

# HTC CORPORATION

## 1Q BUSINESS REVIEW

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# PRESENTATION OUTLINE

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# 1Q10 BUSINESS REVIEW

- 1Q unit was 3.3mn which grew 37% yoy.
- 1Q revenue reached NT\$37.7bn, better than original guidance.
- 1Q GPM was 30.3% (would be 31.5% excludes currency impact).
- 1Q OPEX ratio came better than original guidance at 15.6%; therefore, 1Q operating margin reached 14.6%.

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

# MANAGEMENT INITIATIVES

- Picking up growth momentum again shows our commitment and execution to drive scale and achieve absolute profit growth.
- Better than seasonal 1Q highlighted particular momentum recovery from Europe and Asia along with remained US strength; We see strong sequential unit growth from Europe/Asia regions for the quarter.
- Healthy sell through and prolonged life cycles are achieved on key 2009 products, such as HD2, Hero, Droid Eris & MyTouch, which also evidence solid recognition as well as consumer preference of HTC brand and portfolio.
- Commercial ramp, started from March on new products of Desire, Legend, HD Mini and Smart, plus announcement of EVO 4G and Droid Incredible Smart Phone & one to two more new products to come in 2Q, ensures our industry leadership position on technology as well as innovation.

# MANAGEMENT INITIATIVES

- Launch of industry's first 4G smart phone (EVO 4G on Sprint's WiMax network) consistently show HTC technology leadership; historically, we were the first to enable 2G & 3G smart phones and with broadest 3G portfolio to cover UMTS, EVDO as well as TD-SCDMA; Benefited from that leadership position, HTC will be leading player again in 4G innovation.
- Latest HTC innovation of product design, unibody design, HTC Sense software and superior system performance, on recent portfolio such as HD2, Nexus One, Desire, Legend, HD Mini, EVO 4G and Droid Incredible, standing out HTC as premium smart phone brand and further raise the bar for quality & competition, which also help HTC brand awareness in the market.
- Professional recognition of HTC innovation globally on (1) HTC Hero: Best mobile device of 2009 from GSMA Mobile World Congress (MWC) on Feb. 2010. (2) HTC EVO 4G: Best phone of CTIA 2010 from CNET's Best of CTIA Awards. (3) HTC Desire: No.1 of the 15 best mobile phones in the world from TechRadar on March 2010.

# MATERIAL BOARD RESOLUTIONS

- The outstanding common shares number is 773,935,844 shares, post the cancelation of the 15 million treasury share buyback.
- Proposed fiscal year 2009 earnings distribution
  - Cash Dividend: NT\$ 26 per share.
  - Stock Dividend: NT\$ 0.5 per share.
- Employee bonus
  - Cash: NT\$ 2.91 bn.
  - Stock: NT\$ 1.94 bn. (Number of shares shall be calculated based on the closing price one day prior to the 2010 regular shareholders' meeting on an ex-dividend basis.)

# 2Q10 BUSINESS OUTLOOK

- 2Q unit expects to grow around 50% yoy to reach 4.5mn.
- 2Q revenue expects to hit record high to approach NT\$50bn.
- GPM expects to be around 30%± 0.5%\*.
- OPEX ratio expects to be at the range from 15% to 15.5%.

\*Microsoft Royalty is included in our cost according to new patent licensing agreement.

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



# REVIEW ON THE GROW SCALE STRATEGY

- We made the decision to grow HTC scale in order to gain marketing spending as well as overall operation efficiency thus strengthen HTC long term competitiveness at the end of 2009.
- Market was overly concerned and misinterpreted our strategic objectives by speculation of price war initiation, revenue weaken trend and profit sacrifice.
- Q1 result shows the scale strategy works and growth momentum comes back.
- The reasons of our success in scale strategy lie on financial management optimization, strong product portfolio, close customer relationship, increased brand awareness, sales/marketing execution and regional teams commitment.
- Management team is very careful & mindful to balance between growth strategy and financial discipline; solid 1Q result act as best evidence to show management's prudence as well as aggressiveness.

