

# HTC CORPORATION

## 3Q BUSINESS REVIEW

CHENG, HUI-MING  
CFO & Spokesman

CHENG, JOEY  
Director of Investor Relations

Nov 9, 2009

# DISCLAIMER STATEMENT

This presentation and release contains “forward-looking statements” which may include our future results of operations, financial condition or business prospects, are based on our own information and from other sources.

Our actual results of operations, financial condition or business prospects may differ from those expressed or implied in these forward looking statements for a variety of reasons, including risks of market condition, supply chain, market demand, and our ability to maintain a high quality products delivery.

The forward-looking statements in this release reflect the current belief of HTC as of the date of this release and HTC undertakes no obligation to update these forward-looking statements for events or circumstances that occur subsequent to such date.

# PRESENTATION OUTLINE

- 3Q09 BUSINESS REVIEW
- BUSINESS ENVIRONMENT
- MANAGEMENT INITIATIVES
- 3Q09 P&L (UNCONSOLIDATED)
- 3Q09 P&L (CONSOLIDATED)
- 3Q09 KEY FINANCIALS (UNCONSOLIDATED)
- 3Q09 KEY FINANCIALS (CONSOLIDATED)
- FACT SHEET UPDATE – BUSINESS STATUS
- 4Q09 BUSINESS OUTLOOK
- 2009 BUSINESS OUTLOOK
- FAQs

# 3Q09 BUSINESS REVIEW

- 3Q revenue reached NT\$34bn.
- 3Q GPM was 32.3%.
- 3Q OPEX ratio came better than guidance ( $15\% \pm 0.5\%$ ) at 13.9%; therefore, 3Q operating margin came at 18.6%, also better than 17.5% mid-point guidance.

\* All the numbers above are based on unconsolidated financial statements.

# BUSINESS ENVIRONMENT

- HTC is in a favorable competitive position amid mobile OS platform landscape where we continue to dominate both WM (Windows Mobile) as well as Android platforms.
- As smart phone penetration further expands into end consumers, HTC gained strong brand awareness due to our leadership position within smart phone industry.
- US market continues to show strong growth momentum, though Europe market remain relatively weaker.

# MANAGEMENT INITIATIVES

- HTC continues to lead the innovation on WM and Android platforms by superior touch capability, HTC Sense UI, performance and attractive ID (industrial design) such as HD2 (WM), Hero and Droid Eris (Android).
- HTC is well positioned at fast growing US market by increasing shelf space from major carriers' hero product launch at upcoming Christmas season, management aims to further strengthen partnership relation with US carriers from 2010 onward.
- Phase II branding process has been unveiled globally by mid Oct. and highlighted particularly at US as well as Europe activities. Management aims to build long term brand awareness in addition to drive growth momentum at this phase.
- Creative channel management has been planned and executed to increase consumer sell-through and further establish HTC brand awareness.

## 3Q09 P&L (UNCONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>3Q 08</u>	<u>2Q 09</u>	<u>3Q 09</u>	<u>QOQ</u>	<u>YOY</u>
REVENUES	37.86	38.20	34.01	-11.0%	-10.2%
<u>GROSS PROFIT</u>	<u>12.93</u>	<u>12.24</u>	<u>10.99</u>	<u>-10.2%</u>	<u>-15.0%</u>
<u>RSGA EXPENSE</u>	<u>5.67</u>	<u>5.28</u>	<u>4.74</u>	<u>-10.3%</u>	<u>-16.4%</u>
NOP	7.23	6.89	6.32	-8.4%	-12.6%
NPBT	7.70	7.11	6.45	-9.4%	-16.3%
NPAT	6.99	6.50	5.70* <sup>2</sup>	-12.4%	-18.5%
GPM	34.2%	32.0%	32.3%		
RSGA RATIO	15.0%	13.8%	13.9%		
EPS* <sup>1</sup> (NT\$)	9.25	8.73 (before ex-rights)	7.18		

\*<sup>1</sup>The EPS was calculated based on the outstanding shares at the time.

