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PRESENTATION

Operator

Welcome everyone to HTC's 2012 Q2 results conference call and a webcast in English. Today with us we have CFO Mr. Chialin Chang and IR director Mr. Joey Cheng. All lines have been placed on mute to prevent background noise. After presentation there will be a question and answer session for investor and analysts. (Operator Instructions)

For your information this conference call is now being broadcasted live over the Internet. The webcast replay will be available within an hour after conference is finished. Please visit www.htc.com under the investors section.

Now I would like to introduce Mr. Joey Cheng, IR director. Mr. Cheng, you may begin.

Joey Cheng - HTC Corporation - Director of IR

Thank you. Good afternoon, ladies and gentlemen. Welcome again for joining HTC 2012 second quarter earnings call. CFO Chialin Chang will be the host for this results conference call.

The presentation we are about to go through has been send out [five hours before] and you may also download it from our website or participate through webcast. If you do not have the presentation, [please let us know now]. And you now will be put on mute when we are presenting.

Before we start, I'd like to draw your attention to the disclaimer statement on page 2 of our presentation material. Please note that this presentation contains forward-looking statements and these statements are based our current beliefs and expectations only and HTC undertakes no obligation to update these forward-looking statements going forward.

And let's turn to page 3, executive summary. First of all, 2Q financial highlights. Our revenue was TWD91.04 billion. Gross margin and operating margin were 27.01% and 9% respectively. The net income for the quarter was TWD7.4 billion.

The highlight for the second quarter, first of all, China well positioned to become a key growth driver for the Company. And in China growing brand awareness and strong operator partnerships and increasing retail presence helped us to have a good positioning in China.

Number two in Asia, pretty much Asia met expectation for growth since the One family launched in Q2. And sales in North and South Asia pretty much inline with expectation. We also have a successful launch of HTC J in Japan. We are increasing marketing and sales efforts in North America



and EMEA regions. And products are pretty much well received by both operator and channel partners over there. And we continue to focusing on increasing consumer preference for HTC products.

Recent initiatives and announcements; we've been optimizing organizational structure and resources to increase efficiency and competitiveness for the Company and focusing on key growth areas. And secondly we appointed Mike Woodward President of North America, and Mike came from previously VP of AT&T Consumer Wireless Devices.

Next on page 4 and 5, they are about the financial metrics on revenue, operating profit, gross margin, and operating margin compared to previous quarters. And obviously Q2's revenue, operating profit, gross margin, and operating margin grow for second quarter along with our new product ramp-up since April for the quarter.

And next on page 6 and 7 and we have a simple version of our Q2 consolidate P&L and balance sheet for your quick reference and the complete second quarter financial statements have been uploaded a few hours ago and you can download it as well.

On page 8, third quarter guidance. Our third quarter revenue is expected to be between TWD70 billion to TWD80 billion. The gross margin is expected to be around 25% and operating margin is expected to be around 7%.

Now we will begin our Q-and-A session. Operator.

QUESTIONS AND ANSWERS

Operator

We will now begin our question and answer session. [We're going to leave] the time to investor and analysts. For media please contact HTC PR team after the call if any questions. (Operator Instructions) Will Power from Robert Baird.

Will Power - Richard Baird - Analyst

I guess the first question would be on the third quarter guidance. Can you kind of walk us through the biggest drivers there? Is it competition from Samsung, an assumed iPhone launch, competition from some of these other Chinese manufacturers? Maybe walk us through the thought process there relative to what you reported in Q2?

Chialin Chang - HTC Corporation - CFO

Yes, the -- first of all, thank you very much for getting on the call from various time zone here. Just to answer your question directly here, you're seeing the -- compare third quarter to the second quarter, what you have here in China, we're seeing a sequential increase in sales while you can see the overall sales from third quarter to second quarter is declining here.

We're facing competition in the -- in general, the competition -- strong competition in EMEA region coupled with the overall macroeconomic process here. So we do feel -- we talked about it back in -- two months ago on an earnings guidance, we continue to see that in EMEA here.

I would just stop here. In overall, the competition is one thing. On the gross margin part here is a combination that I talked about in the fourth quarter earnings call in the Chinese version. It's a combination of the price and product lines and also the product mix. So I'll just pause here.



