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**Anne Lee** *Nomura - Analyst*

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## PRESENTATION

### Operator

Welcome everyone to HTC's 2014 first 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 a 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 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. Christine Chi, Manager of Investor Relations. Ms. Chi, you may begin.

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### Christine Chi - HTC Corporation - Manger of IR

Thank you, operator. Good morning, good afternoon and good evening, ladies and gentlemen. Welcome to HTC's 2014 first quarter analysts call. This is Christine Chi, HTC's IR Manager. 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 first quarter of 2014, followed by our guidance for the second quarter. Afterwards, our CFO, President of Global Sales, Mr. Chia-Lin Chang, and AVP of Finance, Edward Wang, will lead Q&A session.

Before we begin, I would like to draw your attention to the disclaimer statement on page 2 of the presentation slide. Please note that this presentation contains forward-looking statements. These statements are based on (technical difficulty) expectations. Actual results may differ materially from our expectation and the Company undertakes no obligation to update these forward-looking statements going forward.

If you have no questions, I'm may begin to give the overview for the first quarter of 2014. Please turn on to page 3, page 3 first quarter financial highlights. Revenue for first quarter was TWD33.1 billion, with gross margin of 20% and operating margin of negative 6.2%. Net loss after tax was TWD1.8 billion or TWD2.28 per share negative.



Business overview. For the first time the HTC One (M8) was launched with all four carriers in the United States. Momentum was further supported by the launch of an exclusive HTC One (M8) Harman Kardon edition in partnership with Sprint, demonstrating strong carrier support and the HTC's best-in-class mobile audio technology.

EMEA sales remained sound, largely due to a successful launch of HTC One (M8), as well as continuous momentum from in-life products including the HTC One (M7), the HTC One mini and HTC Desire 500. Similarly in China and India both HTC One (M8) and HTC Desire 816, both are 4G-LTE enabled that demonstrates strong momentum. HTC Desire 816 in particular has successfully positioned as an unparalleled mid-tier flagship and received overwhelming consumer response in both markets.

It is now starting to rollout in additional consumer markets. In Taiwan, the HTC One (M8) has dominated the markets since launch. Momentum in India for HTC One (M8) and Desire family products remain strong.

Page 4, product innovation. HTC One (M8) feature all-new HTC Sense 6, a high quality metal casing unibody, Duo Camera and (technical difficulty) HTC BoomSound. The new HTC Dot View casing being innovation -- brings innovation to accessory offerings.

HTC Desire 816, a design element from the HTC One family, making it one of the best value smartphone ever introduced by HTC and raising the bar for the mid-tier segment.

Award and honor. HTC One (M8) continues in the footsteps of the original HTC One (M7) and has garnered well praise from experts, partners and customers since launch. Speaking to the strengths (inaudible) of HTC's existing offerings as GSMA further named the HTC One (M7) smartphone of the year at the 2014 Mobile Congress in Barcelona, and also aware of the prestigious iF Gold Award from iF Design. And the HTC Desire 816 also garnered positive attention including being amongst the best mid-range phone from Android Authority.

Page 5. Page 5 gives an overview of revenues and operating profit. Revenue for Q1 came in at TWD33.1 billion. Operating profit reported a loss of TWD2 billion.

Page 6. Page 6 gives an overview of gross margin and operating margin. Gross margin for Q1 was 20% and operating margin for Q1 was negative 6.2%.

Page 7 and page 8 are financial overview for income statement and balance sheet.

Page 9, the guidance for second quarter of 2014, revenue is expected to be in the range of TWD65 billion to TWD70 billion. Gross profit margin is expected to be at 21.3% to 22%. EPS is expected to be in the range of TWD2.21 to TWD3 per share.

This wraps up the content of our presentation. And now I would like to turn the podium to HTC's CFO, President of Sales, Mr. Chia-Lin Chang, for opening remarks.

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

Hello, everyone. This is Chia-Lin, and thanks for joining the call. Before I open up for questions, I have a couple of statements to make because these are -- tend to be so and mostly most commonly asked questions.

First of all, in terms of guidance, we guided around 65 -- in the range of TWD65 billion to TWD70 billion -- for the revenue for second quarter and the EPS is guided as mentioned by Christine.

