

Q1 2021 Earnings Call

Company Participants

- Christian Mauad Gebara, Chief Executive Officer
- David Melcon Sanchez-Friera, Chief Financial and Investor Relations Officer
- Luis Carlos da Costa Plaster, Director of Investor Relations

Other Participants

- Carlos Sequeira, Analyst
- Cristian Faria, Analyst
- Marcelo Santos, Analyst
- Victor Gomez, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Telefonica Brasil First Quarter 2021 Earnings Conference Call. Today with us, representing the management of Telefonica Brasil, we have Mr. Christian Gebara, CEO of the company; Mr. David Melcon, CFO and Investor Relations Officer; and Mr. Luis Plaster, IR Director. We also have a simultaneous webcast with slide presentation on the internet that can be accessed on the site www.telefonica.com.br/ir. There will be a replay facility for this call on the website. After the company's remarks are over, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that any forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the company's management beliefs and assumptions and on information currently available. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the company's future results and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Luis Plaster, Investor Relations Director of Telefonica Brasil. Mr. Plaster, you may begin your conference.

Luis Carlos da Costa Plaster {BIO 19893310 <GO>}

Thank you. Good morning and welcome to our First Quarter of 2021 Earnings Conference Call. The call will be divided in two parts. First, our CEO, Christian Gebara, will go over main financial and operating figures, initiatives in the digital space, and ESG highlights. Then our CFO, David Melcon, will give you more color on our cost and CapEx structure, digitalization initiatives, free cash flow, and shareholder remuneration.

Now, I hand it over to Christian.

Christian Mauad Gebara {BIO 20398802 <GO>}

Thank you, Plaster. Good morning, everyone, and thank you for joining our earning call. We started 2021 with strong operational momentum and a return to total revenue growth. Consumption and overall market dynamics are beginning to improve and our core revenues are accelerating. In the first quarter, we delivered 1.1 million postpaid net additions, the highest since 2017, and our total postpaid customer base now stands at 46 million. In fiber, we posted another quarter of strong growth and take rates, thanks to our best-in-class broadband products. FTTH net adds of 368,000 was the best performance ever for a single quarter, taking Vivo Fibra's total customer base to 3.7 million subscribers, 41% higher than the first quarter 2020.

In total, we closed the quarter with 96 million access, including mobile and fixed. Core revenues, up 4.7% year-over-year, already represent 88.1% of total revenues. And this quarter, we saw FTTH revenues break the BRL1 billion threshold due to an impressive year-over-year increase of 61.2%. EBITDA grew 0.5 % to BRL4.5 billion, with [ph] a margin of 41.1% and free cash flow totaled BRL2.2 billion, up 3.7% year-over-year.

A combination of sustainable operating performance and financial discipline are the pillars of our elevated shareholder remuneration, characteristic to Vivo. So far this year, we have deliberated BRL700 million of interest on capital, which represent a dividend yield of 7.9% in the last 12 months. Furthermore, we continue to improve returns through our share buyback program. To date, we have 5.4 million shares in treasury, equivalent of 0.32% of the company's total capital.

On Slide four, total revenues resumed a positive evolution this quarter due to continued traction of our core businesses. They represent the main factors of growth going forward and are built on cutting-edge, high-speed connectivity in mobile and fixed, combined with a differentiated offer of digital products and services, both for B2C and B2B customers. At Vivo, we want to offer more than just the best telco experience. Our aim is to deliver on all our customer digital life needs, whether that be advice, accountant, cybersecurity, or cloud solutions for their business. Non-core businesses were down 24.1% year-over-year, mainly because they are made up of mature technologies that have less and less relevance for our customers.

Turning to our wireless [ph] revenues performance on Slide five, mobile revenues achieved BRL7.1 billion in the first quarter 2021, with an increase of 1.1% year-over-year, driven mainly by prepaid revenues, which grew 4% and the ongoing recovery of the handset sales that were close to 11% higher than last year. In postpaid, we highlight Vivo

Selfie, a set of co-branded plans that offer selection of quality content such as Disney+, Netflix, and Spotify, increasing ARPU, and driving a deeper relationship with our customers. Additionally, we focused on younger and (inaudible) digital mobile users. We co-created Vivo Easy plan together with DJ Alok. Vivo Easy is a 100% digital experience where we can customize the amount of data, voice, digital services and other benefits according to your needs.