\*<sup>2</sup>According to the Explanatory Decree No. 09800257300 regarding income tax exemption under the Statute for Upgrading Industries, the reported tax amount was \$51M higher than self-assessed numbers.

## 3Q09 P&L (CONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>3Q 08</u>	<u>2Q 09</u>	<u>3Q 09</u>	<u>QOQ</u>	<u>YOY</u>
REVENUES	37.63	38.14	33.88	-11.2%	-10.0%
<u>GROSS PROFIT</u>	<u>13.04</u>	<u>12.05</u>	<u>11.17</u>	<u>-7.3%</u>	<u>-14.3%</u>
<u>RSGA EXPENSE</u>	<u>5.65</u>	<u>5.17</u>	<u>4.74</u>	<u>-8.4%</u>	<u>-16.2%</u>
NOP	7.39	6.88	6.43	-6.5%	-13.0%
NPBT	7.73	7.13	6.53	-8.5%	-15.5%
NPAT*1	6.99	6.50	5.70	-12.4%	-18.5%
GPM	34.6%	31.6%	33.0%		
RSGA RATIO	15.0%	13.6%	14.0%		
EPS*2(NT\$)	9.25	8.73 (before ex-rights)	7.18		

\*1 Attributable to stockholders of parent company, excluding minority interest.

\*2 The EPS was calculated based on the outstanding shares at the time.



# 3Q09 KEY FINANCIALS (UNCONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>Sept 30, 08</u>	<u>June 30, 09</u>	<u>Sept 30, 09</u>	<u>QOQ</u>	<u>YOY</u>
CASH* <sup>1</sup>	63.94	68.50	55.14	-19.5%	-13.8%
AR	21.55	29.83	24.30	-18.5%	12.7%
INVENTORY	7.88	4.46	4.29	-3.7%	-45.5%
NET WORTH	56.00	56.93* <sup>2</sup>	60.31	5.9%	7.7%
INVENTORY PROVISION	1.48	2.79	3.23	15.6%	118.7%
AR PROVISION	0.54	0.75	0.75	0.0%	38.5%
WARRANTY PROVISION	4.86	5.28	5.46	3.4%	12.4%

\*<sup>1</sup>Includes cash equivalents.

\*<sup>2</sup>After the deduction of cash dividend NT\$20.125bn (NT\$27/per share).

# 3Q09 KEY FINANCIALS (CONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>Sept 30, 08</u>	<u>June 30, 09</u>	<u>Sept 30, 09</u>	<u>QOQ</u>	<u>YOY</u>
CASH* <sup>1</sup>	66.33	70.57	57.98	-17.8%	-12.6%
AR	21.21	29.40	23.99	-18.4%	13.1%
INVENTORY	8.47	5.58	5.18	-7.2%	-38.8%
NET WORTH* <sup>2</sup>	56.00	56.93* <sup>3</sup>	60.31	5.9%	7.7%
INVENTORY PROVISION	2.07	2.98	3.40	14.0%	64.1%
AR PROVISION	0.61	0.79	0.79	0.1%	29.5%
WARRANTY PROVISION	4.85	5.28	5.46	3.4%	12.6%

