

# HTC CORPORATION

## 3Q BUSINESS REVIEW

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# PRESENTATION OUTLINE

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# 3Q10 BUSINESS REVIEW

- 3Q unit was 6.8mn which grew 143% yoy.
- 3Q revenue reached NT\$75.8bn which grew 124% yoy, better than original guidance.
- 3Q GPM came in high end of original guidance range at 30.2%.
- 3Q OPEX ratio came inline with original guidance at 13.9%; therefore, 3Q operating margin reached 16.3%.

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

# STRATEGIC REVIEWS

- **Fast scale expansion and the dramatic picking up momentum** clearly delivers our strategic decision, made at the end of 2009, to grow scale and achieve profit growth. The ramping growth momentum continues to accelerate smart phone industry penetration rate.
- Growing scale showed operating leverage on marketing spending and operation efficiency, therefore, resulting an improved operating margin.
- Improved business sustainability is supported by ramping brand awareness, global operators partnership, broad base cutting edge product portfolio and effective market commercialization.
- Our Android smart phone demand has been rapidly growing in North America since 2009. Now we are very excited to see Android demand ramping up strongly from Europe as well as Asia and management expects the Europe/Asia momentum to further accelerate toward the level of North America from 2011 onward.

# STRATEGIC REVIEWS

- **Key intangible asset of HTC brand value is our global commercialization capability** to drive go-to-market and massive commercialization of industry new technology initiatives such as Android, Windows platforms and mobile broadband standards with global operator partners.
- The successful launch of broad Windows Phone 7 portfolio (HTC 7 Surround, HTC 7 Trophy, HTC 7 Mozart, HTC 7 Pro, and HTC HD7) enabled more than 25 leading operators business engagement in US, Europe and Asia. The commitment of Windows Phone 7 reinforced our technology leadership and long term partnership with Microsoft.
- Latest rollouts of Desire HD, Desire Z, T-Mobile G2 and myTouch, showed our core competency to stay on top of Android technology platform. We will continue to raise the bar of 2011 competitive landscape on technology innovations as well as attractive user experience.
- Sprint EVO 4G and T-Mobile myTouch successfully embarked 4G speeds milestone at respective WiMax and HSPA+ networks in 2010.

# STRATEGIC REVIEWS

- **The second core intangible asset of HTC brand value is our corporate culture to push innovation;** Latest HTC Sense and Product Design introductions not only deliver our commitment to achieve best user experience but also set the milestone of industry innovation.
- Our latest HTC Sense, debut together with Desire HD and Desire Z announcement, is target to further renovate mobile internet user experience on multimedia applications, location based service, reading enjoyment and social network service.
- A holistic approach to expand HTC Sense user experience and digital content management amid smart phone, PC and virtual cloud by launching HTC Sync and HTC Sense.com platform.
- Desire HD shows beautiful metal unibody design and a greatest visualism at 4.3" display. Desire Z 's creative 3 dimensional pop-hinge expands the user segment toward physical keypad requirement by no compromise on device thickness.

# STRATEGIC REVIEWS

- **Continuous ramping brand awareness:** Brand Awareness stays strong with an increase to 47% at the end of 3Q, and we target to lift the brand awareness to 60% by year end.
- “Quietly Brilliant” global brand positioning has been well accepted as how we focus to put “YOU” as a centre on everything we do and “Here’s an idea” to emphasize what brilliant innovations HTC will bring “YOU” a great user experience.
- HTC brand awareness not only has been ramping well amid the early stage smart phone adopters but our HTC Sense innovation and aggressive marketing spending has started to bring our brand recognition into mainstream consumer segment with great value proposition offerings.
- We have initiated a global program of retail effectiveness targeting a leading in-store experience to facilitate HTC sense experience demonstration and consumer participation right at store level.