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Looking at our prepaid base, we are seeing an encouraging trend of increased recurrence and a positive shift in customer behavior. Digital top-ups jumped 28.8% in the quarter and the number of customers recharging was 8.3% higher year-over-year.

Turning to Slide six, Vivo's network quality and a focus on improving the customer journey allow us to maintain solid leadership in the mobile segment, with 33.1% market share as of March 2021. Our postpaid churn repeated similar trends seen in previous quarter and stood at record level of 1.1%. When looking at convergent and family plan customers, engagement levels increased and churn is up to 50% lower, boosting customer lifetime value. The volume of postpaid net additions continued its positive trajectory, reaching 666,000 this quarter, the highest level since the fourth quarter 2017.

Turning to core fixed business, revenues are -- we are proud to present a strong year-over-year growth of 72%, given the demand for high-speed broadband and digital services. FTTx revenues were up 20.3%, with FTTH revenues advancing an impressive 61.2% year-over-year, driven by ARPU increases, enhanced sales of OTT bundles, and the ramp-up of new activations. Accordingly, with the expansion of our fiber footprint, we continue to see significant IPTV revenue evolution that was up 25.9% year-over-year.

Another positive result in the quarter was the return to growth of data & ICT revenues that rose 9.5% year-over-year. This is a promising sign that companies are gradually starting to invest again. Cloud revenues are gaining relevance and practically doubled year-over-year, confirming the large opportunity in B2B with companies engaging in a profound digitalization process to thrive in this new environment.

Moving to Slide eight, Vivo is harvesting from a well-executed strategy to capture opportunities in fiber, and after sizable and rapid expansion of homes passed in the last years, has experienced accelerated demand for its premium UBB offer. In the first quarter, we posted record FTTH net adds of 368,000. This is more than twice what we had a year before and 1.5 times what you saw last quarter. At the same time, Vivo Fibra customers are demanding higher speeds and a wider range of content options. In fact, around 30% of our gross additions were bundled with OTTs, or had speeds above 300 megabits. Moreover, more than 35% of our net additions were convergent customers. With that, we were able to increase FTTH ARPU by 16.2%, reaching BRL95. In addition, on the top right-hand side of the slide, we show the evolution of FTTH homes passed, up 4.6 million year-over-year that were further enhanced by our multiple expansion and partnerships, aimed at reducing time to market and CapEx allocation.

On Slide nine, we give more color on FiBrasil, our neutral fiber network, that's expected to be fully operational by the second half of the year, further accelerating FTTH deployment.

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FiBrasil is partnership between Vivo, Telefonica Infra, and CDPQ, and the setup of the company is progressing according to plan. On a April 6th and 23rd, we received approvals from the Brazilian and European antitrust agencies, and we are now waiting on ANATEL. This initiative will allow us to accelerate our fiber rollout and consolidate our leadership. Vivo will manage all commercial and customer service activities, while remunerating FiBrasil for the use of its network. FiBrasil will start with 1.6 million homes passed (inaudible) Vivo and expected to reach more than 5 million homes passed over four years, taking fiber to both greenfield and brownfield cities.

On Slide 10, we saw the progress of our objective to build a digital ecosystem, combining Vivo's unmatched set of (inaudible), such as customer base, brand, channel capillarity, big data and building capabilities, to mention a few ones. With partnerships with some of the most relevant players in the digital space, we are creating new platforms that complement our telco services. The aim is to capital growth and further engage our client base, resulting in increased loyalty and higher recurrent revenues.

One of those platforms is Vida V, which is centered on e-health. We have just signed up binding with Teladoc, one of the largest telemedicine companies in the world, which represents another step towards the creation of a health marketplace around Vivo. Our plan is to provide a set of services, such as immediate any scheduled doctor appointments, grand discounts in more than 27,000 drugstores nationwide, make pre-screening of symptoms through an artificial intelligence engine, and give digital certificates, exam requests, and prescriptions to patients. The platform has been established to include and attract other players and partners, and its initial focus will be on people without private health plans.

Moving to the right-hand side of the slide, we present our strategic partnerships with Dotz, an engagement platform based on one of the most important loyalty programs in Brazil; and CDF, one of the key B2B2C marketplace for home assistance and tech support in the country. We are very excited about both. Not only we're strengthening our breadth of customers' digital lives with a combination of our businesses, but Vivo is also executing its plan to have equity stakes in companies with great growth prospects that are the champions of their segment.