What we are looking for here is the profitability, as we mentioned that we expect to turn into profitability in the second quarter. And also the -- as you can see, the profit in the second quarter will cover the loss in the second -- in the first quarter as a result of we aim to -- of the Safe Harbor statement, we aim to turn into breakeven to slightly positive for the first half of the year so we can have a clean start. That's number one.

Number two, in terms of selling, everybody is very focusing on the selling of M8, HTC One (M8). The HTC One (M8) is selling better than the HTC One (M7) in 2013 from the sell-in and from the sell-out perspective. So we are looking to sustain the momentum. Obviously, this is a sustained gain in there for us, so we are looking to all sorts of campaigns to sustain and increase the volume. That's number two.

Number three, as we've been talking about it, we are strengthening our mid-tier portfolio. Our Desire 816 got awards in Barcelona in the Mobile World Congress. We launched first in China and now are getting into some of the other countries as well. As some of you observed as well, the momentum of Desire 816 is actually quite strong, so we are also looking forward to continue the momentum in countries we introduced and also into the countries we are going to introduce. So that's the third point I'll make.

Number four, we have greatly optimized and improved our launch readiness. What I mean by that is we basically had greatly shortened the time from the announcement to availability on the shelf. That required a lot of coordination between product team, operation and sales team. So we have greatly improved, and this is something we'll continue to further optimize in that regard.

The final statement we'll make here is the -- some of the countries, especially, notably, China, and including in Taiwan itself are turning into the LTE. We think HTC will be very well capitalized given that we are first introducing LTE based smartphone globally. Very well capitalized, as you can see when we introduce some of the LTE based mid-tier phone in addition to flagship phone here.

We are looking forward to more exciting, the opportunity and product into the second half as well.

So I'll end my comment here, multiple side comments, and open up for questions.

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**Christine Chi** - HTC Corporation - Manger of IR

Okay. Operator, please start the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Kindly leave the time to investors and analysts. For media, please contact the HTC PR team after the call if any questions. (Operator Instructions).

Richard Kramer, Arete Research.

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**Richard Kramer** - Arete Research - Analyst

Chia-Lin, could you go into bit more detail about the revenue guidance? Are you confident that you already have the firm orders in hand from the channel and from the operator community to make these numbers and to involve the more than the doubling of sales? And equally, have there been any production issues with the M8 in terms of component shortages that might limit your ability to undertake a massive ramp like that?

And then the second question is can you talk through the cost base and how you see R&D and especially marketing expenses progressing for the rest of the year given that, as you mentioned, it's so important to continue the momentum and not just have one great quarter, launch quarter, and obviously there's some prominent competitive launches coming in the second half of the year that you will need to be mindful of? Thanks.



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

All right, thank you. Thank you, Richard, for the question. Let me answer a couple in sequence there. In terms of guidance, TWD65 billion to TWD70 billion, on that and looking in terms of our cost level, I think this is our cost level, that's the level provided. I won't be able to give you more granularity. But you will see that now or you will see that shortly. I don't know our team has basically uploaded the system for the monthly sales for the month of April. With that, you will see the trend and hopefully that will give you more comments around that. That's on the revenue side.

And on the second, in terms of component, restriction of constraint in there, as far as we are aware I don't see the component constrain in that. So we are looking towards to continue the supply in light of the end market demand.

Third, in terms of R&D and the sales and marketing, first of all, I don't see anything unusual with R&D. So you will refer to some of the financial statement in there. That's pretty much business as usual. I will continue make further and further efficient the comment quite a few times in terms of the R&D strengthens of HTC.

On the sales and marketing, our goal in sales and marketing, as I can elaborate a little bit more on that, our goal is any sales and marketing the additional dollars spent in creating incremental revenue in the past year. We see this is not exactly a rocket science here. There is a lot of judgment in that regard, although it should sustain that momentum.

So we are not just by cutting down this a little bit. We got to continue to spend, as some of our leadership already commented on that, and this is quite point to that. With that said, we are actually doing in a very disciplined way. You will see that we'll continue to focus more on sales and marketing and also on our efficient spending of dollars.

