

## **KT 2020 Q2 Q&A ('20.8.7)**

### **Hoi Jae Kim - Daishin Securities**

My first question relates to Netflix arrangement. I understand that you won't be able to disclose specific terms and conditions but would like to understand what the business looks like. What type of partnership or alliance is it? Could you provide some more color? And also, we hear that there is also an element of network usage related payment. If so, could you also elaborate on that aspect?

Second question regarding 5G infrastructure, we hear about co-investment from all of the 3 mobile players. Because KT owns the biggest infrastructure, we assume that it will be KT renting out certain of its network or facilities and other operators paying for the use of those. Is that the case? Could you also elaborate more on this?

### **Kyung-Keun Yoon - KT Corporation - CFO**

In today's world, where the overall media environment is fast changing, partnerships with OTTs has become a must because this is a way for us to provide more choice to the customers and also to enhance convenience and ease of use for the user base. Through these arrangements with Netflix, we are going to further enhance our content capabilities for Olleh TV. And we also expect that we will be able to create a virtual cycle, where we expand our subscriber base which will help to further enhance the value of our media platform.

Currently, we're running a promotion for new subscribers to Olleh TV and Internet. And also, we are looking at various different segments where we will be able to generate synergies with Netflix, not only in IPTV business, but in other business areas, including wireless. Currently, we'll be providing it as a value-added services. With regards to the rate-related schemes, it's something that we will be reviewing as we go forward.

Relating to the payment for the usage of the network, at this point in time, currently, there is a preparation ongoing to set up the enforcement decree relating to the revision of the electricity and Telecommunication Business Act, which would stipulate the obligation on the side of the CPs in maintaining the network quality, the global CP status.

In line with the government's legislation revision process, we are going to fully comply with the government policy direction. And both parties through this partnership have agreed that we will comply with the relevant laws and regulations, and that we will make efforts towards a service stabilization. Please understand that due to the contract itself, we won't be able to disclose more specific terms and conditions.

Regarding your question about the joint or co-investment into the 5G network, aside from the 85 core city and the peripheral geographies, currently, the operators are in discussions about potentially making investment into a joint network. The details are yet to be ironed out. Once we have the details, we will come back and communicate that with the market. The whole idea of a joint network, we expect, will help in terms of speeding up the broadening or expansion of the coverage and also will be favorable in terms of the quality and also will help to further enhance investment efficiency.

## **Joonsop Kim - KB Securities**

So I would like to ask two questions. The first is on your 5G B2B business. Could you share with us what your business direction is for 5G B2B? What your outlook is? And what you consider key milestones are?

Second question is OTT. Your peer, your competitor, have recently -- really emphasized the K content, the distribution of K content. I would like to understand what KT's perspective is when it comes to that topic. And also your own OTT service Season, Season services. Could you share with us some specific, I guess, plans or details regarding that?

## **Kyung-Keun Yoon - KT Corporation - CFO**

So KT, back in 2019, was the first to commercialize 5G in the world and at the same time, we launched private 5G. So together with private LTE, we have been leading the B2B, the private network market. As of the second quarter, not only new customers, but previously, the private LTE users are also wanting to migrate to 5G. So we see that number continuously go up.

And so in line with providing or meeting the demand of the users, we are offering premium QoS service, which provides a steady network and also appropriate level of speed. Going forward, we plan to further upgrade 5G edge cloud, 5G smart office and other specialized services for the company.

Going forward, we will be increasing our use cases in 5G B2B in areas such as smart factory, smart health care and smart ship building. And we will further expand on a more customized platform that best fit different industry sectors. At this point in time, we're conducting discussions with a total number of 30 customers who are interested in 5G-based solutions. Already two of those companies have adopted our solution and have enjoyed improvement in productivity in smart factory.

And as I mentioned previously, KT is Korea's biggest IDC operator and also a cloud operator as well. In the post COVID world, we will see AI be applied to all of various different areas. And as we live in the untapped environment, we expect the entire innovation process based off of cloud to further accelerate as we go into the future.