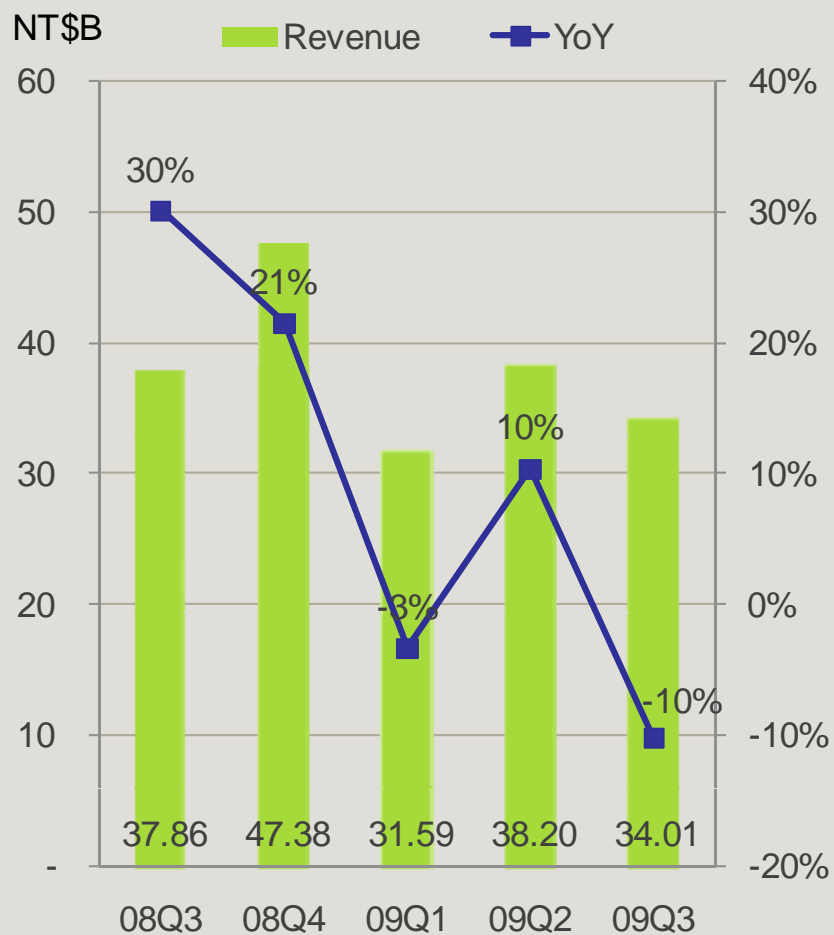
\*1Includes cash equivalents.

\*2Attributable to stockholders of parent company, excluding minority interest.

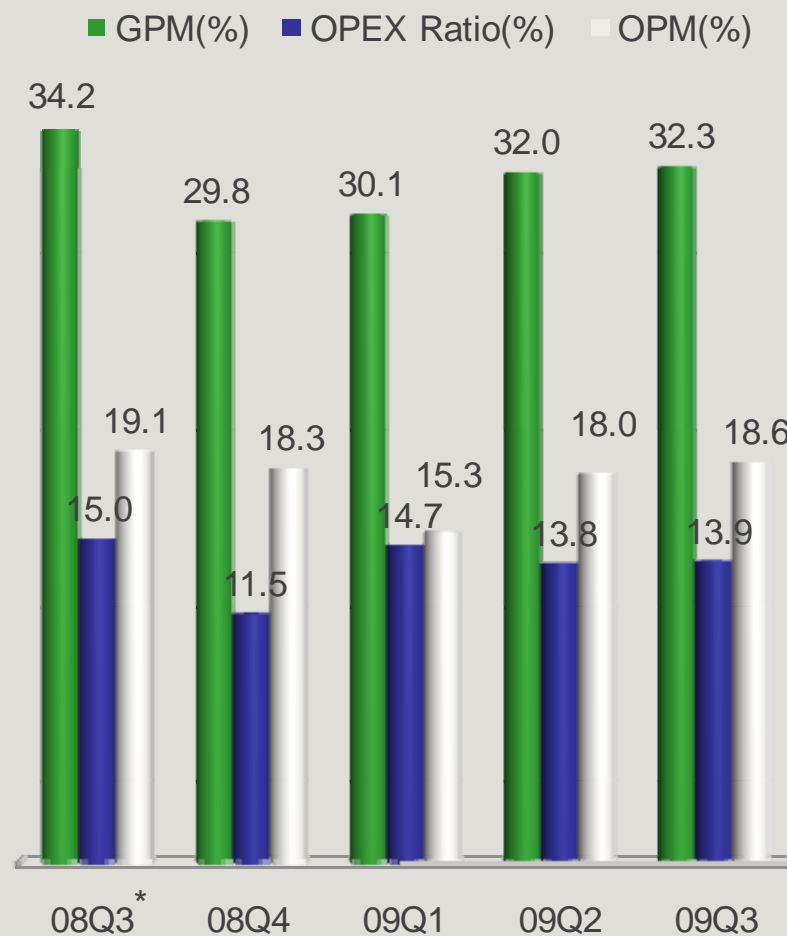
\*3After the deduction of cash dividend NT\$20.125bn (NT\$27/per share).

