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PRESENTATION

Operator

Welcome everyone to HTC's 2013 Q1 results conference call and webcast in English. Today with us we have CEO Peter Chou; CFO Mr. Chialin Chang; and IR Manager Ms. Christine Chi. 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 broadcast live over the Internet. Webcast replay and English transcript will be available within an hour after the conference is finished. Please visit www.htc.com under the Investor section.

Now, I would like to introduce Ms. Christine Chi, IR Manager. Ms. Chi, you may begin.

Christine Chi - HTC Corporation - IR Manager

Hi. Good morning, good afternoon and good evening, ladies and gentlemen. Welcome to HTC's 2013 first quarter analyst call. This is Christine Chi, HTC's IR Manager.

The event is now being broadcast 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 this conference is being broadcasted by investor around the world, we will conduct this call in English only. The format of today's call will be as follows. First, I will have to summarize our operations for first quarter of 2013, followed by our guidance for second-quarter 2013. Afterwards HTC's CEO Mr. Peter Chou and CFO Mr. Chialin Chang will lead the Q&A session.

Before I begin, I would like to draw your attention to the disclaimer statement on page 2. Please note that this representation contains forward-looking statement. These statements are based on our current expectation. Actual result may differ materially from our expectation and the Company undertakes no obligation to update these forward-looking statement going forward. If you have no questions, I may begin to give the overview of first quarter of 2013.

Please turn to page 3. Revenue for first quarter was TWD42.8 billion, with gross margin of 20.3% and operating margin of 0.1%. Net profit and EPS were TWD85 million and TWD0.1 respectively. This is an important quarter for HTC. In February, we unveiled the new HTC One, which set a new standard for smartphone experience, carefully wrapped it with distinct own aluminum unibody casing and the full HD 1080p, 468ppi screen. The new HTC One raised the bar for smartphone craftsmanship, loaded with high-end feature, BlinkFeed live home screen, BoomSound dual frontal



facing speakers, Sense TV, and UltraPixel camera with Zoe, brings photos to life. The phone received overwhelming positive reviews from experts, critics and fans across the world since its launch.

A few examples to share, HTC One won The Best Mobile Handset, Device, or Tablet by GSMA at Mobile World Congress 2013, the most beautiful Android phone ever made commented by Business Insider, the Android that could crash the iPhone commented by CNN. David from New York Times further said that HTC One is the most beautiful one you have ever seen. Seriously, it makes you so happy and calm just holding this thing in your hand.

There is a pictures of the HTC One next to "gorgeous" in the dictionary. Walt Mossberg from Wall Street Journal urge readers looking for a new Android smartphone to carefully consider the more polished-looking, and quite capable, HTC One, rather than defaulting to the latest Samsung. We will continue to monitor the sales trend till the second quarter, and on page 5 under the awards and honors sections.

[To mention], HTC's design were loved. Not only did it own Mobile World Congress Best Phone, it was also awarded the Tech Radar's Best in Show and Mobile Geeks' Best Smartphone. Furthermore, the Windows Phone 8X by HTC was also honored by the prestigious red dot award - product design 2013. One of the world's largest and most respected design competition that red dot design awarded recognized HTC's outstanding and innovation designs among the peers.

On page 5, we give an overview on the revenues and operating profit. Revenues for our first quarter came in TWD42.8 billion as mentioned and operating profit for first quarter was TWD40 million. On page 6 give an overview of the gross margin and operating margin. Gross margin and operating came at 20.3% and 0.1% for first quarter respectively.

And page 7 and 8 were the financial overview for income statement and balance sheet for your own reference. Page 9, the guidance for second quarter of 2013, our revenue is expected to be around TWD70 billion. Gross margin is expected to be 22% to 24%. Operating margin is expected to be 1% to 3%. This wraps our presentation.

Now, I would like to turn the podium to HTC CEO Peter Chou. Moderator, please start the Q&A session. Thanks.

Operator

Thank you.

Chialin Chang - HTC Corporation - CFO

Before we start, Peter want to make a few statements and a point for HTC before we go to the Q&A.

