut, we're happy where we are. We positioned this for growth, not for the retrenchment. So I want to be clear.

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**Operator**

Alvin Kwock, JPMorgan.

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**Alvin Kwock - JPMorgan - Analyst**

I've got a couple of questions. First of all, since I remember HTC launch a number of (inaudible) using different platforms back in December, and multiple reports talking about you guys potentially looking for outsourcing partner on a ODM or on a EMS level as well.

I know this probably haven't come out -- probably not a whole lot models for these, but just based on the practice in the market and also the models that have started to use this approach, I would like to ask how this would change your -- impact your gross margin, how this would impact your operating expenses, and also working capital? This is my first question.

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**Chialin Chang - HTC Corporation - CFO**

Right. It's a couple of questions combined into one question there, that -- let me answer it in the following way.

First of all, HTC, also with Qualcomm, going back in the early days, and our -- Peter is a very good friend with the CEO of Qualcomm, so we have a personal relationship and also institutional relationship. That's a very strong partnership. We'll continue to work well between these two companies there. That's what I want to highlight.

With that said, we're open to any platform we think will provide a good experience for consumer that will allow us to grow for [varied] purposes there, now we're open to that. Whether in a Qualcomm chipset or other potential chipset here, as we said a few times here, also our Chairman also made comment in the past that we're open to that.

In the coming two years, second question in terms of outsourcing, et cetera, for that, to us it's a somewhat similar question coming together. I'll first make a statement. We think manufacturing is a very important part of HTC competitive strengths.

[With that] manufacturing we can allow -- making sure the overall product, not just readiness, the quality come to market is actually quite important. The handover from the R&D to the manufacturing, (inaudible) is actually going to enable us quite a few advantages. So that's important for us.

With that said also, that we're open to any potential outsourcing. Obviously this is very loosely said because there's a different way of outsourcing in terms of component side, purely the small manufacturing side, or the combination, various formats.

We're open to that platform because that enable us more flexibility as we position us to grow in volume, so that we can juggle different flexibility that will give us advantage. So I'll just comment on this.

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**Alvin Kwock** - *JPMorgan - Analyst*

Yes. How would this flexibility show up in terms of the financial matrix in terms of gross margin, operating expenses, and working capital, I just wonder?

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**Chialin Chang** - *HTC Corporation - CFO*

I don't see -- basically, it's all about capacity and flexibility. I personally don't see that with the outsourcing, et cetera, that would materially impact on how we adjust or think about our working capital, that's one.

Second thing, when you say in terms of product margins here, I don't see frankly that material difference between manufacturing in-house or manufacturing outside or different types of outsourcing as you loosely say. I think it's more about -- to me when you see that, it's more about flexibility, it's not just we're doing this to reduce cost or saving. Hopefully, either one we do, either in-house or outside we can continue to [pour] the improvement in our savings here. But to me, it's more on the flexibility and overall capacity, how we allocate our resources.

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**Alvin Kwock** - *JPMorgan - Analyst*

Got it. I've got a second question with regards to accounting. I just wonder where do you guys typically book your IT licensing expenses, if there's any of them?

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**Chialin Chang** - *HTC Corporation - CFO*

You mean how we pay [ITR]?

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**Alvin Kwock** - *JPMorgan - Analyst*

Yes, exactly. So where do you book it, is it under cost of goods sold items, or are there anything that is put in the operating expenses item?

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**Chialin Chang** - *HTC Corporation - CFO*

No, it's on the cost of goods sold.

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**Operator**

Robert Yen, Goldman Sachs.

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**Robert Yen** - *Goldman Sachs - Analyst*

Yes, Chialin, I just have one follow-up question, it seems no one seemed to have asked.

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**Chialin Chang** - HTC Corporation - CFO

Yes.

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**Robert Yen** - Goldman Sachs - Analyst

For the first quarter EPS guidance, can you talk about the one-off part of that guidance because this seemed to be much bigger than the operating loss?

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**Chialin Chang** - HTC Corporation - CFO

One what? Sorry, what's your question, one-off part --

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**Robert Yen** - Goldman Sachs - Analyst

The one-off -- because the EPS loss, the loss per share seemed to be bigger than your normal operating performance. So I just wonder if there's any one-off part for the EPS guidance?