Will Power - *Richard Baird - Analyst*

Okay. And then I wonder if you could give us a little more color on China. It sounds like that's your best performing market now. Are you seeing success at the high end or more success at the relatively lower end? And how is the China mix impacting margins for you?

Chialin Chang - *HTC Corporation - CFO*

I would say the following here. In China here it depends how you define lower end. We have not participated in the so-called sub-CNY1,000 retail price in China. The product we have here in terms of Desire V series is all priced around CNY2,000 in retail price here.

What we have in China here is we continue to see our China products well-received. We're getting -- we feel like we are getting that kind of brand awareness, attraction, coupled with a stronger partnership with the various operators with the increasing retail presence.

All these combined, we see a continued increase in our sales. This is what we observe at this point.

Will Power - *Richard Baird - Analyst*

Okay. Thank you.

Chialin Chang - *HTC Corporation - CFO*

Welcome.

Operator

Jim Faucette, Pacific Crest Securities.

Brad Erickson - *Pacific Crest Securities - Analyst*

This is Brad Erickson for James. Just kind of following up on the last question, can you give us a sense for what the mix of China was during the quarter either on a units or revenue perspective?

Chialin Chang - *HTC Corporation - CFO*

We don't -- this is -- I have to apologize. We're trying to strike the balance as to providing a proper, adequate, and timely manner in terms of information we want to share with the investment community.

At the same time we're trying to strike the balance being sensitive to the competitive dynamics here of that. What we have here is the -- we're seeing the continued momentum in China which looks like the second half, that China will remain optimistic as well. We will not be able to disclose in terms of the unit or the price plan.

Brad Erickson - *Pacific Crest Securities - Analyst*

I understand. In terms of the market in China, how are you guys thinking about the size of the addressable market, particularly for the high-end in that region?

Chialin Chang - *HTC Corporation - CFO*

Yes, the way we see things here is that you guys probably have even more information than we do in terms of different third-party analysis on the market there. We see in China market growing, continue to grow very healthily in the coming years.

That's number one. Number two, while we do see the -- lot of people talk about it, there is a so-called more affordable end or that pretty low-end in terms of sub-CNY1,000 retail price segment continued growth.

We do see the high-end market, depend -- without being very precise in terms of what price trend above the high-end market. But overall in general we do see high-end market will continue to grow and to be healthy. So our strategy is that trying to be able to deploy ourselves in a broader spectrum in that regard.

Brad Erickson - *Pacific Crest Securities - Analyst*

That's helpful. Thank you very much.

Chialin Chang - *HTC Corporation - CFO*

Welcome.

Operator

Dan Malcolm, Viking Global.

Dan Malcolm - *Viking Global - Analyst*

Yes, just maybe another way just to ask on the guidance. How much -- I think this looks like it's about 12% to 23% down sequentially. How much of that do you think is units versus ASP, the exact split? Do you think it's primarily unit decline or do you think it's the unit plus an ASP decline? How do you think about that?

Chialin Chang - *HTC Corporation - CFO*

Well, the -- it's very hard. That's why it's very hard -- it's very hard to untangle those and then just say the -- and then specifically pin down how much is the unit, how much is the ASP here. And since we no longer disclose the unit here, partly for the competitive dynamic here and part of it is because the -- we actually see revenue probably is a even better gauge than the overall unit shipment there.

But the combination of those here is the -- I'll say a couple of things. One, this is the revenue number we feel at this point in time in our best judgment that we have a high degree of confidence delivering it. In light of the -- we know this market here is growing, but the competitor dynamics is very fluid.

Second thing as I said in earlier time here is the -- and I'll just phrase in this way as well, the -- in terms of margin impact especially on the gross margin side with the combination of the pricing and certain product lines and also product mix.

Dan Malcolm - *Viking Global - Analyst*

Okay. And then just in terms of the OpEx I guess if I just pull that guidance in and assume the 25% gross margin that you guys talked about, it looks like you would have to pare back OpEx pretty significantly in the quarter too as well to do the -- to keep the operating margin at 7%. Can you just talk about where you would think about where the cuts might be coming from, from an OpEx perspective, R&D versus sales and marketing versus G&A, et cetera?