So if you refer to some of the percentage, we do watch it carefully, but there is no hard rule in terms of spending the percentage of sales. We do watch it sort of as a reference in that. So we can see for the purpose of having a disciplined spending, but there is no hard rule to that. So hopefully I've answered all of your questions.

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**Richard Kramer** - Arete Research - Analyst

Okay, thanks.

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

Thank you, Richard.

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**Operator**

Arthur Hsieh, UBS.

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**Arthur Hsieh** - UBS - Analyst

Congratulations to the turnaround. I have a couple of questions. First is with regard to the second quarter profit guidance, may I ask what is the tax assumption? Is there any reversal of the cumulative loss from the previous quarters and is there any major non-operating item that helped the bottom line?

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

No, I don't think there is, and this is on a standalone second quarter. It's nothing to do with the first quarter. So I want to make clear with that. And the second quarter on the EPS, probably you'll see some of uploaded system as required by regulation. You'll have more detailed sort of eye on eye from P&L. So you'll see that. It's a pretty regular P&L in that without any sort of non items or cumulative stuff like you mentioned.

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**Arthur Hsieh** - UBS - Analyst

That's great. The second question is with regard to the major models for One (8) (sic - "One (M8)"). In the presentation you mentioned it's being available in the US. May I ask is there any country or region that you have not launched the product yet? And same thing about the Desire 8 (sic - "Desire 816"), I think the question is about what are the remaining territories that could potentially keep up the momentum into the third quarter that's not included in the second quarter guidance?

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

When you say -- you mean HTC One (M8), right, in the US? That's what you referred to, right? I just want to clarify your question.

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**Arthur Hsieh** - UBS - Analyst

Right.

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

Right. So I think the -- we largely have supplied the HTC One (M8) to the majority of countries and maybe very, very select few that we just have the inappropriate supply in the first batch. Some of the companies, some of the major big companies -- big countries in terms of the volume consumption (technical difficulty) around the replenishment already. So that's on (M8).

On Desire 816, we started on China as most of the people are aware. We are rolling out to some of the other countries as well. So in the process, during the month of May we are rolling out to some of the other major countries as well. Maybe getting into the month of June in terms of first -- in terms of launch and it would be more precise in terms of availability on the shelf.

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**Arthur Hsieh** - UBS - Analyst

Okay. So can I say you aim to pretty much complete the rollout globally within the second quarter?

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

For HTC One (M8) and Desire 816?

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**Arthur Hsieh** - UBS - Analyst

Right, right.

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

Correct.



**Arthur Hsieh** - UBS - Analyst

Thank you. And the third question is about the competition. I think especially in China this is the first time that you launched a product with such an affordable pricing and obviously it's well received by the market. But after you launched the product, we have seen a couple of new models coming out with very aggressive price cuts.

So I'm just wondering for China specifically, do you aim to maintain the current pricing or is there any need for a potential price adjustment to address the competition?

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

Let me answer you in two different ways. First of all, I will need to correct you for clarity sake. This is not the first time we've launched a mid-tier hero product, you can call it. I think in 2012 as I mentioned in some of the other occasions that we actually did that and actually have been quite successful. Yes, we were somewhat being focusing on the HTC One (M7) in 2013 at the -- sometime at the expense, the opportunity for the mid-tiers. I want to clarify on that, to your first point.

Second, the competition is always there. I think the competition -- the HTC -- the Desire 816 is the hero product, a combination of quite a few factors. The price performance ratio is one of them. Actually, people buying that kind of phone at that kind of price tier require a couple of things, as I've talked about in the past; the brand, innovation, the design and the appearance, what is the size or not and the price performance ratio. I think the combination of those.

Whether competition -- we actually are very confident about the competition. As people know, China is a very competitive country in terms of smartphone market. In terms the how we do the -- in terms of sales tactics and all the campaigns that the -- I won't be able to comment in more specific. I'll only give you one point. Since our launch, we continued being seeing that increase in the sell-out.

So despite -- I think we still launched in I think the probably towards the third week of March. So it's about the five weeks to six weeks or so. We are actually seeing the increase in the sell-out. And we -- frankly speaking, we have not fully launched all -- some of you probably now, because this is in the market. We are not fully, fully launched in all three standard in China as well.

We are also in the process of launching it -- to start launching it in Taiwan. We have possibly launched in some of the other major countries as well. In Taiwan I think it's very well received.