# MATERIAL BOARD RESOLUTIONS

- The Board approved a maximum NT\$ 1.6bn budget to build a new factory building in Taoyuan, Taiwan for future growth.
- The Board approved two treasury share buyback programs. One is a maximum 5 million shares treasury share buyback program to transfer to employees for incentive purpose. The buyback period is from Nov 1<sup>st</sup> till Nov 30<sup>th</sup>, and the cap of buyback amount is NT\$4.25 billion.

Another treasury shares buyback program is for cancellation of maximum 5 million shares within a cap of NT\$4.25 billion, buyback period from Dec 1<sup>st</sup> till Dec 31<sup>th</sup>.

# 4Q10 BUSINESS OUTLOOK

- 4Q unit expects to grow around 157% yoy to reach 9mn.
- 4Q revenue expects to hit record high to approach NT\$100 bn, up 143% yoy.
- GPM expects to be around 30%  $\pm$  0.5%.
- OPEX ratio expects to be at the range from 14%  $\pm$  0.5%.

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

## 3Q10 P&L (CONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>3Q 09</u>	<u>2Q 10</u>	<u><b>3Q 10</b></u>	<u>QOQ</u>	<u>YOY</u>
REVENUES	33.88	60.96	<b>75.85</b>	24.4%	123.9%
<u>GROSS PROFIT</u>	<u>11.17</u>	<u>18.13</u>	<u><b>22.93</b></u>	<u>26.5%</u>	<u>105.3%</u>
<u>RSGA EXPENSE</u>	<u>4.74</u>	<u>8.77</u>	<u><b>10.53</b></u>	<u>20.1%</u>	<u>122.4%</u>
NOP	6.43	9.35	<b>12.40</b>	32.6%	92.8%
NPBT	6.53	9.75	<b>12.67</b>	30.0%	94.0%
NPAT*1	5.70	8.64	<b>11.10</b>	28.5%	94.9%
GPM(%)	33.0%	29.7%	<b>30.2%</b>		
RSGA RATIO(%)	14.0%	14.4%	<b>13.9%</b>		
EPS*2(NT\$)	7.18	11.16 (before ex-rights)	<b>13.61</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.

## 3Q10 KEY FINANCIALS (CONSOLIDATED)

<u>(NT\$ Billion)</u>	<u>Sep 30, 09</u>	<u>June 30, 10</u>	<u>Sep 30, 10</u>	<u>QOQ</u>	<u>YOY</u>
CASH* <sup>1</sup>	57.98	78.90	<b>68.88</b>	-12.7%	18.8%
AR	23.99	38.98	<b>45.29</b>	16.2%	88.8%
INVENTORY	5.18	11.47	<b>17.30</b>	50.9%	234.2%
NET WORTH* <sup>2</sup>	60.31	56.34* <sup>3</sup>	<b>64.46*<sup>4</sup></b>	14.4%	6.9%
INVENTORY PROVISION	3.40	3.07	<b>3.13</b>	2.1%	-7.8%
AR PROVISION	0.79	1.01	<b>1.01</b>	0.0%	27.0%
WARRANTY PROVISION	5.46	6.64	<b>8.09</b>	21.8%	48.1%

\*1 Includes cash equivalents.