Talking about financial services on Slide 11, we are enthusiastic about the recent launch of our very own digital account, Vivo Pay. The service allows customers to carry out banking transactions like paying bills and making cash transfer via PIX, recharge of prepaid plans and purchasing credits for mobile apps like Google Play, Uber, and Spotify. This initiative allows Vivo to be part of a journey to promote financial inclusion, focus in prepaid customers with top-up recurrency that probably do not have a bank account.

Additionally, Vivo Money, our 100% digital personal loan platform, is delivering consistent progress, having doubled its credit origination quarter-over-quarter. Finally, we launched Vivo Itaucard, our co-branded credit card created in partnership with Itau that offers up to 10% cashback another important benefits that will help us scale our marketplace and stimulate in-store commercial activity.

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On Slide 12, I would like to comment on Vivo's ESG highlights, as we believe that having a social and environmental footprint is key to fulfilling our purpose of Digitalize to bring closer. To help the most vulnerable families which were affected by the economic downturn, we're participating in the campaign, United against hunger, with the NGO Gerando Falcoes to raise funds for the purchase of food kits in support of the Movimento Panela Cheia. For every donated kit by Vivo's employees, Fundacao Telefonica Vivo donates two more.

Also in the social sphere, we were the first Brazilian company of the sector with the ISO 26000 certificate, which validates the compliance of our initiatives on human rights, diversity, and social impact, for the implementation of the best practices in the market. This alignment encompasses all the measures regarding our employees, partners, supplier, and also the society. In addition, we are proud to announce our first solar power plant in the Northern Region of Brazil, located in Maraba, in the state of Para. It has the capacity to generate 2,190 megawatts hour per year, which we use to power 632 of our energy consumption in units. This is the 16th out of 70 renewable power plants we plan on having up and running by the end of the year. Finally, we are rated as having the best reputation of the sector by the poll conducted by Merco, jumping 13 positions compared to 2019. These initiatives enhance our performance and sustainability, which is based on economic, environmental, and social balance, and contributes to our main purpose of bringing people together.

I now turn the call over to David, our CFO, to take us through the financial highlights.

David Melcon Sanchez-Friera {BIO 17660109 <GO>}

Thank you, Christian, and good morning, everyone. On Slide 13, we saw our cost in the first quarter remain stable year-over-year. This is a result of our unremitting focus on efficiency measures and the ramp-up of our digitalization and simplification effort. It's also important to point out that our cost by mix is going through a significant transformation. As Christian detailed before, we are launching new revenue streams and investing in the shift towards becoming a digital hub. Vivo is no longer a pure telco company and already offers B2C and B2B customers a diverse set of services that go beyond connectivity.

The segments have their own peculiarities, and this quarter, we did decided to show cost accordingly, to convey a more transparent view on how they impact our business. Cost of services and goods sold that are directly linked to supporting and enhancing revenue growth account for 30% of the total cost and increased 19% year-over-year. These costs are a catalyst to underpin [ph] positive revenue trends. In this specific quarter, the increase was driven by the encouraging performance of handset sales, the gradual recovery of B2B, and the growing relevance of digital content and services.

OpEx from operations, where we constantly focus on the elimination of non-quality cost, contracted 6.5% year-over-year, benefited by our significant efforts to find efficiency and adapt our operating model to our customers' ever-changing needs. Network and commercial expenses dropped 1.1% year-over-year, mainly due to savings related to call centers, billing, collections, and higher usage of alternative digital channels.

On Slide 14, we present some key figures to illustrate how our efficiency-oriented mindset is fast-tracking the digitalization and simplification journey, resulting in enhanced customer engagement, cost reduction, and increase lifetime value of Vivo's customer base. In the first quarter this year, we had 917 robots executing automated processes, with an average assertiveness of 91%. More than BRL200 million have already been saved since December 2020 from front and back-office processes as a result of these initiatives. We also seeing a significant evolution of commercial activity through digital channels. Online FTTH sales, for example, rose 83% year-over-year and the share of digital migrations from pre to post jumped 14.9 percentage points in the same period.

