

Q3 2021 Earnings Call

Company Participants

- Alberto Mario Griselli, Chief Revenue Officer
- Camille Loyo Faria, Chief Financial Officer
- Leonardo Capdeville, Chief Technology Officer
- Mario Girasole, Regulatory and Institutional Affairs Officer
- Pietro Labriola, Chief Executive Officer

Other Participants

- Carlos Sequeira, Analyst
- Diego Aragao, Analyst
- Leonardo Olmos, Analyst
- Marcelo Santos, Analyst
- Mathieu Robilliard, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to TIM SA 2021 Third Quarter Results Conference Call. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. There will be a replay for this call on the company's website. After TIM SA's remarks are completed, there will be a question and answer session for participants. At that time, further instructions will be given. We highlight today statements that may be made regarding the prospects, projections, and goals of seamlessly[ph] constitute the beliefs and assumptions of the Company's Board of the Executive Officers.

Future considerations are not performance warranties. They involve risks, uncertainties, and assumptions as they refer to future events that may or may not occur. Investors should understand that internal and external factors to TIM SA may affect their performance and lead to different results than those planned. (Operator Instructions).

Now I'll turn the conference over to the CEO, Mr. Pietro Labriola, so he can present the main messages for the third quarter of 2021. Please Mr. Pietro, you may proceed.

Pietro Labriola {BIO 19448607 <GO>}

Good morning, everyone. Thank you for attending our results conference call. First of all, I'd like to give a warm welcome to, Camille Loyo Faria, our new CFO. In August, she joined our team and is already getting our hands dirty passing[ph] a multiple project that either we are preparing to start or have already started and need to finish. I wish Camille all the luck and success because we have a lot to do. It is great to have her on board. Without delays, let's move to the results.

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In the third quarter, we consolidated our recovery with consistent numbers. It is through that despite a much better pandemic situation after we step up in vaccination Macro[ph] has been more challenging, but we have no reasons to complain. This past quarter was solid and in the fourth, we will maintain the pace, which put us in a condition to reach our targets for 2021. Also key events such as spectrum auction and oil deal approval should take place until December paving the way to a great 2022.

In a nutshell, our high level execution led us to pause LT[ph] figures in the third quarter. Service revenue grew more than 4% year-over-year driven by mobile ARPU, which also expanded over 4%. On the fixed broadband front, we have just launched the best high speed offer in Brazil to accelerate further our business.

EBITDA was up 4.5% and we are now at '21 quarter of positive yearly growth. We sum BRL85 million in customer platform revenues, which left us very well positioned to reach our annual target for this. This quarter was also marked by a remarkable achievement in the ESG arena. I'm proud to say that we are the first Brazilian company to be included in the Refinitiv Diversity Inclusion Index and we are the number one in the world in this ranking.

Detailing our revenue dynamics we saw positive contribution coming from mobile and fixed services with all major lines improving, we also delivered a sequential expansion versus the second quarter, showing the consistency of our operations. Mobile service revenue grew 4.1% year-over-year. In parallel, fixed services also posted a solid evolution up by 5.5% with TIM Live driving the trend back temporarily at this lower pace as we expected and mentioned during our last call.

Our non-March numbers are rock solid both the mobile and fixed services, that is why total net service revenue is growing more than 5% year-on-year. Those results once again show that, our choice to focus on a value strategy is paying off. We are outperforming our peers in the ARPU dynamics. And this September, our ARPU grew high single digit, while the rest of the market fell mid-single digit. It's clearly demonstrates our ability to produce additional revenues more rationally and efficiently.

The main drivers behind the volume to value strategy remain a differentiated offer and the upselling proposition with migration to higher plans and improving the loyalty from clients. To have the new level will have been working to improve the quality and value of our sales with broader and qualified distribution channels. The differentiation aspect of our offer is an ongoing effort. We have been adding multiple differentiation layers in each segment to keep ahead of the competition and sustain our leadership.

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In postpaid, we have bought from the interest payment tab[ph] to a one-stop shop content and service marketplace. In control, we are focusing on the benefits of our cash consumer platform partnership, plenty brought our clients to have new experiences. And in the prepaid, we have been targeting convenience and loyalty since the launch of the team (inaudible) I just mentioned, the importance of our customer platform partnership to well differentiate our offers. See this part of our strategy is gaining more and more traction, it is worth remembering how we play this game of client base monetization to generate new revenue streams and equity diversification.

First, I need to remark that we have two business models of partnerships under this framework. In the commercial once, we have a more traditional approach where we are remunerated monetarily per video views and clicks for advertising campaign and adding tele[ph] services.

Any company seeking relief and consultation increase lead generation and app in stores is a target for us. On the other side, this strategic partnerships are big and there are more symbiotic relationship and our targets are scale ups, seeking exponential growth. TIM is remunerated by CFC fees and equity states in return for our endorsement for giving access to our customer base and commercial capillarity for being bundled with our core of their portfolio and for data intelligence.

Both modest leverage the TIM new sites and TIM ads platforms to target the suitable process inside our base and impact them through channels within their journey as a client of TIM. Under this framework, releasing some verticals as having great opportunities for being more directly connected to mobile phone services and having a higher evaluation than the telco companies. We are already operating in some of them, so we have clear result to show. As mentioned before we sum BRL83 million in revenues in the first nine months of the year.

