

Results

3Q19



Telefônica Brasil S.A. Investor Relations

November, 2019 >

Telefônica

vivo



➤ DISCLAIMER



» » » »

This presentation may contain forward-looking statements concerning future prospects and objectives regarding growth of the subscriber base, a breakdown of the various services to be offered and their respective results



» » » »

The exclusive purpose of such statements is to indicate how we intend to expand our business and they should therefore not be regarded as guarantees of future performance



» » » »

Our actual results may differ materially from those contained in such forward-looking statements, due to a variety of factors, including Brazilian political and economic factors, the development of competitive technologies, access to the capital required to achieve those results, and the emergence of strong competition in the markets in which we operate

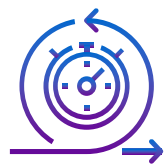


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For a better understanding, we are presenting pro forma numbers for 2019 disregarding impacts from the adoption of IFRS 16, unless stated otherwise. In addition, YoY variations of 2018 results disregards impacts from the adoption of IFRS 15 in that given year, unless stated otherwise



➤ 3Q19 HIGHLIGHTS



Key Segments

+34.0%

FTTH Customers YoY

FTTH Revenues
(+44.5% YoY)



+7.3%

Postpaid Customers YoY

Postpaid Revenues¹
(+6.8% YoY)



Revenues

+2.6%

YoY

Total Revenues
(highest growth in 3 yrs)



+4.6%

YoY

Mobile Service Revenue
(+6.6% YoY Total Mobile²)



Profitability

+2.8%

Recurring EBITDA YoY

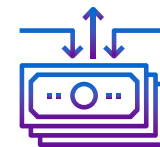
36.2% EBITDA Margin



+0.6%

YoY

Recurring **Costs ex-COGS**
(+2.5% YoY Total Costs)



Cash

+14.9%

YoY

9M19 **Free Cash Flow**
(R\$ 5.6 bn)



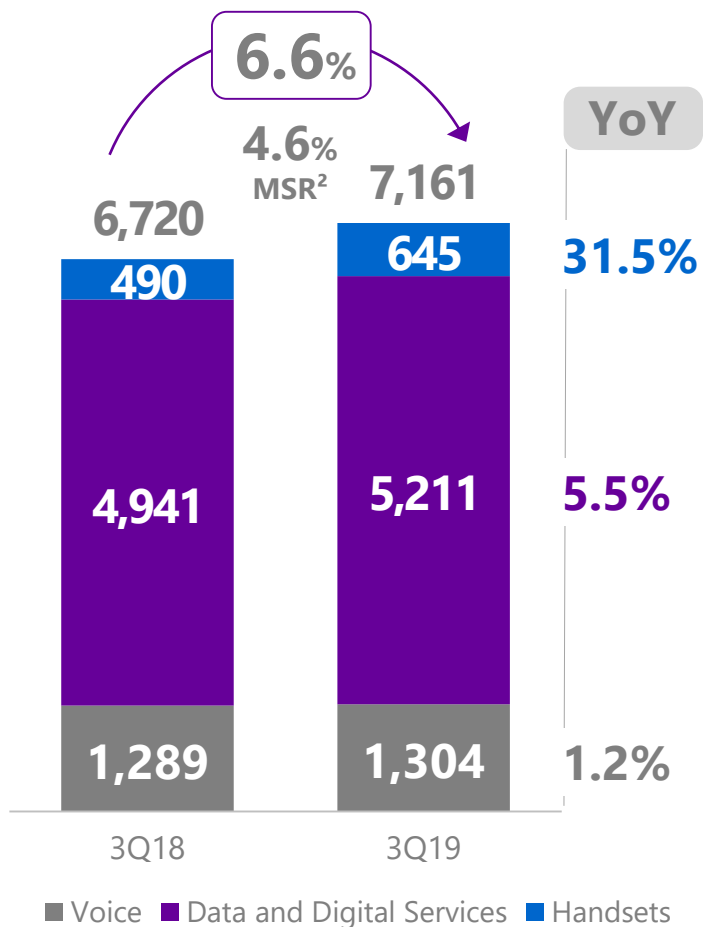
6.7%

12M

Dividend Yield³

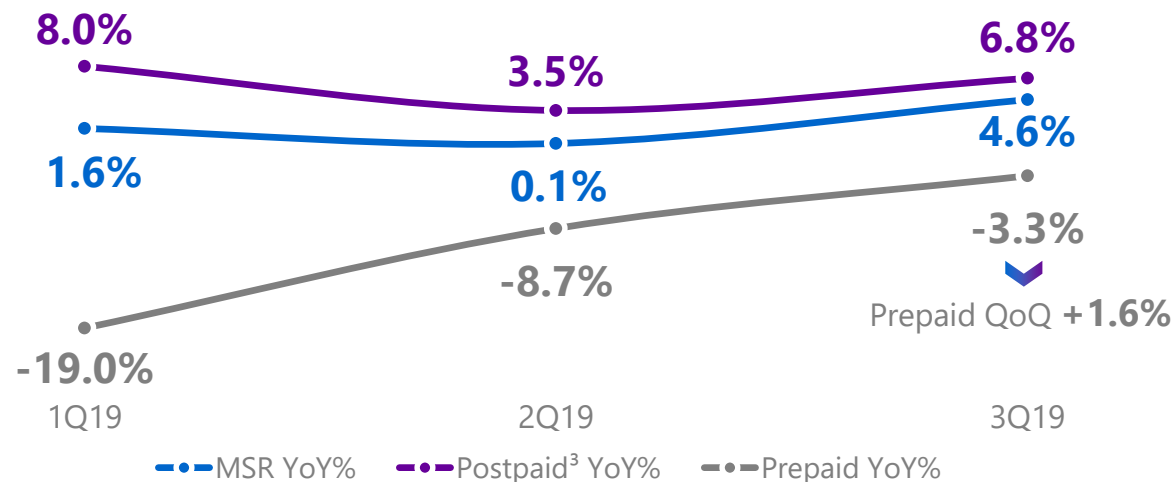
➤ **STRONG RECOVERY OF MOBILE REVENUES** DRIVEN BY A RATIONAL COMMERCIAL APPROACH AND HANDSET SALES

Mobile Revenues¹ R\$ Million >>>



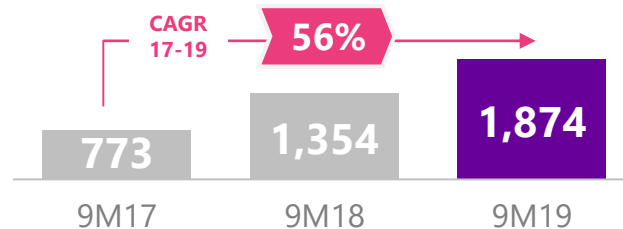
Price increases across all segments carried out during the year leading Vivo to improve MSR evolution >>>