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**Chialin Chang** - HTC Corporation - CFO

I'm not sure exactly the question here. You're saying the EPS -- that the loss of EPS per share is higher than you expected?

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**Robert Yen** - Goldman Sachs - Analyst

The loss per share, yes, is higher than my expectations, but I don't think it's 100% driven by the core operating business, or is that the reality?

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**Chialin Chang** - HTC Corporation - CFO

Okay, I think the -- I think your question is that -- probably it's not what you think, but I also just want to take advantage since you're asking the question to make the following statement here. Our quarter one revenue is light compared to quarter four, and I think will be lighter compared to -- going into the second quarter, without making specific comment on that. And with this relatively light revenue, and with that kind of operating expense we talked about, resulting into a operating loss in that, and also the EPS.

So the entire flow in that, I don't think there's a issue. I don't have any one-time data I did not mention, so it's outside the normal operations. So that's not the case. That's not what you think it is. It's just a normal operating there.

What I want to make comment on why the revenue is relatively light, it's related to what I just said. In fact, going into second quarter, the majority of product and revenue contribution will be from new product. Exception -- the only exception will be the M7, the so-called -- the flagship product HTC One back in 2013, (inaudible) something smaller (inaudible).

Why did I say that, or why is it relevant to what your question? Because in quarter one, we want to make sure, as we position for 2014, the channel is healthier when they start making new orders and new products from HTC.

So we want to make sure, obviously, we don't have a in-house material concern. I'm making sure we don't ship too much into it, and creating potential issue down the road. What we want shipping in there is a competitive, especially on the mid-end. Flagship continue on, that's no problem. On [affordable] mid-end, we want to make sure we're shipping in there, it's competitive on a price ratio perspective.



**Operator**

(Operator Instructions) John Lewis, SGJI.

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**John Lewis - SGJI - Analyst**

There appears to be no other questions, so I'll just follow up with one quick question if I may. Just looking ahead with your gross margin guidance of 21.75% for Q1 plus minus, on revenue of TWD34 billion to TWD36 billion, you seem to have quite good visibility considering you're only giving yourself a quarter percentage point of variation between that.

So looking ahead for H1, and perhaps even into H2, given your comments at the beginning of the call, what can we perhaps expect the gross margin can rise to if indeed your revenue continues to do well into Q2, and perhaps Q3 of 2014. Where do you -- with your R&D prowess and your flagship models coming out, where do you think we might be able to see the gross margin rise to potentially on the upside?

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**Chialin Chang - HTC Corporation - CFO**

The reason we're more clear -- obviously, any forward-looking is not clear, so I wanted to just caution on that. The reason we're coming with a narrower range, I think that's what you are referring to, for quarter one, is because what I just said that we're kind of clear on what we're going to ship for the rest of the two months for quarter one.

And just to give you more color relating to some of the previous question here, we also announced January revenue. I'll give you a monthly trend. February will be slightly down from January, and picking up in March.

And coming from the March into the rest of the second quarter here, hopefully it will back to -- into second quarter, back to where HTC should be from a revenue perspective here.

Into the second quarter, it will be primarily in my view gross margin determined by the product mix. And given that this year we will have in addition our flagship -- to our flagship some other portfolio in the mid-end and affordable part of it, and there are various gross margin. So depending on their full volume mix coming from different price tier, that will determine your gross margin.

So I won't be able to comment specifically second quarter gross margin or beyond. What I can say at this point here, we're hopefully at this level, and if we do well we can make some improvement. But I don't want to give that kind of indication at this point.

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**Operator**

There is currently no question in line. I will pass the call back to CFO Mr. Chialin Chang for closing remarks. Mr. Chang, please proceed.

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**Chialin Chang - HTC Corporation - CFO**

Yes, thank you everyone. If no more question I'll pass on to the IR.

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**Sally Kuo - HTC Corporation - IR**

Thank you everyone for joining us today. The webcast will (inaudible) right now, and the transcript will be available within 24 hours. Thank you.

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**Operator**

Thank you for your participation in HTC's conference. There will be a webcast replay within an hour. Please visit [www.htc.com](http://www.htc.com) under the Investors' section. You may now disconnect. Goodbye.

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