# FACT SHEET UPDATES – BUSINESS STATUS

## • REVENUE



## • MARGIN

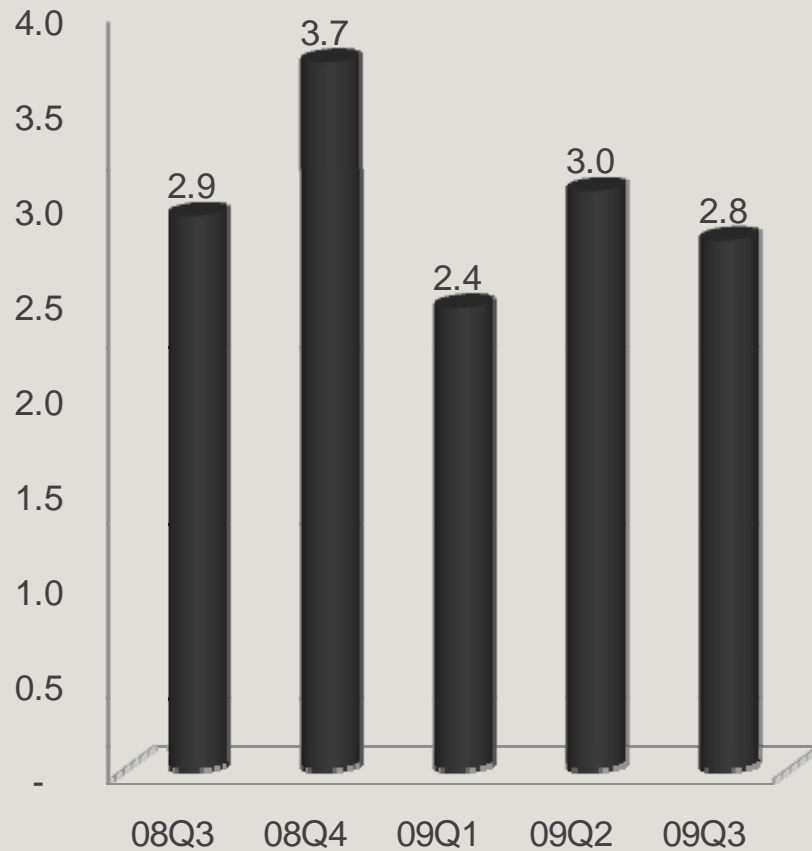


\*Excluded 2 adjustments of NT\$0.24 billion for accounting adjustment and PSP expenses in 3Q 08, the adjusted NOP post-bonus is NT\$7.47bil in 3Q whereas OPM post-bonus is 19.7% in 3Q 08.