Mobile advertising is contributing with BRL26 million, while financial and education services are adding BRL57 million. We aren't subscription bonuses if we run into an equity stake of close to 4% in C6 Bank, following a record number of open accounts. In less than two years, over 5 million clients accepted an offer from our partners by acting channels and we multiplied by 10 our episodes[ph] results in September and January.

We continue working to grow this ecosystem of partners similarly to a private equity firm. So we're developing multiple fronts for example. Discussion with the local content providers accelerated and this -- this partnership is getting ahead of others taking longer to materialize.

We are at the final phase to choose a partner for Ehealth[ph] initiatives with seven solid proposals on the table. Digital wallet, the marketplace discussions are taking longer than expected and we are refining our approach considering new market dynamics. Lastly, we continue to work on IoT verticals with large contact being negotiated.

To complete our revenue drivers discussion, let's move to fixed services, specifically TIM Live operation. The highlights of this quarter are the completion of the FiberCo deal, the

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major launch of the best FTTH offering the country. FiberCo closing is expected in mid-November. Under this deal, we will receive BRL1.1 billion secondary with the vehicle receiving BRL600 million primary. TIM will remain with 49% of the capital. Remembering that the rationale for the deal was to accelerate the fiber rollout we expect to do some catch-up in new cities coverage.

We are launching the 1 Giga offer as we promised. Some of you may think, there are already 1 Giga offers in the market. Well, I must tell you, this is not the same things and I'll explain why. Here the base download and upload speeds combination 1 giga for downloading and 500 megas for uploading. The offer will be available in all cities we cover, meaning out in the markets that do not have access to this type of speed. We have an exclusive set of content embedded in the offer, such as Netflix, Paramount Plus, Deezer, Bein news, Bein Sport and to complete, we are setting the offer price at an accessible level.

So this has not been offered to just position TIM Live as having DISP. The goal is to give people access to the next level of experience in broadband. Meanwhile, we maintain a decent performance in TIM live, even if the expected deceleration was confirmed. The fourth quarter is already showing signs of reacceleration. Moving to infrastructure, we saw our 4G corporate leadership be reaffirmed with a sound expansion of 25 more cities.

For that 5G coverage grew at the same rate. We continue working on the preparation of our network to receive customers. (inaudible) modernization keep accelerating for these purposes. On the IT front, we completed another step of our journey to cloud transformation. Our CRM system was transferred entirely to the cloud reducing 50% reduction in attendance time. Another key accomplishment for TIM, was the result of the trials with 5G standalone in Rio and Sao Paulo.

We were the first ones to provide technology in the two most important cities of the country. We were capable of reaching very high speeds with lower latency levels, but more importantly we prove the technical feasibility of combining V16[ph] with carter aggregation to expand coverage by more than 69%.

Talking about 5G we are very close to the spectrum auction. It is scheduled to occur in the next week on November 4. We have been saying since the beginning of the auction discussion the choice is made by Brazil on our product[ph] strategy, were unique and wise. The focus on the investments and network rollout will benefit the entire industry, but most importantly the end user. TIM is ready to participate in the auction and optimistic about the outcome. Leading infrastructure discussions and moving forward to our OpEx and EBITDA trends.

This quarter we have a more comparable base for our costs and expenses. Our dynamics are well below inflation despite spikes in different industries. We saw, as more yearly expansion of our OpEx of 1.3% in this quarter and below 6% year to-date. As explained last quarter, the latter was mainly a consequence of the OpEx performance in the second quarter of 2020. If we compare to the first nine months of 2019, our year-to-date OpEx was flat.

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TIM continued to execute well on cost control, digitalization projects and bad debt and bring while improving energy cost management further. These together with a solid revenue contribution drove EBITDA to grow 4.5% in the third quarter with a margin expansion to reach 48%. Net income rose solidly more than 20% and CapEx was up 5.5%. In this context, operating free cash flow for the first nine month of the year grew more than 40% surpassing BRL3.6 billion which drove our net debt down almost 50% and a cash position of BRL7.4 billion. We have been preparing for the upcoming events of this year end and 2022.

Considering our free cash flow is performing better than expected. We should be able to sustain the level of remuneration to shareholders, even if we expect large disbursements in the next 12 months. Closing my comments, I want to remark on the solid execution, the team is delivering with robust results, amid the sluggish[ph] economic recovery our pace, we continue in the fourth quarter. So we are very confident, we will meet the guidance given to the market. On September we posted more than 5% expansion for service revenue and EBITDA. Customer platform is just BRL17 million away from the BRL100 million target. EBITDA minus CapEx over revenues stood at 24%. And finally, net income grew more than 70% year-over-year.

By the end of 2021, we should add that FiberCo deal close, the 5G Auction completed, and we hope the all[ph] deal approved. We expect to enter 2022 with less uncertainties and ready for sector transformations. And there is still room for more than another customer platform contract to be signed before the year end. Stay tuned. Thank you. We will now open the floor for questions. Please, operator.

Questions And Answers

Operator

Thank you, Mr. Pietro. Now we will begin the Q&A section. First, we will take questions from analysts followed by the general public, both in English. If you are listening through webcast your questions can be sent by chat. We ask each participant to restrict himself to two questions at a time. (Operator Instructions). The first question comes from (inaudible).