➤ Mobile Service Revenue Growth YoY%



Improved profile of the handset business with increasing sales and better margins >>>

➤ Handset Revenue R\$ Million

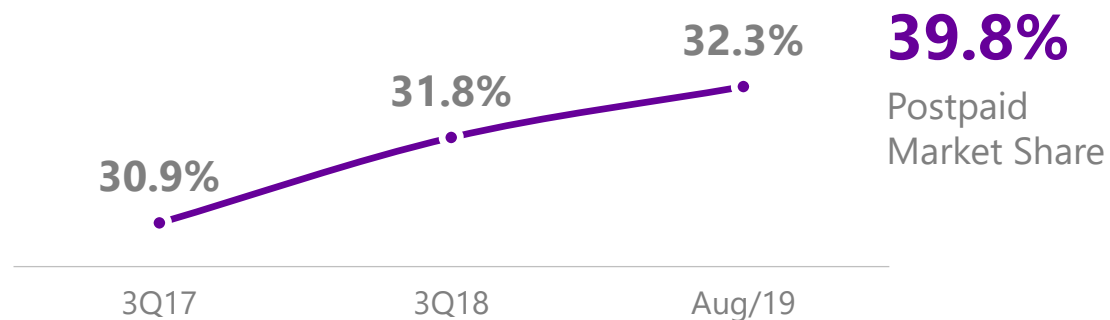


- Improved sales of higher value smartphones impacting 4G adoption, which increased 9 p.p. YoY to 62% of our customer base
- Reducing subsidies YoY while increasing sales

➤ MOBILE LEADERSHIP BASED ON SUPERIOR NETWORK QUALITY AND ENHANCED CUSTOMER EXPERIENCE

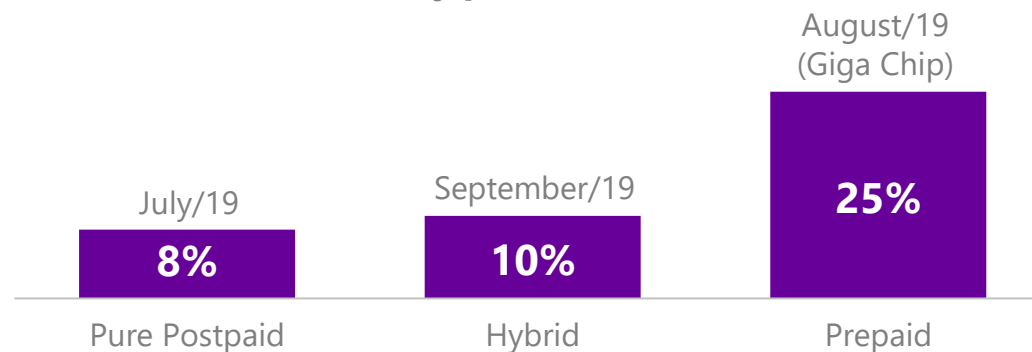
Continuous market share expansion, solidifying our leadership >>>

➤ Mobile Market Share



Rational commercial strategy with price increases being applied to all customers... >>>

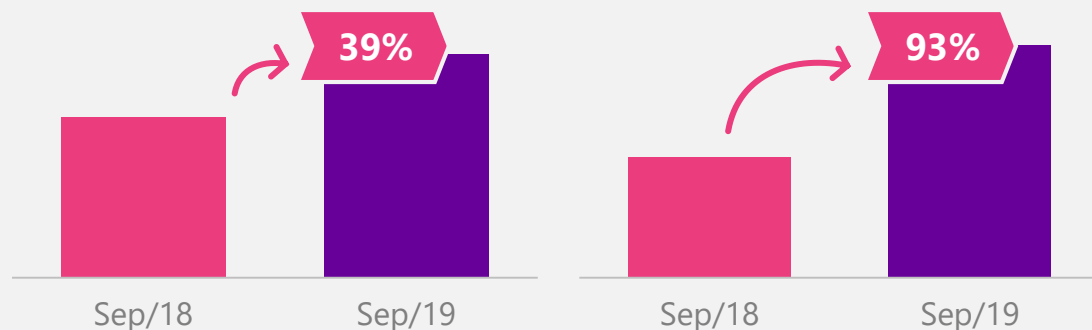
➤ Price increase of entry plans %



Data consumption continues to rise, concentrated on 4G, which already accounts for 71% of total traffic >>>

➤ GBoU per month

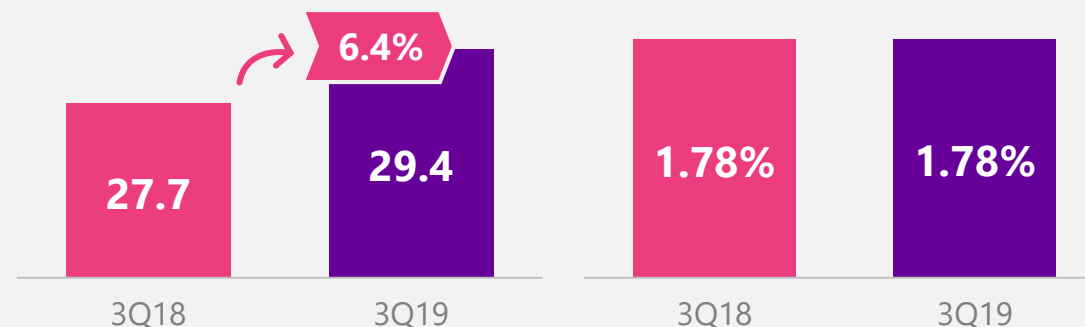
➤ 4G Traffic Petabytes



...which benefits ARPU evolution and has limited impact on churn, even with strong competition >>>

