

## KT 2022 Q2 Q&A (2022.08.10)

### **Joonsop Kim - KB Securities Co., Ltd., Research Division - Analyst**

Q. [interpreted] I would like to ask you 2 questions. First has to do with the mid-priced price scheme for the 5G services. And the second question relates to your B2B business. Regarding that 5G mid-range pricing scheme, your competitor has introduced that pricing scheme ahead of everyone else. I would like to get your assessment of what you expect or how you expect the competitive landscape to develop going forward? And if KT also has a plan to adopt this pricing scheme? What impact are you expecting from that release?

Second question, if you look at the second quarter's B2B business result, it was quite positive. What is your assessment of the growth potential from the B2B business going forward?

### **Young Jin Kim - KT Corporation - CFO**

[interpreted] Thank you, Mr. Kim, for your question. I will first respond to your 5G pricing scheme first. We, at KT, were also making preparations to adopt a mid-price range pricing scheme under the view or under the objective to provide more choice, more expanded choice to the customers so that they can select the rate plan that best benefit them.

So just to remind you that we have a 5G mid-priced tariff scheme upcoming in the near future. With regards to the possible impact that this will have -- because we are still a prelaunching phase, it will be -- I'm quite cautious to provide you with any specific outlook for this. Now having said that, there will be some of the 5G subscribers, who will downgrade to the lower pricing scheme, but we also have quite a bit of LTE subscribers, and I believe that by providing more choice to our subscribers in terms of the rate plans that they can select, this can actually accelerate the speed of migrating the LTE subscribers to move over to this pricing scheme. So once again, I will be able to provide you with a clearer picture on the outlook in terms of the impact this will have after we release this pricing scheme.

Moving on to the second question and what the growth drivers are for B2B and what our projections are. Let me elaborate on that point. Now as I mentioned during my opening presentation, our B2B business is a very critical growth driver for the company. If you look at the first half numbers on a year-over-year basis, we've seen increase in the number of orders booked by 33%. And as of end of July, that year-over-year growth was about 45%. So we are seeing a quite robust trend.

Then just to elaborate more on what the growth engine is behind the B2B business, I would like to provide you with some more detail on that. So if you look at KT's B2B overall digital or business strategy, there are 3 pillars to this. The first one is expanding into a new business area by adding digital on top of our telco capabilities. Second is to gain an upper hand and dominance in the DX market, DXI, the different businesses and companies by really tapping into the digital segment where we could actually leverage the potential that we have with the strong underpinning of our telco capabilities. And third is providing a customized DX model by providing a differentiated offering for each of the customer segments.

In terms of the competitive edge that we have in our B2B business, KT boast of Korea's biggest nationwide coverage in our B2B services and supported by such fixed line and wireless infrastructure, we actually have a very metropolitan base based on which we have our own sales channels that could actually address the needs and visit our customers on their sites at their office.

And in order to facilitate DX transition of different businesses, what is important is the infrastructure. And KT has the fixed and wireless network that is robust and stable. And we also have core technologies that's required for DX, including AI, Big Data and cloud. And we also have a portfolio of enterprise products, whereby we could provide a customized services for each of the customer segments. And that really works as the strength of KT in the sense that we can be right next to our business partners in the journey towards digital transformation.

In terms of the growth rate projection for B2B revenue, the basis for that growth rate is going to be the order book that we build. Our objective, therefore, for this year in terms of the revenue is more than KRW3 trillion and by 2020 -- excuse me, in terms of the order book, the amount of orders that we win, our objective is to have more than KRW3 trillion in orders for this year and also more than KRW5 trillion by year 2025.

Next question, please.

**Hoi Jae Kim - Daishin Securities Co. Ltd., Research Division - Analyst**

Q. [interpreted] This is Kim Hoi Jae from Daishin Securities. My first question relates to your content business. With the recent hit of the Extraordinary Attorney Woo on TV, there has been growing interest on your company's content investment. And we are seeing a lot of changes on the content side. You've decided to merge Tving with Seezn, and we are curious as to what your future collaboration would look like with CJ ENM. And also in that light, I would like to understand whether you have other plans to merge Media Genie plus SkyTV going forward?

Second question relating to your wireless business. We are seeing very good measures for 5G penetration as well as ARPU. But because the penetration is so high, there is concern that maybe the ARPU up trends may start to slow. So from a long-term perspective, what are your strategies in place to make -- for you to make sure that you can actually sustain that elevated level of ARPU and wireless revenue going forward?

