

Q3 2021 Earnings Call

Company Participants

- Christian Gebara, Chief Executive Officer
- David Melcon, Chief Financial Officer and Investor Relations Officer
- Joao Pedro Carneiro, Investor Relations Director

Other Participants

- Alejandro Gallostra, Analyst
- Andre Salles, Analyst
- Carlos Sequeira, Analyst
- Fred Mendes, Analyst
- Marcelo Santos, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Telefonica Brasil Third Quarter of 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. Joao Pedro Carneiro, IR Director. We also have a simultaneous webcast with slide presentation on the internet that can be accessed at that 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 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.

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

Joao Pedro Carneiro {BIO 20134826 <GO>}

Good morning, everyone, and welcome to Telefonica Brasil's Third Quarter 2021 Earnings Call. Today's call will be divided in three parts. First, our CEO, Christian Gebara will present Vivo's financial -- main financial and operating figures as well as initiatives on the digital ecosystem and ESG highlights. Then our CFO, David Melcon, will give you more information regarding our cost and CapEx structure, net income, shareholder remuneration, and free cash flow. We will then move to Q&A.

Now, I'll hand it over to Christian.

Christian Gebara {BIO 20398802 <GO>}

Thank you, Joao. Good morning, everyone, and thank you for joining our earning calls. We start on Slide 3, with the highlights of a very positive quarter for Vivo in which we had fixed revenues returning to year-over-year growth after four years. Mobile service revenue boasting the highest rate of annual evolution in six years as solid profitability results that led us to maintain a robust interest on capital distribution and accelerated the buyback of our shares.

In mobile, we reached 82 million accesses in September after growing 7.2% year-over-year. As a result of the accelerated expansion and accesses, our mobile service revenue expanded 5.7% year over the year in the quarter. Both the number of accesses and the rate of mobile service revenue growth are the best, since 2015, denoting the strong momentum we are having no mobile with low churn, improved portability, and market share leadership.

In fixed, in third-quarter '21, we were able to post year-over-year growth for the first time after four years, up 0.4%, achieving our much-awaited inflection point in the business that represents approximately one-third of our total revenues. The result was driven by the expressive growth of 14.8% of our core fixed business with our star-like [ph] fiber to the home broadband, expanding to 37.2% versus third quarter '20, as we accelerate the rhythm of monthly net adds that during the first nine months of the year, surpassed the 100,000 mark on average.

Our solid revenue performance allowed us to achieve EBITDA growth even during a period when inflation expanded double-digit. EBITDA was up 2.1% year-over-year, with our margin standing at 40% as costs remain largely under control due to the efficient financial management leveraging on digitalization. All of these factors led us to register a net income of BRL1.3 billion in the quarter, up 8.5% year-over-year, giving us the base to continue providing the best shareholder returns in the industry by means of dividends and interest on capital deliberation as well as share buybacks.

Going to Slide 4. Our total revenue expanded 2.2% year-over-year, in the third quarter '21, benefit by a solid performance of our core revenues, which grew 5.9% versus third quarter '20. Looking at the service core revenue thus excluding handsets, we see an expansion of 8.0% (sic) year-over-year, accelerating versus previous quarter as the demand from both B2C and B2B customers for high-quality connectivity and cutting-edge technological solution is allowing us to improve the revenue profile and access base mix, consolidating Vivo as the go-to player when it comes to the provision of a digital ecosystem.

Turning to Slide 5. Here we present the mobile revenue performance, which in the third quarter '21 was remarkably strong in comparison to previous quarters. In effect, the 5.7% year-over-year growth of our mobile service revenue was the highest since the second quarter '15, driven by a 7.3% growth in postpaid that came in well ahead of earlier periods. Postpaid was only not benefited by the robust customer base expansion, which I'll deal in the next slide, but also by price increases in July and August 2021, applied to part of our hybrid and pure postpaid customers.

Prepaid in its turn, saw a slight 0.6% year-over-year decline in revenue in the third quarter of '21, but it's interesting to note that, at sequential basis, we posted a growth of 3.9% as customer base increased, and continues to shift to our weekly Vivo PRE Turbo offer which guarantees higher usage and recurrency than daily offers. It's important to notice that in the third quarter '21, our handsets revenue dropped 19.8% year-over-year, partially hurt by the ongoing chipset supply shortage, that impacts the whole smartphone industry, but also, by a tough comparison basis versus the third quarter of 2020, which was a typically high in terms of sales as most of our stores were closed during the second quarter of 2020, thus creating higher demand for handsets in the third quarter of the year. As a result of all these moving pieces, mobile revenues expanded 3.2% year-over-year in the quarter.