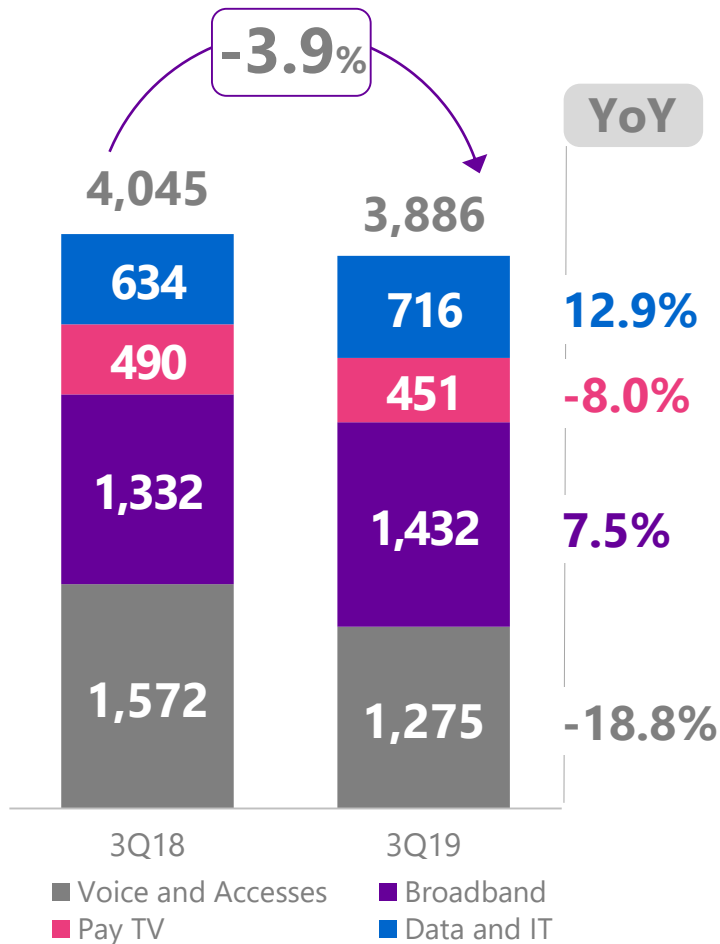
➤ Total ARPU R\$ per month

➤ Postpaid Churn ex-M2M



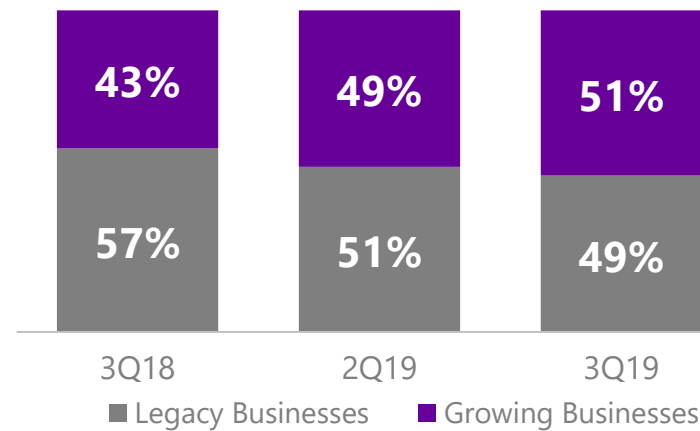
➤ REVENUES FROM GROWING BUSINESSES NOW WEIGH MORE THAN LEGACY REVENUES

Fixed Revenues¹ R\$ Million >>>



Transformation of revenue mix driving fixed business toward turnaround >>>

➤ Fixed Revenues Breakdown



YoY

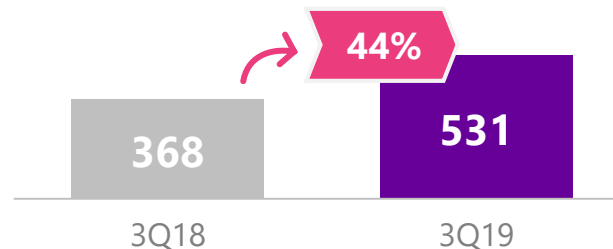
14.9% FTTH, FTTC, IPTV, Data & IT

-18.1% Voice, xDSL, DTH

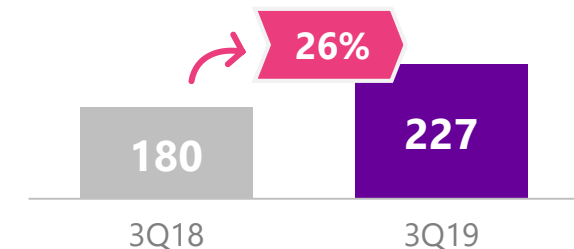
Decrease mainly driven by discontinuity of DTH sales and maturity of copper services

FTTH + IPTV revenues already representing ≈20% of fixed revenues, with a CAGR 17-19 of 45.0% >>>