Peter Chou - HTC Corporation - CEO

Hi, good day everybody. So, it's a great pleasure to talk to you here, and thanks for joining our call. Today, we would like to update to you a few progress from HTC development. And as you probably know, we have been very focused in developing HTC One as our flagship product in the market. And since last year, we thought we need to inject some new excitement on HTC product. And we also think there is opportunity for us because the smartphone segment needs some new excitement, and then those excitement were fading from last year because everybody looks the same.

And we thought there is a good opportunity for us because we are seeing new usage; the smartphone users are changing the way how to use smartphone and they are actually using a lot for non-voice related, and they have a lot of new information just lacking a lot of information. There is a lot more video-related application and there is a lot more multimedia-centric video and user-centric application. And with this new capable HD display, the way people use smartphones are changing. We also wanted to have a new user experience so that people really feel fresh because



we felt the smartphone UI has been kind of getting old and actually it is started from the old concept, and we want to inject some new brand new sort of like UI which customized for new usage.

And we also want to make the UI much more cleaner, much more modern and beautiful. So that's our effort we put on, and then we also wanted to have hardware extremely cool. So that's why we took challenge and [question] like the working on the new HTC One design and with this non-compromised design aesthetic and quality to get people excited about that. The minute they see and they touch HTC One and then they can feel wow, this is really, really exciting hardware piece and also the software, the UI and everything. So really try to inject the freshness, the excitement to the mobile industry. And I think that we have successfully launched HTC One and to get people really get to our concept, some of the key element, the design.

The key story like bring fee, which actually integrate most of your news and your social network experience and your photos and this kind of key concept, and HTC's Zoe and HTC's BoomSound, all of this, we carefully look at that and we believe people are really getting there and understand our concept. And so that was great because that's so important, but our goal is to really develop HTC brand as a really trustable and premier and excellent smartphone brand.

We think that is so important because the kind of brand awareness and brand preference is so important for us giving a lot of supplier are coming out strong from everywhere and then no differentiation in the market. So, that's why we are actually extremely focusing on to get the brand position and brand awareness. And we are doing this through this design innovation of HTC One. And of course, we also know that we have to greatly improve our go-to-market approach in terms of marketing, in terms of channel. So, we also believe we have great improvement in terms of HTC marketing and execution.

I have to say this is probably the first year, the first time since HTC develop HTC brand, and we are able to really integrate brand, product, and marketing execution all together at one time. And we are also able to get global operator, key global operator support and carrying HTC One.

We also think that is actually extremely important step, a major key step for us getting multiple operators from US carrying one single HTC product and supporting us and also getting multiple operators from China, elsewhere supporting us on carrying HTC One. We think that approach will greatly boost HTC awareness, HTC brand awareness, and then make us so efficient for our marketing execution. And with the outstanding HTC One product, we think that this is a major step for us to establish HTC brand position. And this is all we are doing and we think so far so good and we are seeing some good sign from overall response from market, and we go from there. Thank you.

Christine Chi - *HTC Corporation - IR Manager*

Hi operator.

Operator

Thank you. Yes.

Christine Chi - *HTC Corporation - IR Manager*

We'll go on the Q&A session.

QUESTIONS AND ANSWERS

Operator

Yes, thank you. (Operator Instructions) Richard Kramer, Arete Research.



Richard Kramer - *Arete Research - Analyst*

Couple of questions. First one for Peter, you mentioned that how the products are all looking the same and it's difficult to have differentiation. I mean, what's the risk or how do you prevent competitors from copying either the form factor that you see in the HTC One or elements of the user experience like BlinkFeed and specifically what sort of risk is there that that BlinkFeed becomes an app that other devices support or a similar home screen approach that other vendors take up? And then I have a follow-up question for Chialin.