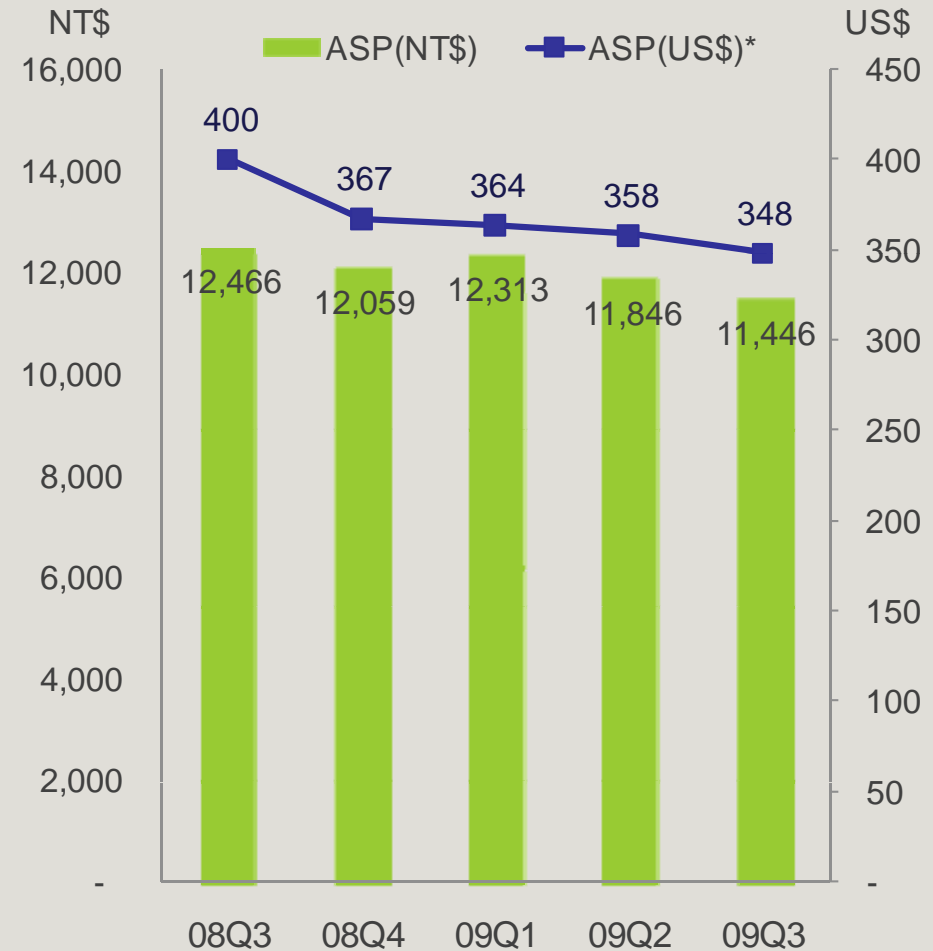
# FACT SHEET UPDATES – BUSINESS STATUS

- SHIPMENT

Unit: Million



- AVERAGE SELLING PRICE



\*The ASP(US\$) is translated to the US dollar at average exchange rate for each quarters. The exchange rates for 3Q08 to 3Q09 are 31.16, 32.84, 33.85, 33.08 and 32.87 respectively.

# 4Q09 BUSINESS OUTLOOK

- 4Q brand unit expects to grow 5%~6%YoY despite ODM shipment coming toward end of life; 4Q revenue expects at the range from NT\$40bn to NT\$42bn.
- GPM expects to be around 32.5%± 0.5%.
- OPEX ratio expects to be around 17%± 0.5%, due to higher marketing budget for the quarter.

\* All the numbers above are based on unconsolidated financial statements.

# 2009 BUSINESS OUTLOOK

- Revenue maintain from original guidance range and expects to decline mid single digit from the 2008 level.
- Gross margin comes in at upper level of guided range (30%~32%).
- OPEX ratio maintain from original guidance at around 15%.

\* All the numbers above are based on unconsolidated financial statements.

# FAQs

Q: Please comment how the Android platform ramping situation after last 2Q earning call?

A: US market remains on track to ramp Android portfolio through major carriers but it is relatively weaker at Europe market (despite solid carrier commitment) due to lack of consumer awareness on new Android platform; Management aims to strengthen HTC brand awareness to help raising consumer recognition on Android platform and we see new Android entrants (from our peers) to further help increasing the Android popularity at consumer level.