➤ FTTH Revenue R\$ million



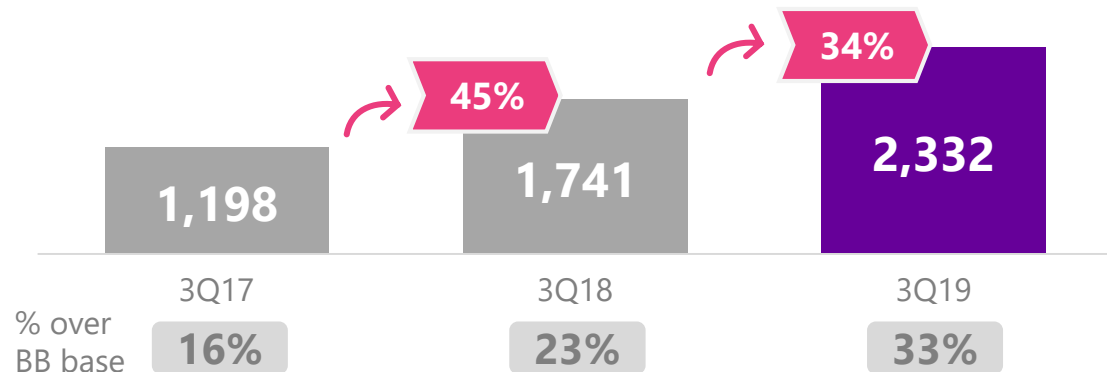
➤ IPTV Revenue R\$ million



➤ INCREASING PROPORTION OF FIBER CUSTOMERS GUARANTEEING CONSISTENT ARPU INCREASE QUARTER AFTER QUARTER

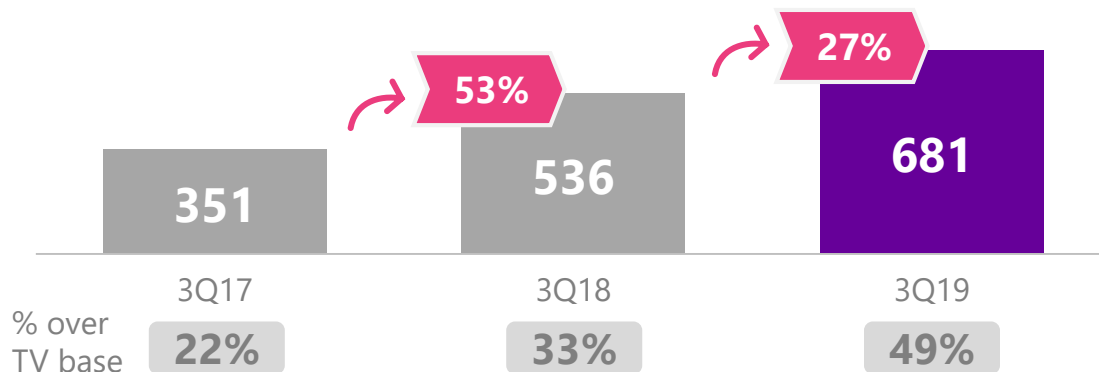
Broadband Accesses and ARPU >>>

➤ FTTH Accesses Thousand

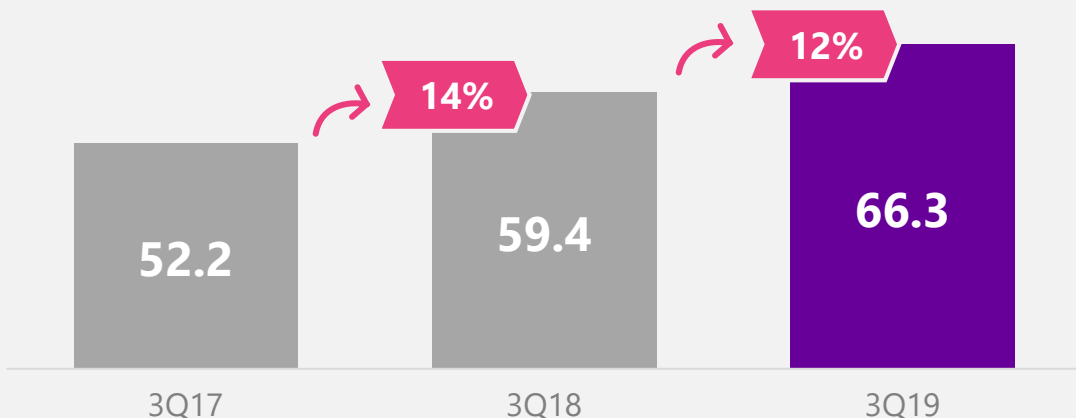


Pay TV Accesses and ARPU >>>

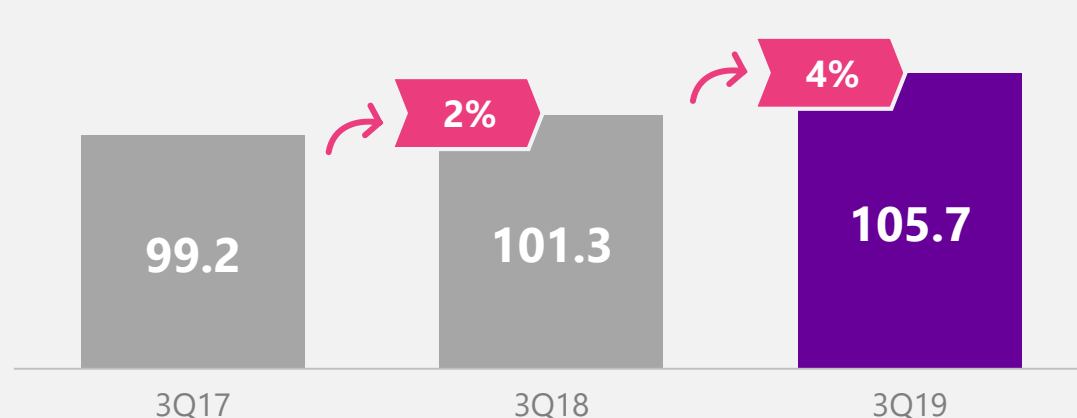
➤ IPTV Accesses Thousand



➤ BB ARPU¹ R\$ per month



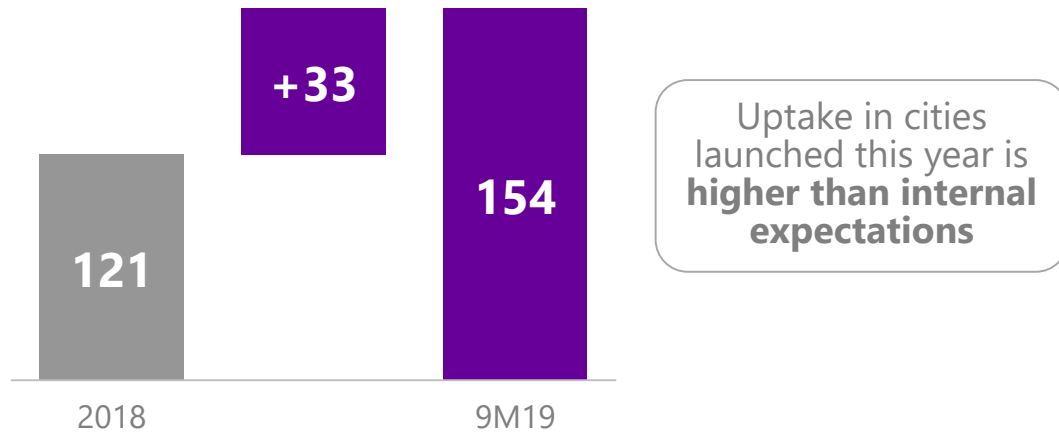
➤ Pay TV ARPU¹ R\$ per month



➤ ACCELERATING DEPLOYMENT OF FTTH CITIES, WITH RESULTS ABOVE OUR EXPECTATIONS

FTTH launched in 33 new cities in 9M19, already surpassing the total of 30 cities launched in 2018 >>>

