

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

2498.TW - Q3 2014 HTC Corp Earnings Call

EVENT DATE/TIME: OCTOBER 31, 2014 / 7:00AM GMT



CORPORATE PARTICIPANTS

Christine Chi *HTC Corporation - Manager, Investor Relations*

Chia-Lin Chang *HTC Corporation - President of Global Sales and CFO*

Edward Wang *HTC Corporation - AVP of Finance*

CONFERENCE CALL PARTICIPANTS

Richard Kramer *Arete Research - Analyst*

Arthur Hsieh *UBS - Analyst*

John-Louie Lafayenne *SDJA - Analyst*

PRESENTATION

Operator

Welcome everyone to HTC's 2014 third quarter results conference call and webcast in English.

Today with us we have CFO and President of Global Sales, Mr. Chia-Lin Chang; AVP of Finance, Mr. Edward Wang; and Manager of Investor Relations, Ms. Christine Chi and 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 your question.

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

And now I would like to introduce Ms. Christine Chi, Manager of Investor Relations. Ms. Chi, you may begin.

Christine Chi - *HTC Corporation - Manager, Investor Relations*

Thank you. Good morning, good afternoon and good evening, ladies and gentlemen. Welcome to HTC's 2014 third quarter's analyst call. This is Christine Chi, HTC's IR Manager.

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

The format for today's call will be as follows. First I will have to summarize our operation for third quarter of 2014 -- 2014, apologize, followed by our guidance for fourth quarter. Afterwards, our CFO and President of Global Sales, Mr. Chia-Lin Chang, and AVP of Finance, Mr. Edward Wang, 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.

If you have no questions, I may begin to give the overview of third quarter of 2014. Please turn to page 3. Page 3, third quarter financial highlights.



Revenue for third quarter was [TWD41.9 billion] (corrected by company after the call), with gross margin of 22.9% and operating margin of 0.4%. Net profit after tax was TWD0.6 billion and EPS of TWD0.78 per share.

Business overview. HTC sustained momentum in most markets over the quarter with the flagship HTC One (M8) and Desire line of smartphones holding their own and expanding their market despite stiff competition. The HTC Desire lines of smartphones turned in a strong performance across the board in third quarter, consolidating market share, attracting new users.

The Desire 610 and 510 experienced good demand, selling well in both the US and Europe, while the Desire 816 maintained solid sales throughout Taiwan, China, India and the Middle East countries. Desire 820, the world's first 64-bit octa-core smartphone, was first launched in China and received wide distribution support from the major operators.

Page 4. Double Exposure, HTC's global launch held earlier this month, introduced a raft of new products and services centered around HTC's leading imaging technology, including the HTC Eye Experience, the HTC Desire Eye smartphone, Zoe and the RE camera. The event blended fashion and technology [in an exciting] way to appeal to lifestyle and consumer media, opening new avenues for HTC to outreach directly to our end-user customers and new revenue streams for the Company going forward.

The HTC Eye Experience is a powerful suite of imaging features that allows user to better put themselves in a camera, including advanced face tracking enhances the quality of video chat and conference call, an array of tools that enable user to combine, merge or crop image in creative new ways.

As the top of the range Desire phone, the new HTC Desire Eye encapsulates this imaging focus, integrating all of the HTC Eye Experience features with market-leading 13 megapixel camera and intelligent dual-LED flash at both front and back of the -- for the photography and the ultimate selfies.

Zoe, a collaborative, social video-editing application, allows user to create and remix videos into highlight reels comprising a couple of still images or entire series of video clips, complete with soundtrack and themes, that can be easily shared on media -- social media. Available now free of charge for all Android device users and with iOS support coming later this year. This innovative application represents a distinct new business strategy for HTC, designed to add value for consumer by offering them new ways to be more creative and collaborative and to gain mind-share among current and target users for our intuitive and thoughtful approach to imaging fun.

Completing the Double Exposure line-up was RE, a remarkable camera to convey HTC's vision of expanding the mobile ecosystem beyond the smartphone. Designed for the everyday consumer, the affordable RE is very easy to use with its intuitive one-button operation, 146-degree wide-angle lens and a grip sensor that automatically turns on the camera when you pick it up, enabling people to step out from behind the viewfinder and capture the moment. The standalone RE was created by HTC's Connected Device Group and represents a brand new product strategy as well as a new milestone for the Company.