Peter Chou - *HTC Corporation - CEO*

Well, in this industry, everybody, everything can be copied. I think there is no point of you think that you can prevent people copy. People will copy somehow one way or another, but whether they would get this original quality, I think the most important is you are the first and then I think some of the things are actually not easy to copy, I think it would take some time to copy. And then also, I think that some of the things when they copy, they may not get that kind of experience and quality because it is a lot more difficult and deeper, is no skin deep that kind of putting a home -- putting a homepage something like that. So, I think that we are much more focusing on really making consumer feel the minute they see this, they know this is a HTC. And I think that we are getting there.

Richard Kramer - *Arete Research - Analyst*

And just one follow-up on that, when you consider the Windows phone user interface and what you have on BlinkFeed, can you give us a sense over the course of the year how you see the rough split between your efforts in Android where you have got Facebook home devices and the HTC One and what portion of the portfolio and focus of new models you think will come in the Windows phone area?

And then a question for Chialin, can you talk a little bit about what you are going to do in this coming quarter and going forward in terms of brand awareness investment? It's clear that sales and marketing expense fell quite sharply this quarter and it looks like it will rise quite sharply next quarter. But how long does that need to go on to build the kind of brand awareness that gets the premium that Peter was mentioning, and equally what's going to be the cash flow impact because obviously the inventory build this quarter was quite substantial to support the One launch?

Peter Chou - *HTC Corporation - CEO*

Yes, to answer your first question, I think we are not changing anything here. So we will continue to support Windows phone and Android phone here. So, it's the same.

Chialin Chang - *HTC Corporation - CFO*

Yes, to answer your second question on the marketing campaign to support our brand awareness and overall the execution, I will comment on the following. First of all, as alluded to what Peter just mentioned, we have improved quite a lot. We have very good marketing strategy as well as execution to support our HTC One launch. So, we are pretty confident that this marketing campaign would propel our settlement into the next level. It's very important once you start launching the product to have a strong momentum coming out of the gate and sustain that. So, we believe the spending we have has been quite optimal to support the sales momentum. Obviously, our sales is also tight. The marketing campaign resources is tying to ourselves. So, we're also watching that trend carefully in this quarter, also in coming quarter as well.

Richard Kramer - *Arete Research - Analyst*

Okay. And will the cash flow continue to be negative for the next couple of quarters as you build up inventory and have to spend more in marketing?



Chialin Chang - HTC Corporation - CFO

Well, we are fine, Peter just comment on it.

Peter Chou - HTC Corporation - CEO

Yes, in terms of cash flow, we are fine.

Richard Kramer - Arete Research - Analyst

Okay, thank you.

Peter Chou - HTC Corporation - CEO

Thank you.

Operator

Arthur Hsieh, UBS.

Arthur Hsieh - UBS - Analyst

Yes, congratulations to the initial success of HTC One. I think everyone agreed this product is definitely the best smartphone in the globe. But I think before we be happy to celebrate the success, I think I have a couple of questions on the financials.

First of all, could we have a recap about first quarter, what exactly really caused this shortfall to the first quarter results? And secondly in terms of the guidance, it looked like the sales is in line with the current consensus, but the gross and operating margins are both lower. So, just try to figure out is there any delayed payment that's been deferred from the first quarter or I mean any more color that you can share to explain that first quarter shortfall and the second quarter guidance, they will be very helpful. Thank you.

Chialin Chang - HTC Corporation - CFO

I think what you have alluded to the first quarter shortfall is that what you meant when we -- as compared to what we guided the market I think at the end of the January and I'll comment on the second quarter guidance. The first quarter guidance, basically we have at the end TWD42.8 billion revenue because there is some delay in certain markets, but if you read on the new HTC One launch and that you can see also there are some of the inventory in the balance sheet in that regard. And we managed our expense side given the delay in some of the market here. So, to answer your question, sure, we basically moved a majority of the marketing resources into the second quarter.

Coming to your second question in terms of the second quarter guidance here, you mentioned the revenue side and also the gross margin side, the operating margin side here. Gross margin, we guided market 22% to 24%. It's primarily coming from the product mix in there. And we also guided the market on the operating margin with the range of 1% to 3% as you see that we are going to run a very successful campaign on the marketing side also on the sales side. So we are firing on all cylinders. So, we expect this to be a very critical quarter to coming out strong what the momentum that's sustaining into the third quarter. That's how we guided the market.