Chialin Chang - *HTC Corporation - CFO*

The -- first of all here is that actually I need to answer your question there in a longwinded way, for two reasons.

Dan Malcolm - *Viking Global - Analyst*

Okay.

Chialin Chang - *HTC Corporation - CFO*

One, as I talk about, I elaborate in more detail, so I want to repeat what I said in the 4 o'clock Chinese call there. First of all, I want to get people to think about how we think about this issue here. I don't think we're able to give you a very clear guidance in terms of longer term where we see our gross margin and where we see our operating margin there given this is pretty fluid competitive dynamics there.

So -- but we are trying to provide [a guide] in terms of how we think about issues internally here. So the way we see things here is the following here; we want you to think about in terms of OpEx line here using 15% sales as a reference point or as the anchor, you call it either way, and for us if you have a very good run-rate on the sales then what we aim to achieve is lower than 15% of the OpEx as a percentage sales.

But if you have a light revenue as we guided for third quarter compared to what we wanted to achieve then your OpEx is probably slightly higher than the 15%. The current OpEx we've guided here is around 18%. We certainly aim to do better than that, but that's basically what we can see in this market here.

In terms the -- second -- answer your question in the second point here, we -- the way we see things here is we continue to be in the investment mode given the whole market is growing in a healthy way. So we're going to have to position ourselves for the future.

And the -- our efforts in terms of investment effort will continue in our sales and marketing, R&D, and also G&A there. At the same time we've actually gone through as you see some bits here and there on the reporting there, we've gone through organizational optimization plan in terms -- the key thing about that here is we want to allocate our resources appropriately, focusing on correct growth area here.

Through that exercise, you can get some cost savings. And hopefully, we will continue to do that to get to a optimum stage here. So hopefully, I answered your question.

Dan Malcolm - *Viking Global - Analyst*

Yes, okay. No, I appreciate it. And just on the cash flow in the quarter, do you say what the cash flow from operations was?

Chialin Chang - *HTC Corporation - CFO*

Yes, on the cash flow side here is -- and also I want to say two things here. We -- obviously you can see some of the metrics there. We are going to -- we have improved and we're going to improve more on the working capital side and see some of the metrics in the slides we've provided there.

We're not there yet, but we can do better. So, hopefully we see a sequential increase in the coming quarters there. That's number one, and because that's tying to the cash flow.

The second point here is you see this quarter end we had about TWD80 billion in terms of cash versus TWD79 billion.

Dan Malcolm - *Viking Global - Analyst*

Yes.

Chialin Chang - *HTC Corporation - CFO*

If you take out, the major different item here is in the second quarter we basically pay about TWD8.3 billion for tax and if you put that aside actually you can see we start getting the -- that operating cash flow back. So --

Dan Malcolm - *Viking Global - Analyst*

That would have been -- that's like an unusual payment that you made for tax in the quarter, I mean, the cash -- you made an TWD8.3 billion cash tax payment in the quarter?

Chialin Chang - *HTC Corporation - CFO*

Yes, that's not -- well, it's --

Dan Malcolm - *Viking Global - Analyst*

Yes --

Chialin Chang - *HTC Corporation - CFO*

It's not unusual. It's -- you guys -- we just have to pay tax on annual basis. It's a whole lump sum and this actually happened in the second quarter.

Dan Malcolm - *Viking Global - Analyst*

Oh, I see, you took it all in the second quarter? Got it. Okay, thanks so much.

Chialin Chang - *HTC Corporation - CFO*

Welcome.

Operator

Richard Kramer, Arete Research.



Richard Kramer - Arete Research - Analyst

A number of questions. First of all, you talked in the last quarter or you mentioned in the last quarter a guidance of TWD2.6 billion charged for clearing out inventory.

Has all that inventory cleared out of the channel? And since you were talking about 29% gross margins and 11% EBIT margins including that inventory charge, isn't this, the new guidance of 25% gross and 7% EBIT margin, a more substantial step-down from the steady state that would have included that inventory charge?

Chialin Chang - HTC Corporation - CFO

To answer your question, first of all as we said in the second quarter revised guidance here is the -- that was a one-time here with (inaudible) -- and that's a clean-up, I don't know it's the right word. It actually facilitated to sell off the old product that we sold back in -- second half of 2011. And we believe that issue is basically behind us.