Moving to Slide 6. We can see that according to the latest publicly available data, Vivo continues to hold the top spots in terms of overall mobile market share, which also true when looking at the postpaid and prepaid segments. This is underscored by our best-in-class network, unique brand recall within the sector, and widespread distribution channel. Our unchallenged advantage was the strength during the third quarter '21 when we added 1.3 million new mobile customers; 996,000 in postpaid and 292,000 in prepaid. As a result, we surpassed the mark of 82 million mobile access for the first time since second quarter 2015, growing 7.2% year-over-year.

It's important to point out that not only our customers are choosing to stay at Vivo and increase their lifetime value as we can see from the very low 1.2% postpaid churn rate registered in the third quarter of '21, but also that clients from other operators are increasingly joining our base as demonstrated by the 134% year-over-year increase we had on postpaid portability net adds.

On Slide 7, we are very pleased to announce that our total fixed revenue grew 0.4% year-over-year in the third quarter '21, expanding our early basis for the first time since the third quarter '17, allowing us to finally reach a growth inflection point in this very important portion of our business. This is a result of years of investment in future-proof fiber to the home technology that has placed us in the forefront when it comes to capturing the

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strong demand for high-speed connectivity and on the development of a comprehensive portfolio of solutions aimed at connecting and digitalizing businesses. We are able to dedicate our full force to the core fixed business by taking in the past, assertive strategic decision that accelerated the loss of non-core fixed revenues but allowed us to focus on what will bring sustainable growth and positive shareholder impact going forward. As such, while the non-core fixed business continued to drop to the tune of 21.3% year-over-year, the core fixed business grew 14.8% as all services line posted double-digit growth, with FTTx broadband at 11.6%, IPTV at 23.4%, and Corporate Data & ICT up 17.1%. The latter reaching the impressive mark of almost BRL800 million of revenue in the quarter.

Moving to Slide 8. We highlight the performance of our fiber to the home business, which in the third quarter '21, generated BRL1.5 billion in revenues, considering both FTTH broadband and IPTV. To reach this result, third-quarter fiber revenues have been growing at the rhythm of 40.3% per year over the last two years, meaning driven by broadband that boasted a 3Q '19-'21 CAGR of 46.3%, and already surpassed BRL1.1 billion, but also helped by a solid 25.1% CAGR in IPTV.

Moving to the right-hand side of the slide, we see that in the first nine months of the 2021, we added 978,000 new FTTH broadband customers, already outgrowing the total net adds posted in 2020. This is happening as during 2021, we are having a very strong average of monthly net adds at 109,000, well ahead of figure posted in 2020 and in 2019.

It's interesting to note that while the fiber access base '19-'21 CAGR of 32.3% is quite solid, it comes short of the revenue evolution by some 8 percentage points denoting that fiber top line is coming not only from new access but also from pricing power and improved customer mix.

On Slide 9, you can see that we are doubling down our fiber ambition, as we believe Brazil presents an unparalleled opportunity in terms of the relevant symmetry between the demand for high-quality, high-speed and reliable connectivity, which in the long run can only be provided by players with pure fiber solutions like Vivo, and the still faulty [ph] offer of infrastructure enabled to provide such services. In this sense, we are updating our 2024 Homes Passed target to 9 -- 29 million homes, thus proposing to add around 11 million new Homes Passed on top of the 18.3 million we currently have.

The organic portion of this expansion will be composed by the rollout of our FTTH network in new and existing cities and by the overlay of existing FTTC and corporate networks in selected areas. Here, we are being benefited by a 60% drop over the past two years of our Cost per Home Passed, which, still on average is around BRL160. The deployment expertise and efficiency coupled with the growing scale has enabled us to reach this important optimization.

The Home Passed expansion will also have a partnership component with the usage of neutral infrastructure companies such as FiBrasil, which should contribute with almost 6 million homes passed to get 29 million target, thus accelerating our time to market in mid-sized cities outside of Sao Paulo.