October also saw launch of the new -- the Nexus 9, the new premium tablet designed in close collaboration with Google that boasts arrays of advanced technologies such as the HTC BoomSound and HTC's signature dual front-facing speakers for superb stereo sound, a sharp display with 4:3 aspect ratio and versatile accessories for enhanced productivity.

The Nexus 9 is the world's first tablet to run on Android 5.0 Lollipop, the very latest operating system from Google, which comes packed with features and updates to give user more control over their device, including personalized notifications, security, longer battery life, reduced latency and greater multitasking capability.

Page 5, awards and honors. The HTC One (M8) continue to accrue awards including the Best phone in 2014 by TechRadar, the Best Designed Smartphone of the Year by Mobile Choice. HTC Desire smartphone also won more awards in Q3, with the HTC Desire 820 following the footsteps of the Desire 816 in being honored in the year's Best of IFA Awards by Android Central, as well as being named Best Mid-range Smartphone by Android Authority.



Page 6. Page 6 gives an overview on revenues and operating profit. Revenue for third quarter came in at TWD41.9 billion, operating profit of TWD0.2 billion.

Page 7. Page 7 gives an overview of the gross margin and operating margin. Gross margin for third quarter was 22.9% and operating margin for third quarter was 0.4%.

Page 8 and page 9 were the financial overview for income statement and balance sheet.

Page 10, guidance for fourth quarter of 2014. Revenue is expected to be TWD43 billion to TWD47 billion. Gross margin is expected to be 19% to 21%. And EPS is expected to be in the range of TWD0.07 to TWD0.46 per share.

Thank you. This wrap up the content of our presentation. And now I would like to turn the podium to CFO and President of Global Sales, Mr. Chia-Lin Chang. Moderator, please start the Q&A session.

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen. We will now begin the question-and-answer session. (Operator Instructions) Richard Kramer, Arete Research.

Richard Kramer - Arete Research - Analyst

I'd like to ask two questions. One, Chia-Lin, can you talk about the longer-term business model and whether this is the new normal that we've seen for the past few years. In other words, one quarter of a sales spike around the big launch and then relatively flattish sales, and it seems it's very difficult for you to increase your gross margin. Is that just the pattern that we should expect going forward?

And then the other question I have, having launched some several now non-phone products, non-smartphone products, can you help us understand within the TWD43 billion to TWD47 billion guidance for Q4 and into next year how much are the -- are Nexus tablets and camera products factored into that, how -- what size of opportunity is that and maybe what does that say about the dynamics of the smartphone business and how difficult it is to grow there? Thanks.

Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

Thanks, Richard, thanks for the time. And hello everyone for getting on the call. Good afternoon and good morning, good evening, depends on your time zone.

I'll answer your first question, the answer is no. If you guided -- you look at the guidance we provided for Q4, it's in the range of TWD43 billion to TWD47 billion. Actually there is a significance to it. It actually shows there is year-over-year growth compared to Q4 last year. There is also sequential growth compared to Q3 this year.

We hope this guidance provides indication that we are, it's our intention to grow again. And this is the start of the quarter -- of the quarter and we hope the momentum will continue into Q1 and hopefully sustain throughout the entire 2015. That's number one.

Number two, I won't be able to break down in terms the -- in terms of how our, the non-smartphone, in terms of emerging devices or the tablet part of it and how that contribute as a percent of revenue. First of all, one, we don't normally break down for competitive reasons, second thing part of it may not be mature enough for us to make a solid enough, in that required time. At the right time we will make -- we may make a different adjustment at that point on.



What I want to indicate is the following. One, the -- even you take out a tablet, even you take out an emerging device and their revenue and profit contribution, it's our intention to show year-over-year growth in the smartphone main businesses. Then you add on top of it the additional business (inaudible) injected to it, so that's the intention.

Richard Kramer - *Arete Research - Analyst*

Okay. And just maybe a follow up on that. I'm struggling to understand why having -- you mentioned in previous calls about the cost reduction efforts, you've obviously done that on the OpEx side, but here we have a quarter where you're talking about sequential growth and even year-on-year growth and yet we're seeing gross margin guidance which is actually down. Is it just such a difficult competitive environment in the smartphone space that you can't see operating leverage anymore because pricing is so difficult or there is some other explanations for it you have to offer?