Arthur Hsieh - UBS - Analyst

Could you clarify a bit in terms of the second quarter how much per one account for total sales?



Chialin Chang - HTC Corporation - CFO

Yes, you know we cannot comment on those as in the historically. I can only say this margin is coming out of the primarily the product mix.

Arthur Hsieh - UBS - Analyst

And I think what everyone really cares is when can we see the potential operating leverage coming from this flagship model. Would you give us some idea what kind of shipment volume assumptions that could potentially lead to a more meaningful expansion in the operating margin?

Peter Chou - HTC Corporation - CEO

Yes, Arthur we cannot share those number.

Arthur Hsieh - UBS - Analyst

How about in terms of the current second quarter guidance, I think one line that you put in the presentation, very interesting. You said we will continue to monitor sales trends through Q2. Does that imply actually in the current guidance that you think there could be still potential upside and you guided conservatively or how should we read into that line?

Peter Chou - HTC Corporation - CEO

Where we -- this is what we can say right now.

Arthur Hsieh - UBS - Analyst

All right. I'll come back later. Thank you.

Peter Chou - HTC Corporation - CEO

Thank you.

Operator

(Operator Instructions) Pierre Ferragu, Bernstein.

Pierre Ferragu - Bernstein - Analyst

So, when we look at HTC in the next quarter, TWD70 billion in sales, you're going to be much smaller in scale than what you were in the last couple of years. And I was wondering how you are adjusting your operating model to that. You are not going to lose money, so which mean that you have to cut a lot of cost compared to what you were spending in the past. And my only concern is that if you continue to have excellent product without the money spent in marketing and in the channels, it's going to be very difficult for you not to become invisible in the market.

So, my question would be if you think about it in terms of distribution channels of markets like countries, you can't be as big as you used to be in the way you are spending money to push your products and to grab attention. So, what are like the bold choices of decision you've made maybe to concentrate on some specific market or on some specific channels in order to keep going with the smaller scale you have today?



Peter Chou - *HTC Corporation - CEO*

We -- as HTC, we are still young brand and we are still a small Company. So we still have that kind of culture and DNA of operate lean and move quick. So for us right now, our main focus is developing HTC brand, so make sure that HTC brand is very exciting and very important brand for consumer choice. And then when we get that, we believe many things were -- will be good. So many things will be improving and getting better. So we can see a lot of efficiency will be coming up from there.

So we have been running HTC for a long time and then we know what we are doing. We believe we can balance the investment for innovations and brand development and at the same time, the profitabilities and survival. So, I believe we will continue to go to that kind of approach.

Pierre Ferragu - *Bernstein - Analyst*

Thank you. But if are, for instance, to compare the money you are spending, you are going to spend in the next three months to what you were spending a year ago and what you were spending two years ago, so it appears relatively clear that the absolute amount have come down a lot. Have you been carrying a bit of everything or have you decided to get most significantly specific geographies, specific channels? The money you are spending on your brand, it's like the absolute number is one thing. And we have visibility on that, it's down a lot.

But how did you change the mix like of -- I don't know what you are spending on the various type of advertising, for instance. Have you made any bold choices or are you just taking down spending everywhere in an undifferentiated way?

Peter Chou - *HTC Corporation - CEO*

Well, I think we are quite focused today. We are quite focused on what we are doing in our market segment and make sure we are doing good job in what we are doing. And where HTC was a lot more smaller than today, maybe three years ago, so I think this market can be changed very, very quick. And today, we are actually quite excited on what we are focusing on. So, we are very focusing in China. We are very focusing in US, North America and Europe. And we are actually trying to be very efficient and always optimizing the way we do business.

I think I understand your concern, the way you are asking question. I think businesses would be always like this. Sometimes your profit might be a little bit lower, but we need to make sure that good time, bad time that we need to make sure that we are invested enough for our competency and our competitiveness and our innovations and our product area. But in terms of spending, we are actually always, first of all, to see what makes sense to be more efficient in areas. But one thing we want to make sure is we are also investing and focusing on our investment in the tenant area innovations and product area.