Q - Unidentified Participant

Hi. Good morning, everyone. Thanks for taking my question. Actually, I have a few questions related to TIM Live and I would like to stress the soft numbers this quarter. I wonder if you are facing greater pressure from competition and if so in which areas, any specific region. And the last question in relation to the FiberCo deal, what are the next steps for closing the transaction. Thanks.

A - Pietro Labriola {BIO 19448607 <GO>}

Thank you, Bernardo. Let's start from answering to the second question. So the good news. So then I leave the stage to Mario to put some more details, but what this means is the approval by Anatel of the deal that, if I'm not wrong, Mario communicated as that (inaudible) yesterday night. So if it is confirmed, but Mario will give you live these new, we

will have the closing by November 9. So on track with what we told. Mario, I don't know if you want give some more color.

A - Mario Girasole {BIO 17273549 <GO>}

No. It's correct. Yes, there was a prudent to date, we had the formal certification of the approval.

A - Pietro Labriola {BIO 19448607 <GO>}

Then Bernardo, let's come back to the first question. It is, -- let me say a little more complex, but first of all, I would like life as we are always transparent with the market. If you remember in the second quarter call -- results call I already explained to everybody that our expectation for the first quarter should be less positive than the previous one. So it happened exactly what we are thinking because if you manage your company, you should not discover things live, but you know and you understand the results.

So first of all, this quarter, as I mentioned at the, -- in the second quarter, it's weaker than the previous one, but we are already seeing that the fourth quarter -- we show sign of improvement, that will be back to close to double digit. And we expect then the next year to further reaccelerate with the stronger double-digit growth. The reason why was that our FTTC area, suffered the most compared to other areas. But again, we are accelerating also all the activity for what we call the brownfield activity migration from FTTC to FTTH to allow us to stay in a more comfortable situation in terms of competition.

But again what is important to remember that is exactly what we mentioned since the second quarter, there is no surprise for anyone because we exactly told weaker third quarter, better fourth quarter, and better 2022. And exactly as we mentioned in the last call, we were able to launch the first 1 Giga offer, again as I told during the speech. Someone can say that this is not the real first offered one Giga. Let me say, it's the first real one giga offer with 500 megabit per second of upload. So, also on the fiber, everything is proceeding, the closing will happen on November 9. So we show to the market that what we say we deliver. And on the operations, we are already back to recover from what's happening in the third quarter.

Q - Unidentified Participant

Very clear Pietro and Mario. Thanks.

Operator

The next question comes from Diego Aragao from Goldman Sachs.

Q - Diego Aragao {BIO 17889908 <GO>}

Yes, good morning. Thank you for taking my question. The first question is regarding the CapEx. Pietro you mentioned that you have been making investments in order to prepare network[ph] to receive fully mobile business. So can you just help to understand what exactly are those investments and how much you have been invested so far and the

second question is regarding the tax credit recognized in the quarter, can you just comment quickly and what exactly is this about and whether there should you expect more of these creditors to come. Thank you.

A - Pietro Labriola {BIO 19448607 <GO>}

Let's start from again the good news so I leave the stage to Camille to explain the good news related to the tax. Please, Camille.

A - Camille Loyo Faria {BIO 15380221 <GO>}

Hi, Diego. So just to explain a little bit on the tax credit. There has been a positive outcome on a leading case to exclude taxation over interest on successful judicial tax disputes, it was actually not our case that got already judged. But in our case, when our dispute is finalized it will generate roughly BRL535 million of recoverable credits and we have booked that already in our balance sheet. We expect to be able to start using those credits probably within a year. So it's a short-term positive effect.

Q - Diego Aragao {BIO 17889908 <GO>}

Thank you, Camille.

A - Pietro Labriola {BIO 19448607 <GO>}

I leave Leo to give some more details, but what I would like to add that 24% CapEx on revenue, it's 24 because we put as we declared in the plan part of CapEx, if I'm not wrong BRL300 million to BRL400 million were related to the preparation of the Oi deal. So you can also try to do a pro forma what could be our real CapEx, if we shouldn't have spend this money to prepare.

And last but not least, keep in mind, and I want to stress that we are posting all these number in terms of EBITDA and CapEx absorbing all the differences that are related to the macro situation, so exchange currency rate, we were able to absorb an impact that was between BRL50 million and BRL70 million of exchange currency, the impact about inflation about the so called (inaudible) for the Portuguese people, it's quite clear what it is for the other one is the increase on price for the energy and all in all, we were able to offset the cost increase for inflation, achieve currency rate and all the other issues for something closer to BRL200 million in the year. So it means that we shouldn't have been this divergence from what we planned at the beginning of the year, our EBITDA level should be much higher, it show our capacity to deliver and continue to manage efficiency in our, but now I leave to Leo to explain what we're doing.

A - Leonardo Capdeville {BIO 18844450 <GO>}

In fact, the -- what we did this year was to prepare the network to absorb the spectrum that we are receiving. So we need to prepare the electronic parts of the radios to support our spectrum and the Oi spectrum. So we can highlight that the most part of the investment to prepare the network is already done this year. So what is the fact that in the next year when we have the deal close it, we will receive the spectrum and the data will

be ready to support the customer data. The second part of the investment we will rearrange the tower, let's say fueled goal.