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

The, first of all on the gross margin, the primary, see this is, I want to talk about the gross margin there and talk about the OpEx there. To me, the gross margins, it's -- a lot have to do with the product mix. The product mix comes with the new product introduction and then mix of different products and also the price erosion of existing product there. When it comes to Q4, obviously there is a, in terms of our guidance here the combination of those three I talk about it.

Obviously in Q4 there is a [holiday] promotion here, some existing product there, we want to make sure that we are competitive in that. In terms of on a volume, overall volume perspective we want to do that. And also there is other product mix issue as we talk about it, that's number one.

The second thing is about the OpEx. I don't think I comment on it and say we want to do a cost reduction in that regard. A lot of the comments about HTC in terms of the cost reduction, I want to just emphasize again, our intention to grow in volume, promote the brand and then in a possible way. So the -- on the OpEx side there is room for continued authorization here, that's the -- that we'll look at it, but our goal is putting the right OpEx, right investment in there, either as expense or future investment in there to resume the growth and also the brand, build the brand equity.

Richard Kramer - *Arete Research - Analyst*

Okay. And maybe the last question, you obviously squeezed working capital and then collected quite a bit from receivables this quarter. You are sitting on TWD54 billion in cash and with the stock price fairly stagnant would you propose to the Board or would you consider some form of buyback or some use of that cash or do you think there is, you should preserve it for some either investment or some form of expansion in the future?

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

Yes, I -- first of all I will probably say we are not trying to squeeze the working capital, I think we're trying to manage working capital efficiently, and then sometimes when we order materials sometime the, you have the sales up, there's working capital, that's the purpose we call working capital. So then it may turn into cash, it may turn into other type of working capital. And then obviously we try to operate in an efficient way, so that's a result of it (inaudible) cash, we're not trying to -- probably I would try to -- I wouldn't use the word squeeze.

The second thing is rewarding shareholders, providing value to shareholders. Obviously return capital to shareholder, that's one way of thinking here. We want to look at it holistically, here it's the buyback, the dividend, the future share price increase in that regard.

I think strategically here the cash on hand, we think we have good thinking in terms of how to deploy that for future growth of the Company here. In terms of how that the -- how that will translate into the long term use of the cash here in terms of dividend and in terms the share buyback here, I would say in the short term, in the coming short term we don't have a current plan in terms of share buyback. On the dividend comment here, we commented in the previous shareholder meeting here. But this cash we think we can use efficiently to provide a long-term shareholder value.

Richard Kramer - *Arete Research - Analyst*

Okay. Thanks very much.

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

Thank you, Richard.

Operator

Arthur Hsieh, UBS.

Arthur Hsieh - *UBS - Analyst*

I have a couple of questions. First is with regard to the RE camera, I think this is an interesting new product that you just introduced. But actually if we look at the (inaudible) market data, the addressable market size is actually quite small. So could you share with us how did the team come up with the idea and what kind of resource do you plan to invest. Is it a self-sufficient business or is it actually going to be potentially money-losing initially and you are willing to endure this potential loss initially and how does that help your main business, the handset business? That's the first question. Thank you.

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

Thank you, Arthur. First of all on RE camera in terms of how we see the addressable market, it's different -- depends on different type of angle how you see addressable market. We actually think the addressable market for RE camera actually is quite attractive. We think RE camera is for everyday lifestyle usage, so it attracts, it's actually quite appealing to various types of people for their daily activities, that's number one. So we're actually seeing the market size actually quite attractive in that regard, that's number one.

Number two is HTC want -- in the long term how we position HTC, HTC want to be the brand of choice and foster human connectiveness. So we want to connect human not do the device mechanical connection, not -- but more do the lot of sharing, sharing your lifestyle experience, et cetera, et cetera, so that's the whole HTC. And when you come to that in a connected different format, HTC want to be the brand of choice. And then RE camera is one of them. Hopefully in the future you're going to see HTC continue to come up with something fit into the brand positioning and brand promise.

And third question, in terms of answering your questions on are we going to -- how are we going to sustain, is it a self-sustaining business here. I can tell you RE camera is important as part of the whole brand positioning and the -- and brand promise. And on itself financially here, it's our intention to make it the -- pretty self-sustainable in terms of P&L wise in the coming quarters.