# REVIEW ON THE GROW SCALE STRATEGY

- Management expects to grow scale while maintaining profitability in 1H, sustained operating margin (excludes currency impact) will be achieved in 1H10 while we expect significant first half (1H10) unit to grow over 40% yoy.
- Our scale growth strategy is based upon full product portfolio not just a specific view of a single product behavior; it is misleading to evaluate HTC growth and financial performance by mid to low end product only. We are excited to see strong volume ramp on mid to high end products at present. HTC financial model should be built from our overall product portfolio.
- We envision HTC Smart to bring both HTC brand and product portfolio to mass market consumers; the brand reach will expand our mid to high end smart phone to mass market in addition to Smart only, further creating scale benefit; Smart is our first mid to low end initiative and there is no meaningful financial contribution for 2010; however, it should increase consumer mindshare toward mass market and strengthen our long term brand awareness.

# 1Q10 P&L (UNCONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>1Q 09</u>	<u>4Q 09</u>	<u><b>1Q 10</b></u>	<u>QOQ</u>	<u>YOY</u>
REVENUES	31.59	41.08	<b>37.70</b>	-8.2%	19.3%
<u>GROSS PROFIT</u>	<u>9.50</u>	<u>13.14</u>	<u><b>11.44</b></u>	<u>-12.9%</u>	<u>20.4%</u>
<u>RSGA EXPENSE</u>	<u>4.64</u>	<u>7.05</u>	<u><b>5.90</b></u>	<u>-16.4%</u>	<u>27.1%</u>
NOP	4.85	6.12	<b>5.51</b>	-9.9%	13.7%
NPBT	5.39	6.26	<b>5.72</b>	-8.6%	6.1%
NPAT	4.87	5.53	<b>5.00</b>	-9.7%	2.5%
GPM(%)	30.1%	32.0%	<b>30.3%</b>		
RSGA RATIO(%)	14.7%	17.2%	<b>15.6%</b>		
EPS*(NT\$)	6.54	7.01	<b>6.38</b>		

\*The EPS was calculated based on the weighted average number of common shares outstanding during each period.

# 1Q10 P&L (CONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>1Q 09</u>	<u>4Q 09</u>	<u>1Q 10</u>	<u>QOQ</u>	<u>YOY</u>
REVENUES	31.41	41.07	<b>37.95</b>	-7.6%	20.8%
<u>GROSS PROFIT</u>	<u>9.61</u>	<u>13.34</u>	<u><b>11.60</b></u>	<u>-13.0%</u>	<u>20.7%</u>
<u>RSGA EXPENSE</u>	<u>4.59</u>	<u>7.05</u>	<u><b>5.94</b></u>	<u>-15.8%</u>	<u>29.5%</u>
NOP	5.03	6.29	<b>5.66</b>	-9.9%	12.7%
NPBT	5.44	6.29	<b>5.76</b>	-8.4%	5.9%
NPAT*1	4.87	5.53	<b>5.00</b>	-9.7%	2.5%
GPM(%)	30.6%	32.5%	<b>30.6%</b>		
RSGA RATIO(%)	14.6%	17.2%	<b>15.6%</b>		
EPS*2(NT\$)	6.54	7.01	<b>6.38</b>		

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

\*2 The EPS was calculated based on the weighted average number of common shares outstanding during each period.

# 1Q10 KEY FINANCIALS (UNCONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>Mar 31, 09</u>	<u>Dec 31, 09</u>	<u>Mar 31, 10</u>	<u>QOQ</u>	<u>YOY</u>
CASH*	71.72	64.17	<b>68.22</b>	6.3%	-4.9%
AR	17.56	27.57	<b>26.95</b>	-2.3%	53.5%
INVENTORY	4.64	4.74	<b>7.16</b>	51.1%	54.2%
NET WORTH	65.64	65.64	<b>65.77</b>	0.2%	0.2%
INVENTORY PROVISION	2.35	3.13	<b>3.02</b>	-3.5%	28.6%
AR PROVISION	0.75	1.01	<b>1.01</b>	0.0%	35.0%
WARRANTY PROVISION	4.84	5.29	<b>6.01</b>	13.6%	24.0%

\*Includes cash equivalents.