By the way, the -- I didn't mention the HTC One (M8) for our North Asia head, the (inaudible). You'll be thrilled to hear that. I think the -- on the flagship sale of HTC One (M8) we actually (technical difficulty) in Taiwan.

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**Arthur Hsieh** - UBS - Analyst

That's great. Last question is what have you done after you took on the role as President of Global Sales and how do you balance the work in two important roles, because you are also the CFO at the same time? Thank you.

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

Balance in terms of timing or in terms of bandwidth?

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**Arthur Hsieh** - UBS - Analyst

Yes, bandwidth and overall. We have seen a good improvement in terms of the overall sales and apparently you've done a great job. So I'm just wondering what exactly have you done to improve these sales operations.

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

I can tell you for sure now, just so you know, the improvement is not by one person. Improvement is under direction of Peter. He basically has people to focus, coordinate and we do a lot interesting things internally. Probably outside people don't know. So people are a lot more focused on that. Me just focusing on my part of things, yes, in terms of the whole team globally.

This is a good start for us. I think our internal team are very encouraged by it. Obviously, this is a sustained game and a fast changing game in that regard. So that's what I will comment in terms of the --

I think we did -- on the sales side, we are getting organizational changes. We are actually getting our focus on different countries and different distribution and the whole channels, et cetera. So there is a big exercise going on under Peter's leadership there.

So we all -- the team is very motivated globally, so we are very excited about our future.

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**Arthur Hsieh** - UBS - Analyst

Thanks very much.

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

Thank you, Arthur.

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**Operator**

(Operator Instructions).

CK Cheng, CLSA.

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**CK Cheng** - CLSA - Analyst

Chia-Lin, I just want to clarify the second quarter guidance. You are looking for about TWD65 billion to TWD70 billion revenue in the second quarter. And you also mentioned that the (M8) sell-in and sell-out is actually better than (M7) last year. At the same time, the mid-tier devices is also -- the product portfolio is also stronger than last year. So I just wonder why in the second quarter revenue this year was still lower than last year. Can you give us a little bit more color on that?

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

So let me give you a comment on that so we are very clear on what I said and hopefully I answer some of your questions or some of the people's questions in the audience there.

I think the -- first of all, the -- what I meant is (M8) -- the sales in (M8) are actually better than (M7), what I meant to say here. Besides on a apple-to-apple comparison, as of today compared to the same period of time last year we had more sales -- we had more sell-in of (M8) and we have more -- accumulated more sell-out of (M8) compared to the (M7).

If people want to get more granularity, I can give you more specifics. The percentage of (technical difficulty) sell-in and the percentage ratio is also higher than the ratio of (M7). Again, this is a good encouraging start. We are looking to sustain it. So that's number one.

Number two, the Desire 816, we just get started, in that the rolling out to different countries in that.

The third thing in terms of the -- I'm aware of our second quarter sales in 2013 is TWD70 billion. Now we guided around TWD65 billion to TWD70 billion. We actually just wanted that level to feel comfortable. That's number one.

Number two, comparing this versus the same year last year, probably that's not something I look at sort of internally. I'm looking more for quarter over quarter because we are in the process of rebounding from the lowest as we commented in the first quarter.

And so we know a lot of products we have in 2013, we basically yield out in this quarter of 2014. And a last thing, we didn't supply more in order to leave room, making the channel healthier for us to supply new products in there.

So even if it seems that the accumulated basis, this is application or a product in there, it sounds like that (technical difficulty) is lower than the similar quarter last year. But that's -- I won't worry too much about it. I think from the momentum perspective, from a new product introduction perspective here, I think the -- I think this is something that we feel positive.

In addition to (M8), if I can give you more color on Desire 816. In my view this is probably the first time since 2013 we have a mid-tier product we can have a -- the biggest life cycle volume compared to the product we introduced in 2013.

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**CK Cheng** - CLSA - Analyst

Thank you, Chia-Lin. And if I can just ask a second question, is that if you look at 2012 and 2013, your third quarter revenue all come down -- in terms of sequentially it comes down like 20% or 30% quarter on quarter.

Is there anything you've done this year that we can expect that the sequential wise the revenue won't see that much of decline or even going up sequentially?

