

A New Day: Remarks at the 2016 PLDT Annual Stockholders' Meeting

by Manuel V. Pangilinan | Jun 15, 2016

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Good afternoon once more to our stockholders.

I would like first of all to thank Polly Nazareno for his long and loyal service to the company. We wish him well after his retirement last December 2015. It now falls upon me to report on the performance last year - but more than this, to welcome a new day for us.

We will propose to you that this be the last time we refer to our company as: "Philippine Long Distance Telephone Company." Going forward, we intend to change our name to "PLDT, Inc." You will see why in a short while.

My report consists of two main parts:

First, a quick review of results for 2015.

Second, a view forward – first quarter 2016 performance, together with a description of the initiatives we're undertaking to transform our company, and secure its future in a world that is rapidly turning digital.

2015 Results

Turning to 2015, the key performance indicators reflect the tough challenges we've been facing:

- Consolidated revenues stable at 171 billion pesos
- Fixed line revenues up 2% to 65.6 billion pesos
- Wireless business lower by 4% to 110.7 billion pesos
- Ebitda margin at 43%, ebitda at p70.2 billion, down 9%
- Core net income at p35.2 billion, slightly above expectations
- Capital expenditure totalled 43.2 billion pesos – an all time high. Capex to revenues @ 25% - also an historic high.

The stories driving these numbers are familiar ones – shifting consumer behavior and intense competition.

As customers move to alternative digital means of communicating, our legacy businesses – international and domestic long distance voice services and text messaging - have been declining.

By comparison, data and broadband continue to grow – by 15% year on year, contributing nearly 50 billion pesos or 30% of total service revenues in 2015. With legacy revenues receding, our future clearly lies in data, broadband and the growing universe of digital applications. That is why it is so out of step with the times to keep calling ourselves a "long distance telephone company".

Of course, we also face intense competition in our mobile phone business. The prepaid segment is particularly challenging. Despite a significant growth in mobile data revenues, we've lost subscribers to competition, causing overall wireless revenues to drop by 4%.

This year, we have drawn the line firmly in the sand. An incremental approach which attempts to stretch our legacy businesses just doesn't work. No matter what we do, no matter how hard we try, no matter how much we spend, long distance telephone is a business that will not sustain us going forward. So the option is crystal clear – either we pivot, or we perish. That is why, looking ahead, we propose to simply call ourselves PLDT.

2016: Facing the Digital Future

The journey to that digital future will be long, and the climb steep. There will be false starts, there will be speed bumps, there will be mistakes made. Though we began that trip in earnest the year, it will take us until 2018 – about three years - to execute. To achieve our goals, CapEx levels will remain elevated at 43 billion pesos in 2016, and beyond. That is before our recent acquisition of the telecoms business of San Miguel Corporation which is likely to add about 100 million dollars more CapEx this year. This CapEx spend reflects a massive effort to transform our networks into the country's most extensive and data capable infrastructure.

Our intense focus on this digital pivot is forcing us to adjust our financial trajectory for the next three years. For 2016, we initially reset our core income guidance to 28 billion pesos. We have since revised that upwards, to 30 billion pesos, in light of the partial sale of our MERALCO shares - realizing an after tax gain of 7.3 billion pesos. Going forward, this 30 billion pesos income reflects a new base from which we expect to rise.

We've retained our corporate policy of declaring regular dividends representing 75% of core earnings. However, to conserve cash and keep debts at prudent levels, your board has decided to suspend special dividends for 2015. This fiscal discipline has kept PLDT's debt profile healthy, with maturities well spread out. Our credit rating remains investment grade – in fact, one notch higher than that of the Philippines.

First Quarter 2016

Turning to our performance for the first quarter of 2016, our key performance metrics are as follows:

- Consolidated revenues up 1% at 42.8 billion pesos
- Core net income at 7.2 billion pesos, in line with full year guidance
- Broadband revenues up 22% at 13.7 billion pesos
- Mobile internet revenues up 38%
- Ebitda lower by 14% to 16.6 billion pesos
- Capex at 14.6 billion pesos – a 4x increase over the same period last year

As you can see, there are modest signs of improvement— first and most importantly, we have arrested our loss of subscribers; second, broadband and mobile internet revenues are up significantly; third, we're expanding smartphone ownership to drive internet usage. We've had to do this by way of subsidies. Consequently, EBITDA was lower year on year .

