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PRESENTATION

Operator

Welcome, everyone, to HTC's 2016 third-quarter results conference call and webcast in English. Today with us we have President of Smartphones and Connected Devices Mr. Chialin Chang, CFO Mr. Peter Shen, and Investor Relations Ms. Kelly Hsu. (Operator instructions).

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

Now I would like to introduce Ms. Kelly Hsu from Investor Relations. Ms. Hsu, you may begin.

Kelly Hsu - *HTC Corporation - IR Manager*

Thank you. Good morning, good afternoon and good evening, ladies and gentlemen. Welcome to HTC's 2016 third-quarter analysts call. This is Kelly Hsu, HTC's IR manager. The event is now being webcast live via HTC's website at www.htc.com. If you are joining us through the dial-in line, your call is now being placed on mute. As the conference is being broadcast by investors around the world, we will conduct this call in English only.

The format of today's call will be as follows. First, I will summarize our operations for the third quarter. Afterwards, our President of Smartphones and Connected Devices, Mr. Chialin Chang, and CFO Peter Shen, will lead the Q&A session.

Before we begin, I would like to draw your attention to the disclaimer statement of 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 there is no questions, I will begin to give the overview for the third quarter 2016. Please turn to page 3.

Page 3, third-quarter financial highlights. Revenue for third quarter was TWD22.2 billion, with gross margin of 16.1%. Operating loss was TWD2.0 billion, an operating margin of negative 9.0%. Net loss after tax was TWD1.8 billion, a loss per share of TWD2.18.

Business overview. Third-quarter results saw strong improvement, with continued momentum across smartphone and VR in addition to prudent cost control resulting in lowered operating expense.



HTC saw continued sales momentum for the HTC Vive system across both consumer and enterprise markets, while the virtual reality content store, Viveport, launched in late September, aims to bring the most diverse selection of virtual reality experience to Vive owners.

Page 4. Page four contains overview on revenue and operating profit. Revenue for third quarter came in at TWD22.2 billion. Operating loss was TWD2.0 billion.

Page 5. Page 5 gives an overview on margin and gross operating margin. Gross margin for third quarter was 16.1%, and operating margin was negative 9.0%.

Page 6 is a general financial overview for income statements and balance sheet.

This wraps up the content of our presentation, and now I'd like to turn the podium to HTC's President of Smartphones and Connected Devices, Mr. Chialin Chang, and CFO Peter Shen.

Moderator, please start the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Thank you, and our first question comes from the line of Richard Kramer from Arete Research. Please go ahead.

Richard Kramer - Arete Research - Analyst

Hi. Thanks very much. Three questions if I may. I guess the first one, Chialin, maybe you could talk about the increase in sales that came this quarter? It seemed to come entirely in September, a rise of about TWD3 billion. Can you talk about what drove this, and whether that was initial shipments of the Pixel? Specifically, in that instance, can you talk about the margin of producing ODM products versus your own-brand products and how we should think about that if HTC fully returns to its roots as an ODM? Then I'll wait to ask my next two questions. Thanks.

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

Thanks, Richard. I think I'll answer it in the following way. Because HTC -- the innovation capability in R&D, we think we are going to -- we should talk about it last year if I recall -- a two-pronged strategy as we continue to grow out HTC branded product globally for various consumers across the regions, we're also pursuing a way we call Powered by HTC, which I need to be (inaudible) I just take this opportunity to define Powered by HTC. I'm not sure we talked about it on the call last year, but we [tackled that] at some occasion, I believe.

It's basically in partnership with a potential platform leadership with strong brand and go-to-market capability and resources. One thing we can say is last year, as we talk about it, the Under Armour HTC co-branded product is one way of Powered by HTC. Given that Under Armour HTC is a co-branded product in the public so we can comment on it.

There is not a co-branded situation here, so no comment on any partner. That's a tradition of HTC in the last past history. So these two will continue. So in that context, unfortunately I will not be able to comment on a partner unless it's public in that regard.