To this end, basically, our cloud core infrastructure is going to incorporate different technologies like AI, blockchain as well as big data. So we will be developing such solutions as we go forward and complete our AI/DX suite of solutions by the second half of this year. So based on this platform, customers will be able to receive services, AI and big data services, supported by the cloud platform, which will provide nimbleness and fast speed.

Looking at the OTT market. This market, we think, is going to be taken by multiple number of players. So the market will be fragmented to a certain extent. And basically, with the Seezn which we operate, we believe it has a mutually complementary relationship with Netflix. So basically, Seezn can provide realtime broadcast channels and VODs, which Netflix cannot. That's why I say that both of these solutions and services are complementary to one another. And on this Seezn, we will be making investment into original content, making use of K idols and developing different entertainment content. And we've seen MAU for Seezn show an uptrend.

And there was also a recent press coverage on Seezn's content that it produced called "Like the First Cup". This program was successfully exported to HBO, and we will continuously equip

ourselves with original content production capabilities so that we can really strengthen our OTT content base.

Seezn basically seeks open platform. It can, at any time, with any partners, can partner up, and we'll do those efforts, will develop and showcase wide-ranging services and content.

### **Robeco – Arnout van Rijn**

I see the 5G subscribers are accelerating again. But the target of 3.5 million by the end of this year, is that still achievable? And then in line with that, we've seen ARPU actually continuing to drop or the whole idea was, I thought that with more and more customers moving towards 5G, we would actually see a pickup in ARPU. Why is that not happening?

And finally, on CapEx. What can you say about the CapEx outlook now that you've underspent so much on network in the first half of this year? Is KRW 3.1 trillion still realistic? Or is that going to be a different number?

### **Kyung-Keun Yoon - KT Corporation - CFO**

Relating to your question on 5G subscribers, we think that we will be able to achieve the 3.5 million year-end subscriber target we set for ourselves. The reason why we think that is because there are going to be new handset launches. Galaxy Note and iPhone are scheduled to be launched, and we expect that it will be about 25% out of the total handset sales that will be accounted for by 5G.

Responding to your question on ARPU. Basically, as a subscriber actually migrates from LTE to 5G, there is about 30% upside impact to the ARPU. And at this point, the high-end or high-priced portion is currently being maintained by -- high-end rate plan, that is, is being maintained at a relatively high level. As you've mentioned, our ARPU trend has been quite sluggish, and that's because due to the COVID crisis, we've seen declines in the roaming-related revenue, and there were increases in the IoT line. So the ARPU, all in all, they had offsetting impact and the ARPU all in all was flat. In terms of the handset base, the ARPU is showing an uptrend.

Responding to your question on CapEx. We are making investments into our growth businesses, including 5G, IDC and real estate. And also, we need to maintain the quality level of our fixed and wireless backbone network. It's due to these reasons we've said KRW 3.1 trillion as our CapEx guidance for the year. In the first half of the year, however, because of the COVID situation, the whole speed of making 5G investment was somewhat interrupted. But as we go into the second half of the year, with more increases in 5G subscriber base, we expect the investment amount to be bigger than that of the first half, but we will make sure we spend within the guidance level.

### **Seyon Park - Morgan Stanley**

If you look at the first quarter, the overall marketing environment was quite favorable. But in the second half of the year, there are multiple handsets that are slated to be launched, including

Samsung Fold, probably is going to launch a 5G version. What do you expect your competitive landscape would look like in the second half of the year?

And second question is KT seems to have lower level of margin in the second half of the year versus the first. Could you provide some more color with regards to this issue?

**Kyung-Keun Yoon - KT Corporation - CFO**

In the first half of the year, because of the COVID pandemic, the overall economic activities had slowed. And also thanks to efficient marketing conducted by all of the 3 telcos, overall level of competition in the market had been somewhat subdued. But in the second half of the year, we expect the handset flagship lineup to expand. So compared to the first half, we expect the wireless market to expand.