Because that we need in the second part to switch off some towers in Oi and to observe other towers in our network. But again, the most part of the investment is done this year. So, it is good, because in fact we are observing that as Pietro mentioned in our recurring CapEx. So we not expected a peak for the next year to finish the Oi integration.

A - Pietro Labriola {BIO 19448607 <GO>}

Then complement the question of Leo. We invest part of demand, the mining in the so-called massive mammo technology. We were the first player in Brazil to use this technology. This technology allow us to have a better level of efficiency on the frequencies. Why we do that because we left to migrate the customer base of Oi, before on our frequencies and then once they will be migrated the customer volume in on the TIM network, on the collateral network, on the Vivo network we will have the chance to get the frequencies of Oi and add on our frequencies.

So these activities were something that we needed to be able to ask the Oi customer base on our network. This is a reason for which we did that in advance.

Q - Diego Aragao {BIO 17889908 <GO>}

That's clear. Thank you, Pietro and Leo. And maybe just a quick follow-up. Any concerns with this that have been added or may be affecting the negotiations with the vendors, just want to hear from you, if you were seeing any impact at this point for you and for your CapEx plan. Thank you.

A - Leonardo Capdeville {BIO 18844450 <GO>}

No, Diego, you know, we didn't have any kind of a constrain about that in terms of deliveries. So we are not suffering that because we planned before we feel the supplier so they are delivering what they promised. What we can see is that probably in 2022 for the 5G may be but not adjusted for the semiconductors crisis. But for the demand, we will require us to be more assertive on the this planning. But again, we have the plan for the two years. So we are, let's say, make all the forecasting with the vendors and that they are delivering us as promising.

A - Pietro Labriola {BIO 19448607 <GO>}

And sometimes we have experienced some delay in the delivery on the asset, but this is market wise. So there is no specific issue and it was specific in some period of time. So this is something that is not impacting our strategy.

Q - Diego Aragao {BIO 17889908 <GO>}

That's clear. Thank you, Pietro. Thank you, Leo.

Operator

Your next question comes from Mr. Marcelo Santos from JPMorgan.

Q - Marcelo Santos {BIO 17186991 <GO>}

Good morning, thanks for taking my questions. I have two, the first one would be a follow-up of Bernardo's question on TIM Live. I was reading the note that -- our notes from the second quarter indeed, you made it very clear that there was going to be deceleration you also commented that you expected revenue growth to reaccelerate towards 20% year-over-year in the first quarter of '22 at the beginning of '22. Do you still think that 20% or close to 20% is credible or are you now more a little bit more cautious just wanted some clarification on this previous comments.

And the second question is about, if you could make a general comment on the mobile competitive environment, how are you trending and in the three segments, postpaid, prepaid and control. Thank you.

A - Pietro Labriola {BIO 19448607 <GO>}

Sorry, can you repeat the second question because I was unable to catch up it.

Q - Marcelo Santos {BIO 17186991 <GO>}

Sorry, the second question is regarding the mobile competitive environment. So if you could make a comment how the main segments prepaid, postpaid, and control are evolving?

A - Pietro Labriola {BIO 19448607 <GO>}

Yeah. So let's start from the first question. For the next year I told that -- we are going to reaccelerate and we will be able to post double-digit growth in the next year than we are now seeing if we will be closer to the 20% but for sure, it will be double-digit perhaps could be close to 13%, 15%, but let's see as what is happening and which is the speed, the exit speed for the year -- for the fourth quarter. But in any case, as I told, we are going to accelerate and will be for sure above double-digit growth. About the competitive scenario what is happening on the market. I think that I'll try to put also an answer to different question that you received thanks to God in some way, the three players in the market are playing different strategy.

There is some of that is more on volume or on integration that someone that is much more on quality and premium their stream that is working much more on innovation. So I think to avoid any kind of misunderstanding that the market is still rational because each of us has a specific positioning. You can understand we are the innovator, I think that in this period of collateral is suffering something more because the -- in the integrated offer fixed and mobile is starting to find some more difficulties to proceed.

Also because they are losing much more on the ultra broadband. So these are something that also that are leveraging. And Vivo, if I'm not wrong did in the third quarter, a price up, that is a sign of rational IT on the market. This is mainly control and postpaid. What is happening is that, and this is important also to explain how we think that we can sustain

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the ARPU growth in the next quarter, is that when you see postpaid and control, the amount of giga that we put in each of the two offer are different. So once the customer want and need an higher volume of giga or if they want a high level -- an higher level of the quality of service they have to migrate from control to postpaid.

And this is exactly what we are doing in this period that is allowing us to sustain the ARPU growth, this is control and postpaid. So as the prepaid in the past was the so-called, let me say the swimming pool, where we were fishing customers to migrate to control it, now the controller is becoming the swimming pool that where we are fishing to move customer from control to postpaid with an higher level of ARPU.

On the bricks and so all in all, the market is still rational, our strategy is different from the other. And the result are demonstrating that we are able to continue to deliver ARPU growth. When we move to the prepaid, also the prepaid is still rational then our performance is different from the other because what is happening is that we always -- that our prepaid customer base, is much more sensible to the macro. So if you remember, we were the player that pay the most the COVID situation in the second quarter of the last year and we were the player that gained the most in the third quarter. So the comparison year-over-year in the third quarter show us and put us in a negative area. But when we see quarter-over-quarter, we have continued to grow, about the movement of the different player Vivo did an increase in the face value from BRL10 to BRL12.