Second thing, in terms when we talk about gross margin from Q3 to Q2, this industry is very volatile, and any small change could easily be amplified. So at the end of the day, is the product mix in that regards.



One thing I can comment to you is, our flagship product, the HTC 10 for example, the average gross margin is actually higher than the average gross margin of Q3, not to mention much higher than the gross margin in Q2. Unfortunately, we're not only selling single HTC 10 flagship products. There's always a mix issue, especially if we still have a large inventory, a material [planning] inventory that will be sold at a much lower gross margin so you're seeing the mix of it.

So to start we had that in Q2, our flagship model, but because of the mix. So you always have the mix from Q2 to Q3 in that regard. I'll just pause here.

Richard Kramer - Arete Research - Analyst

Okay, and just to finish this one off, will the margins of Powered by HTC products, will the gross margins of those products be structurally lower than your branded products just as a general rule? It would seem to be almost certain that that's the case, but can you confirm that?

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

Well, I think this Powered by HTC concept, which is starting out would be -- and it depends on the nature of it. So I cannot just categorically comment on one thing. Given that I don't comment on the partners, they're actually not public so I prefer to not comment on those.

But I will emphasize from the other angle, hopefully to partially address your question, Powered by HTC, we -- it's not a quote-unquote ODM concept in the traditional sense. We're working with an industry leader with a strong brand and go-to-market capability, and I use Under Armour because it's the one public. We work with them, design a product, we go to market, they put a lot of emphasis on their infrastructure and go to market because they had, in that category, better go-to-market capability than HTC. So that's one way of doing this.

For that product -- and I actually think that product, what we termed the HealthBox product that we co-branded together, and the individual products here, the gross margin is actually pretty decent.

I will not be able to comment on the one-on-one product gross margin in there, but I just wanted to emphasize that Powered by HTC is different from a traditional ODM thing, that people understood.

Richard Kramer - Arete Research - Analyst

Okay. Next area, I think there were some comments made by Cher, indirectly or directly, and quite a few gaming websites that have come up with a figure of around 140,000 or 150,000 Vive units sold thus far. Can you confirm that, and talk about what a realistic volume target and ramp for the Vive might be, so people have a -- I think there's a huge range of expectations out there, and it would be really helpful for investors if you could narrow that down somewhat and put some context around it.

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

Right, so I think this is a good question because I also read the news. I actually talked to Cher on that. So first of all, to give you the context, this is an emerging, exciting area and you can see that there's always a gap in terms -- this is a -- I'm not sure it's the right, appropriate description -- in a horse-racing land-grab era, in the beginning of something very fast expanding, exciting era.

You can see that -- from HTC perspective we're also interested in knowing other sort of information in this industry, just vice versa in the other people's shoes they want to understand HTC. That's why I would never disclose, because this is the best protection of HTC interests, shareholders, in the long term.

I don't know what this 140,000 number came up. Cher comment on it, and I can confirm to you here that her comments, basically -- of course it's higher than 140,000. It's much more than that number. But I will not be able to give you a number, and I would encourage you guys not to refer that number. That seems to be anchored fully on something that we have no idea where it came from.

What I can tell you is, we -- as I say, last time, on the last earning call, we were happy the selling condition as to the last earning call. I'm very happy to report to you that we continue to be happy with the current selling condition in last quarter, and we're looking to hopefully a good -- I don't mean to forward looking, but we're hopefully looking for a good, happy Christmas shopping season for that.

That's all I can comment. So far so good, and we're happy, but again you can see this land-grabbing horse racing. We want to grow the ecosystem. In light of that, I also can comment on -- that the, as we said last time, that we do sell per-unit Vive at a profit. I just want to clarify that, in case people are asking the same question, because it was said at that time.