Shifting to e-care and considering its impact on customers' preference, the Meu Vivo app added 2.7 million unique users year-over-year and now has 19.4 million. e-billing penetration is 88%, up 13.6 percentage point year-over-year, and payments using digital platforms represent now 65% of all collections.

Moving to Slide 15, first quarter CapEx evolution is impacted by seasonality and we continue to accelerate investments in forward-looking activities. The underlying driving is our intense focus on fiber and commitment to quality, as mobile data consumptions continue to climb. In the quarter, 83% of our BRL1.9 billion of CapEx was dedicated to growth and transformation, while FTTH related investment grew 40% when compared to the first quarter the previous year. We continue to replace fiber and connecting more customer than ever, resulting in record FTTH net additions, like Christian pointed out.

Fiber-to-the-site is also evolving at a similar pace, and more than 90% of Vivo's sites in the 50 bigger cities have top quality backhaul to cope with incremental data traffic expected for the coming years. With the advent of 5G and the fact that we have the most comprehensive fiber footprint in a continental-size country like Brazil, Vivo is in a unique and privileged position. We have the best combination of assets to maximize value capture for this opportunity and accelerate growth.

I would also like to share a brief update about our RAN sharing agreement with Tim. Each operator has already additional 348 sites with 4G coverage and the ongoing pilot are consolidating our mobile network in cities with less than 30,000 inhabitants are progressing very well. Regarding 2G switch-off, the tests are advancing as expected and we intend to roll out by the third quarter this year.

On Slide 16, we present our strong shareholder remuneration. This is backed by consistent net profit and free cash flow generation. We reported robust net income in the quarter, amounting to almost BRL1 billion, impacted by higher depreciation and financial expenses, but were partially offset by lower income tax. The payment of 2020 dividends and interest on capital for a total of BRL5.4 billion, equivalent to BRL3.55 per share, will take place as follows. BRL2.6 billion will be paid on July 13th this year and BRL2.8 billion on October the 5th.

On the right-hand side of the slide, we show that year-to-date, we have already declared BRL700 million of interest on capital, based on this year's net income. In addition, we

continue actively executing our share buyback program and have 5.4 million shares in Vivo treasury, representing 0.3% of the company's total capital.

To conclude, moving to Slide 17, the first quarter free cash flow rose 3.7% year-over-year, due to sound operating and financial management. The result is a solid balance sheet and improved metrics. Net cash, as of March, stood at BRL5 billion, giving us a unique position to fund the acquisition of Oi's mobile assets, expected by year-end. This strong financial position allows us to consistently invest in our core businesses, diversify our portfolio, increase engagement, and as a result, expand Vivo's relevance in our customers' digital lives.

Thank you. And now, we can move to the Q&A.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions)
Our first question comes from Marcelo Santos, J.P. Morgan.

Q - Marcelo Santos {BIO 20444938 <GO>}

Hi, good morning. Thanks for taking my questions. I have two. The first, if you could please comment a bit on the competitive environment in mobile? You had a little bit lower growth this quarter, so just wondering there's something to do with competition. And the second question is about the fiber-to-the-home adds. You had very strong adds. Should we expect this strong pace to continue throughout the year, and are these adds come more from the competition or from conversion of your fiber-to-the curb and DSL subscribers? Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Hi, Marcelo. This is Christian. So to just talk a little bit about the mobile, for your first question, I would highlight first the strong commercial activity that we had this quarter. Important that we are comparing this quarter, Vivo quarter. Last year, the COVID was just impacting the last 15 days. This year, we started with strong January and February, not compared to what was pre-pandemia, but then we also had a lockdown in March that impacted results mainly in postpaid and handset.

But with all that said, I would highlight our growth in the prepaid, 4% is important growth, and also have to bear in mind that the government aid was not there in this first quarter and had a direct impact in the prepaid. But even with this situation, we grew 4%, and then I think we highlighted the decrease in the top-up and also the customers topping up. So the percentage of customers topping up also had a very good performance. And the terminals, all the handsets and accessories, they also had a good growth. Now, comparing to the year that was before pandemic and all of that was 2020, we could grow 11%, even considering, as I said, lockdown in the last 15 days of this quarter in 2021.