➤ FTTH Cities

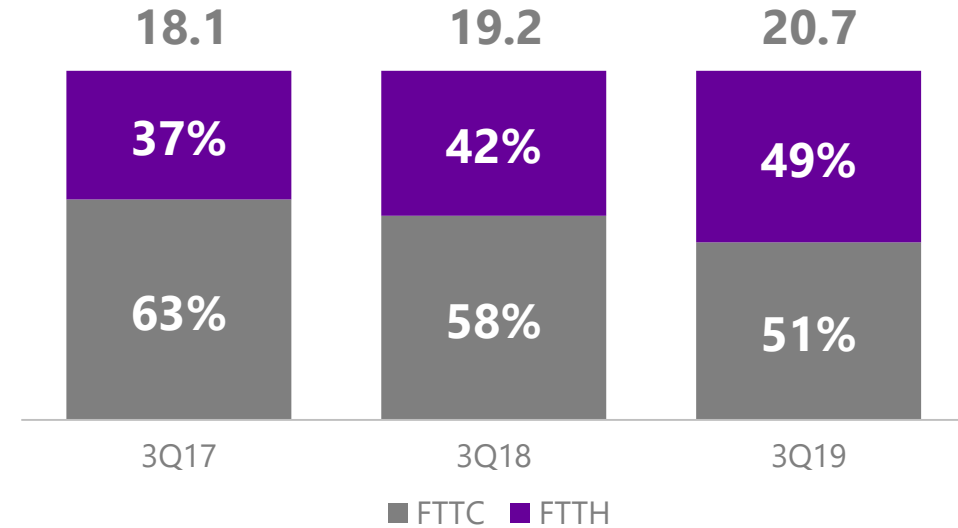


Cities launched in 3Q19

- > Alvorada/RS
- > Aracaju/SE
- > Camboriú/SC
- > Colatina/ES
- > Contagem/MG
- > Guaíba/RS
- > Jaguariúna/SP
- > Lajeado/RS
- > Linhares/ES
- > Mineiros/GO
- > Paranavaí/PR
- > Pirassununga/SP

Expansion not only to new cities but also through the overlay of selected FTTC areas >>>

➤ Fiber HPs Distribution million



FTTH HPs (million)

6.7

8.0

10.2

FTTH ARPU is **27%** higher than FTTC and **36%** higher than xDSL

➤ ALTERNATIVE MODELS TO ACCELERATE FIBER EXPANSION WITH LESS CAPEX AND REDUCED TIME TO MARKET

Partnership AMERICAN TOWER®

Franchising terra conectado por vivo FIBRA

Leveraging on new operating models to reduce time to market...

- › **Partner builds and operates** Homes Passed (HP) infrastructure
- › Vivo invests in the customer premises, offering connectivity using the **Vivo Fibra brand**

...expanding FTTH footprint...

- › **Launch of >40 cities in the state of Minas Gerais**, covering around 4 million inhabitants
- › **≈800k HPs** to be built over 3 years
- › **Protecting strong mobile position in Minas Gerais** through convergence

...with limited Capex impact and alternative financial structures

- › Partner responsible for **Capex per HP**
- › **Variable cost model** to protect returns
- › **Relevant OpCF generation** and solid return on investment

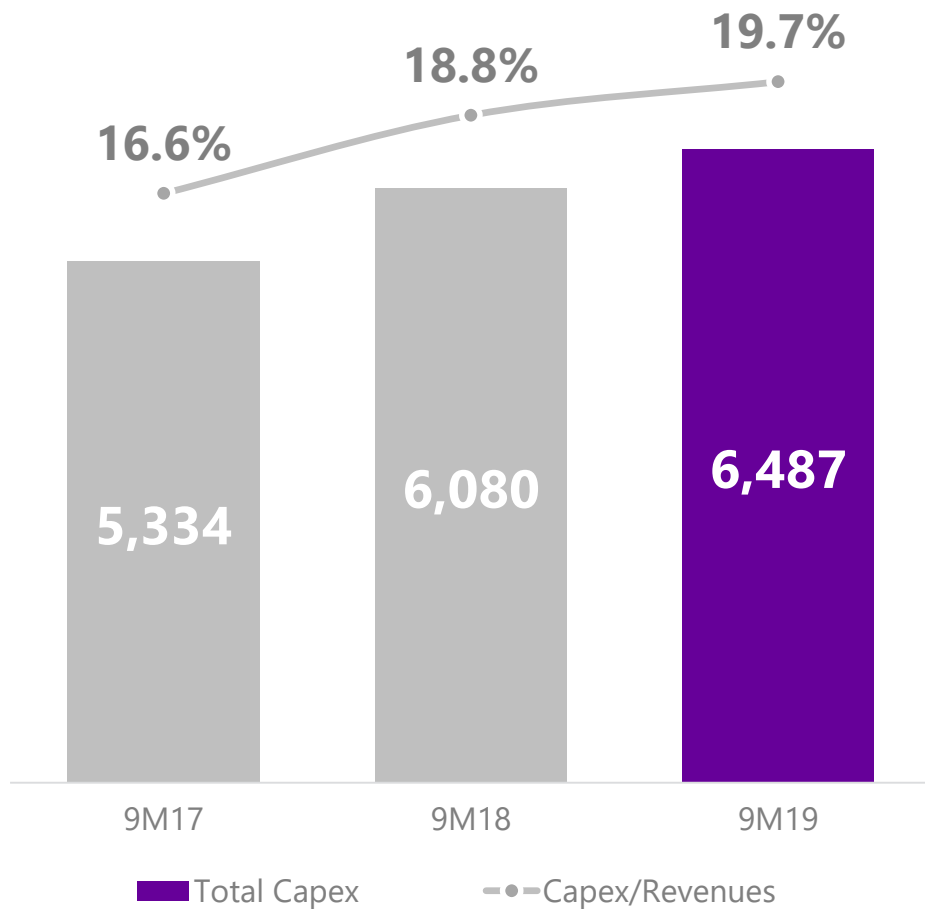
- › **Franchisee builds and operates the network** and manages the customer relationship, selling through the **Terra brand**
- › Vivo provides the **know-how, brand, backbone, call center, scale with suppliers**, among others

- › Targeting neighborhoods and cities **where Vivo currently does not provide ultra broadband services**
- › **First franchises already sold**, with initial delivery already in 2019

- › **Franchisee is responsible for the Capex per HP+HC¹**, with financial model based on a **royalty fee** over gross revenues
- › No Capex impact, **with positive return**

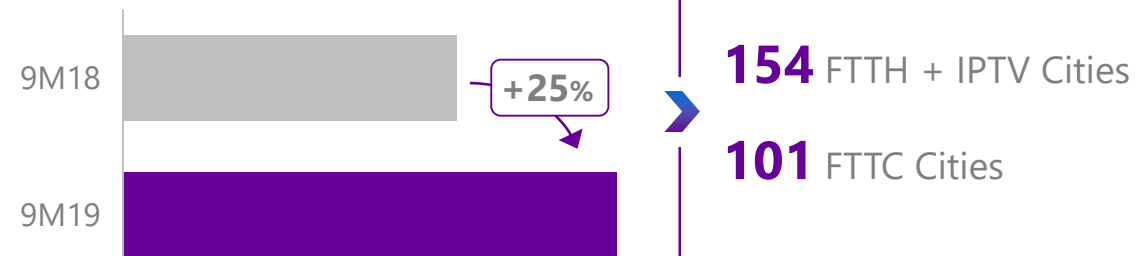
➤ INVESTMENT OF R\$ 2.4 BILLION IN 3Q19, IN LINE WITH YEAR-END GUIDANCE FOCUSED ON NETWORK DIFFERENTIAL