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

I think that it depends -- I will comment on two things. First of all, I won't be able to comment on third quarter given the regulation and it's too far out. So it's probably not proper for me to comment into 2013.

But I will say the following, it's a combination of sustaining existing products you have and also to introduce a new product. It will be a combination of those of getting into the third quarter.

I think it's rightly you guys focusing on how HTC can sustain into third quarter. I think we all focus on that as well. So hopefully we'll make improvement on that.

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**CK Cheng** - CLSA - Analyst

Got it. So just maybe I'll ask a last question and I'll jump into the queue again, is actually in the past two years smartphone accounts were almost 100% of the total sales and we see that HTC actually scaled back from the investment into, say, tablets or even wearable devices.

Should we expect -- or are the Company looking for non-smartphone presence in the second half or even 2015 to drive the revenue momentum going forward?

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

So, first of all, I would make the following comment. One, the -- HTC has not scaled back on R&D and HTC has not scaled back on so-called a non-smartphone, if you define in that way, in a narrow way. To us it's a quite stream of connected devices in there. So we have not.

So the reason we did not introduce product in around 12 months or so or longer doesn't mean that we did not invest in there.

Beyond that, I won't be able to comment on specific things or timing, et cetera. But I just want to clarify. Like you said, we do feel like if -- I can tell you our R&D team and some select people in sales involving that and they are all very excited, including myself of course, very excited about our second half.

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**CK Cheng** - CLSA - Analyst

Thank you very much, Chia-Lin, and congratulation again for the good second quarter guidance.

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

Yes, thank you.

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**Operator**

(Operator Instructions).

Richard Kramer, Arete Research.

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**Richard Kramer** - Arete Research - Analyst

Can you talk through what the cause of the decline for about TWD10 billion in cash this quarter was. It doesn't look like inventory is up that much. We don't have the full details yet. And I can see that payables went up a bit as well.

And can you also talk about, when you look out -- I think you didn't really answer the question about later in the year, you have some high profile model launches from some of your principal competitors. And what do you need to do to sustain this momentum when you are selling into a high-end which is relatively saturated? Do you need to broaden massively the geographical reach of your mid-range products? Do you need to go down into the low-end smartphone market where there's a lot of growth and a lot more competition?

Can you just talk through that, how you are going to manage the pipeline for the rest of the year? Thanks.

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

Richard, I would first answer you some of the financial questions. If you need more details, we have our expert in-house as for answering you -- Edward is on the call. And now I'll take your second question in that sequence.



First of all, on a cash level, it's a combination of three things. One, because there is some backend payment of the licensing related and there's some prepayment in that. They will happen in one quarter. So there's a meaningful sum of that actually coming up, both the backend payments for the accumulation of 2013 plus the prepayment. That's one.

Second, is because you can see in the preparation and [procedural] there, there's some working capital needs.

And the third thing obviously is the -- as we continue to increase in sales, there is a delay in payment because of the normal time delay. And so the combination of those. We can give you more detail after the call if you have further questions.

Second, just to answer your question there without commenting specifically on products now, I'll comment in the following way. Our strategy is very clear. Our strategy is using the flagship high-end to carry the rest of the product portfolio.

Let me give you more specifics. What we are looking for in 2014 is to have incremental more sales whether in units or in value of HTC One (M8) versus HTC One (M7). By the way, HTC One (M7) was the best selling model of -- in HTC history. So that's one thing.

The second, we are going to -- we want to, we intent to dominate in the mid-tier. We believe we have the capability with the combination of factors in terms of what consumers need. We believe with our fast speed of engineering team and products in gear, we're able to re-establish our leadership in the mid-tier area that we had in 2012. So that's some of our product portfolio.

We also -- we'll actually be seeing in the market participate in the affordable segment. In our affordable segment we understand that competition is even -- people buying in the affordable segment is very different segment compared to the people buying in the mid-tier, the [product] performance especially the hardware parameter and the cost is the primary driven factor. However, in some of the industrial economy you may be surprised, brand is also quite important.

So we think we can grab the market share. We intend to participate in that. So that's the overall strategy in terms of the product portfolio perspective.