Second, on -- in terms of 29%, that's basically without inventory. Including inventory it actually would be 27%. So proforma, without inventory, that would be around 29%. And yes, we're seeing the sequential margin decline from the proforma 29% or including inventory 27% down to what we set -- adjustment here is on 25% for the third quarter. It's a combination of the mix and pricing of certain product lines that we indicated earlier.

Richard Kramer - Arete Research - Analyst

Okay. I guess one other thing about the guidance and a couple of questions on the financials, but one about the guidance; you had previously mentioned this year anticipating returning to sales growth, year-on-year sales growth at some point in 2012, and obviously with the focal point of fourth quarter.

Given the competitive environment you see now and your comments about Europe, is that still possible? Do you think you could get back to growing (inaudible) by the end of the year or is that now just highly unlikely?

Chialin Chang - HTC Corporation - CFO

Well, I mean the -- I'm only going to be able to provide -- given that we talk about here is the -- given the -- as you say the competitive situation here, I'm only going to be providing something I feel more high-degree of confidence achieving in third quarter. I won't be able to like comment on the fourth quarter here.

One thing we say however that I want to just emphasize again that we're actually investing for the future here. So we definitely want to get back to a longer term trajectory of the growth of sales and [profits].

Richard Kramer - Arete Research - Analyst

Okay. And a couple of simple questions on the numbers. What was the reason behind the TWD2 billion prepayment of royalties that went up this quarter and also why would accrued marketing expenses have gone up by \$110 million when at the same time sales are falling?

Chialin Chang - HTC Corporation - CFO

On the prepaid part of it -- some of the -- let me just look at what number you looked at, the number TWD2 billion prepaid there.



Richard Kramer - Arete Research - Analyst

It's in prepayment (multiple speakers) --

Chialin Chang - HTC Corporation - CFO

If I recall correctly here, the TWD2 billion prepayment -- if I recall clearly, I'm just having my control looking at the numbers here, if I recall correctly here -- the same time here is that our payment on licensing parts to various vendors actually is not that continuous. It's sometimes a bit lumpy here. So the -- I wouldn't just say -- I wouldn't be too like -- too unusual about it. That's number one.

What's your second question in terms of accrued marketing?

Richard Kramer - Arete Research - Analyst

Yes. Those went up \$110 million dollars and yet sales are falling. So it does seem odd that accruals should be going up when sales are going down.

Chialin Chang - HTC Corporation - CFO

You mean the sales is falling from what, some sequential falling or year-over-year?

Richard Kramer - Arete Research - Analyst

Well, both. But I mean the year-on-year is falling and then year-on-year the markets tend to go up.

Chialin Chang - HTC Corporation - CFO

Richard, you have to understand this is the number -- if we're talking about same line item there, basically, you have a sequential sales increase here. And then the -- we booked some of the accrued part of it. I think that's actually -- directionally consistent.

Richard Kramer - Arete Research - Analyst

Okay.

Chialin Chang - HTC Corporation - CFO

And (multiple speakers) detail outlined there.

Richard Kramer - Arete Research - Analyst

Okay. And last question, with Windows 8 coming, do you expect that will be a major contributor to revenue in the backend of the year? Are you anticipating that in Q4 you would have a significant amount of revenue from Windows-based devices?

Chialin Chang - HTC Corporation - CFO

Yes, unfortunately, I won't be able to comment on fourth quarter or specifically on Windows product there expect saying that we are historical -- continue to have very strong partnership with Microsoft.



Richard Kramer - *Arete Research - Analyst*

Okay. Thanks, guys.

Chialin Chang - *HTC Corporation - CFO*

Thank you.

Operator

(Operator Instructions) [Matt Renzi], Canaccord.

Matt Renzi - *Canaccord - Analyst*

Two questions from me. One is I guess on the guidance that you provided and the second one is a longer term strategic question.

So first on the guidance, do you feel that your downward guidance for the third quarter reflects only the competitive situation and the positions of your products in different markets or is there some accounting for maybe some shortage of supply of maybe chipsets or particular models that you guys might have been targeting for Q3 that also affected your guidance and any commentary you could give around supply of your handsets for key markets, particularly LTE, would be appreciated.