Pierre Ferragu - *Bernstein - Analyst*

Thanks a lot, sir.

Peter Chou - *HTC Corporation - CEO*

Thank you.

Operator

CK Cheng, CLSA.



CK Cheng - CLSA - Analyst

Thank you for taking my question. My first question is for Peter. Peter, can you comment a little bit on the supply constraint? I understand that some of the consumers walk into the operator store, but they cannot get HTC One at the store now. Do you expect this supply constraint to be eased from May or you actually think that May versus a little bit longer? It's my first question. Thank you.

Peter Chou - HTC Corporation - CEO

Yes, I think our supply has greatly improved and we think May we should be supplying a lot more, but we also see pretty good demand. So, I think that's a good thing. We just need to work hard to try to supply as much as possible to meet the demand from everywhere.

CK Cheng - CLSA - Analyst

Got it, thank you. The second question is that from the guidance, the guidance for the second quarter gross margin is 20% to 24%, and I noticed this is actually substantially lower than the previous years that typically you are having a 25% to 30% gross margin. I wonder the second quarter lower gross margin guidance, is that because your pricing has rather changed and hence price more aggressively, or it has more to do with initial production issue or production yield of the new product and hence that this might improve in the second half?

Peter Chou - HTC Corporation - CEO

Well, I think that we also have a product mix issue a little bit. Some of the old product has lower margin and I think a bit of everything. So we are hoping that maybe Q3, we can have some improvement in this area and we were -- we are continuing to work hard to improve that.

CK Cheng - CLSA - Analyst

Got it, thanks. My last question, maybe it's for Chialin. Chialin, I wonder that the second quarter, the OpEx definitely jump up sharply and that's understandable. And I wonder whether in the second half that HTC will still spend very aggressively on the marketing dollar like what we are planning to do in the second quarter or you believe that in the third quarter because you already launched one a few months and hence that marketing dollars are coming down, could you give a little bit color on that? Thank you.

Chialin Chang - HTC Corporation - CFO

Obviously, we don't comment things beyond second quarter guidance. But just a little bit to that as we talked earlier here, we wanted to be coming out strong out the gate. We wanted to continue to campaign to sustain the momentum. And we are obviously watching the resource versus the sales momentum correlating carefully. I think that's what we will comment in this point.

CK Cheng - CLSA - Analyst

That's fine. Thank you very much and good luck. Thank you.

Chialin Chang - HTC Corporation - CFO

Thank you.



Operator

(Operator Instructions) James Faucette, Pacific Crest.

James Faucette - Pacific Crest - Analyst

A couple of questions from me. First, can you give us an idea of what the geographic breakdown was in the first quarter and can you give us an idea of what you would like or what your target geographic breakdown on revenue would look like when you are back running at your full level?

Chialin Chang - HTC Corporation - CFO

Yes, I think the -- that we'll comment on this. Obviously, we don't comment on specific the revenue breakdown as we said as we are on competitive reasons. Peter mentioned about a year ago around this time here if you look at the three key markets in North America, in EMEA, in China, we basically see them as the pretty strong equivalent market in terms of market potential and the way we are going after. So, it's -- I think this is continuing to be the goal we are going after as well.

James Faucette - Pacific Crest - Analyst

Okay. And my follow-up question is maybe Peter can talk to what we've seen develop over the last few quarters or even couple of years is that carriers, particularly in the US and Europe, that subsidized phones at purchase have been making replacement terms and lengths a little more stringent and seem to be lengthening replacement cycles. And at the same time, it seems as though we've seen consumers become more price sensitive in key markets over the last couple of quarters. Can you talk a little bit about how you expect the market to develop and what if any impacts you think these -- this evolution is having on your ability to launch new phones like the HTC One? Thank you very much.