Moving on to Slide 10. Here, we would like to give you more clarity on what is behind on one of the main levers of this revenue growth; B2B Digital Services. Over the last 12 months, 23% of our total revenue came from our B2B business, of which 20% or approximately BRL1.9 billion were generated through the sales of cloud, security, IT solutions, and equipment, and IoT and messaging services, with a growth of over 35% year-over-year, which is in line with the performance of high growth B2B tech companies around the globe.

In Brazil, we are seeing companies of all sizes, increasingly digitalizing their businesses as new ways of managing their processes that are related only to their customers arise. As such, at Vivo, we want to move away from the model of being just a connectivity provider for our B2B customers by having in place a digital ecosystem of solutions, offering both services designed in house, such as IoT and messaging, but also products on top-tier partners such as Microsoft, Amazon, and Cisco.

We firmly believe, with B2B digital services, we continue to expand in scope bringing us the quality, recurring revenue flow with a compelling growth profile, and customers with a high lifetime value.

Turning to Slide 11. We present our most recent initiative aimed at complementing our B2C Digital Solutions ecosystem, which is comprised of verticals such as entertainment, financial services, health and wellness, connected homes, marketplace, and education. We've just signed a memorandum of understanding with anima EDUCACAO, Brazil's largest high-quality education company to form a joint venture aimed at creating a business platform to offer digital nano courses focused on lifelong learning and employability, in areas such as: data science, programing, IT, among others. The courses will be sold not only to Vivo customers but to anyone who wants to enjoy accessible, quality content that can help in gaining skills according to personal interests and career aspirations.

The JV will have a 50/50 co-control by both Vivo and anima, with a dedicated and fully independent team to run the operation. Moreover, the new-co will be able to take advantage of important assets and expertise from its parent companies to gain scale inflections such as Vivo's Client acquisition [ph], Go-to-Market and billing capabilities, and anima's educational content, academic operations, and online learning platform. This is another step we take to position Vivo as the company that goes beyond all current [ph] topnotch communication services. Using our assets close the reach [ph] to promote the digital inclusion through education.

On Slide 12, I would like to comment on the evolution of initiatives including our ESG agenda. We continue to expand our Distributed Energy Generation program and now plan on having 83 renewable energy plants functioning by the end of 2022, of which 19 are already fully operational.

Here we highlight the inauguration of our first biogas plant in the Northeast region in the state of Pernambuco with the capacity to generate over 18,000 megawatt-hours per year. On the Diversity front, we've just launched our new internship program, offering 750

internal positions, of which 50% we've issued for black students. Moreover, we are striving to make our leadership team significantly more diverse. By the end of 2021, 30% of all leadership positions at Vivo will be occupied by women.

We are also working with Wayra, the Telefonica group's innovation hub to support disruptive startups scale in their business -- at their businesses. Recent investees include a fintech startup, Olivia, which offers an AI and machine learning-backed financial advisor solution. The security startup, Gabriel, that develops technologies focuses on security and image monitoring. Alicerce, a social edtech that delivers high-quality affordable tutoring for student and (inaudible). GamerSafer, a cybersecurity startup that provides user authentication and ending [ph] fraud services for online games. All of them present significant cross-sell opportunities with people.

As always, I believe it is important to stress that ESG themes are a centerpiece of all that we do as a company to create value for society and all other stakeholders, in a sustainable and compliant way.

Now, I hand it over to David to take us through the financial highlights of the quarter.

David Melcon {BIO 20331862 <GO>}

Thank you, Christian, and good morning, everyone. On Slide 13, we show our recurring cost evolution in the quarter. As presented over the previous slide, Vivo's spin-off of the growth of the revenue based on focusing on core businesses that deliver both connectivity infrastructure and digital solutions. Our cost base is changing accordingly. But annual growth remains well below inflation due to our continued digitalization and simplification efforts. As a result, this quarter, our total cost grew 2.3%, year-over-year, where inflation for the last 12 months reached 10%.

Cost of services and goods sold that are directly impacted by the shift in revenues mix represented 28% of all cost we had in the quarter and contracted 3% year-over-year as cost of goods sold fell 18% impacted by the lower volumes of handset sales in comparison to the previous year.

On the other hand, cost of services grew 8.7% as a result of higher volumes of several licenses and digital content sales. Now, moving to our cost of operations that represent 72% of the expenditure we had in the quarter. Here, we saw a year-over-year growth of 4.5%, impacted not only by a double-digit inflation registered over the last 12 months, but also by the strong commercial activity posted by Vivo in the period.