Finally, the addition of San Miguel's spectrums would enable us to provide internet everywhere, internet for all. This will mean a faster roll out of nationwide coverage, with more reliable and affordable internet services. We've already fired up several cell sites using the new 700 MHz frequency. By the close of 2016, we will have

more than 300 cell sites on the 700 MHz band in Metro Manila, Cebu and Davao - with expanding coverage throughout the country over the next three years.

If you want to have an idea of what's coming, take a look at this photo showing Smart's speed test of its 700MHz cell site in Tanay, Rizal. By using LTE carrier aggregation on the 700 and 1800 MHz frequency bands, Smart achieved a top download speed of 222 Mbps.

Our new Digital Platforms

Before I close, let me share with you some of the new and exciting digital platforms that will deliver the kind of amazing customer experiences that are symbolic of our new day.

I'm pleased to announce that today, Smart is launching the SmartLife app – a single destination for living a smarter life - including entertainment, payments and mobile commerce. SmartLife will also feature “Smart Perks” – an innovative offering that perfectly symbolizes the future of our digital pivot.

“Smart Perks” is powered by an innovative platform called Marketbuilder. Developed by our subsidiary, Talas Data Intelligence, and offered by our Enterprise group as well. Marketbuilder enables companies to deliver digital coupons to customers in a targeted way.

Our B2B customers get our help to grow by acquiring new customers. While consumers get targeted, money saving promo offers like free Chicken Joy and Yumburger meals from Jollibee; free movie passes from SM; discount coupons for everything from Krispy Kreme doughnuts, to sports shoes from Zalora and digital watches from Lazada. SmartLife, featuring Smart Perks, is downloadable today from Google Play and will be coming soon to the Apple App Store.

I must highlight today the great strides our digital innovations group – Voyager – has made for the unconnected, the unbanked and the uncarded.

On the payments side, PayMaya is the leader in the fast-growing mobile payments business with a throughput of almost 50 billion pesos in the first quarter. Full year transaction volume of the PayMaya platforms will approximate 200 billion pesos – not bad for a new platform.

This throughput of 200 billion pesos this year will come from three sources: (i) PayMaya – the #1 mobile wallet app for millennials; (ii) PayMaya Business – the #1 mobile payments acquiring; and (iii) Smart Padala – the #1 domestic remittance service.

Smart Padala now handles about one-third of domestic remittances and will soon expand its business to foreign remittances.

Likewise, our Rove platform is now the biggest payments channel for government to person or G2P disbursements – specifically for government's conditional cash transfers, and for donations received from the international aid agencies to the poor.

Lastly, let me feature FINTQ, a new business unit developing solutions for the fintech sector. FINTQ is responsible for an innovative new platform for consumer loans – including salary loans and micro-finance lending. This new platform – called Lendr - has onboarded 25 partner banks and 4 international banks, plus the association of rural banks and thrift banks - with more waiting in the wings, here and abroad. Launched only last year, Lendr has already handled over 9 billion pesos loan releases in this first quarter.

Conclusion

I will conclude my report today by looking back -- #flashbackPLDT.

Since our founding 88 years ago, PLDT has served our people longer, and better, than any other telco. Our history with this nation, our affinity with what's Filipino, and yes, with our size and presence touching everyday lives, PLDT "ang tunay na telco ng bayan". We're committed to transforming our business. We're committed to providing great customer experiences. We're committed to our mission of leading and inspiring Filipinos to see a better tomorrow.

This will demand an enormous effort, which goes beyond changing our name or refreshing our logos. But we will reclaim the promise of our potential and, after the dark days of decline, we should see again the sunlight of growth and prosperity for the company.

Today is a new day for your company. Today signals our commitment to change, to becoming the digital services company of the future. Today, PLDT means - #internetforall , and #interneteverywhere.

Let me now close with this video introducing the new branding system for PLDT and Smart.

Thank you and good day.