Arthur Hsieh - *UBS - Analyst*

Thank you. And my next question is on the ODM business. I think the Company has stopped doing this kind of business for a while and the Nexus 9 just came out. So, well, I think to some extent it certainly helps to increase your overall facilities utilization but can you give us more idea in terms of whether this is more like a project one-off basis or is there more potential that you pursue?



Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

Yes. I read the news in the past, in the last month when we were in the -- earlier this month we were in New York, there is some interviews about similar questions. And also there is some confusion in terms on a smartphone business (inaudible) where HTC also is part of the smartphone business, why we are focused on the ODM business. I think the -- we don't see the Google tablet as a ODM business, it's a co-branding business. You can see HTC's logo, name is actually on it when the device available in the respective markets. So when we -- as we said in the past, when it come to co-branded business, powered by HTC and promoting HTC's name on it, HTC is always open and considering with such endeavor. I don't see HTC doing the ODM business in a traditional sense like you describe in that.

Arthur Hsieh - UBS - Analyst

Or maybe put it this way, I think when Google first outsourced the tablet model to ASUS tech, there was a good strategic reason behind it because at the time the overall Android market is still quite limited to the smartphone. And through this first Nexus project they being able to expand into the tablet and successfully build a stronger ecosystem.

So maybe is there anything that you can highlight, how important is this Nexus 9? Is this for the 64-bit architecture or is this something else that we need to --? Yes.

Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

If you have a question on that, I can answer here. Obviously HTC and Google has maintained a historical good partnership in that regard. And HTC, as we said in the past here, the -- we want to have a presence in the tablet market. We just now need to figure out what is our strategy positioning and the right business model for us. And we obviously -- hopefully, when time become more clear we can discuss more about it.

But specifically when it comes to this Nexus 9, I think the rationale behind is actually quite simple. Obviously, the introduction of Nexus 9 happen to come along with the Android, the new release and also the 64-bit associated with it and there is a technology implementation behind it, that certainly is one factor.

But the simple most important factor that two company get behind this, make it happen here is HTC has historically been good, been perceived as providing a premium device, and that segment for Nexus 9 is positioned at the premium device. And that's the biggest rationale behind it, of two names working together.

Arthur Hsieh - UBS - Analyst

Thank you. And my last question is that, if you look at the third quarter I think our sales guidance was TWD42 billion to TWD47 billion. Could you remind us what caused the shortfall and how can we avoid that from happening for the fourth quarter?

And also, related question is that inventory actually went up sequentially even though your sales came down. So just on the financials, could you give us a bit update? Thank you.

Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

The -- first of all the guidance we provide TWD42 billion to TWD47 billion, and then in the end we'll come up with the TWD41.8 billion. So there is a slight shortfall in that regard, that's due to the month-over-month the closing of the business year. Obviously you can say we try to put in more to make it to TWD42 million but we want to just make sure that it's natural around the business in that regard.

When it comes to guidance, specifically for Q4, something hopefully will be more clear when the result of Q4 come out. On Q4, you will see when we come out with the October number will be slightly lower than the September number. And then the November number would be higher than



the September number. And then the December obviously it depends on some of the things being pushed for January because some of the customer may not take inventory at the time of close and due to holiday there. That work out to be the guidance range it would have.

And the -- it's our intention obviously to make sure it's within the guidance range here. The -- we come up with the present number in there. But I will see when quarter ends here. And obviously we are conscious of your question in that regard.

When it comes to inventory -- Edward, you want to talk about inventory?

Edward Wang - *HTC Corporation - AVP of Finance*

Arthur, actually our Q3 end inventory is lower than the same period of last year. So you are talking about compared with Q2. That's because we strategically prepared some material for Q4.

Arthur Hsieh - *UBS - Analyst*

Got it. So if we -- if you remove those strategic inventories then your actual underlying normalized inventory level, it didn't really go up on sequential basis, right?

Edward Wang - *HTC Corporation - AVP of Finance*

Yes.

Arthur Hsieh - *UBS - Analyst*

Okay. Thank you.

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

Thank you, Arthur.

Operator

(Operator Instructions). [John-Louie Lafayenne], [SDJA].

John-Louie Lafayenne - *SDJA - Analyst*

The first question -- I have three questions. The first question I have is, just looking at Q4 guidance how much of that guidance can we attribute to the tablet business, approximately?