Now, moving to Slide 14. Here, we show how the year-over-year evolution of our revenues and cost base led to a record EBITDA of BRL4.4 billion, posting an annual growth of 2.1% in this quarter, with a margin of 40%. This positive performance was delivered as we continued to strive with the capture of operating efficiencies with the digitalization of processes related to the client acquisitions, customer care, billing and collection, among others, giving us a net, not only in terms of results, but also when it comes to overall customer satisfaction and experience.

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Here, we also show that this quarter we had a positive non-recurring effect of BRL417 million related to the partial sale of FiBrasil, the fiber infrastructure company we created in partnership with CDPQ and Telefonica Infra. Considering this effect, we had EBITDA growth of 11.8% year-over-year in the quarter.

On Slide 15, we can see that this quarter we invested RBL2.2 billion in our operation, representing 19.5% of the sales we had in the quarter. And leading on nine months capital expenditure of BRL6.3 billion. This quarter, around 88% of the amount we invested was directly to growth and transformation projects, meaning we continue to accelerate our fiber to the home deployment, and hence, our mobile network capacity and quality, and improve our IT systems and data platforms to optimize our day-to-day operations.

To update you on the network sharing agreement we have TIM, during this quarter, we successfully completed the 50 cities pilot for the full network consolidation. It was a very important step between the scope of this agreement, and now, both parties are negotiating the potential extension of the single agreed initiatives to a much larger number of cities. Moreover, the joint 4G coverage expansion was concluded while the 2G switch off continues to advance as planned. We're also investing to prepare our network for the upcoming 5G technology. And at the end of the quarter, we had 5G DSS fully operating in eight major cities, while more than 90% of our sites were fiber in Brazil's 50 largest municipalities. Additionally, almost 2,400 [ph] cities already have Vivo's 4.5G coverage, guaranteeing an enhanced 4G experience that drives to higher data usage.

Moving to Slide 16, during this quarter, our net income reached BRL1.3 billion after growing 8.5% year-over-year, thus taking our nine months profit to BRL3.6 billion, up 3.6%. This strong performance allowed us to maintain our trend of providing one of the highest and most consistent shareholder remunerations among Brazilian companies. During the first nine months this year, we declared BRL1.9 billion for interest on capital, and we will consider older [ph] dividends plus interest on capital deliberation that took place over the last 12 months, our dividend yield amount to 7.4%.

We are also accelerating the buyback of our shares, investing almost BRL400 million to repurchase 8.9 million shares between January and September, this year. Thus closing the quarter with 11.7 million shares in treasury, which translates into 0.7% of our total equity. Note that in order to keep increasing shareholder returns, Vivo is evaluating canceling the shares in treasury in the near future.

In October 5, we also paid out the second tranche of the dividend plus interest on capital, delivered through 2020, in the amount of BRL2.8 billion, totaling BRL5.4 billion in remuneration related to the last year results, a solid BRL3.19 per share.

Now moving to the next Slide number 17. As of September, we generated BRL6.7 billion of free cash flow, reinforcing our very strong balance sheet profile and allowing us to fund the acquisition of both Oi's mobile assets and the spectrum being auctioned next week. These figures represent a free cash flow yield of 10.2% and a free cash flow margin of 16.9%, even with CapEx growing in the period.

As a result and to conclude, we closed the quarter with a net cash position at leases [ph] of BRL7.1 billion, representing a considerable and constant improvement due to it. Now, we can move to the Q&A.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Andre Salles, UBS. Please proceed.

Q - Andre Salles {BIO 21200349 <GO>}

Hi all. Good morning, everyone. Thanks for taking my question. I have a question on the business digital segments. How relevant do you see the digital revenues on the -- during the upcoming quarters? And how do you plan to sustain the current pace of growth on this opportunity? Thanks.

A - Christian Gebara {BIO 20398802 <GO>}

Hi, Andres. This is Christian speaking here. So we -- for the first time we detailed that digital services or B2B, now will have two segments, or B2B and B2C. So talking first of B2B. We show that at 12months growth that is a robust growth and very, very accelerated, and here we include what you call cloud, security, IoT messaging, IT equipment, et cetera, that's all related to B2B. So, we believe that's continue to grow. We see the demand for this type of services accelerating in companies, especially after the pandemic period, the companies want to be with their content on online or on cloud, and they want everyone to be accessing it. So, there is a lot of movement in this segment. And I think, we are very well positioned because we have our own portfolio net leverage on Telefonica Tech, that is the companies from the group, but also in partnerships that we have solid ones with Microsoft, Cisco, Amazon, just to mention some of them.