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The postpaid was more flat revenues, but the increase in net adds was very accelerated. And also you look at the numbers without machine-to-machine, it was close to 700,000. That is the highest number for net adds in postpaid since 2017. If I add to this number, the machine-to-machine is 1.1 million. That's also very, extremely high, with churn very controlled. So it's more, I think, a situation of the market and then there is also the impact of the price increase that was made in September last year. So, this year, there was no price increase in this quarter that may derail [ph] a little bit the performance in revenues now. But considering everything that I just mentioned to you, we are positive with the trend and the strong commercial activity, although we had lockdown in part of this quarter as well.

Consider FTTH. If you don't have more questions in mobile, then I'll go to FTTH. FTTH has been growing a lot. As you know, I think every quarter we've been beating the previous number. There is two things here to consider. First, that we're expanding our network as we said a few years ago that we would expand our network. Today, we ended this quarter with 16 million homes passed. Now we are occupying this network. So that's the first move. And second, of course, people are now much more demanding a very good ultra-broadband connection in their homes and office and Vivo stands out here, because of our leadership and because we have a reach that no one has in Brazil, giving us an accelerated demand that ended the quarter with 3.7 million customers in FTTH and a net add of 368,000.

These customers, depending on the city, they come for different nature. Some cities, we are entering for the first time, it's greenfield cities, most of the cities that we launch are in greenfield. So these customers were not Vivo before, so we are capturing new customers from competitions, all type of competitors. Some of them are in Sao Paulo that there is an overlay of DSL, some of them are already missed to our competitor and come back to Vivo, and there is also some overlay FTTC. We don't give the figure, but is landed [ph]. Depending on the city, you can assess more or less what is the nature, but there is a lot of greenfield. And going forward with FiBrasil, there are going to be just new cities, new greenfield. So in this case, there is no overly and there is no substitution of legacy technologies.

Q - Marcelo Santos {BIO 20444938 <GO>}

Great (Multiple Speakers).

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Thanks.

Operator

Our next question comes from Cristian Faria, Bradesco BBI.

Q - Cristian Faria {BIO 21795660 <GO>}

Hi, good morning, everybody. Thanks for taking my questions. I have two. First is related to the (inaudible). So if -- we saw that the increase in this quarter compensated

connections in other technologies. Did you -- or we can looking for the trend to continue? So if you can see a growth in the total user base for 2021. And the other question is related to the news [ph] that the company is doing, so regarding the Dotz and the new agreement with the telemedicine company. So what can we expect in terms of revenue looking for 2022 in terms of composition, and your representation in the total? Thanks.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Just one second, Cristian. Just getting better -- the first question. I think the first is -- okay, the first question that is about the -- I think, what -- I'll try to answer what I got here, Cristian, if you have more questions about. I think when you see how much net what is non-core business -- and that we call the non-core revenues, they are more legacy and mature technologies. They are in the fixed side of the business, and we are reducing the relevance in our total revenue. And also if you consider the fixed voice, the DSL, and DTH, it represented like 15% of our revenues -- total revenues by fixed in 2000 -- in 2020. Now in 2021 in the same quarter, it represents a little bit less than 12%. So what is new and here it's adding mobile and FTTH and advanced data for B2B is growing and is replacing, yes. For your question, yes, it's replacing revenues coming from what we call non-core businesses or legacy, that's fixed voice, DSL, DTH, they combined, are decreasing 24%.

Our perspective -- and that's why the figure that you see in the fixed business is improving quarter-over-quarter. Here, maybe there is something that changes quarter-to-quarter because of B2B deals, but the essence of the revenues, the core of the revenues you see are replacement of FTTH over what is legacy. And this replacement is making, at each quarter, more impact in the positive numbers that are represented in the growth. If you consider just FTTH, already represents BRL1 billion in the quarter in revenues. Note, that's a very strong name -- number. If I add to this number what is IPTV that is very combined to FTTH, we are already talking to the total revenue more than 10% or 13% coming from these two services. So the replacement is there, it's going to happen, because we continue to accelerate the footprint of our network with these partnerships, not only the one that we signed with CDPQ and FiBrasil, but the ones that we also have American Tower, the franchise, and et cetera, is improving our reach and will give us more revenues related to fiber and all the services that go beyond fiber, and also relates a little bit to what -- the second question.