And so I think that also in the postpaid, sorry also in the prepaid, we are seeing signs of rationality. So the market duration that doesn't mean that we are not competing, all of us have different strategy. Last but not least, and so I can anticipate, once again some other question. I always repeat that we have to evaluate not just on one line on KPI. But on the overall result and performance because we are approaching, and we are posting revenue increase. We have continued to post EBITDA increase and we have continued to keep the pace of EBITDA of 40%.

So it's quite difficult to find in the market a player, so complete as TIM putting all the KPI. Perhaps, sometimes we are not the best on one of these KPI. But at the end of the day you asked to us to deliver continuous revenue growth to continue to be efficient, to continue to put level of EBITDA, and to continue to keep under control our CapEx expenditure. And last but not least, we continue to generate cash.

Q - Marcelo Santos {BIO 17186991 <GO>}

Perfect. Thank you very much.

Operator

The next question comes from Mr. Carlos Sequeira from BTG Pactual.

Q - Carlos Sequeira {BIO 19112435 <GO>}

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Hi. Good morning, everybody. Thank you very much for taking my questions. Hi, Pietro, and Camille. So my first question is on the fiber strategy and I was just wondering here if what makes sense for team to explore other alternatives to accelerate growth in the fiber business.

Maybe, I don't know maybe look into M&A opportunities evolving in the hundreds of ISVs are operating in the market or maybe reaching a deal with Oi's infraco, no longer Ois, but infraco which is already covering millions of homes in the country. So I was just wondering - if you are considering exploring other alternatives should grow faster in the -- and take advantage of what that is happening on fiber. So that's the first question, please. Thank you.

A - Pietro Labriola {BIO 19448607 <GO>}

Hello. Thank you, yes. I got it with the answer and is it all every time I think that we are the player in the market with much more optionalities compared to the other whether I can explore the possibility Carlos can you switch of the microphone while you are typing on the keyboard.

Great so as I was mentioning also in the other call we are the player with the highest number of optionalities. These market that we change in the next three, five years several times and to have the opportunity add optionality to change and move our strategy is very important. For example, for the question that you -- that you asked we can sign in agreement also that our player to use other InfraCo to increase and speed up our strategy to cover Brazil.

These something that could be much more difficult for other player so I can sign agreement with the EBITDA. I could sign an agreement with the InfraCo of Vivo. What I could buy some infrastructure a better range some infrastructure from some ISP[ph] what I can assure that is not in our mind to buy (inaudible) also because as explained several times their bussiness model today is a business model that is sustainable, because they exploit that a fiscal advantage that we call them to exploit.

So this is the main issue again you know sometimes you can have a discount, or someone do not use SMS and use just others. There the competitive advantage in terms of price of something close to 15% that is something -- that the market will evaluate in the following years but again, we are open to discuss with other player to use other infrastructure, but we can assure that we are not interested to buy customer base or small ISP.

Q - Carlos Sequeira {BIO 19112435 <GO>}

Oh perfect, very clear, and if I may, on a different subject we are all waiting for approval of the Oi transaction -- the transaction of mobile assets and there is a deadline well, in theory, a deadline or November 18th (inaudible) announce decision so my question is, would you expect them should do that and announced a decision by this first deadline which is November 18th or do you think they might ask for extra time and extend the time to 330 days, which would push decision into 2022. Do you have any view or any sense on what you expect from here. Thank you.

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A - Pietro Labriola {BIO 19448607 <GO>}

But I think that, again, I want to start with the good news, I don't know how many of you have the chance to see that during the public hearing in the commission of the Brazilian Parliament Anatel, Carolos, again, perfect-- during the public hearing a representative of Anatel clearly stated that from the Anatel point of view, the Oi deal has no issue could be approved with more remedies on MVNO and roaming, so this is the first good news about Anatel. About (inaudible), you know I continue to be optimistic, but we are in a situation in which I don't want to push too much any institution as (inaudible) because I think that they are doing their job, they're analyzing everything.

I think that the Anatel position will help also to clarify the point of view of another institution. But again, I continue to be positive about the fact that we can have by let me say, at the end of this year in October[ph] but I don't want to stress too much, because we have to leave the institution to do their job and their analysis. But my position continued to be positive.

Q - Carlos Sequeira {BIO 19112435 <GO>}

Thank you so much.

Operator

The next question comes from Mr. Leonardo Olmos from UBS BB.

Q - Leonardo Olmos {BIO 21197412 <GO>}

Hi. Good morning, everyone. My question is regarding the 5G incremental revenue. I know we discussed that quite a few times in the conference call. But just could you provide an update on developments on I know B2B clients that have sought you regarding projects or specific industry verticals are looking forward to implement 5G additional attention on that matter. Overall, can you provide a caller on 5G incremental revenue. Thank you.

A - Pietro Labriola {BIO 19448607 <GO>}

Leonardo, I think that we were discussing now with Camille after the auction, perhaps, that could be useful if we show to all of you the result of the auction, the reason why, and the business case, that is related to each of the frequencies that we hope to buy. And so for sure after 4th of November, after the adjudication of the auction, we will spend much more time to give you more details. As we mentioned, also in the previous call, we foresee 5G has a good opportunity for sure to optimize our network CapEx, because 5G technology is able to rather carry on an higher volume of data and being the data grow one of the line of monetization. This is an important element, if I'm not wrong 5G -- 5G antenna is able to carry on 5 times a 4G antenna in terms of data.