Richard Kramer - Arete Research - Analyst

Okay, just maybe one quick follow-up on that for my third question. I mean, I understand your competitive sensitivity, and obviously that also extends to not releasing the quarterly units in the smartphone business and so forth. But isn't it important for HTC right now to show, in hard numbers, where you are in terms of the scale of your ramp, because you really need to assure partners, developers, etc., that this is going to turn out to be a scale platform in two, three, five years.

So isn't it essential that you actually have the reverse policy, and publicize the scale of the user base and the size of the ramp so that people can understand whether or not, and the timing of when they should make their investment to bring content and accessories and so forth to the market?

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

We continue to -- I understand your perspective. All I can tell you is we'll continue to add quite a lot of developers on a daily basis. So for some of [past] developers, they actually creating content and services embedded in our Vive, they're keeping quite happy based on my understanding here.

There're more and more coming, and we do observe that hopefully the continued accumulation in fact. So for those developers who I will characterize as probably in the know, they're actually quite happy working with us because this is indeed that part where software, that platform enables their content and services to be adapted in the new AR/VR/MR era.

So far we're happy, and so far we haven't encountered that potential consideration of resistance, as you describe.,

Richard Kramer - Arete Research - Analyst

Okay. Then the third thing I wanted to ask about is obviously the cash, which has dropped by TWD8 billion this quarter. Unfortunately, since we get the release about 10 minutes before the call starts, it's very difficult to pull out of the financial figures, the cash-flow statement which is for the nine months, exactly how much of that was working capital, how much of that is the ongoing losses you're paying for restructuring.

Can you talk about the cash? What caused this quite large cash burn, and indeed are you through with all of the cash outflow for the restructuring that you've been doing over the last sort of 12, 18 months?

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

I think our restructuring, actually -- I would characterize our restructuring on the smartphone I would say, in my view is basically 90%-plus is basically completed. There's some lingering revision stuff we're working on. That delta between Q2 and Q3, I can tell you it's basically almost entirely working

capital, and some of the practice is slightly different from our daily practice there, so we actually have a cash outlay in and working capital in. So it's just a mismatch in timing that. That is not something we can argue is causing or not. It's just the working capital. That's where our funds and cash to be put into use for.

Richard Kramer - *Arete Research - Analyst*

All right, I'll let some others hop on. Thanks very much.

Operator

(Operator instructions). Our next question comes from the line of Wei Chen from Goldman Sachs. Please go ahead.

Wei Chen - *Goldman Sachs - Analyst*

Okay. Thank you very much. My first question is on OpEx. Looking at the first three quarters of OpEx savings, I think it's quite impressive because it's actually on target as what Chialin has previously laid out. So can you give us color on what the OpEx saving -- how come you're able to achieve sales and marketing coming down, even in the third quarter where your revenue continues to scale, your R&D came down sequentially as well. How does that look going to 4Q? That's the first question.

Peter Shen - *HTC Corporation - CFO*

Okay, hi, Wei. This is Peter. So as you can tell, from operating expense reduction, it really comes across on both sales and marketing and R&D, and engineering expenses. So as we talked about in the past when we're trying to right size the organization and we achieved our target, really coming to Q3, through significant (inaudible) -- control of our expense, our engineering, and also our sales efforts, okay? So that's really where reduction is coming from.

Chialin Chang - *HTC Corporation - President Smartphone and Connected Devices*

We want to emphasize that we continue to grow R&D capabilities. It's like -- as I've mentioned a few times in the past history that R&D capability is probably the core of HTC's strength. So we are not -- we're just being more focused, as Peter mentioned, on R&D in terms of projects was the right thing to focus on, so that's how we're saving. But we'll continue to hire talented people for R&D. That I need to emphasize.

On sales and marketing, indeed we're going through the -- I wouldn't call it restructuring -- optimization in there. I'm personally driving it, so I can copy in more detail. We're focusing more on ROI base. We'll continue to spend resources and money to promote HTC brand, it's very important. We optimized the region in that regard. So I think we're basically 90% there, with some residual things we can optimize.