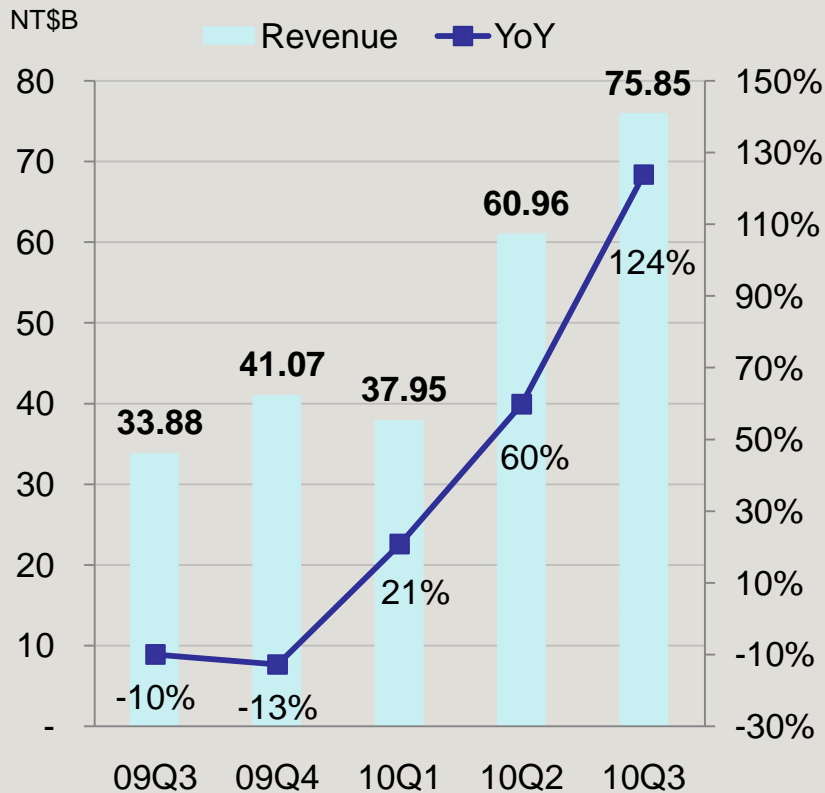
\*2 Attributable to stockholders of parent company, excluding minority interest.

\*3 After the deduction of cash dividend NT\$20.12bn (NT\$26 per share).

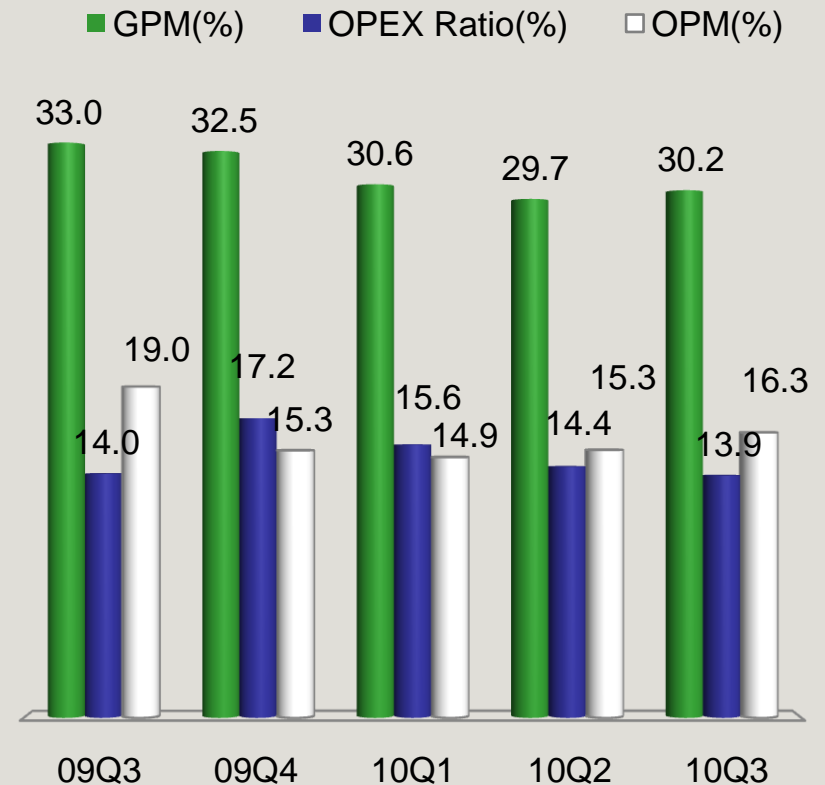
\*4 After the deduction of share buyback NT\$2.865bn.