For us, we will focus on introducing competitive tariff plans and also launch cloud streaming games. And under the partnership with Netflix, we plan to provide more differentiated and unique services and also expand the network coverage and really focus on our core and fundamental competitiveness elements rather than engaging in reckless competition. So we do not think there is going to be a repeat of a fierce competition, marketing competition, that we've seen in the second half of previous year.

Responding to your question on the second half margin. The first half of the year, thanks to a steady service revenue growth and efficient spending, on a KT stand-alone basis, we reported an operating profit of KRW 552.3 billion.

In the second half of the year, we expect the top line situation to be much favorable and also on the wireless side, in the first half of the year, the 5G qualitative growth, we were able to continue. And as we enter the second half of the year, we believe we will be able to expand on that growth.

For IPTV, in the second half, when the negotiation with the home shopping providers on the commission level is all ironed out, we think that we will be able to bring about double-digit growth for IPTV. Subscriber base for both fixed and wireless, the net addition trend is continuing and the MS indicator is also showing an uptrend. For the B2B business, we think we will be able to continue and achieve double-digit growth. And for hotel and ad business, basically, these were quite -- was significantly impacted by the COVID pandemic, but they are starting to show signs of recovery.

So our basic business management stance is that we will try to manage second half of the year just as we did in the first half of the year. But having said that, we still have the collective bargaining agreement left to be made. And also, because of the increases in investments, there are some seasonality factors as well. And also, in light of the fact that the revenue and profit from BC Card and KT Estate have declined, so on a consolidated operating profit basis, we will do our best to make sure that we attain the level of last year.

In order to live up to our mid- to long-term guidance until 2022, which we shared with the market during the Corporate Day end of May, we will endeavor to bring about growth every year and also to improve our profit.

### **Hong-sik Kim - Hana Financial Investment**

I would like to just ask one quick question. During the Corporate Day, the CEO had expressed his position, which was quite not -- which was a bit negative on the -- on why one has to actually acquire a cable TV. But you've mentioned about the preferred negotiation partner being selected vis-à-vis Skylife and HCN. Would like to understand, going forward, are your subsidiaries and affiliates, will they be more independent? Meaning, will they be far off from any control from the mother company and make independent decisions? Would like to understand that relationship between the mother company and the subsidiary.

### **Kyung-Keun Yoon - KT Corporation - CFO**

Now KT has been closely monitoring the market surrounding the pay TV business. And at the group level, we've been thinking quite hard as to how we could further strengthen our capabilities when it comes to the media platform. Skylife also had, over the years, have been considering different growth strategies. And in order to bring about stand-alone growth, they decided that they needed to build scale and decided that they would acquire HCN.

KT has been endeavoring to further enhance our subsidiaries' stand-alone value, and we are always thinking hard about how we could bring about the overall synergy. And that's why BC Card decided to acquire certain equity stake at K-Bank.

During the Corp Day, Corporate Day, CEO also talk to the effect about the restructuring of our group companies. So I think that should be -- you could -- I think that, that should be the angle when you view this topic.

### **Capital Group – Wenjie**

I have two questions. One is on the marketing expense in the second quarter. It looks like relatively high in second quarter, about 600 million that's been spent. Can you talk a little bit on what's going on there? And what is the trend in second half of this year?

And my second question is, given the recent weakness of these non-telco business, how is this going to change your restructuring plan? Do you plan to move any of the restructuring schedule ahead of the original schedule? Or can you talk a little bit about it?

### **Kyung-Keun Yoon - KT Corporation - CFO**

Responding to your question about marketing expense, on an actual spending basis, in the second quarter, there was actually a decline in marketing spend. It's just that starting previous year, because of the application of IFRS accounting standards, there were marketing spending that was deferred. Basically, it is being amortized over the period. That's why Q2 figure for this year looks elevated, and the impact will remain by the end of this year.

I think we mentioned this previously as well, but the company, in light of our strategic value, we will be quite bold in restructuring our affiliates and subsidiaries that does not -- that do not add to our growth or that do not create synergies. At this point in time, within the company, we are engaged in in-depth discussions, but we do not have anything concrete at this point to share with the market. But once we make a decision and a judgment, we expect that the actual implementation and the speed is going to be quite fast.