But having a right cost structure in there while keeping the fabric of the core strengths, that's the goal, and I think hopefully we're going to the end of it and we're satisfied where we are.

Wei Chen - *Goldman Sachs - Analyst*

Got it. Understand, yeah. This is very good progress. My second question actually relates to the previous conversation about Powered by HTC, and particularly on the Pixel business. I think one of the areas of concern is that previously Google has been making a Nexus phone, which is sort of -- it's sort of like the music chair, where they find a new partner each year.



I think Powered by HTC, this concept is obviously very different than the traditional ODM model where HTC provides a lot of value. Can you talk about how that relation is? How strong -- how sticky the business is, and what sort of visibility do we have on this type of relationship?

Chialin Chang - *HTC Corporation - President Smartphone and Connected Devices*

I think we use the word Powered by HTC not to comment on specific names of potential partners it it past partner, current partner, or potential partner either we don't know or we cannot name, okay? So I want to clarify, make really sure we're all understood, on the same page.

I use the word Powered by HTC -- frankly, I used the word probably almost two years ago internally as we think about what's our core capability, etc. HTC has a history, in the past, if you look at the last decade or 15 years, and different situation contexts, power the platform partner with strong brand and go-to-market capability. This has always been the HTC strength, so we'll continue to leverage that.

So we're going to continue to use HTC-branded phones to leverage our existing brand, spending resources in there, and in parallel we want to have a Powered by HTC concept. Unless names in there become public in a co-branded basis, we don't comment on those.

Wei Chen - *Goldman Sachs - Analyst*

Got it. And I recall, in our last earnings call, I think you commented that there is potential to break even the smartphone business. I think obviously it didn't happen yet, but I don't mean this in a negative way. But I think that looking from the results, it's actually quite impressive how the sequential improvement. Can you kind of talk about what was the gap that drove the different outcome, and when do you expect a further improvement of losses?

Chialin Chang - *HTC Corporation - President Smartphone and Connected Devices*

I will comment on this thing here. We started having our internal management accounting type, and in fact the smartphone business, basically it's already breakeven. It's almost breakeven, around that number basically. With the right smartphone, revenue, gross profit and then the right smartphone allocated in operating expenses and that.

I know you have to question then why are you still having a loss in that? I will tell you basically comment on two things. One, the Vive business, we're selling the product. The product has gross profit, actually in my view has a decent gross profit coming in. So we are in the phase we're trying to spend in there. Sometimes spending needs to be expensed, sometimes spending may not need to be expensed right away, to grow the ecosystem hopefully to continue our leadership.

There is also in third quarter -- there is a -- the part -- I will say the aged impairment that we realized in Q3, and I don't disclose it at this point the size in there. So it's a combination of those, leading to the financial result.

So coming back to your question here, we already streamlined the -- we're close to the end, I'll put it this way, on the smartphone unpacked structuring that. In Q3 there, we're basically there. A tiny bit of small loss, but it's in how you allocate different cost accounting in that. The rest of them is the investment phase on new things we need to do, combined with some other things. We're not just entirely Vive, actually. There is also -- there's a one-time aged impairment we want to realize in Q3, so that's leading to the financial result.

Wei Chen - *Goldman Sachs - Analyst*

Understand, very clear. Thank you, that was very helpful. That's all my questions.

Operator

(Operator instructions) Our next question comes from the line of Narci Chang from JPMorgan. Please go ahead.

Narci Chang - *JPMorgan - Analyst*

Hi, Chialin, Peter and Kelly, this is Narci from JPMorgan. I have two questions. Number one is regarding the OpEx reduction, that apparently the company has done a great effort in keeping the cost down. However, I'm just wondering whether Chialin or the management can provide a little bit of color on where the Company has been cutting down the expenses, and whether it's the certain smartphone segments or whether that's wearable or something else? Because the way I see it, smartphone seems to be breakeven in third quarter, but that may be just a function of cost reduction rather than any kind of margin expansion. Whether my understanding is correct there, that's my first question.