Chialin Chang - *HTC Corporation - CFO*

Yes. I wouldn't be able to comment on a specific supply situation here. And in terms the -- the sales guidance as I talked about earlier on that. Unfortunately, I won't be able to talk about specific -- the chipset or some specific model on that.

Matt Renzi - *Canaccord - Analyst*

Okay, fine. And I guess the longer term strategic question is as you guys have put out some releases recently that talk about your withdrawal from certain markets around the world, particularly Brazil and Korea pop to mind, we've seen in the past with some of your competitors over the years certain guys when things -- I guess when sales were getting a bit tougher in a competitive environment getting a bit worse in certain market companies, I guess, retrenched to save costs or into markets where they think they can have more success in the near term. And then once the business had stabilized or started to grow again, it becomes really tough for long-term growth to be the same as it was previous as you pulled out of some channels that could provide long-term growth drivers.

So I guess what are the considerations that you put into place in withdrawing from these markets and how do you think it would affect your future long-term growth potential?

Chialin Chang - *HTC Corporation - CFO*

I want to say --

Matt Renzi - *Canaccord - Analyst*

And thank you again for taking my question.



Chialin Chang - *HTC Corporation - CFO*

Okay. I appreciate, thank you. I want to say -- I want to make the following comment here. First of all, we're investing for the future. I know I'm saying that the third time now.

And second thing here is given where we are today on the scale we have and then the focus we have, we wanted to say, focus on a few growth markets; and the growth market now only in emerging market, like China is one of them. There are some other emerging markets as well.

And then certain areas also include the developed markets; developed market including some of the very sizeable address to market we feel like given our awareness we can get to a higher level in terms of penetration. So that we -- that would dictate how we allocate our resources because we think that will get us the best return on the investment we put in there. That's number one.

Number two, without commenting on specific the event we do sometimes doing in a certain market will I'm sure requiring a higher cost of doing business. Not necessary you have to do is have a strong presence onshore, you may have to do it in a different other ways there.

Obviously in the onshore -- we have onshore advantage there. So the combination of those two things, you can see some of the events there. But more importantly, I want to just talk about on the optimization on our resource and organization part here. This kind of continue because that allows to focus more, and I think we can get a better return that way.

Matt Renzi - *Canaccord - Analyst*

All right. Thank you very much.

Joey Cheng - *HTC Corporation - Director of IR*

Thank you.

Operator

Dan Malcolm, Viking Global.

Dan Malcolm - *Viking Global - Analyst*

Yes, just back kind of to a strategic question as well. When you think about what just happened in the last couple of quarters and so you had -- if you go back to kind of the back half of last year where you were kind of behind in some of the product cycles and then you guys came with the One series in Barcelona earlier this year and you kind of saw the fruits of that in the second quarter here, now when you look at the third quarter guidance, it would look as if you basically had a one-quarter product cycle.

From a strategic perspective, as you are investing for future growth, how do you think about how do we elongate these product cycles so that we don't spend 6 to 12 months developing a product or a family of products only to kind of get one quarter's worth of sales out of them and then have to go right back to the drawing board, like how do you elongate the product cycles and how do you kind of spread this business out over time?



Chialin Chang - *HTC Corporation - CFO*

Yes, this is the way we see here is that in order to be a successful global brand smartphone company and being the -- not only growing profitable and successful and very competitive, there are a couple of things that need to happen.

First of all, we need to continue to have a very innovative product which we believe we're capable of doing that. We have also very powerful R&D and product development team coupled with pretty strong folks working on the whole overall user experience.

Second as well, we just need to continue to promote our brand. And given that it's a very young brand starting 2006, compared to some of the -- our competitors they have a much longer history here, that's something we need to continue to invest. In that, through the marketing communication strategy, channel execution, retail execution those things need to happen here. So all those things need to be in place.

We didn't want to think about we introduced -- launched a product, Barcelona, and then the launch and deployed in various places in the second quarter, necessarily, yes, we have a sequential guidance on a revenue decline in third quarter versus second quarter. That would necessarily mean that this will be just a one-quarter product.

Our brand, our campaign effort in terms of increasing consumer preference will continue on. That will continue on coupled with continued introduction of innovative products here. Our One series will continue to march on.