# FACT SHEET UPDATE-BUSINESS STATUS

## • Revenue



## • Margin

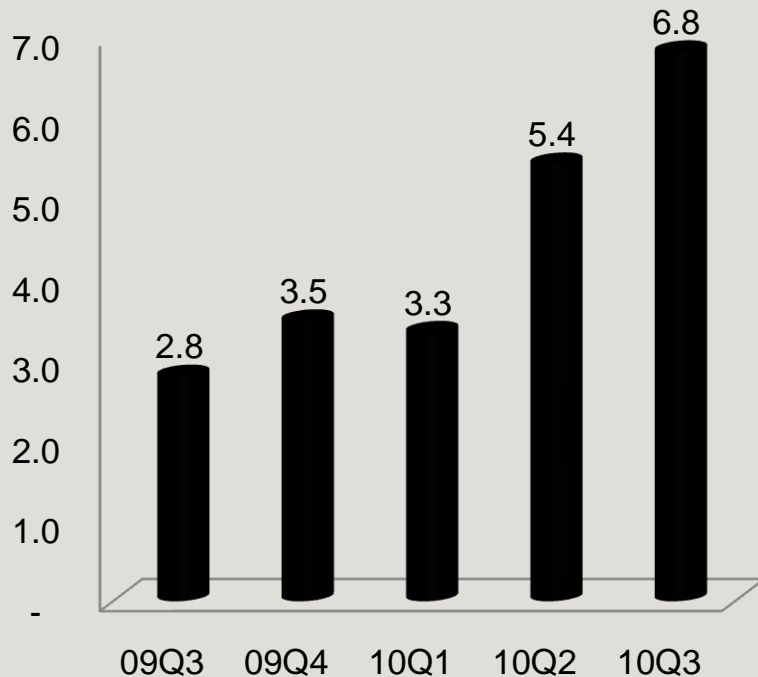


\*All the numbers above are based on consolidated financial statements.

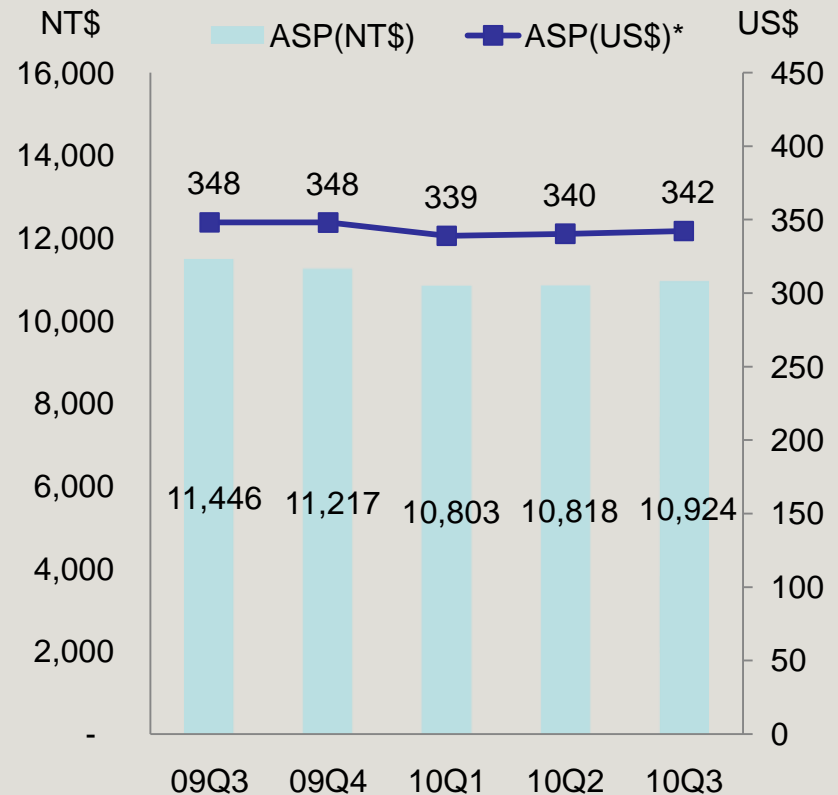
# FACT SHEET UPDATE-BUSINESS STATUS

## • 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 3Q09 to 3Q10 are 32.87, 32.22, 31.86, 31.77 and 31.92 respectively.