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**Richard Kramer** - Arete Research - Analyst

Okay. But in terms of the affordable segment in the past you haven't really wanted to go to that segment for reasons of not wanting to damage the brand and also because clearly that segment is -- it's almost entirely price driven in terms of competition.

Do you think you can find a balance now where you can actually sell in sort of TWD100 plus/minus category which we call affordable and still actually make profit?

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

Yes. If the device is TWD100 or so in retail price, that would be fine in my -- or in our definition internally probably it's a tab lower than the affordable. And when I define the affordable, probably it's about TWD150 to TWD200 retail price. That I will define more as affordable end, rather than go down to the TWD100.

When I said affordable products this year, in the past one of the driving consideration is whether we are able to provide a differentiating experience at that affordable level.

To give you an example, at the affordable level are we able to provide a good lengthy experience for consumers in that. And some of those are similar along that kind of thought.

In that segment in certain markets -- China I think is more specifically -- the hardware parameter is basically a dominant factor here. Regardless of brand here or end here, it's a very mutually competitive in terms of how our parameter and versus the price.



But in other parts of the world, including industrial economies or including in emerging economies there, the brand and the experience associated with that innovation, that plays a role as well.

I can tell you very comfortably that in very high industrial economies when they wanted to give out a sort of the entry level 3G phone for consumers migrating in there, I think HTC will commence on bringing its premium value and that's basically as a result of the sort of brand equity we've accumulated. So that's our advantage compared to some of the X brands and old brands, if I characterize it that way.

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

Okay. Thanks very much.

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

Thanks, Richard.

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**Operator**

Anne Lee, Nomura.

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**Anne Lee** - *Nomura - Analyst*

I have one question. Because it seemed second quarter revenue or sale will have a significant rebound and the product mix also shifting a lot to the new product and the high-end product, why the margin doesn't show a significant improvement?

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

Yes, I was looking for one of the analysts will ask a similar question. So I thank you for asking that question. It's because the -- I won't be able to give you the margin, but some of the -- the specific part there is because the -- some of the major 2013 products is going to yield out in this quarter here, so it will average out. That's what we thought of it.

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**Anne Lee** - *Nomura - Analyst*

So if excluding those one-off issues the margin should be a lot higher, right?

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

Well, it depends on how you say a lot higher. So I won't give you a detailed quantitative number here. But if you take out those, it's meaningfully higher. I don't know how to --

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**Anne Lee** - *Nomura - Analyst*

Meaningfully higher? Okay.



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

It's very dangerous to say meaningfully higher or materially higher in this part of the world. But the -- yes, it's higher than the --

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**Anne Lee** - Nomura - Analyst

Okay. So if we look at (M8) because this year it already is around -- smoother than last year and also no component -- significant component issues. So (M8)'s margin should be better than (M7). Is my assumption right?

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

Well, I hate to give you the kind of specifics here because it's quite dangerous in that. And then the reason I'm not -- I don't want to get into product specific margin in order to compare. But me not answering doesn't mean that either way. So what I can tell you here is, yes, it means higher than the current margin we guided for sure.

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**Anne Lee** - Nomura - Analyst

Okay, thank you.

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

Thank you.

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**Operator**

Arthur Hsieh, UBS.

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**Arthur Hsieh** - UBS - Analyst

Just a follow-up, what is the Company's profit strategy in terms of tablets and also wearable? Especially on wearable, it seems like available models in the market so far it's -- not all of them is successful.

So would you think this is something -- well, it's pretty much being quoted many times that the management said there will be some models coming out. So would you elaborate what's the thinking behind wearable and would you still consider to go back to the tablet market? Thank you.

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

Yes. Arthur, I hate to disappoint you by not commenting on it, but we cannot comment on it especially in here. We do feel excited about the second half product line up and hopefully you'll agree when you see those.

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**Arthur Hsieh** - UBS - Analyst

Can I take it as -- couple as -- just one of --?

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

You cannot think of anything, (inaudible) based on the base value. Don't extrapolate. So I really cannot comment specifically on products. And I'm sorry for that, but I cannot comment on it.

But as I said, we never -- we continue to invest on all the exciting products we have. We'll capitalize on additional LTE opportunities into the second half of the year. I'll pause here except -- before commenting further.