Dan Malcolm - *Viking Global - Analyst*

Okay. Got it. Thanks so much.

Chialin Chang - *HTC Corporation - CFO*

Welcome.

Operator

(Operator Instructions) Richard Kramer, Arete Research.

Richard Kramer - *Arete Research - Analyst*

Chang, can you just talk a little bit about the retreat from your ownership of Beats and if that is at all part of the guidance in that you won't have the top-line consolidated Beats in the coming quarter? And more widely, I think, to Dan's question about avoiding the one-quarter product cycle, do you see any logic over time in trying to be part of consolidation in the mobile device industry whereas right now there are clearly 10-plus smartphone vendors and you're one of the few that are profitable right now, do you think over time, in terms of building up scale, it's important for you to be participating somehow and consolidating in that market?

Chialin Chang - *HTC Corporation - CFO*

The -- let me answer your first question on the Beats and then thanks for setting up that because I actually talked about it in the 4 o'clock as well. Let me just make a few points on that. And so hopefully we'll clear up some of the things there. And then just to report to you folks here our thought process in that.

First of all, we believe the founding members of Beats along with the current management team have the vision and the right managerial expertise to take Beats to the next level. We're very confident they're able to build Beats in the next few years to be very successful branded company and creating shareholders' value.

We, HTC, as the largest outside shareholder with around 20% or so will also benefit tremendously from that. We believe with the current setup we actually allow the founding members and current management team more flexibility and hopefully additional motivation to make that happen. That's number one.

Number two, for us, HTC, what we focus on is making sure we have the kind of strategic tie-up, the business arrangement, the commercial arrangement, and hopefully the planned -- marketing plan, the campaign we are thinking about for the second half of the year to re-leverage both brands to our success and hopefully benefit Beats as well. So that's something we focus on. So with that the current arrangement we actually think is a win-win situation.

Lastly, I want to make here in terms the -- we lending to Beats. The background is the following; Beats is going to transition from a licensing company to a product company in the second half of the year. They would need to give -- in a limited track record they would need to place the -- any funding in terms of working capital with the suppliers there.

And given the time it takes talking to various commercial banks which we're doing now we thought it probably will be more efficient without impacting on the continuity of the business for HTC to lend, and that's why you can see we only lend up to one year and you can see the design of the interest rate and the different tier [varies] the period.

That also will hopefully incentivize Beats with working together with them to eventually have the commercial bank syndicate to lend so we can just hand over to that. So that's basically the background of the whole announcement we made in that.

And in terms of the consolidation in third quarter here basically the -- after we become the 25% or so shareholder, we are no longer consolidating Beats.

Richard Kramer - *Arete Research - Analyst*

Right. And in terms of industry consolidation, your -- in terms of your market share obviously dropping, do you think it's important for you to find the partner to have greater scale or do you expect the aim for the next 12 or 18 months is for HTC to scale back up to where it would have -- try to have a double-digit market share in smartphones globally?

Chialin Chang - *HTC Corporation - CFO*

I wouldn't be able to comment on in terms the -- no, when we want to get to that level of the market share here. We certainly want to get to that numbers market share. In terms of what timeframe, I won't be able to say, but that's basically our aspiration and our goal and we're investing toward that.

In terms of consolidating here it's hard for me to comment on that here. If the consolidation means the potential, the M&A here, I can tell you here we actually feel very good about our future here, we can do organically here, do various things strategically and then also operationally we're doing.

Richard Kramer - *Arete Research - Analyst*

Okay, thanks.



Joey Cheng - *HTC Corporation - Director of IR*

Thank you.

Operator

(Operator Instructions) Dan Malcolm, Viking Global.

Dan Malcolm - *Viking Global - Analyst*

Sorry to keep asking questions, but it doesn't seem like there's a lot of other people in the queue. So I just wanted to go back to the question I had asked you guys earlier which was just on when you think about like extending the product lifecycles and I think you had mentioned investing in the brand, but is there any -- are there other things that you can do, do you think you need to move lower down the stack in terms of price point?

Because it seems like what you're doing is you're kind of focusing back now on some of the core markets as you -- I think you've talked about earlier and some of the announcements you guys have made. And historically, you've played towards the higher end of the market. Are there other things that you can do, do you think besides just brand that will elongate product cycle?