Capex ex-Licenses¹ R\$ Million >>>

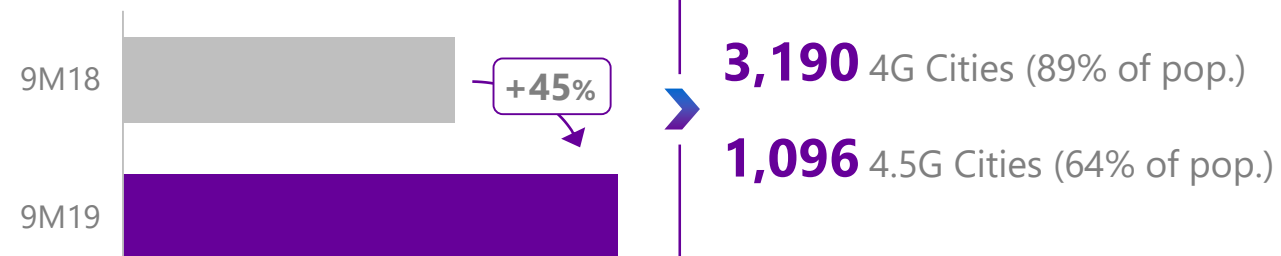


Accelerating investment in Fiber and 4.5G to improve returns and user experience >>>

➤ Fiber Investment



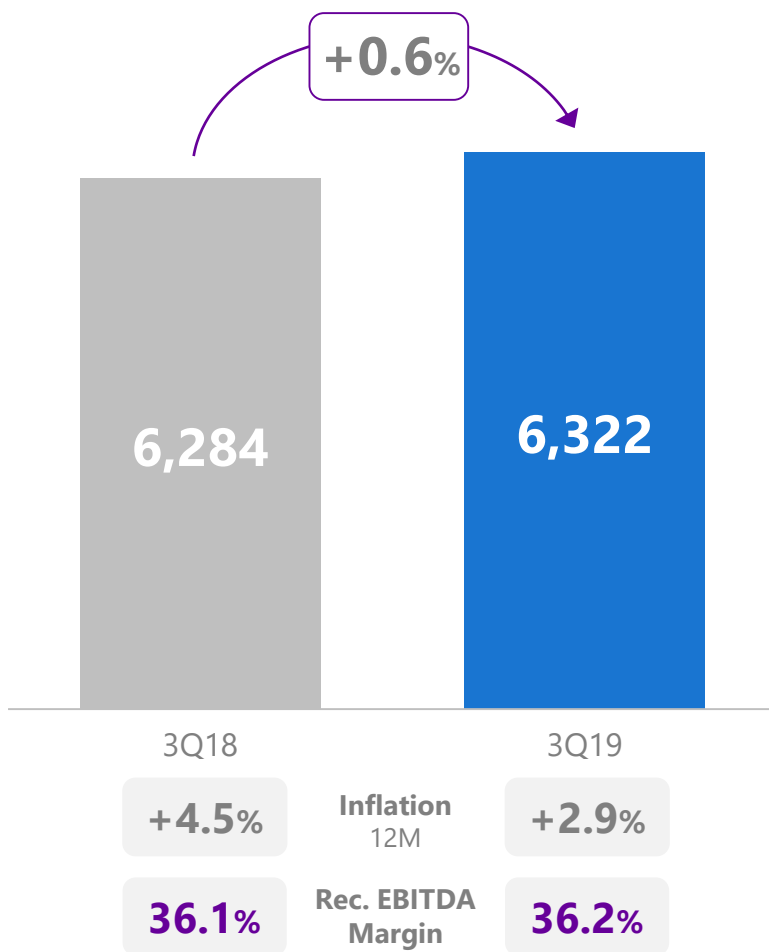
➤ 4G/4.5G Investment



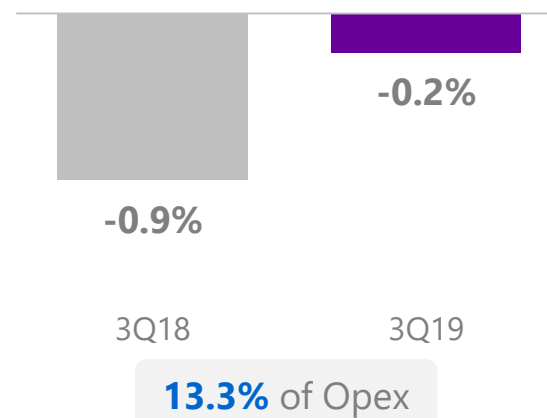
Network sharing MoU with TIM is progressing as planned, expected to be concluded and announced to the market in the next few months.

EBITDA MARGIN EXPANSION AS A RESULT OF **DIGITALIZATION AND SIMPLIFICATION INITIATIVES**

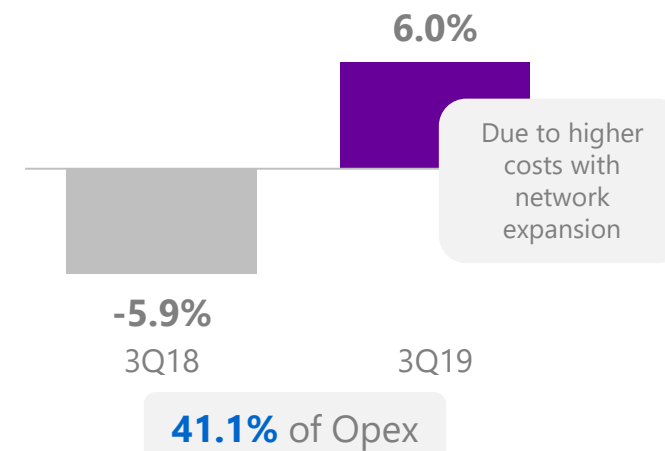
3Q19 Cost Evolution ex-Cost of Goods Sold¹ >>>