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

I won't be able to comment on it as I answered in Richard's question here, because we're not in a process of breaking down here when it's a -- still a substantially distinct business then we may make a different decision at -- when time is mature.



What I would say, I will comment on the tablet devices. I heard some of the news also saying that the initial preorder is strong, yes. The initial preorder is actually strong. So we are in a select market there. We are trying to make sure we have the right time delivery to make sure we capture the holiday season. Beyond that I can't comment on it in terms of break down.

John-Louie Lafayenne - *SDJA - Analyst*

Okay, because my question is not so much about the tablet but actually more about your underlying handset business. We are trying to see what the Q-on-Q and year-over-year organic growth or not maybe --

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

I would say -- actually, I would say the following. And actually it's a good question to answer, because I want to take this opportunity to answer. Even though within breakdown, the underlying in terms of handset shipment, we normally don't give out the handset shipment on a quarterly basis due to competition reason but we put in there when the annual result come out.

I would say the following. One, it's our intention to show year-over-year growth. In Q4 you also see the sequential growth in terms of the revenue. And then I know you're trying to decipher what's the handset business. I would say even on handset business side we also intend to show year-over-year growth and also important for Q3 is sequential growth on the revenue side in terms of handset contribution.

I will make one step further to further comment on the following. Despite what the -- I don't know which (inaudible) because my team showed to me in the last two days here. In fact, they -- we are forecasting a pretty material increase sequentially in the handset shipment volume, and that is consistent with our intention. As I said early on that it's our intention to grow, enhance that volume, promote a brand, build the brand equity and also in a profitable way. So to answer your question without breaking down in more detail, we are forecasting a pretty material growth in the handset shipment quarter over quarter compared to Q3.

John-Louie Lafayenne - *SDJA - Analyst*

Okay. Thank you. That's quite helpful. Thank you very much.

My second question is, just checking track a sec. Just from the ODM side of the business, the way -- I mean, somebody else asked about the tablet business and about ODM, but forgetting about the tablet business for a second, I have read reports in the press that suggest that HTC is returning to ODM for handsets. Would you be able to comment about that, please?

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

As I commented earlier to --

John-Louie Lafayenne - *SDJA - Analyst*

Sorry, I missed earlier --

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

-- an earlier question here, I don't -- I can say it now just to comment again, we are not going to do ODM or others, even that means its handsets or when it comes to tablet. We are open and we're also considerate on a co-branding opportunity with the partners if it fits our long term growth potential and also brand equity increase. With that, I will further comment on that, yes, we are in a process of finding outside ODM working with



our handset business, and the reason is not for the cost down, the reason is we think there is capability and extra resources to provide something we think that other market people participant can also do, then we're able to provide the right experience or willing to consider that. So to focus our internal resource on something we think will be more innovative and [break through] the differentiation. So that's basically our overall strategy.

John-Louie Lafayenne - *SDJA - Analyst*

Thank you very much. Thank you for that. I'll go back in queue, thanks.

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

Thank you. Thank you.

Operator

(Operator Instructions) Richard Kramer, Arete Research.

Richard Kramer - *Arete Research - Analyst*

Just two other quick questions. One, when you think about Zoe and your applications strategy, do you have a revenue model that's associated with it? Do you think that this somehow could scale into something that would be material, or is it simply a brand awareness effort both to support the RE camera and indeed just to drive people to the HTC brand and to your hardware products?

And then second, we haven't really heard much or seen much from HTC on alternative software platforms. I know you've launched a Windows phone version of the M8, but how do you see non-Android products fitting in longer term? And indeed, there was some discussion about whether you might do an alternative software platform in -- for the Chinese market. Can you comment about how you think about shipments in 2015 with Android and the rest of the platforms? Thanks.

Chia-Lin Chang - *HTC Corporation - President of Global Sales and CFO*

Thank you, Richard. I'll answer your first question. I think we -- we've actually done holistic thinking, and there's a lot of discussion internally. The goal is make sure we are when it comes to connecting human beings and foster the connection we are the brand of choice. So you can see in the coming quarters, in the coming months or in the coming years we're going to start doing things in -- align with that kind of thinking.