When we signed the contract with CDF, it's -- it gives technical support. They are very connected to people who have doubts and they need support in connecting their homes. So we are selling fiber, but you are also setting a service to help customers to interact and to automate their homes. So CDF comes with this perspective, on what can I build beyond the fiber, beyond the connected home, and that's one of the deals that we are presenting today here.

Dotz is a different type of deal. It's more related to the -- to prepaid and hybrid customers. We want to give them more engagement in our platforms with our company. So if you get the point, it's good because when they use Dotz and they want to top up and they want to recharge and they want to use more of my service to get more Dotz, and then I get engagement and it's profitable because I have more customers with also upsell for the current expenditure.

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The same can be said about our loan platform, Vivo Money, that's going to be also connected to Dotz to give opportunities to joint efforts of the two companies, both of us trying to generate value around our digital ecosystem.

And the third thing that we're announcing today is the health partnership. We talked before that we have interest in health and education. This time, we were able to already share first communication about the binding agreement that we just signed with Teladoc, one of the largest telemedicine companies in the world. It's not going to be the only partner. We are open to other partners to create a real ecosystem. Again, we're going to leverage on our footprint, our customer base, our big data, our brand, our billing capability to drive customers, engage customers, and increase lifetime value of the customers with the ViVo platform.

So I don't know if I answer all your questions regarding person [ph], I missed maybe some of it. But that's the general perspective, both fiber and new partnerships. And the result of the new partnerships is going to be the some of the different ones. You're just this in this call, we are talking about health, Dotz that we have, we are talking about Vivo Money, Vivo Pay, and also the co-branded with Itau. We are open to do more and we may announce more every single quarter, because that the perspective that we have going forward, to create this ecosystem around the connectivity that we are the leader. So connectivity in homes, offices, and not to mention also some cloud deals that we're doing, the cybersecurity. So it's home, offices, and also beyond the mobile and data segments and what that represents. The same is for Vivo Easy, our digital plan, that we also landing to get also partnerships with large digital companies like Spotify, Uber, Rappi, and many others.

Q - Cristian Faria {BIO 21795660 <GO>}

Okay, thanks.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

And the number of customers, it's like -- you also asked about the customer base. I think it's more the value of the customer base that we are bringing. I think it's important to say that we are bringing more customers, partnerships, and net adds in ultra-broadband. But beyond the positive number is also the ARPU that is increasing, because we are combining new services together with our core connectivity service.

Q - Cristian Faria {BIO 21795660 <GO>}

Thank you, Christian.

Operator

Our next question comes from Victor Gomez, Banco [ph] -- UBS.

Q - Victor Gomez {BIO 16167126 <GO>}

Good morning, everyone, and congratulations on the results. About Vida V partnership, can you give us any color on how it works for Telefonica. Will you have a stake in the new company? Will you earn a revenue per -- revenue share from some of the acquired [ph]? Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

We just signed a binding agreement. It's not a JV so far. What we are going to do in the beginning now to check the market and to prove the value proposition is -- sorry, is it Vida V? What we are trying to say is to sell a service where we're going to have a monthly payment. So what we're going to try to adapt here is our ability to have recurrent services and also to build this customer. So the customer will have a monthly payment that will give them access to our e-Health platform, depending on the type of service that the higher will have, and then on all small, medium, and large health, only to give you some color on type of plan that we may have here. And we may have some -- doctor appointments is already included, all of them was telemedicine, but they also get some benefits in other partners that we are putting together in this marketplace. So they have discounts in drugstores and they may have also any other type of benefits related to other services like a diagnostic or even physical doctors, because we're also considering having some partnership there.

So at this point, it's a binding agreement, it's exclusive agreement having Vivo and Teladoc together with this perspective and objective in Brazil, bringing other partners together. And depending on the results, we also planning a possible JV when I have a stake in the company. It's too early to give you details about that, so for now, is our position in creating this marketplace and Teladoc will be powering all the digital capabilities, because you can also give digital prescription, digital information the customers may use to buy prescribed drugs or even also to do some analysis that they may need in some of the partners that we're putting together in the marketplace.

We're also going to have content, content very related to health and wellbeing, and we're going to leverage all our channels' capabilities, including our Terra Portal, that is also one of the largest in Brazil, to promote and to create this ecosystem around Vida V and the health and wellbeing content that we are just describing with some services included in the monthly payment of the customer.