Chialin Chang - *HTC Corporation - President Smartphone and Connected Devices*

Can you go to the second question so we answer in one go?

Narci Chang - *JPMorgan - Analyst*

Okay, sure. My second question is also regarding the previous question asked by other analysts. The cash flow seems to be -- operating cash flow seems to depleting by around TWD6 billion in third quarter, and I know Chialin mentioned that this is mainly due to timing issue and working capital mismatch. But I'm just wondering whether heading into the fourth quarter, and even next year, we can see free cash flow returning to positive territory, and how the Company is going to achieve that.

Chialin Chang - *HTC Corporation - President Smartphone and Connected Devices*

So I'll answer your first question, and I'll leave the second one to Peter. I would say the whole restructuring or resource optimization basically consumed our time almost close to two years. I would say 18 months. Our number one thing we don't touch, which is key for HTC future is our R&D capabilities. And the R&D capability, we're trying to leverage to see how we can strengthen it and grow it, into more realize the business opportunities.

Then what we would do is we mentioned earlier, on -- in the past, I do have to admit, we have some redundant resources or sometimes the waste, sometimes the fat on the way we continue for more HTC brand or in the field. That we actually trimmed. I can tell you that we're very close to the end of it. The good thing is that in the process we established the right company-wide mindset in how they should grow a brand in the right way, in the right ROI. Even though we talk about it, in the Corporation it's taking a while to get that.

We also more focused, because R&D, in the R&D the key is still people. In the spending basically there will be people, material, samples, tooling, [certification efforts]. By being more focused we can actually immediately do some saving there.

But key thing is like, that has not stopped us from continually looking for talent. So we have been continuing to grow the R&D talent, and extend it into a couple of areas. We do not cut back on our smartphone effort, we do not cut back on our IoT effort. We're going to continue. This is the areas that we feel are good for HTC in the future.

I'll leave the second one to Peter.

Peter Shen - *HTC Corporation - CFO*

Hey Narci, it's Peter. To answer your question regarding the cash, the position in Q3 and Q4 regarding cash projection. First of all, Q3 as Chialin mentioned earlier, it's the current quarter, it's the (inaudible) capital dynamics, we'll be able to see that even though we're down in cash, we'll see

that is mostly in the receivable, this is a timing timing effect, and also we've got inventory. We've got some material management, inventory lead time in the working capital. So that's the current quarter situation.

Going forward, I mean from those numbers, from operating profit, you will talk about this in the past. At our current revenue levels, if you just add in depreciation and amortization, you can back into our cash burn right now, which is roughly TWD2 billion to TWD3 billion per quarter.

Moving forward in terms of cash flow projection, as you know, in fact, given good guidance on that. I'll be able to give you to back into a (inaudible) section which I cannot provide, okay? So that's my comment.

Narci Chang - *JPMorgan - Analyst*

Thank you, Chialin and Peter. Just a little bit of a follow-up on Chialin's answer. Is it fair to say that HTC is not cutting down any product focus, either in high-end smartphone or medium smartphone, which means HTC will still launch, I think, all series of smartphones in different segments?

Chialin Chang - *HTC Corporation - President Smartphone and Connected Devices*

I think, actually, this is a good question. I'm glad you brought this question. We did cut down on some of the entry low end, because this is after -- sometimes we struggle in terms of relevance, distribution, media etc. on those. Those we don't find attractive, and then we're not sure providing enough consumer experience.

Some of the focus -- we are focused in actually the so-called high end, mid- to high-end. We do have some affordable level from distribution, but we've shifted focus on -- we're going to continue to reduce number of models, but we're moving high on everything. We're not going down.

Narci Chang - *JPMorgan - Analyst*

All right. Are you worried about that potential Powered by HTC concept may also cannibalize some of the sales for your mid- to high-end product?