Peter Chou - HTC Corporation - CEO

Well, this is very difficult to predict I have to admit. Yes, the operators are having challenges, but today everybody has challenge in the business. But they also continued to do what makes sense for them. So, I think that what we have to make sure is when operator changed their strategy and whoever our partner change their strategy, so we are at least on par what everybody has with a supplier. So, hopefully, we will be always one of critical important partner supplier to mobile operator partner. So, I think that as long as we had that, I think we should be able to survive that.

But I think after all, I think a consumer buying decision is probably the most important. So, I think developing very trustful and exciting brand is very, very important. After all, I believe consumer are decision-maker. A lot of times, we saw even we get support from operator customer, but if consumer does not buy, then it's still not easy to do this.

So, I think that we have to make sure that we are doing everything. So, I think the number one is to make consumer really excited about our product and our brand. And then we think operator will also support us more if we have that.

James Faucette - Pacific Crest - Analyst

Great, thanks very much.

Operator

Robert Yen, Goldman Sachs.

Robert Yen - *Goldman Sachs - Analyst*

I have one question for Peter and then one question for Chialin. Can I -- maybe I will start with Chialin. Based on your second quarter guidance to the market, you assume to be more confident in the revenues than in the margins. You mentioned the product mix has been one of the key swing factors to the guidance, but that swing factor doesn't seem to impact the revenues. So can I ask what other swing factors you baked into the second quarter margin guidance on that kind of range?

Chialin Chang - *HTC Corporation - CFO*

I think, Robert, I think we are getting a bit on the speculating side here when you say we seems to be more confident on the revenue and also on the margins trying to state your word. I think when we guided -- when we guided as was stated on page 9 here, and in terms of the gross margin potential impact and some of the questions, Peter commented on that a little bit of each element here. So I think we will just stop right here without further just say leading to more speculation.

Robert Yen - *Goldman Sachs - Analyst*

No problem, thanks. Question for Peter. Peter, I think it's a very -- it's simply a widely accepted fact that HTC One is probably the best Android smartphone in the market right now and there definitely a lot of the global operators supporting the launch of this great product. But I still notice that there are still some key Tier 1 mobile operators who do not carry HTC One at this time, for example, like Verizon and some of the Japanese telecom operators.

I am not trying to ask specifics on specific operator development, but I'm just wondering efficiency wise it's really the best Android smartphone in the market. Why these carriers, why these operators still not having any business engaging with HTC at this time?

Peter Chou - *HTC Corporation - CEO*

Sorry, I cannot answer this question. I think our product is really great and then we look forward to working more in the future.

Robert Yen - *Goldman Sachs - Analyst*

No problem. Thanks. That's all my questions.

Operator

(Operator Instructions) Richard Kramer, Arete Research.

Richard Kramer - *Arete Research - Analyst*

Just one quick follow-up for each of you. Peter, you mentioned having a premium approach to your brand. How should we think about balancing the need for mid-range products and should we expect the Wildfire type range of products underneath the HTC One to make sure that in markets like China, you hit the lower price points that are so important? And Chialin, could you just help us understand one thing that's obviously been a lot of noise over the past year or two, but is your lower gross margin guidance in part due to the fact that you are making more accruals for IPR royalties in these devices, especially as LTE becomes a standard feature of devices? Thanks.



Peter Chou - HTC Corporation - CEO

Well, we are still the Company we believe there is no one size, no one device fit for all. So we will continue to work on a target for the portfolio for our customer. But as you know, HTC is a Company we would like to learn quick from the market, from consumer, and from our past experience elsewhere. So, we will always continue to optimizing our product portfolio. So, that's my answer.

Richard Kramer - Arete Research - Analyst

So will you have or how quickly can we expect to see a range of more mid-tier price point products because obviously the One is in a very premium category which limits its appeal in certain markets that you've identified as critical like China?

Peter Chou - HTC Corporation - CEO

Well, we cannot share any future product plans as usual.

Richard Kramer - Arete Research - Analyst

Okay, thanks.

Chialin Chang - HTC Corporation - CFO

Coming to your second question in terms of the gross margin here, I think we are primarily coming out of the product mix as Peter alluded to. There is bits and pieces there also to the handset now. I think we should not speculate more beyond that the -- as you talk about in that growth.