**Young Jin Kim - KT Corporation - Executive VP of Finance Management Office & CFO**

[interpreted] I will first respond to the first question about the content business. Since we've merged Tving with Seezn, what are our future collaboration plans with ENM, I will respond to that first. Yes, let me first provide you with the background as to why we entered into partnership with CJ ENM. As one of the very key pillars for us to transition into a DIGICO for a media content business is a very important pillar that's going to play a key role. And we've been continuously reviewing possibilities of entering into a mega alliance for us to very quickly gain competitive edge and also scale up our business through outside partnerships. Hence, we've decided to enter into an all-around partnership with CJ ENM, which is a front runner in the media and content business equipped with content production capabilities as well as distribution competitiveness. And also CJ ENM had also decided to make KRW100 billion of investment into Studio Genie.

KT and CJ ENM have agreed to these investments as well as scheduling and purchasing of the content and key executives of the 2 companies through a council of business collaboration and cooperation have really ramped up cooperation and collaboration across the board. In terms of the content sourcing and scheduling of the content, there was an agreement made so that KT Genie's original content and certain titles that it produces will be scheduled through the platforms that CJ ENM has in terms of its channel and platform, including TV and channel and Tving.

Also, in terms of coproducing AAA titles, KT Studiogenie and CJ ENM will engage in joint and coproduction in order to produce a global AAA content. In terms of the merger and integration between Seezn and Tving, everything is on a smooth sale with an objective date or the target date of integration as of December this year.

Relating to the question of future integration between Media Genie and SkyTV. In order for us to further improve our competitiveness in MPP, we are, at this point, reviewing multiple options, but we have not yet finalized a certain direction as of today. But once we make the decision, we will come back to you and communicate that to you.

I will now move on to your second question, elaborating on our strategy to drive continuous wireless revenue. Now the 5G penetration is continuously up trending. And as of the first half, the figure was 54%, and our objective is to reach 60% by the end of this year. We expect -- we introduced the Choice plan. This is a value-added tariff service where people, the subscribers can select and use and subscribe the rates that they wish. And through such provision of value-

added services, we wish to bring additional revenue.

Last but not least, we are at this point in developing and preparing various different value-added services that satisfies our customer needs. And once we release them, we will come back to you and provide you with more details.

Next question, please.

## **Seyon Park - Morgan Stanley, Research Division - Equity Analyst**

Q. [interpreted] I would like to submit 2 questions. First has to do with the spun-off of your cloud business, ktcloud. If you look at the impact that it had on the operating profit on a separate basis, we'd like to gain some understanding as to the extent of what the impact was on operating profit line?

And second question is in connection with this. If you look at KT's dividend payout policy, basically, it is 50% of adjusted net profit on a separate basis. And with ktcloud being carved out, there, of course, is going to be impact on the profit. So at the end of the year, when you actually distribute the dividend, would you also consider for this corporate income tax element as well when you determine the amount of dividend to be paid out at the end of the year.

## **Young Jin Kim - KT Corporation - Executive VP of Finance Management Office & CFO**

[interpreted] Thank you, Mr. Park, for your question. Yes, let me tackle your first question. You asked a question on the separate basis, operating profit impact with the carve out or spinoff of ktcloud. Let me first talk about the top line revenue. With ktcloud being spun off, we expect there to be about KRW100 billion of impact on the top line revenue.

So just assuming that the ktcloud is still included within the KT Group under that assumption, if you look at, so that's pre spin-off, cloud and IDC growth of Y-o-Y 11.4%, with on a separate basis, service revenues 3.8%.

So as just mentioned, basically, the top line growth trend is continuing. But with the carve-out of cloud and IDC business, this will have an impact in terms of lowering the top line revenue, but we also need to consider for the lower level of operating expense, which includes the labor cost, depreciation and power expenses. So if you think of both of these elements, there is -- we expect there's not going to be that big of an impact on the operating profit, the size much less than the reduction in the top line revenue.

So typically, in the past, our cloud and IDC business, their operating profit margin typically was higher compared to the company-wide average. But recently, there has been a steep surge in demand, which entailed in -- a rise in initial investment as well as other investments, for instance, hiring of additional headcount, which weighed down on the current OPM margin. But from a long-term perspective, we believe that this margin will start to also improve as we more preemptively respond to the market and as we expand our capacity.

Now moving on to your second question. With the establishment of ktcloud as a separate special entity in terms of the corporate income tax that we had paid and whether that's going to be used as an item for adjustment for our adjusted net profit. So when it comes to expense items, for non-cash expense items and P&L, this was, yes, it was an item that we considered in adjusting the net profit. In the spin-off of our cloud business, also this is an accounting-based treatment. There was no actual cash out regarding the corporate income tax. So yes, because it's a non-cash expense item, it will be considered in the adjustment of the net profit for distribution purposes.