Q - Victor Gomez {BIO 16167126 <GO>}

That's perfect. Thank you.

Operator

Our next question comes from Carlos Sequeira, BTG Pactual.

Q - Carlos Sequeira {BIO 1798391 <GO>}

Hi, good morning, Christian, David, and team. Thank you very much for taking my questions. I have a couple, please. One is, I'm wondering if you can give us an idea, Christian, of what is the marginal cost for Vivo to increase the FTTH speeds to 1 gigabit

per second, for instance? And depending on the cost and assuming that is not that high, why not just stop of promoting these type of packages, which, as we know, some competitors cannot match and that would put a tremendous pressure on these competitor? So that's the first one.

And the second one on the -- on leveraging Vivo's gigantic client base, offering new service, you are doing a great -- fantastic job adding more and more services every quarter. My question is --it's not a question, really. It's if you can share with us your view for these type of services looking maybe five years down the road, how much you expect that to represent of Vivo's business. It doesn't -- just an idea, just what your goal is, or your dream maybe on these type of services. Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Hi, Carlos. For the first question, we just launched 600 megabits now, and I think we'll -- there is additional cost to offer such a high speed to customers. So we need to be very rational, how we do it and to which customers are willing to pay more to do so. So in B2B, more room for 1 giga. We already have this as an offer to companies requiring that, even SMEs, they can have it. In the B2C, we are now with the 600, and also not inevitably, as you said, there is some cost involved and we need to be careful, and also be careful about the pricing. We need to differentiate pricing to give the value of the ones willing to pay for 600 megabits. In this case, that's our offer right now. We're being very conservative and we hope the market is also conservative and the technology is impacted and the cost is important to be able to offer such speed to customer.

So we're doing that in a very thoughtful way and segmenting our customer base and offering that to customer that are willing to pay more, either because they live in places where the need is more demanding. Let's talk about some countryside homes that people are now living at, they are very large homes and they want to have a very high speed because the office is there, the schools are there now because the kids are at home that maybe they're willing to pay more, and then we have to price in the right way and do. So balancing the additional cost with real demand and not minimizing or taking pressure off the 100 megabits, 200, and 300. That's also very good speed, much above other technologies and that respond to most of the demand of most of the customers that we have.

In the second one, we're going to start giving more color on digital services. But the difficulties that we have is that the nature of the services are different, not just defining what is B2C and B2B. There's already a huge difference. In B2B, it's hard to find a customer that we don't have a digital service already as part of the relationship that we have discussed, that goes from (inaudible) our cybersecurity solution to our cloud solution. So we are leveraging and penetrating digital services in most of our B2B customers. So there are different type of customer -- size of customers in B2B. So it's difficult to tell you the percentage, but I understand that the penetration will be very high, almost in five figures. I believe all our B2B customers need to have digital services that is built and sold and taken care by peoples, workforce and -- both the sales rep, but also the customer care.

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In the B2C, I would also segment into two types of customers. In the top of the pyramid, I think we're going to distribute services front well-known brands. And if you look, the number, the percentage of fiber already sold, Netflix, Disney+, we just said 30%, and this number is growing. So I think our ability to bundle together those fiber services, services that are very connected to our core, will be very high. And also, I think in five years that every single customer or people may have something that they bought together with their connectivity that is not our core and is a digital service, and that goes entertainment, but can be gaming, and can be also, I just mentioned, the CDF, that's a support -- technical support that we branded Vivo Guru. We also believe a high percentage of our customers should have -- customer get Vivo Guru already included in the plan, and if you charge for that.

In the base of the pyramid, there we had -- I think we can launch new business now that are totally not only always connected toward the relationship that the customer has with us. So when I launch Vida V, of course, I'm selling to my customer base, but I'm not bundling it with a plan, because I'm talking about prepaid to hybrid customer that there is no bundle now, because the value of this new service can be similar to the value of the money they spend with a prepaid recharge. So, it's a new business. So this business will have varying two sides, because I'm selling it and because I may have a stake in a new and different company that can add its value by itself.

So I see financial service going the direction may be health for sure, education for sure. So it's a different type of business. I'm not combining, I'm launching new platform, a new ecosystem. So once we have more clarity how to explain and to give you more detail and color of all the numbers, we'll certainly do that, differentiate the B2C, B2B, what is totally bundled because it has value combined, that's Netflix plus fiber, and versus what's the new business, like it's Vivo Money, that is a new business that is a loan platform, Vida V, that is a new business, and many other things that we'll be launching in the following quarters. Don't know if I answered that, Carlos, but it's what I can share at the moment.