About revenues again, we will have two different plans. The first one is related to the traditional B2C business, because with Alberto, we are seeing that as moving from 3G to 4G, we have an increase of data consumption.

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We image that moving from 4G to 5G will have to an increase of data consumption. And if our bundle are controlled in terms of giga that we put inside this will be an opportunity to upsell. We are doing all the calculation, but it's clear that we are awaiting some more months to see which is this amount of data traffic growth. When we move on the B2B and then to Alberto, if you want to put some more color on that.

There are two areas that are car manufacturing and agro business where we are perceiving an interest of different player to work on that. About the agro business again, we are evaluating if at certain point it will be not the case to create a separate company to exploit the opportunity that will arise from the agro business. Keep in mind that with Camille in the new plan, we will evaluate to create some internal business unit ready to spin[ph] enough to unlock value in some area that could be interested -- interesting.

And one of these area is IoT, Internet of Things mainly on the agro, but I leave Alberto, if you want to put some more color on that.

A - Alberto Mario Griselli {BIO 21170674 <GO>}

Hi, Carlos. Thank you, Pietro. Yes, on the B2C, the monetization of higher data consumption is our main focus that is better described. So we are going to, you know, in our network the average consumption is around 5 giga per client and every time we put more giga we see customer using it in our -- for more strategy and source 5G is going to be another lever for this to happen. And for what concerned[ph] B2B we are discussing with some clients in primarily logistics of this stage, the use of 5G to provide benefits to their plans. We are running a few pilots in the automotive now of course everything restricted because there is -- the frequency are not available yet, but we see primarily in manufacturing and logistics for us our objective is to win the customers we are doing the main verticals in 4G because 4G already provide a lot of digitalization opportunity for our corporate customer processes.

And to be there for well position when 5G mature to increase the benefits for our customers so at this point in time is primarily focuses 4G coverage for these customers and with some of them we are discussing 5G pilots.

A - Camille Loyo Faria {BIO 15380221 <GO>}

So Leonardo we escape but to give you some number, but I think that the answer of Alberto is quite clear we want to increase our penetration on the corporate segment in IoT on 4G, because it will allow us to do upselling with 5G.

Q - Leonardo Olmos {BIO 21197412 <GO>}

Okay, thank you very much. Have a good day everyone.

A - Pietro Labriola {BIO 19448607 <GO>}

You too.

Operator

The next question comes from Mr. (inaudible).

Q - Unidentified Participant

Hello, everyone good morning I have two questions here as well. The first one you already mentioned a little bit about the ARPU increase, but just wondering and I know ARPU is not a perfect match (inaudible) you are already in line with Vivo pretty much and 25% in cloud, you may look it up again, there are a lot of things involving these, do you see room for ARPU to continue to increase at the rate that we are seeing again you're almost one of the -- the highest ARPUs in the street, this will be my first one and then the second one related to the platform revenue again continues to perform well and when I look to the partnership with C6 Bank -- are we about to reach a ceiling[ph], you have seen that or this is strong trend that we're seeing in the last quarters you believe there is room to grow more. Okay, thank you.

A - Pietro Labriola {BIO 19448607 <GO>}

Okay about ARPU increase, yes we foresee the opportunity to continue to ARPU increase keep in mind that for example, next year we have to recover in some way also on the price that we have on our customer the inflation of this year because we did our price up in March and at this time we have applied the inflation rate that we have reached until March.

So next year in March, we are already planning to find that price up jointly with an increase of data consumption that will allow to keep the level of claims at the lower level to recover an inflation. On top of that, as I was mentioning at the beginning, the ARPU increase come also from the migration of customers from lower -- cheaper plan to an higher price plan, I was mentioning the migration from control it will pass, but sometimes we have also the migration from control to control.

Then when we discuss about price again, you have to discuss -- you have to check also. The phase price that we have on the market from the so-called below the line. So when you look at the ARPU above the players, sometimes you can see that there is someone with a lower ARPU, because in the so-called below the line offer, perhaps they are being aggressive sometimes up and that also to try to convince customer to embrace a convergent offer.

The mobile price has been aggressive, but theoretically is exactly the contrary of what someone say about the convergence. Because if convergence is to put a much lower price to put things together, I don't understand where is the real value. But again, each of us has a specific strategy is not me that tend to evaluate that which is the right one. Our strategy is to continue to increase the ARPU through the price up that we have to do every year to try to absorb the inflation in a period like that where inflation, it's let me say a challenge.

In the meantime with our marketing strategy to move customers from lower giga package to higher giga package and that's creating a kind of scale up also, in terms of quality of service is -- for example is up and with the credit card. If you are a black[ph] credit card,

usually we have (inaudible) that is much higher than a traditional credit card. We are doing the same also with our postpaid and with our TIM Black offer.

About the platform revenues I will leave Leonardo to talk, but again, we know very well, how we are in this moment that we are in the middle of the discussion with our partner and so we cannot do too much disclosure, but Leonardo, please.