Going to the B2C, here, it's a different business model. We're going to do distribution of digital service as we are doing the entertainment. So, we've been very successful in distributing video OTTs over fiber, for instance. Around 30% of our fiber new add, no FTTH, new adds come with one of these OTT entertainment bundles. So, I mean here, for Netflix, Amazon, Disney+, Star Plus, among others. But we are also we do that -- and also in the mobile brands, on postpaid, Vivo selfie also come with one of these OTTs embedded, and we also been very successful on this.

But we are also launching a sort of new business that have a more of an independent vision going forward. That is the one that we launched in health. That is a partnership with Teladoc, that is focusing in telemedicine in the beginning, but also with some other partnerships to create a health marketplace. And the ones that we just announced in education that will be a new business as well.

In this case, it's already a memorandum of understanding to build to get the anima JV, that we focus on having something very unique in the market that is an effort education

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that will be focused in giving content, very short content, to people to develop new skills, especially for those that don't have like a university degree, and needs to get more knowledge to get a better employment, so it's -- or better job. So that different type of business. How much they will represent of our revenues, that we are not giving a figure on that. We may give more color on this in the future.

But apart from having some business thereby itself, we have value. So in the case of education, we're creating a business thereby itself may have independent value. We are, for sure, now creating more loyalty to Vivo, so that the idea here is really to create a digital ecosystem around the 97 million access that we have, leverage on the channel that we have, this an omnichannel that's physical, but also online, leverage on the big data, leverage on the brand, leverage on our billing capability, and create an ecosystem that we can gain more engagement, more of the expenditure off that customers in digital services, and for sure, more loyalty in the telco business as well.

Q - Andre Salles {BIO 21200349 <GO>}

That was very clear. Thank you.

Operator

Our next question comes from Marcelo Santos, JP Morgan.

Q - Marcelo Santos {BIO 20444938 <GO>}

Hi. Good morning, Christian, David, Joao, Gabriel [ph]. I wanted to ask a question about the incremental, the increase in the outlook for fiber Homes Passed. So, now you're targeting 29 million. Are these 5 million incremental Homes Passed be done by Vivo and not FiBrasil because you continue to mention 5 million, 6 million homes in FiBrasil which was what you said in the second quarter, but you had a different guidance for Homes Passed and Vivo, so is -- or this new Homes Passed being passed entirely by Vivo?

The follow-up question is: what's the impact on CapEx that we should expect from this plan until 2024? And maybe the last one would be related to what sort of target cities -- what kind of regions or cities, could you share some description of what kind of cities that you will be entering with this extra Homes Passed? Thank you.

A - Christian Gebara {BIO 20398802 <GO>}

Marcelo, thank you for the question. I will try to answer what we can answer, now. The cities, as you may understand, we are now like already in the large cities. We are just focusing now in the mid-sized cities. So we continue with this strategy, widespread along all the regions of the country. And in some of the cities that we already have presence, we may reinforce our presence in some neighborhoods that we still haven't reached. And also, considering these numbers, the overlay of DSL and FTTC, that is still have room to do that and that's more focused ADSL in the state of Sao Paulo, and FTTC in some of the cities that we inherited from the acquisition of GVT.

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And this number that we accelerated now, especially, the CapEx will be the same trend. So, there is no change in CapEx. I think, what we want to highlight here is the CapEx related to Homes Passed, now that we are -- just start presenting a drop. And also if you consider what we have as a number in the third quarter '19 was BRL400. We are presently now BRL160. So, as leverage on that scale that we have been able to capture a lower price in HP. And also, in Homes Connected, we see room to accelerate what we previously [ph] presented as strategy, 4 million for 24 million, now going to 29 million. It will be a combination of the model that we have today, organic, built by Vivo and FiBrasil.

In this moment, we don't share how much is going to be coming from each. But it's going to be a combination of both, also, using the other partnerships that we have as the one that we have in Minas Gerais with American Towers. So it's a combination of the three. What is not in this number is franchising that we are doing separately because we don't get all the full hybrids [ph], but just the franchisee payment of royalties.