Q - Carlos Sequeira {BIO 1798391 <GO>}

Thank you very much, Christian. Very clear, thanks.

Operator

Our next question comes from Marcelo Santos, J.P. Morgan.

Q - Marcelo Santos {BIO 20444938 <GO>}

Hi, thanks for the follow-up. I have two questions. The first one is on the fiber expansion. We are seeing all players expanding fiber, with plans to expand fiber aggressively in the next couple of years. What do you think is the potential market for homes passed with fiber in Brazil? And do you see the risk of overlapping networks or not be -- like difficulties for the players to execute their plans? And that's the first question. The second question is you're going to have the 2G shutdown. How much savings could you get on that, and would that be more CapEx or OpEx? Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Marcelo, in the fiber, we announced that we aim to have at least 24 million homes passed by 2024. We already have close to 17 million -- we announced for the first quarter, 16.3 million. We have the largest customer base and we have the highest market share in the mobile. We have the combination of all the assets to be the leader in this market. So we are very confident about our plan. Now, Brazil is huge. I think we have a gap in homes' ultra-broadband digitalization. So if you consider our target market of 60 million, 65 million homes and offices, that's going to be the market that's addressable by fiber. Some of this market is covered by the smaller players, some are uncovered today, or they have a technology that is not fiber. So this is that number that may be we bear in mind. So we are now aiming for 2024 to get to 24 million.

The risk of overlapping, I think, is there. I think it's not good, because some of these deals that we just mentioned, there is someone behind that needs to occupy their network, they are new short networks, but they need to have a tenant, an anchor tenant, and additional tenants. So for that to come through and to be profitable, I think, they have less control in this network, should be very wise and not overlap. Now, in our case, we have a co-brand that we co-control. So we may define what are going to be the target cities and we will try to be as rational as we can.

Although, as I said, we are the leader, we have the largest customer base and we have a lot at stake, and we've got to that because we've done that before and we are the number one doing that successfully. The others should be also -- I think they are and they should be very attentive not to do or not to make a mistake of covering similar areas, because I don't see more than one or two tenants covering different networks, neutral networks to give the profitability that's regards for this type of business. That was your first question. The second question was?

A - David Melcon Sanchez-Friera {BIO 17660109 <GO>}

The second one -- I would take the second one. It's about the savings that we are expecting with RAN sharing Tim. So there could be like three different savings. One have to do with 2G switch-off. It will bring savings, but mainly on OpEx and this will start even this third quarter, so we will see a ramp-up in the next couple of years, but it's going to start right now. The second one, we are going to have and we already have 348 cities that's already implemented with coverage expansion. So this is a CapEx savings that -- again, this is something that we have already -- as we speak, we're already have the savings. And the third one, which has a big potential, again, is -- would be decommissioning some of the network that today we are jointly with Tim in more cities. So again, this will bring both OpEx to run those networks, and also CapEx to maintain those networks. And also -- so we see these three as a big opportunity to focus on quality, particularly to cope with incremental traffic and also expand to see what is -- can we accelerate here with Tim in the mobile space.

Q - Marcelo Santos {BIO 20444938 <GO>}

Perfect. Thank you, both. Thank you very much.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Thank you, Marcelo.

Operator

(Operator Instructions) This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Christian Gebara for any closing remarks.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

So thank you all for joining us. As said before, it was like solid results, especially in the commercial performance in both the net adds that we had in postpaid and the net adds that we had in fiber, that our core products and our core revenue that give us optimism about 2021, as the situation hopefully is getting better with the vaccine and the economy recovering, and we are in the right position to take advantage out of the accelerating growth that we see in the technologies and this business where we already have the leadership. Added to that, the new ventures that are starting to be more concrete and gives us room to create a real ecosystem around our brand and bringing loyalty and engagement, involve all customers. So if you have any more further questions about anything, our team is here at your disposal. Thank you, and I'll see you next quarter.

Operator

This concludes today's Telefonica Brasil 1Q 2021 Results Conference Call. You may disconnect your lines at this time. Have a great day.

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