And if you look back on this last one, with the One, which obviously the One is going to continue to sell, but it's not going to continue to drive growth. What do you think you could have done differently with this product cycle that may be you would do differently the next time around?

Chialin Chang - *HTC Corporation - CFO*

The -- we -- first of all, I'll comment on a few things here is that we're not only focused on our select growth area here. I think our presence in various continents and region and market is actually pretty broad.

In China and the -- quite a few countries in North Asia including our recent success in Japan, and also our South Asia is basically deployed pretty broad in that as well. There's certain country we actually trying to increase investment to tap into the future opportunity there.

We also pretty -- had a pretty broad presence in EMEA and also obviously in North America there. So we're not trying to pare it down. We're actually trying to optimize our resources. So I just want to emphasize on that again. That's number one.

Dan Malcolm - *Viking Global - Analyst*

Okay.

Chialin Chang - *HTC Corporation - CFO*

Number two, in terms of managing the product lifecycle, I understand your question here. So I'm not trying to say here that only managing the brand will be enough or not. I just said a few things here, a combination of those things will all need to happen in order to be a successful smartphone branded Company and being highly competitive in the future, that's the second thing I would say.

The third thing I would say here is that the -- in terms the products here maybe there's certain -- I'll put it this way here is that we believe -- we feel very confident in terms of our product competitiveness, in terms of the hero product, very high-end there.



And that's also very important in terms we continue to promote our brand because starting with the very high-end premium design craftsmanship all those things actually are going to help us promote the brand here and actually going to help us to sell more phones that we deploy at different price segments in that regard.

I don't think we are participating in a very, for a lack of better word, ultra low-end in terms of very -- the low-price end product here. But between the very high-end, the hero product, also toward the sort of our lowest price in terms of our whole overall product portfolio, we actually cover quite broad range of things here.

And the -- obviously competition will always happen here and then there may be a softness here and there in that. But that -- the kind of the potential, the -- some of the challenges from quarter-to-quarter here were not going to stop us from achieving or aspiring to achieve our goal in the coming future.

So we're going to continue to manage our portfolio, going to continue to manage the lifecycle as you talk about there, different price range here, some of them may need a fine-tuning here, but dropping price and moving that actually not necessary we believe is healthy for us in the long-term.

Dan Malcolm - *Viking Global - Analyst*

Okay. So yes, and I mean, I think it's a good point that you made just about the quality of the product because I think probably every one of us that was on -- that was out at Barcelona and saw the products when you launched them I think have seen the products since in the market would all agree there it's probably one of the best products that's out there, especially at the price point. So the quality obviously is good, the reviews have been phenomenal.

And I guess that's where really my question is focused on is if you look at when I think back to kind of nine months ago and how you guys were talking about the strategy and then six months ago at Barcelona how you were talking about -- we're going to focus down on -- we had a lot of different products and we had aligned a wide range of things that we were selling in the market.

And we actually focused that down to three products under the One brand and we were able to focus marketing spend on One similar to kind of what Samsung does with the Galaxy family. And that was going to be the way we would probably drive more growth and more sales of this family of products and we could focus the marketing spend on that.

So when you think back to how that strategy was laid out and then kind of how things have progressed, what do you think was the flaw in that strategy and then what do you think you'd do differently going forward?

Chialin Chang - *HTC Corporation - CFO*

What we actually -- let me put it this way here is that, first of all our strategy in terms of streamlining or optimizing our product portfolio will continue as our CEO said a couple of -- quite some time ago in that. So now you can see we have a hero product of HTC One series here.

And we have also Desire series. We have China product for Desire V, and also the published Desire C is more affordable product in that regard as well. And we have regional devices geared to some of the operators, meaning especially in North America. That's basically what we have here. That's number one here.

Number two, promoting say the HTC One series, this is the first time here, if you have a very strong product leadership here with such a big gap in there, people can see right away product itself can just carry the day entirely here. If your product leadership here is strong, it is also a competitive product out there here, then your brand and also importantly your communication in there is going to be important as well.

The combine is going to determine the ultimate success here. HTC in the past we have -- for lack of a better word here, we have some of the pretty diehard fans in that regard. Now it's time for us to continue to promote ourselves to reach out to the mass market.