Whether the Zoe itself, whether we're able to monetize it, I think it's too early to say. Obviously we have a lot of discussion and thinking, the right thing -- thinking and business models. I don't think it's mature for me to comment specifically on Zoe yet. But we hope people, as you can see based on the speed of download, Zoe's sharing, to foster the kind of sharing, that's part of connectiveness we talk about, that people would like and -- so that's something we want to do.

Whether -- turning into the P&L thing, I think it's early to comment on it. A lot of things we discussed, but it's just not mature to comment on it. But overall theme is what I just described in that regard.

And your second question is on the -- what's the second question?

Richard Kramer - *Arete Research - Analyst*

On the software platform.



Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

Software platform, I would say the following. I think we are a good partner, it's a neutral partnership with Android. We're also a good partner, a neutral partnership with Microsoft. It's our intention to continue to provide consumers, at the end of the day it's consumer, right, good experience based on these two platforms. And that's how we'll carry on, that's how I will comment.

Richard Kramer - Arete Research - Analyst

Okay. There's no third platform that you plan to adopt any time in 2015, perhaps?

Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

Yes, I'm not aware in 2015. I wanted to be very clear, I don't want to create a lot -- any other speculation. It's our intention to continue obviously in 2015 on both platforms in terms of Android and in terms of Microsoft. This is it. So there's no other implication or connotation in that, just pure what I said.

Richard Kramer - Arete Research - Analyst

Okay, thanks.

Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

Thank you, Richard.

Operator

(Operator Instructions) Arthur Hsieh, UBS.

Arthur Hsieh - UBS - Analyst

Hi, thank you for taking my question again. Just curious, could you help us understand in terms of the distribution of human volume by different models? If you look at overall distribution list this year compared with last year, is there any noticeable difference?

Well, I'm asking this mainly because I think nowadays the flagship model usually account for very significant number of the total shipment, but I can understand you spend more efforts to trying to drive the Desire series of new models, and I'm not sure whether that's a direction that the management is trying to push so that the overall business will not be overly dependent on maybe just one single flagship model. Could you help us to understand?

Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

Yes. The -- I think it's a good question, is that gives me the opportunity to comment our -- in terms of brand and product strategy there. I can tell you, I won't be able to break down but I'm trying to be as helpful as possible. I can tell you our flagship model this year is still our best-selling model. And it's also our prediction and our intention that the flagship model is the best-selling model globally for HTC for years to come.



And then because it ties in very clearly with our brand promotion and the accumulation of brand equity, and using the halo effect of the flagship model to carry the rest of the products along with it. So that has always been our thing, has always been product and brand strategy as we talk about it, and it has not changed.

I know in the press or sometimes there's a comment saying HTC pushing on the Desire line, et cetera, et cetera on that. I think what we want to make sure is with the halo effect, with a strong brand promotion on the flagship model, it carry along a robust product portfolio to fit the need of various consumers, because there's a very -- this -- based on our estimation, by the end of next year, for example, we will have probably more than 5 billion smartphones being shipped. Smartphone market has come to a degree that there's a certain maturity in that regard. With that maturity there's a regional difference, not just a pricing difference but there is a cultural difference, purchase behavior difference in there. We just want to have a portfolio that fit into the differences, because there's also wireless infrastructure differences.

You compare the US with India, there's a big difference. Compare India with China, there is [not] a big difference there. So there's different differences, and how do we provide the right portfolio to fit the market at different price tier and with all the brand attraction coming from the brand promotion associated with the flagship product, that's basically our goal.

So we're not -- I want to make it clear, we're not de-emphasizing the flagship to promote the rest of the product portfolio, that's not our intention. Our goal has always been what I just said, promote the flagship. And also it's our prediction, I can tell you this year for sure that flagship model is the best selling model for HTC. It's the same last year, it's also our position the same for next year and a few years to come. And we're going to [associate] with it, we're going to grow the product.

Arthur Hsieh - UBS - Analyst

That's great. Thank you.

Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

Thank you.

Operator

There is currently no question in line. I will pass the call back to CFO and President of Global Sales, Mr. Chia-Lin Chang, for closing remark.

Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

Thank you very much for coming. I'll pass back to Christine. Thanks for attending.

Christine Chi - HTC Corporation - Manager, Investor Relations

Thank you.

Chia-Lin Chang - HTC Corporation - President of Global Sales and CFO

Thank you everyone.



Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.