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**Arthur Hsieh** - UBS - Analyst

Well, how about this way, how would you rank yourself in terms of market position in this LTE products compared with some of the latecomers to the market? Is there something that you think that could help actually see to extend the overall market position into the second half?

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

I think LTE depends on what you comment on it. Obviously any high-end -- well, before going to very specifics, it's kind of -- it's a tricky one to comment on those. But basically the LTE leadership, HTC has a very strong LTE leadership either for the countries that have deployed LTE getting into the next phase of it, you can see the leadership by HTC. And also for the countries that are going to introduce LTE, you can see that the LTE, HTC is leadership in that.

On both end of the segments here, I feel like HTC will have very good leadership based on our pipeline we see.

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**Arthur Hsieh** - UBS - Analyst

Thank you. I appreciate that.

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

Thank you, Arthur.

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**Operator**

(Operator Instructions).

Robert Yen, Goldman Sachs.

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**Robert Yen** - Goldman Sachs - Analyst

Chia-Lin, I have two questions. First based on your guidance, I noticed that you basically guided the second quarter revenue very close to second quarter of last year's level. But your OpEx is actually more than 20% lower than last year level, which is actually a very impressive result. So can you help us understand what have you done to improve this operating expense efficiency on a year-on-year basis?

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

We basically the -- I don't have the second quarter lying with me from last year. If I can take a look at it in terms of the overall aspects in that, but I don't believe the -- first of all, on R&D, I think we have sustained on a pretty similar basis in that. And I don't know the G&A. G&A doesn't actually relate to legal expenses. But that actually doesn't explain the whole 20% of it.

So I think what you're referring to is more primarily the bulk of it in the sales and marketing.

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

Yes.

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

I do feel like we have more effective and efficient marketing. And also the -- from the overall LTE above line, overall brand market, (inaudible) is also associated with the sales. Hopefully, we feel like the -- this is the part we have improved compared to same quarter last year.

I'm looking at the chart that were provided me here on the marketing. I think the bulk of the drop is actually coming from the marketing. A little bit coming from the other parts of the thing, yes. So that's basically it.

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

So can we assume going forward HTC can maintain this operating efficiency level, like you can deliver a similar revenue with a much less OpEx going forward?

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

Well, I can deliver a similar revenue with much the -- well, what we are looking for is continuing to improve the OpEx. I want to be -- I want to highlight and clarify making sure it's clear. We will continue to spend in sales and marketing. It is how to do it more effectively, as our Chairman has been saying, more effectively and more efficiently. So directly communicate to the end consumer who will know it through various means.

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

Thank you, Chia-Lin. And my second question is the disposal of your assets, because you discussed you will dispose around TWD2 billion of your assets. Can you help us to understand what is the details of that?

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

Dispose TWD2 billion of the assets? Was that the primary -- oh, there is a -- there is a couple (technical difficulty) items we just uploaded in the system. I apologize to people -- some of the people may not be aware. We have decided to dispose our holdings in [Premier] Capital Partners, which is a private equity fund founded by (inaudible), a former Goldman Sachs partner.

The whole reason is very simple. We think the -- we want to focus the caps and the resource on things related to our industry and strategically. So we have decided to dispose it.

As a result of the disposal, we basically would take back the money we deployed in there, plus a small profit in there, plus a little bit future upside share in here. But basically you can see it as a clean disposal in that regard, if that's something you mentioned it.

I think we have -- we also announced the capital injection, but the whole background with that without the (inaudible) in that. Basically, it's the sales of our lease holding. The cash was offshore here. We are looking -- no, it's not the -- I'm sorry, the finance -- just correcting with that. We are looking forward to capitalize some of the entities, just moving around some the cash in there. I think that's the reason behind it.

There's a third thing -- I think we are submitting for shareholders approval on the restricted share quota. So that's the sort of the three housekeeping items I think we just uploaded in the system. I apologize, some of them may be getting it late or haven't got it.

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

Thank you very much, Chia-Lin. I don't have further questions.

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

Thank you.

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**Operator**

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

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

Okay. Thank you everyone. Hopefully, we answered some of your questions. If you have further questions, please contact our IR. That will be helpful to you. Thank you.

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**Operator**

Thank you, ladies and gentlemen. 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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