# 1Q10 KEY FINANCIALS (CONSOLIDATED)

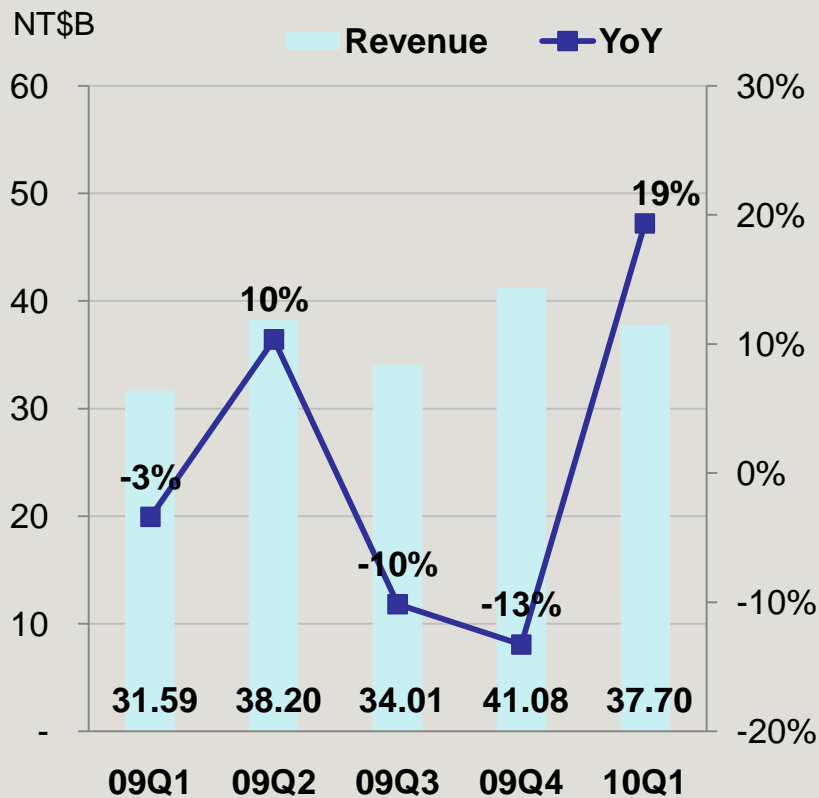
<u>(NT\$ Billion)</u>	<u>Mar 31, 09</u>	<u>Dec 31, 09</u>	<u>Mar 31, 10</u>	<u>QOQ</u>	<u>YOY</u>
CASH* <sup>1</sup>	73.98	67.14	<b>71.89</b>	7.1%	-2.8%
AR	17.28	27.13	<b>26.73</b>	-1.4%	54.7%
INVENTORY	5.78	5.56	<b>8.21</b>	47.6%	41.9%
NET WORTH* <sup>2</sup>	65.64	65.64	<b>65.77</b>	0.2%	0.2%
INVENTORY PROVISION	2.57	3.25	<b>3.16</b>	-2.9%	23.0%
AR PROVISION	0.78	1.02	<b>1.01</b>	-1.4%	29.4%
WARRANTY PROVISION	4.85	5.27	<b>6.01</b>	14.2%	24.1%

\*1 Includes cash equivalents.