A - Leonardo Capdeville {BIO 18844450 <GO>}

Hi, Fred. Thanks for the question. I think we have been very successful with the consumer platform partnerships and also in the financial services, leveraging our data intelligence in our, I would say, multi touch points approach that we have with our customer base. You know, in terms of messages that go not only text but also video, GIF, images using our all dating sites that we have here. So this has been a very successful, I would say deploy. We are able to prove to the market how powerful it's a telecom is a channel for the new digital services, specifically on your question, I think we will be able to hold the level that we have today in this quarter for the next quarters.

So there was a lot of digitalization to happen in the last year so of course, this has been leveraged by that there is a big movement because of the pandemic, and other factors in the market, we believe we are able to hold that given the market perspective that we have today for the next quarters in terms of digitalization.

Q - Unidentified Participant

Perfect and I feel it's very clear if I just, may have a follow-up here (inaudible) C6 very clear, but as you add more partnerships, obviously let's say the addressable market expense, but just trying to figure out the size of this opportunity do you believe there will be a like a cannibalization between the offerings for example, the same guy who buys (inaudible) not buy C6, is there any kind of -- or not really, right, as you expense five, six then whatever partnerships you may have the addressable market just increase. Thank you very much.

A - Leonardo Capdeville {BIO 18844450 <GO>}

It is good question. And we have been working very hard on building data insights and data intelligence to make the right offer to the right customer at the right time, so building up this intelligence here has been instrumental for us to build new partnerships. Pietro is always pushing me to have more partnerships as soon as possible and I'm always holding a little bit back, because I want to make sure that operationally they are all possible at the same time.

So if you have seen our commercial launch plans they are very scheduled. We avoid to launch partnerships at the same time. The Cognia partnership came a year after the C6 took and the reason that we have done that was exactly to be able to digest the whole C6 partnership and when we are mature and that we're able to launch a new one.

We believe now we are reaching the maturity in the next months with Cognia and you're going to be able to launch the new ones early next year. So there is a lot of intelligence in

terms of data to make the right offer to the right customer at the right time in the same times, there is a maturity of the operations in a rollout scheme that allow us to be able to play all of them at the same time.

A - Pietro Labriola {BIO 19448607 <GO>}

But I think that you perceived whether or not (inaudible) so we have to commercially launch in the first quarter of next year. The other ones but now, we are joking with Renato we will close the contract one or two by the end of this year also because we are giving and so don't take this one is an official target, but we are working to say that we would like in our new plan to put the target that we must have eight to 10 partnership that can generate value in (inaudible) about BRL35 billion but we are working on that and we will formalize the target in the call with the financial market for the nuclear plants. Sure enough as a job for the next three years, five years.

Q - Unidentified Participant

Thank you very much.

A - Pietro Labriola {BIO 19448607 <GO>}

Thanks, Fred for the question.

Operator

The next question comes from Mathieu Robilliard from Barclays.

Q - Mathieu Robilliard {BIO 3800915 <GO>}

Good morning or good afternoon. I had two questions please. The first one is around costs, so obviously you flagged that there are some pressures on some items such as energy and we've also seen personnel cost up in Q3, but you managed to increase your margin this quarter despite that, so I wanted to know if you could give us a little bit more color looking ahead, as to what are the positives and the negatives that will influence cost and whether you think conceptually, you can continue to increase your EBITDA margin.

And then the second question was around the 5G auction maybe you could remind us what is the exact deadline so you mentioned November 4th but I'm afraid I'm not entirely familiar with all the details in terms of when the bids are made when the results are given. So if you could give briefly some color on that would be super helpful. Thank you.

A - Pietro Labriola {BIO 19448607 <GO>}

Well Matthew let's start again from the easiest question, tonight Mario Girasole will deliver to Anatel our envelopes without our offer, so the deadline is today all the player that will participate the auction will have to deliver their first offer and November 4th there will be the auction that will be closed in the same day, then there will be some times but Mario can you give some more color about the next step of auction.

A - Mario Girasole {BIO 17273549 <GO>}

Yes of course. Thank you for the question and actually it will be tomorrow early in the morning so tonight we will close our envelopes, and tomorrow morning we will deliver to the delivery session this in Anatel. On November 4th there will be the auction session in which these envelopes will be opened and then of course if some competition occur on the several blocks we will compete on it. Then the following steps is the ratification of the results, and then the call to sign the authorization documents -- we think that this will happen within mid-December we think that all the process will be closer still in 2021 and then there are other steps in creation of those entity to clean up the spectrum and so on.

Q - Mathieu Robilliard {BIO 3800915 <GO>}

And in terms of the payment if you can remind us, assuming it?

A - Pietro Labriola {BIO 19448607 <GO>}

This depend because at the signature of the authorization you have to pay at the minimum 5% of the offered price and then there are other payments related to the entity of this clean up spectrum that we will occur in the next year because the two installements are after the creation of the entity. The creation of the entity is within 75 days from the signature of the term.

So summarizing, we will be at minimum 5% of the price offered this year and next year there will be the payment of the EF.

A - Leonardo Capdeville {BIO 18844450 <GO>}

Mathieu if I can give you some more colors and then after the auction will prepare specific presentation to give you all the details about the frequencies and from our quick calculation, because I think that you don't want to know the number in details by the idea.