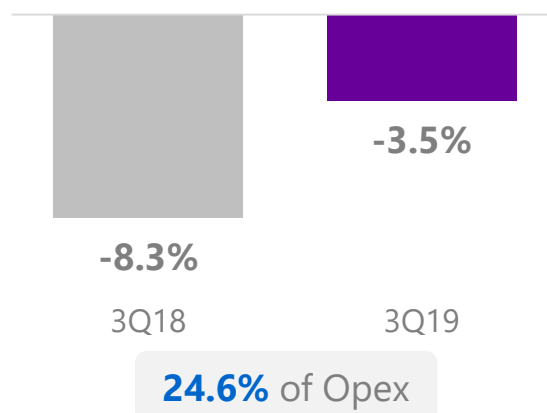
Personnel YoY



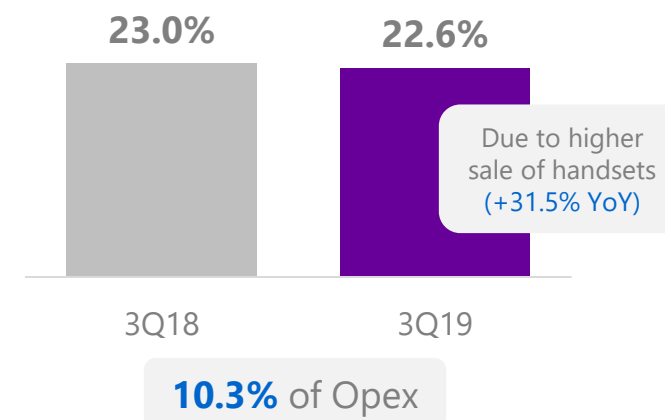
Cost of Services Rendered YoY



Commercial Expenses ex-Bad Debt YoY



Cost of Goods Sold YoY



➤ EVOLUTION IN **DIGITALIZATION OF CUSTOMER RELATIONSHIP** AND ADDITIONAL OPPORTUNITIES IN **AUTOMATION OF PROCESSES**

Billing & Collection

Customer Care with AI (AURA)

Post-Sales & Maintenance

FRONT OFFICE

KPIs presenting positive evolution, optimizing our cost structure

65%

e-billing penetration
(+24% YoY)

51%

of payments on e-care
platforms



+14% YoY

unique Meu Vivo app
users

-20% YoY

human call center calls



14%

of B2C technical
support is digital

41%

of fixed problems
solved remotely



BACK OFFICE

Accelerating automation of processes in a large number of back office activities, with strong potential for cost reduction

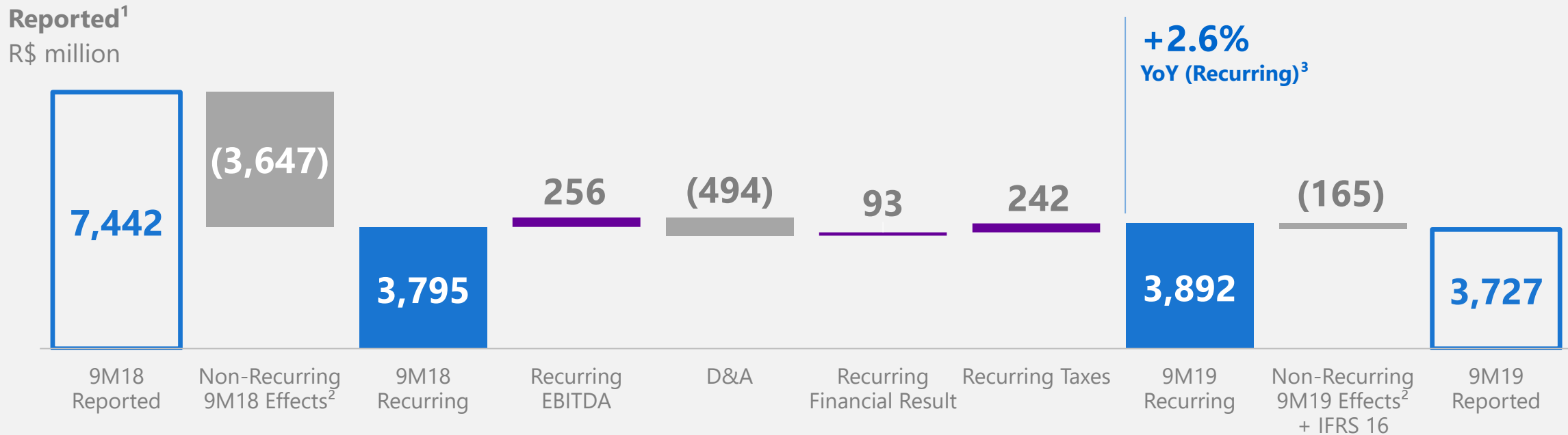
Humanized robots being used to contact **overdue customers**, with positive results in terms of assertiveness and responses

Bots contacting customers through **WhatsApp (AURA)** to schedule and confirm technical visits, reducing back offices and call centers

Use of **robots to run failure tests** before a technician is deployed, reducing unproductive visits