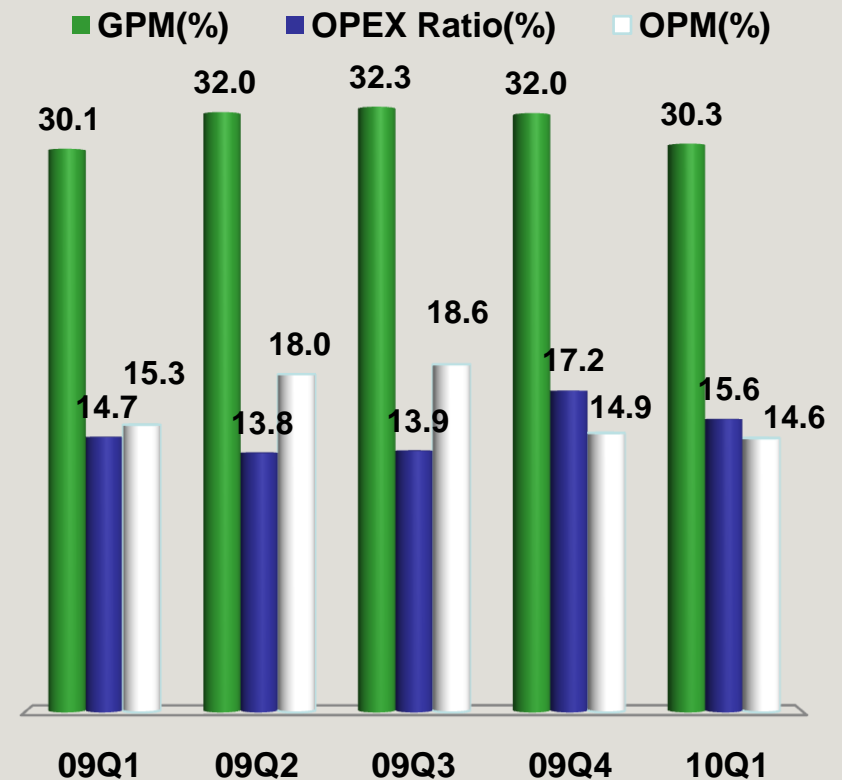
\*2 Attributable to stockholders of parent company, excluding minority interest.