Mass market is not necessary in terms of the mid-end or affordable price range, but mass market just stays. The ordinary people can really feel kind of the premium design, the kind of the user experience they would desire. So that's something we need to make efforts on.

Dan Malcolm - *Viking Global - Analyst*

Okay. Thanks so much.

Operator

[Alben Khasya], Arete Research.

Alben Khasya - *Arete Research - Analyst*

Just wanted to -- can you reflect on what has made the -- your two main competitors successful in the last year or so in this industry and -- from a product perspective or from an execution perspective, and what are the key factors you think which are important?

Chialin Chang - *HTC Corporation - CFO*

Yes, unfortunately, we can't comment on our competitors, just like we can't comment on our supplies or specific customer here. I think we want to --

Alben Khasya - *Arete Research - Analyst*

Well, okay, yes, I'm sorry. But if I ask the question slightly differently, if you just look at the industry, what do you think are the key reasons for a success or failure?

Chialin Chang - *HTC Corporation - CFO*

What are the key reasons for success or failure?

Alben Khasya - *Arete Research - Analyst*

Yes.

Chialin Chang - *HTC Corporation - CFO*

I'll answer your question here and that's why I just echo what we think we have our advantage and also what we think we're making efforts on. My personal view here is in order to be a successful, smart, and branded company globally you need a few things. Number one, you need to continue to have a very innovative product there; that attracts consumer to use it. That's very important.

Alben Khasya - *Arete Research - Analyst*

Okay.



Chialin Chang - *HTC Corporation - CFO*

You need to have a strong channel partners and operative partnerships in there. And that's -- what we historically -- we have built up that. We'll continue to strengthen that.

Number three, you need to have a very strong compelling marketing message promoting your brand the same time here. So all those things need to happen. Obviously a corporation, they need to have their own DNA to make sure that everybody is motivating, marching in the same direction.

So those are the things I think will be key success factors there. And we know where we need to improve, we know where we do well, we'll continue to strengthen and we're motivated in that.

Operator

Mr. Khasya, do you have the follow up question?

Alben Khasya - *Arete Research - Analyst*

No, no. Thank you.

Operator

Richard Kramer, Arete Research.

Richard Kramer - *Arete Research - Analyst*

Maybe one last question from me, which is when you look at the last two years when you did give unit numbers (inaudible) start of this year, HTC sold close to 70 million smartphones. Can you give us some measure of your retention rate of people who already have experienced the brand?

So maybe if we're looking forward to the end of this year, Christmas season, when you have more products out as well and into next year, what expectation of retaining your existing customers should we have and what portion of that business would we expect has to come from you converting the customers of other brands? Thanks.

Chialin Chang - *HTC Corporation - CFO*

We -- put it this way here is I won't be able to like disclose in more detail retention rates, partly it's because I don't really know exactly where in different regions here. But although I would say the following here. We do have done some -- obviously it's a important metric here, we're doing quite clearly here is that our retention rate here in terms of historical, so the -- the HTC [fan], I think we were pretty competitive compared to some of the key players there. Obviously not with the top player there, but we're actually pretty competitive with the industry. If you -- at an industry average, we're actually probably even better in that in terms of HTC retention rates.

So we're happy with the HTC retention rate. We actually think it could be even better, so that's something we're focusing on. That's number one.

Number two, in terms the efforts, in terms of making sure that the -- what these people, the contracts, buyer, they're about to pick a new phone here, we're focusing on that in terms of cost and other things that this -- yes, you could be certain that we -- effort is being deployed in making sure that they will continue to enjoy HTC products here. And then that's not just the Christmas season here, that's on a continuous basis.



Richard Kramer - *Arete Research - Analyst*

Okay, thanks.

Chialin Chang - *HTC Corporation - CFO*

Welcome.

Operator

(Operator Instructions) There is currently no question. I will pass the call back to CFO, Mr. Chialin Chang for closing remarks. Mr. Chang, please go ahead.

Chialin Chang - *HTC Corporation - CFO*

Thank you all again for attending the call today. And I would say to you now we look forward to talking to you soon, probably three months.

Joey Cheng - *HTC Corporation - Director of IR*

Thank you everyone.

Operator

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

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