➤ SOFTER EVOLUTION OF RECURRING NET INCOME IMPACTED BY LOWER AMOUNT OF IOC DISTRIBUTED YOY

9M19 Net Income >>>



REMUNERATION BASED ON 2019 NET INCOME

IOC Feb/19	R\$ 700 million
IOC Apr/19	R\$ 570 million
IOC Jun/19	R\$ 968 million

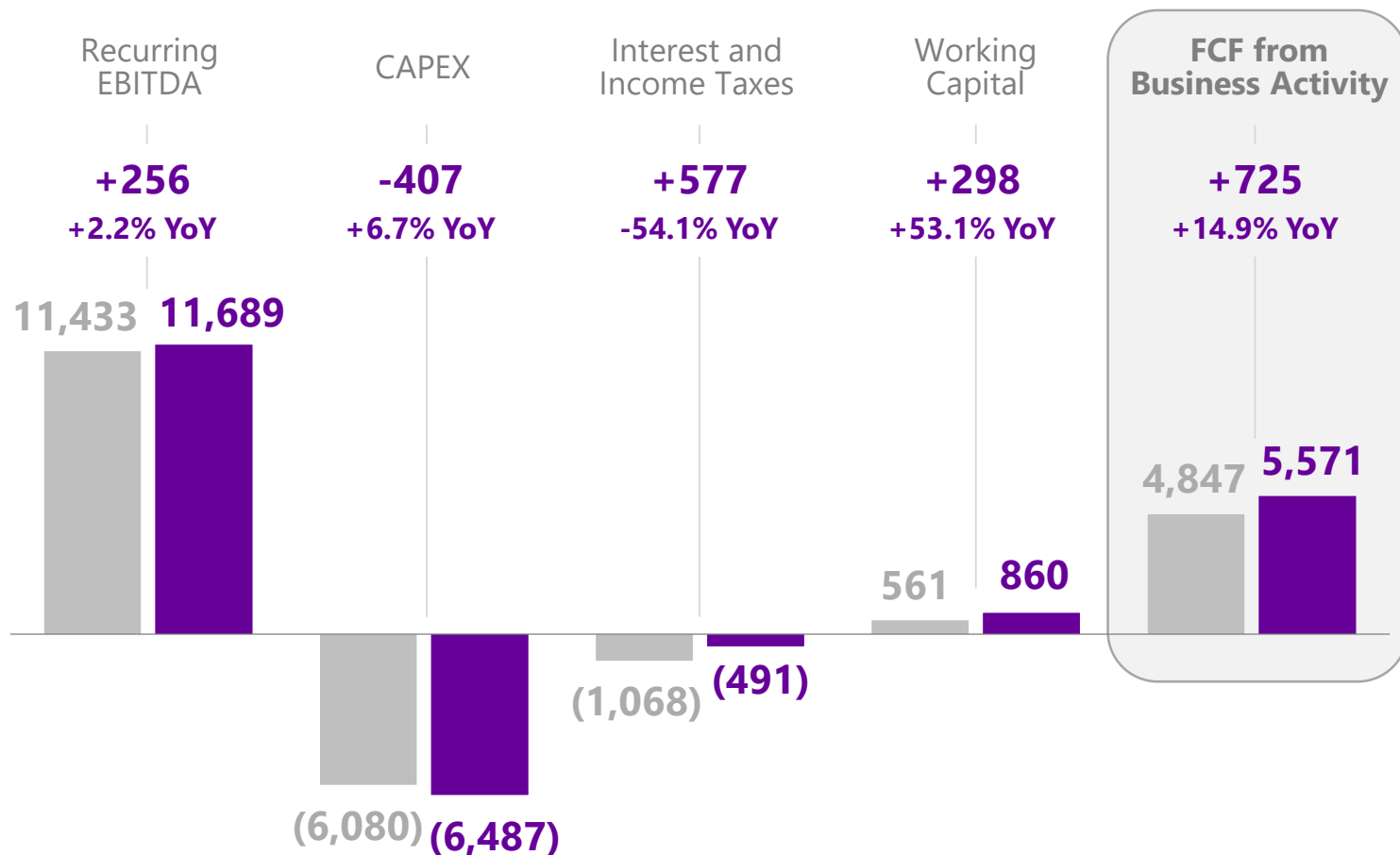
TOTAL	R\$2,238 mn
GROSS/PN	R\$1.37
NET/PN	R\$1.16

PAYMENT OF REMUNERATION BASED ON 2018 NET INCOME

Aug 20, 2019: R\$3.2 bn ✓
Dec 17, 2019: R\$3.8 bn

➤ FREE CASH FLOW EXPANDING 15% YOY IN 9M19 EVEN DURING A HIGHER CAPEX CYCLE, DUE TO EBITDA GROWTH AND FINANCIAL EFFICIENCIES

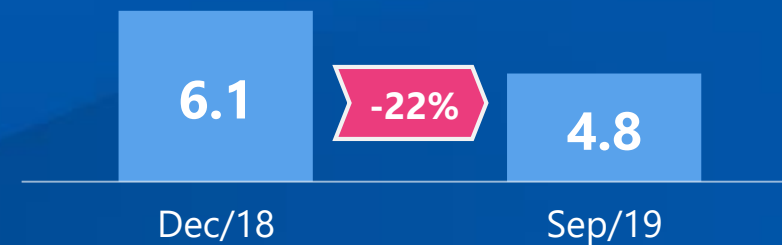
Free Cash Flow¹ R\$ million >>> 9M18 9M19



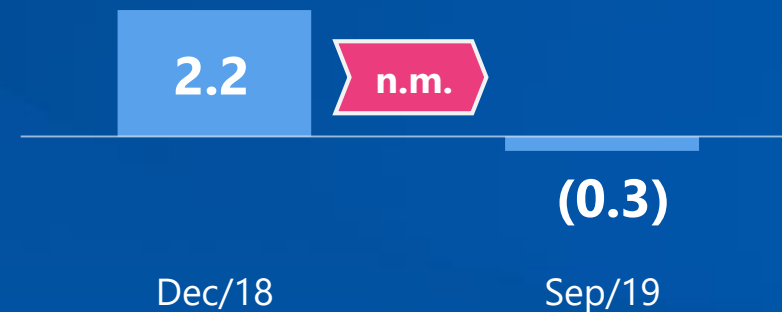
Strong balance sheet leading to net cash position



Gross Debt² R\$ billion



Net Debt² R\$ billion



Considering IFRS 16 effects, Net Debt reaches **R\$8.7 bn**

» EFFECTS OF IFRS 16 ON OUR 3Q19 RESULTS



» » » »

R\$ Million	Pro forma			Reported	
	3Q19 w/o IFRS16	Δ% YoY	IFRS Adjustments	3Q19 w/ IFRS16	Δ% YoY
Net Operating Revenue	11,047	2.6%	0	11,047	2.6%
Recurring Operating Costs	(7,051)	2.5%	482	(6,570)	-4.5%
Cost of Services Rendered	(2,900)	6.0%	436	(2,464)	-9.9%
Commercial Expenses	(2,179)	-1.1%	17	(2,162)	-1.8%
G&A Expenses	(349)	-9.1%	29	(321)	-16.5%
Recurring EBITDA	3,995	2.8%	482	4,477	15.2%
Recurring EBITDA Margin	36.2%	0.1 p.p.	4.4 p.p.	40.5%	4.4 p.p.
Depreciation & Amortization	(2,218)	9.0%	(487)	(2,705)	32.9%
Recurring EBIT	1,777	-4.0%	(5)	1,772	-4.3%
Financial Result	(211)	129.4%	(95)	(306)	232.1%
Recurring Taxes	(571)	-456.1%	19	(552)	-444.2%
Recurring Net Income	994	-48.1%	(81)	913	-52.3%

IFRS 16

New accounting standard in force since January 2019, under which **lessees are required to account for leases in the balance sheet under a single accounting model with limited exceptions.** Lessees should recognize a lease liability for the NPV of future lease payments and a right-of-use asset for the right to use the underlying asset throughout the lease term.

As a result, the P&L is impacted as the **lease costs are replaced by depreciation of right-of-use assets and interest on lease liabilities**, while the Cash Flow Statement is also impacted with a **shift from cash flows from operating activities to cash flows from financing activities.**

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