# FACT SHEET UPDATE-BUSINESS STATUS

## • Revenue



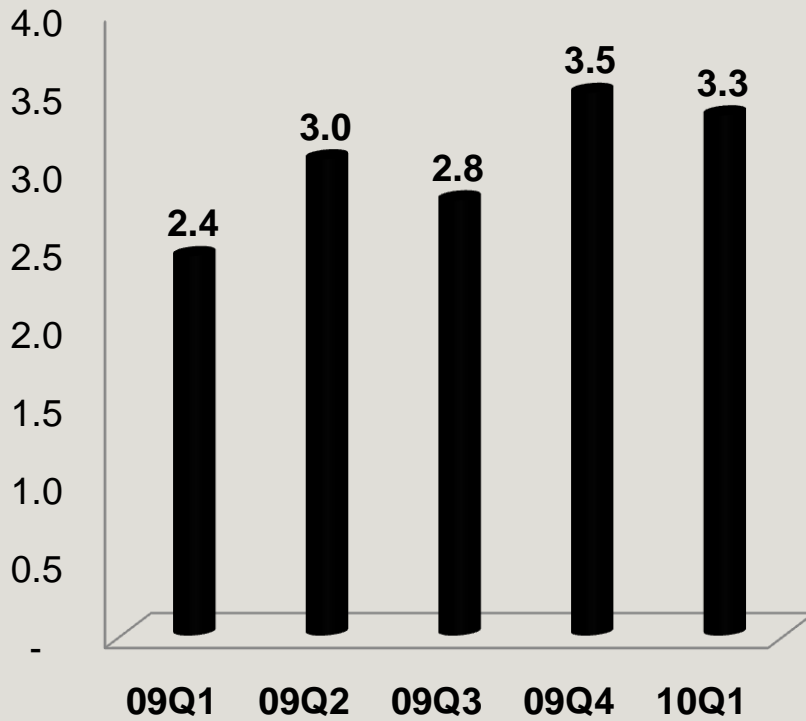
## • Margin



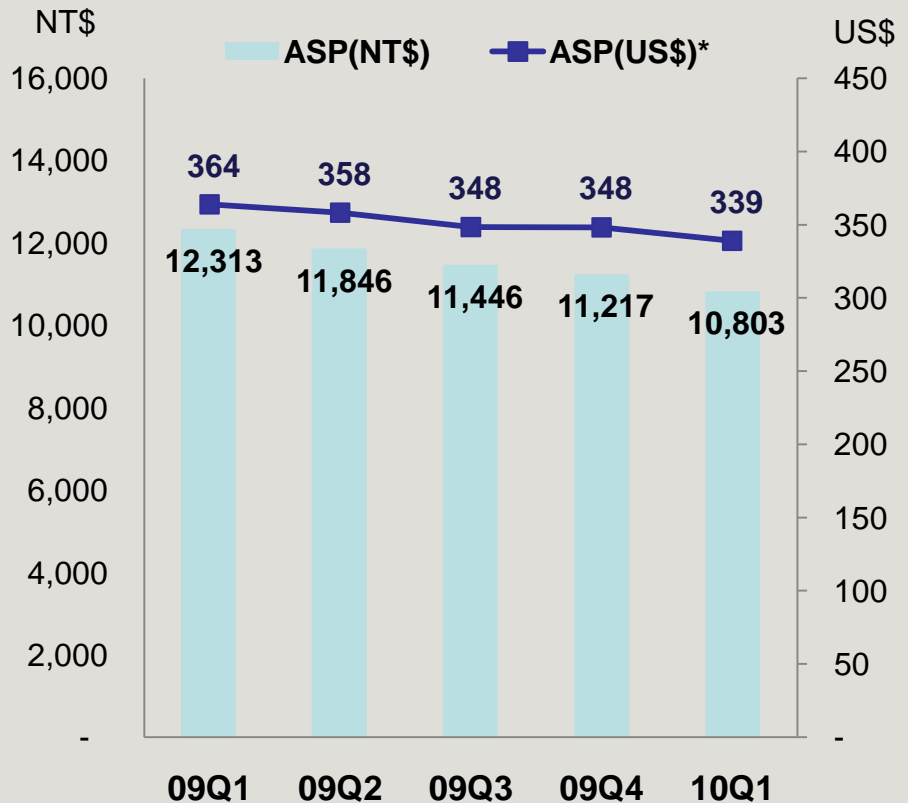
# FACT SHEET UPDATE-BUSINESS STATUS

## • SHIPMENT

Unit: Million



## • AVERAGE SELLING PRICE



\*The ASP(US\$) is translated to the US dollar at average exchange rate for each quarter. The exchange rates for 1Q09 to 1Q10 are 33.85, 33.08, 32.87, 32.22 and 31.86 respectively.



# FAQs

Q: How should we foresee OPEX ratio trend after better than expected 1Q number and 2Q guidance?

A: Better than expected 1H OPEX ratio largely comes from marketing spending and operation efficiency as a initial successful result of scale expansion strategy we highlighted from last earning call.

Q: What should we expect ASP trend given only small sequential decline seen from 1Q amid our scale expansion strategy?

A: Our product portfolio remain very competitive at mid to high end segment where most smart phone is selling today. The lesser ASP decline in Q1 is due to product mix and lesser price erosion.

Q: What will be the corporate operating margin trend along with ASP and currency trend?

A: The better than expected operating margin is achieved thru lesser ASP decline which sustained GPM and lesser OPEX ratio which came from the scale contribution. The product portfolio strength, product mix and volume shipment momentum will be the key considerations to maintain our operating margin.

# FAQs

Q: What is the status of Apple legal action against HTC?

A: On March 18<sup>th</sup>, we have outlined our disagreement with Apple legal action and will fully defend it. So far, we see no immediate impact on our products, business and customers .

Q: When will HTC start shipping Windows Phone 7 based products?

A: HTC view Microsoft strategic partner and Windows Phone 7 a promising smart phone operating system platform; and we plan to rollout our first Windows Phone 7 based smart phone before the end of year.

Q: Please comment how Android platform ramps ever since our debut from 4Q08?

A: HTC is very pleased to see successfully Android ramping globally as of today; From every beginning, US quickly adopted HTC Android smart phone and started gaining significant market share as early as by 2009; We started seeing our Android momentum picking up from beginning of 2010. The initial 2009 Android portfolio has proved to deliver better sell-through as well as longer product life cycles, and we are confident our 2010 Android portfolio will drive momentum around the world.

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