Chialin Chang - *HTC Corporation - President Smartphone and Connected Devices*

No. I think we -- we're happy in that Powered by HTC concept will continue to hopefully grow. Because we only work with the platform leaders, strong brand and go-to-market capabilities we talked about. So we, with the Powered by HTC concept, that we enable our partner hopefully to grow that ecosystem, whether in whatever product area we know or we don't know in the future. And then hopefully that industry will become even more filled with more opportunity, providing HTC with good opportunity in there. HTC brand will continue in parallel with that, if that's what you're concerned about.

Narci Chang - *JPMorgan - Analyst*

Thank you. Yes, that's very clear. Thank you.

Chialin Chang - *HTC Corporation - President Smartphone and Connected Devices*

Thank you.

Operator

(Operator instructions) Our next question comes from the line of Anne Lee from Nomura. Please go ahead.



Anne Lee - Nomura - Analyst

Hi Chialin and Peter, this is Anne. My first question is could you provide a little bit of color for the fourth quarter's outlook, because from the September sales it looks like on an overall scale it's coming back? Given some initial good feedback for your partners' phone on the market, I think the sales momentum now will likely continue, so you should be overall positive for the fourth quarter earnings. So will you provide more color about the outlook?

Peter Shen - HTC Corporation - CFO

Thanks for the question. So Chialin mentioned in the very beginning of the call, at this point we're very happy across our portfolio how we're doing right now, and we're pretty optimistic heading into the fourth quarter with holiday season coming up. So that's as much I'm going to give guidance on fourth quarter. As you know, we do not help on financial guidance, okay.

Anne Lee - Nomura - Analyst

Okay. My second question is regarding Vive. I think Chialin earlier mentioned you are expecting some holiday demand for Vive. I am not sure if I'm wrong. So could you elaborate more about that? Because for these kind of products, the seasonality, how we should predict that?

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

First of all, let me just clarify in case there is some misunderstanding of perception here. We're not providing Q4 guidance, and frankly speaking we just don't feel like we have strong visibility and capability to provide something that would be that meaningful to you yet.

In this industry, it's so volatile and sometimes the in and out, the opportunity and the loss of opportunity is quite lumpy. Sometimes chunky and lumpy, as I describe it internally. So it's hard for us to get into Q4 guidance. We're not giving you any sentiment guidance either, I want to be very clear on that.

Let me come back to the Vive, because there was a talk about a number. I don't know where that number's coming from. Frankly, I hesitate to answer something in spite of that number. All I can tell you here is, because the number's been brought up, I just want to neutrally state that our number is higher than the 140,000 number. I don't want to give you --

Anne Lee - Nomura - Analyst

Yes, I understand that pretty -- yes, I understand that. But my question is not related to that number.

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

Yes, and I said it again that past quarter call, that we're happy with the selling and quarter after, we're happy with what happened in our Vive selling in the last three quarters.

To be honest, I know we're looking at the number of sales which is important, so we're happy where we are. I'm also equally happy about the progress. The Vive team has progressed in terms of the ecosystem, working with developers and partners, and VIVE X and VIVEPORT, etc. It's actually good for the long-term.

I also comment on it, looking into Q4 today we're sitting at the end of October and we have two months to go before the end of the year. All I can say here is we're optimistic to have a good sort of Christmas season. That's all I'll say.



Anne Lee - Nomura - Analyst

Okay. The third question, I would like to talk about something more long term. Regarding the Vive, because initially this is a new product, new segment, so the cost and the price will be much more higher than the general cost of many electronic products. But over time, when the technology becomes more mature, should we expect this kind of product will gradually lower the cost, and maybe we can choose a more friendly pricing for the general public?

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

So I mean, Anne, you brought a question. I think this is also a question of interest to you and to the community. Because of competition sensitivity here, we're not going to be able to talk about, in terms of roadmap, etc. But I can assure you, the question the thinking you have in mind just raised here, we have thought about that as well. So we do think we have a good pipeline going into that. This is a long-term game for HTC.