\*\*All the numbers above are on a consolidated basis.

# FAQs

Q: What is your capacity plan to match your rising demand?

A: As we said in the last earnings call, we are increasing our capacity in the two production bases- one in Taoyuan, Taiwan and another in Shanghai, China, to around 3mn units per month in 3Q10 and continually go up to reach 4mn units per month by year end to support the rising demand.

Q: Please comment the component constrain situation encountered in 2010 ?

A: There is component tightness in smart phone industry as the industry is at its initial growing stage, but it is usually manageable from our history. Because the demand has come up too fast and largely over the component supply since 1H10, we have communicated to our suppliers and asked them to prepare for our future demand, therefore, we see component tightness be alleviated in 2011.

Q: How should we foresee OPEX ratio and corporate operating margin trend?

A: We do see continued operating leverage as we succeed on growing scale and better product mix. So far, we are confident on accelerated smart phone market growth and we are still ahead of competition on technology, innovation and product design. Management always carefully manage the balance among the profitability, operation excellence, and market competition while growing scale; in addition, we will continue our investments to strengthen our core competency on brand awareness, marketing programs with customers and retail stores, software and product design innovations etc.

# FAQs

Q: What is the product mix and ASP trend?

A: In general, normally there is a 10%~15% price erosion for a given product annually. Though at time of the early stage of smart phone industry today, the normal ASP decline trend is compensated by our innovative product roadmap and results a favorable ASP trend we have seen year to date. We aim to continue drive innovation into our product portfolio to balance between growing scale and profitability amid a landscape of competition.

Q: Please comment the competition landscape in Android market space since more competitors come in.

A: We see strong Android market share growth within mobile OS landscape amid increasing customer adoption and preference. We expect Android to keep gaining shares rapidly and we believe the overall pie is still big enough to have at least 3-4 tier 1 players to enjoy the growth momentum. We aim to maintain our leadership position on Android platform by delivering the best HTC Sense user experience, superior performance phones and operator-friendly customization services.

Q: What's new with HTC Windows Phone 7 phones?

A: Windows Phone 7 is an entirely fresh mobile experience for consumers to easily access data, information and service via its unique Hub and Tile interface. In addition, we see tremendous opportunity for customers with the integration of Microsoft popular services such as Xbox Live, Zune and Office suites which bring new mobile entertainment and productivity experience to smart phone users. HTC continues to bring our innovative design and creations to our Windows Phone 7 portfolio such as distinctive materials, unibody design and HTC hub to offer unique HTC experience.



# FAQs

Q: How should we foresee Windows Phone 7 in your future portfolio?

A: HTC commits Microsoft as long-term strategic partner and views Windows Phone 7 a promising operating system platform. In addition, HTC can continue to innovate on top of Windows Phone 7 platform and Microsoft is very supported. Therefore, we aim to continue maintain our leadership in Windows Phone 7 platform and continue to put effort to build competitive Windows based product roadmap.

Q: Please comment HTC's China strategy after launch HTC brand in China.

A: We launch HTC brand in China this summer and accelerate our investment and business development, HTC Desire and HTC Wildfire are now available in China. In addition, we are launching latest Chinese portfolio, such as ShuangQing, Desire and TianXi, together with all Chinese operators in 4Q, which cover all three technology standards in China. Although in near term the contribution from China is still small at the initial state, we are confident that HTC brand and product portfolios are well positioned to capture China's long term smart phone market growth.

Q: Please explain the FX impact on your business.

A: Our business is actually very largely distributed across different regions globally , therefore, it is in general less volatile against currency fluctuation. In order to evaluate the FX impact on our business, we would need to observe both EU€/US\$ and US\$/NT\$ currency trend and the currency mix between revenue and cost sides as well. Our cost is mostly denominated in US\$ term therefore it could be naturally hedged against the part of revenue denominated in US\$ term. The currency trend will favor our margin when the EU€/US\$ appreciation is higher than the appreciation of NT\$ against US\$.

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*quietly brilliant*