Richard Kramer - Arete Research - Analyst

Okay, thanks.

Operator

Thank you. There is currently no questions online. I will pass the call back to CEO, Mr. Peter Chou for closing remarks. Mr. Chou, please begin.

Peter Chou - HTC Corporation - CEO

Operator, check if there are anymore questions. If not, we will conclude the call and thank everybody for spending time on the call.

Operator

Thank you. (Operator Instructions) Infinity Capital, (inaudible).

Unidentified Participant

There are two questions for you. It's about the guidance of the first quarter. I want to ask that the second quarter guidance is lower than the same period last year. And I am wondering that it would be so strange if that the HTC New One is so popular compared to 1H in 2012, and I am wondering what these reasons about the lower revenue?

Chialin Chang - HTC Corporation - CFO

Your question is second quarter guidance is what? I couldn't get your --

Peter Chou - HTC Corporation - CEO

Second quarter guidance last year.

Chialin Chang - HTC Corporation - CFO

The same period last year?

Unidentified Participant

Yes, yes.

Chialin Chang - HTC Corporation - CFO

Right. So, what we are trying to make sure here is we guided a market. I think our key as we talk about, we want to have initial strong momentum and very importantly, we wanted momentum to continue to carry on and sustain into the second half like what happened into last year. So, this is something we think is very important. So, as we urge team as we also try to do ourselves here, it's coming out strong with momentum and sustain the momentum, I think that's what we monitor very closely.

Unidentified Participant

So, can I interpret what you said is that HTC control your shipments to maintain the momentum in the second half?

Chialin Chang - HTC Corporation - CFO

No. What I said is that we want to come out strong, we want to sustain the momentum into the second half (inaudible) and hopefully create a (inaudible) effect for the rest of product portfolio. I think that's what we will comment.

Unidentified Participant

Okay. The next question is about supply chain management, and I want to ask that and what else will HTC do in the future to enhance the management and to delivering product as you wish?

Peter Chou - HTC Corporation - CEO

Well, operation is always ongoing effort. I think that sometimes -- I mean, there is lot of suppliers and we just need to manage them well. And then what we have done much earlier, so that look at good supply and good quality. So, I think that this is not block a sign, it just keep working on.

Unidentified Participant

Okay, that's all. Thank you.



Operator

Arthur Hsieh, UBS.

Arthur Hsieh - UBS - Analyst

I am just wondering how is this Facebook phone doing? It seems like that's interesting product and it's got the support from AT&T, and in the presentation you haven't really touched on this. Could you share with us?

Peter Chou - HTC Corporation - CEO

Well, we are not in a position to share that one. I think it's we are more like a partner-supplier to our partner. So, I think we are not positioning to share the information related to that one.

Arthur Hsieh - UBS - Analyst

I think your own product First, can you just like give us some idea like how is market response to that product and whether there is any potential benefit on the branding side?

Peter Chou - HTC Corporation - CEO

Well, HTC is a Company, we always like to try and to offer different experience to our consumer and what we are -- our partner to see what we can do. And to do this, so that's (inaudible) we are doing that. Of course, that is helpful for HTC brand and also helpful our brand partnership and that's exactly we have done with Google as well, the first Android phone. I still remember, when we did that -- when we announced that partnership 2008, 2007-2008, and then many people actually questioned us of what we are doing. But I think that is a nature innovator's process for HTC. So as the nature of innovator, we always engage with potential partners and working on new concept and then try new things to offer new experience. That's the reason we are doing.

Arthur Hsieh - UBS - Analyst

Got it. Thank you. Another question is regarding to this OpEx, I think if we use the midpoint of the gross margin and operating margin, the guidance range, we could get above like 21% of OpEx ratio or equivalent to about like TWD14.7 billion, that kind of dollar amount. So, the question is whether we can just assume this is more of one-off due to this initial introduction of HTC One in this current quarter or this is actually a higher level that we may continue to see going to the future?