Anne Lee - Nomura - Analyst

Okay. Okay, I have no more questions. Thank you.

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

Thank you.

Operator

(Operator instructions) Right our next question comes from Richard Kramer from Arete Research. Please go ahead.

Richard Kramer - Arete Research - Analyst

Hi. Just maybe I can ask one other thing that you haven't really touched on yet. When you look at some of the larger volume smartphone markets around the world, they've been fairly difficult for HTC. Are you still actively trying to compete aggressively in the domestic Chinese market, for example, and how do you look upon large emerging markets which are very crowded right now, for example like India?

I know you've launched some lower-end Desire models, but it seems like it would be very difficult for you to address those markets profitably. Are you still trying, or, like some of the other smartphone vendors, have you pulled out because there's just not enough profit pool there?

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

Thank you, Richard. China, India markets both continue to be important to us. In fact, in the morning I was working on something related to China issues, and the team just actually worked on India last week on that. China market, India market, US market, the industrial West European market, these are all important to us. Japan market, important to us. Taiwan is our home country, for sure. To mention just a few names,, Australia, UK, West Germany etc. Not West Germany, sorry, wrong language Germany, etc.

What's different, as I mentioned on the call, is we cared more about brand share, brand value increase and associated profit contribution. We don't -- our internal KPI does not measure that okay, you're evolving It's about, are we increasing the brand? If we increase the brand, and then you guys will agree, that will allow us to sell better on a premium for [flagship] products. You have a greater profit contribution. Like I told you about, our flagship I can tell you.



Flagship gross margins are higher than Q3 gross margin average. So if we're able to do those, then we'll put HTC in a category which we think actually will fit HTC better in the model we just talked about.

Richard Kramer - Arete Research - Analyst

In that sense, can you share with us any metrics on net promoter scores, unaided brand mentions, brand recognition? It's certainly -- looking at your OpEx, the conclusion would have to be that even with the redundant resources you might have had, and certainly visible to all of us, that the investment in HTC brand has gone down dramatically over the last years, yet you're talking about going into those markets to try to increase brand recognition.

Are there any metrics that show that you've actually succeeded in that, or how you can do that on such a lower budget and such lower resources that you're allocating now versus a year, or two, or three years ago?

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

I'll give you an example. Obviously, it will be different, because M9 versus M10, there's a product differences to that. Even without a flagship, I can tell you the M9 -- the resources to promote marketing in terms of power upon multiple times, multiple times the M10.

In terms of sustainability, M10 much better. The -- it's not just cutting resource, it's cutting people on those. It's not cutting a dead weight. It's about a new way of go to market, a new way of promoting a brand. So this internal exercise has been ongoing for a couple of months already, so we're going to continue to do that. This is the way we're going to make the smartphone business re-transformed according to the way we want it.

Richard Kramer - Arete Research - Analyst

Okay. Maybe when you come to your full-year results you can sort of lay out a little bit how that actually happens. For most of us, we'd look at sales and marketing expense, which is down certainly over 50% on a run-rate basis versus where it was two years ago and --?

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

I'll give you one example. Very operational HTC One example here. You can spend quite a lot of money among so-called various contract agencies here providing a different region and have different agencies spending millions and millions of dollars. Is that a right ROI, not clear)

You can save a fraction of the money here putting in the right digital marketing with the right centralized team based here. The impact is very different. That difference is in millions. Millions.

Richard Kramer - Arete Research - Analyst

Okay, thanks.

Chialin Chang - HTC Corporation - President Smartphone and Connected Devices

Thank you.

Operator

There's currently no question in line. I will pass the call back to Kelly Hsu for closing remarks. Ms Hsu?



Kelly Hsu - HTC Corporation - IR Manager

Thanks, everyone, for joining the call today. Have a nice day.

Operator

Thank you, everyone, for your participation in HTC's conference. There will be a webcast replay within an hour. Please go to www.htc.com, under the investor section. You may now disconnect. Good bye.

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