We will have the highest level of payment in 2022 could be something close to BRL2 billion more or less, then we will have something very small by the end of this year if it will happen and then will be progressively reduced because the auction is built in a way where we don't pay the frequencies, part of the frequencies are paid in terms of commitment of network building so the cash out will be during the years until 2029. This is not the case for example of other European country if you see there are some reports that show that the Brazilian auction is one of the wise -- the most-wise in the market, because it's much more focusing network building and not in cash out in favor of the government.

But again with (inaudible) work after 4th November to give you some more details and idea about the cash out and then for sure in our plan presentation that will be the first week of March we will get all the details and the impact of our three year plan. Then we didn't forget your question related to the cost. It's clear that we will have some pressure that are related to the energy cost and inflation rate primarily and in part with the exchange currency rates but on the exchange currency rate our purchasing department jointly with their team did a great job and so we are starting to have contract in real so with no index with the dollar and we were able to do that also with international company.

I cannot mention the name but this is a new job that Bruno is doing to reduce our exposure to the exchange of currency rate.

And then the contract that we still have in exchange currency rate in dollar have also some range in which we do not apply any kind of movement. This is the reason for which the impact on the exchange currency rate was very low. Our challenge will be on the inflation and on the cost of energy. We are working already for the next year plan trying to offset this impact with efficiencies in other area.

For example, we are doing a great job on the CRM so we are reducing the time that our stay on the phone with the customer because what we are doing if you remember, Mathieu our target is to become the best Brazilian player by 2023. We want to become the best player, because this is not only a slogan. These allow us on the revenue side to justify with the customer, a premium or high price compared with the cheap offer but in the meantime, if you are able to deliver a good quality of service, we have less cost (inaudible) internally to manage the customer base.

So all the cost for the CRM (inaudible) all these kind of things. And so this is a part in which we are looking for efficiency. On the other side, if you remember 1.5 years ago we were talking about the business process outsourcing as a leverage to improve our cost base in some area where we have to fully automatize. We didn't forget that. We were unable to proceed during the COVID because it was very difficult during the COVID period to proceed on that.

But by the end of this year we will sign three or four BPO that will allow us to have a better cost base on so for the next year. Last but not least, when you see on the provision of the litigation we did also with our legal department a great job in the last two years to reduce the level of litigation with our customer base. And again, our strategy from volume to value and to increase the quality of service is paying off also on the cost base. So there are still room in our cost base to continue to be efficient, it's clear that you cannot work only on the bottom line. We have to work also on the top line, and for this reason, it is very important, the activity that Alberto has put in place to continue to sustain our ARPU increase, and with Renato to continue to sustain new sources of revenue.

But again anything that we are doing a great job that it was in a very good position also to manage the challenges that the macro will put on the table I hope that I was clear Mathieu.

Q - Mathieu Robilliard {BIO 3800915 <GO>}

You were super clear, thank you guys.

Operator

With no more questions from analyst we will now start the public Q&A session from the webcast platform and we will read. Please (inaudible) you may proceed.

Q - Unidentified Participant

Good morning, everyone this is (inaudible) speaking, Head of IR. The first question comes from Cesar Medina from Morgan Stanley and his questions goes, I was wondering if you had any comments from the recent trends in mobile, number portability and mobile service growth. There is a bit softer versus competitors. Thanks.

A - Pietro Labriola {BIO 19448607 <GO>}

So I agree with you on the second part of the question because in terms of mobile number portability is not softer, we are improving our mobile number portability and to be clear for sure is a part of the great job that Alberto is doing on the commercial side but the other is slowing down if you look at the EBITDA result and the cost base of other player I think that the volume strategy is paying off on the contrary, because they are increasing their costs that are not completely reflected in the revenue grow.

Because if you look at the growth in terms of customer base and the growth in terms of revenues year-over-year, but it's also peculiar to look at the growth quarter-on-quarter. I think that there is something that is starting to not be so nice. We had with an amount of revenue that is much lower than some other player an absolute growth in terms of revenue quarter-on-quarter that is the same when another player that has a higher level of revenue and also an higher level of net debts and also a worse level of EBITDA.

So again, as I mentioned, all the time it's clear that you have to do your job and you have to evaluate all the lines but if over the overall performance of team it's much better of the other player if you want can increase the amount of net debt but then you have to accept that reduce the percentage of EBITDA margin that they have to manage. How much -- how many percentage point will accept that will reduce my EBITDA to put an higher level of net debt.

I think that the balance that we found with the positive net debts, the best EBITDA margin, the best cash generation is the right mix of all the things.

A - Leonardo Capdeville {BIO 18844450 <GO>}

This was the last question so Pietro next we'll move to the final remarks, please.

A - Pietro Labriola {BIO 19448607 <GO>}

Okay, thank you to everybody and again I want to thank you all the team for the great job that they were able to achieve. I remember we are reaching our guidance in a macro environment that for sure wasn't there the one that you were planning to face so we are able to achieve the target recovering also the challenges of the macro and so it's important to thank you our team.

Again, we will start now the different meeting and finally, we are back to meet some of you in person and leave me very happy because human touch is always very important and I hope to meet you very soon. Last but not least after the auction we will try to give

you more details about what we are going to do and they hope to give you soon good news about our Oi deal.

Thank you to everybody.

Operator

Thus we concluded the third quarter of 2021 conference call of TIM SA. For further information and details of the Company, please access our website tim.com.br/ir. You can connect[ph] from now on. Thank you once again.

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FINAL

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