Peter Chou - HTC Corporation - CEO

Yes, so we are actually focusing a lot this quarter in terms of marketing and in terms of getting good start in supply and to everywhere. We definitely are hoping that we will be going to that positive direction in the future.

Arthur Hsieh - UBS - Analyst

Any more color from Chialin?



Chialin Chang - HTC Corporation - CFO

I think beyond what Peter said and also we comment on in terms of strong momentum at the beginning, sustained momentum watching the sales co-relation, I think you will get where we are getting at.

Arthur Hsieh - UBS - Analyst

So, this is actually higher than the previous range that once you mentioned sometime ago?

Chialin Chang - HTC Corporation - CFO

Higher than previous which quarter were you talking about?

Arthur Hsieh - UBS - Analyst

I think previously we talked about a potential range like TWD12 billion to TWD13 billion would be a normal range for quarterly operating expense and that's how people try to model the numbers in the forecast.

Chialin Chang - HTC Corporation - CFO

I don't think we talked about TWD12 billion or TWD13 billion, that specific number here. Just let me comment on this, Arthur, here. This is the important launch in second quarter. We need to make sure it's coming out strong momentum in the beginning, very important and that's what we are seeing. We are very glad with the strong demand from the end market. We want to sustain the momentum into the second half. At the same time, we will monitor the correlation of sales number with the resource of putting and making sure it's an optimal match in there. I think that's basically what we are getting at and that's what Peter is saying as well.

Arthur Hsieh - UBS - Analyst

Right. Okay, I have no further questions. Thank you.

Chialin Chang - HTC Corporation - CFO

Thanks Arthur.

Operator

(Operator Instructions) Invesco (inaudible).

Unidentified Participant

I have two questions. The first question is about could you comment, I mean, your competitors like Samsung and LG Electronics, I think they are more interested to launch the new smartphone with like flexible OLED. So, I don't know you can comment on this type of new feature on this smartphone. If not, I am just interested to know about are we ready to prevail all kinds of our product line? What is the common mainstream just like you saw flexible OLED smartphone? That's my first question.



Peter Chou - *HTC Corporation - CEO*

Yes, we don't want to comment others. We are more focused in ourselves and we are very focused on HTC One right now.

Unidentified Participant

Okay. My second question is also about the supply chain. I know that HTC is getting better quarter by quarter, but we also see that competition remains not just because of Samsung and also Apple and also we see on the Sony and also like LG Electronics, they are doing better now. Especially like LG Electronics, their first quarter numbers, they have like TWD14 million up -- sorry TWD10 million on smartphone shipment in the first quarter.

And also we have the competitor from China like (inaudible) or Huawei. So, it seems that annually like TWD40 million to TWD50 million annual shipment like the minimal target for if you want to be top vendors, because this number seems like very important following to secure the key component like AP or like memory or like (inaudible). I don't know do you agree with this minimum numbers that we should have, so that we can protect our priority in the supply chain? That's my second question.

Chialin Chang - *HTC Corporation - CFO*

I think we feel Peter commented on few things here. We actually -- we feel comfortable in terms of our supply chain and our relationship with our key suppliers and working as a partnership here in each of the main component category here. So, we feel comfortable where we continue to develop new product, the support from our suppliers in that regard as well.

Unidentified Participant

So, you don't think that the priority competitors -- with other competitors, we are losing any of our competitive edge yet?

Chialin Chang - *HTC Corporation - CFO*

Yes, our partnership with the supplier continue to remain good and strong.

Unidentified Participant

Okay, thank you.

Operator

Thank you. There is currently no question online. I will pass the call back to CEO, Mr. Peter Chou for closing remark. Mr. Chou, please proceed.

Peter Chou - *HTC Corporation - CEO*

Yes, thank you everybody for joining us today. So, we are excited on HTC One and we are continuing to pushing HTC brand as a main critical consumer preference brand in the future. Thank you.

Chialin Chang - *HTC Corporation - CFO*

Thank you everyone.



Operator

Thank you for your participation in HTC's conference. There will be a webcast replay within an hour. Please visit www.htc.com under the Investors section. You may now disconnect. Goodbye.

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