Q: What is HTC's strategy on WM at its transitional stage before WM7.0 release?

A: We view Microsoft strategic partner and WM a competitive mobile platform long term. HTC continues to commit engineering resource to innovate WM platform at all stages, latest HD2 announcement set another milestone to bring superior touch experience and system performance toward WM platform. Management aims to continue maintain our leadership position in WM platform.

Q: Please comment our rationale and cost of HTC phase II branding campaign?

A: HTC experience has come to another milestone when we launched HTC "Sense™". We believe it is inevitable (for HTC and our carrier partners) to build and leverage a strong HTC brand image to convey HTC experience to consumers in order to expand our market share position. Management has raised 4Q09 marketing budget (4Q09 opex 17% ±0.5%) to kick off our phase II branding activity and we will continue our phase II branding activity into 2010 to build long term brand recognition.

# FAQs

Q: Please comment HTC's products strategy as mid-tier price converged device emerging?

A: HTC has pioneered smart phone industry and will be leading the trend to drive mid-tier price adoption as industry cycle approaches to ramping stage. Revenue contribution percentage of mid-tier ASP segment has come up from 2H09 and we are committed to bring down current converged architecture cost to mid-tier price level, yet maintaining device performance and attractive user experiences.

Q: How should we foresee margin trend amid increasing marketing budget and emerging mid-tier product portfolio?

A: Sequentially improved YTD gross margin not only clarifies overly concerned pricing pressure but also show our competitiveness on overall operation efficiency. As mid-tier price smart phone market emerges and marketing expense for branding increases, we will continue making efforts to improve overall efficiency on engineering, manufacturing, sales channels as well as supply chain management. In addition, management will maintain a stringent financial discipline and operation rule to monitor marketing expense vs. business return.

Q: Please comment HTC long term strategy and critical mass requirement in order to stay survived once industry consolidation ends at the final stage of industry cycle?

A: HTC plans to invest on brand recognition as well as strengthen differentiated product innovation in order to long term achieve volume market share position; and aims to become a strong leading smart phone supplier after industry consolidation.



# FAQs

Q: Please comment impact to HTC when late comers start competing against Android platform?

A: We are happy to see more adoption on Android platform from peers because it not only proves our vision, but also likely to reshape the mobile OS landscape to favor HTC positioning. More OEM adoption will bring Android into mainstream platform and marginalize other niche ones; Management aims to maintain Android leadership position by leading and differentiated portfolio, widen distribution channel from global carriers and distinguished branding strategy.

Q: Please comment China business momentum after signing MOU with China Mobile?

A: HTC signed MOU with China Mobile to strengthen partnership on China market development; we remain our long term optimistic view on China but ramps depends on readiness of infrastructure and operating environment maturity, and near term business contribution is still limited. Not only China Mobile TD standard, but we have begun engagement on all technology standards within China already.

Q: What do you expect the shipment volume of Hero, the 3<sup>rd</sup> Android model?

A: Primary purpose of “Hero” launch is to unveil HTC experience “Sense”, we expect present Android portfolio (G1, Magic, Tattoo, Hero & Droid Eris) to drive total volume but not Hero along. We aim to deliver HTC “Sense” into our Android portfolio with different IDs and price segments going forward.

# FAQs

Q: Please comment HTC's leadership position on Android after Moto's announcement of Android 2.0 on its latest Verizon Droid rollout?

A: HTC maintains leadership position on Android platform today by three metrics; (1) HTC dominates most of volume share of Android market globally (2) most complete android portfolio covered by platform architectures, form factors, and price segments (3) technology leadership benchmarked by offering the most value/performance-added software content (such as HTC Sense) on top of android platform. We believe more proprietary content only proves more a leading software capability but, on contrast, no differentiation only shows less capability on android platform.

htc  
*quietly brilliant*