So, it -- or the number that we are presenting here is the building on what we have as partnerships today, more are organic and overlay over FTTC and DSL.

Q - Marcelo Santos {BIO 20444938 <GO>}

Thank you very much.

Operator

Our next question comes from Fred Mendes, Bank of America

Q - Fred Mendes {BIO 22302086 <GO>}

Hello. Good morning, everyone, and thanks for the call. I have two questions as well. The first one, you mentioned the network sharing agreement with TIM is doing well. So for '22, are you planning to give any disclosure about this NPV from this partnership? And I know you don't give a guidance the for digital initiatives on the B2C, but just trying to measure here, fortunately, what we believe will be more relevant, the impact this partnership with TIM, or all of the B2C partnerships combined, right. That would be my first question.

And then my second question, when I look at outlook on the FTTH, it is basically flat, right? It's very, very small decrease on this quarter. Do you believe we are already reaching a peak with this BRL90 ARPU, or maybe there is some fees to see for this quarter with more competition, and then a slight pressure on price? Thank you.

A - Christian Gebara {BIO 20398802 <GO>}

Thanks. Hi, Fred. This is Christian. So the risk-sharing scheme goes according to plan. We are very positive about the opportunity that we may get from this now, and maybe the opportunity to even expand, not what we're doing. So, I think we've presented in the past, now it has three big areas. The first one was the 4G in the small cities. We already know -- we already deployed it in 716 cities, 360 [ph] more or less for each operator. So, we are providing coverage in places where they don't have coverage, and they are providing coverage for us in places that we didn't have covered. So, that's the first one that we did.

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Then, there's the single-grid model. That is maybe the most complex one in terms of deployment. We did a pilot in 50 cities, 25 each operator. Results are being mapped out right now, they are good.

So, we expect to do it more -- in more cities now And then you have a plan for more than 1,000 cities in next year. This year, we may start deployment in maybe 100 cities each. And having like this 1,600 [ph] cities for the future.

In the 2G, there's the shutdown. Yeah, also we are preparing our systems for doing something like this. This led the -- the plant is again under the schedule that we defined before. And the objective here is to do the shutting down in some of the cities that we both have 2G and the other one will be offering the solution to the other one in 2022. So, that's basically how the plan, and of course, all these initiatives will bring us CapEx and OpEx savings for both companies.

We don't give the figure, but we are positive. And also it will open us some fronts for the future, not only more 4G cities, with it was larger sizes, but also considering 5G could also be an opportunity going forward. There is a second piece in this part. But going to the FTTH ARPU. Now, I think the FTTH ARPU, if you see that in the year, and all in the nine months, now if we are growing ARPU around 6%, if you go to specific quarter, we may have some like promotions in a specific month that could be impacting ARPU, and some smaller cities where the entry point will be a little bit lower in speed that we had in the previous quarter.

What we believe here is that we need to accelerate. We are gaining a lot of momentum. Our net adds are accelerating. Our total revenue is growing a lot, as you could see all the numbers presenting. And we believe we all should be very rational about pricing in fiber and, also now, with the inflation that we are seeing maybe next year, a price adjustment will be needed. And we are very open to do so, and brushing [ph] out in a business that requires investment, and we should be very wise about how competitors also will behave because we all need that. We also reinforcing our presence in the convergence arena that I think we are the leader in this one.

So, offering attractive but not irrational offer for customers that are both mobile and fixed users [ph]. And also, as I said before accelerating the bundled offer with IPTV when a customer wants it, but also we are totally open for the customer. Not defending the Pay TV business because of our market share but we are very open to bundled fiber with video OTT being very successful. That has a good impact also in improving our ARPU, so doing that with Netflix, Amazon; now launching Disney+ and Star Plus. And other offers will be coming in the next months.

Q - Fred Mendes {BIO 22302086 <GO>}

Yeah. That's very clear. I appreciate it.

A - Christian Gebara {BIO 20398802 <GO>}

Thank you, Fred.

Operator

Our next question comes from Carlos Sequeira, BTG Pactual. Please proceed.

Q - Carlos Sequeira {BIO 19112435 <GO>}

Hi, 'morning, Christian, David, Joao, Gabriel, and all the team. I thank you very much for taking my question. So, I will follow up on Fred's question on FTTH. Maybe, I have a couple there. One is: if you can give us an overview of the competitive environment? I know a lot has been -- there is a lot of talk in the market after all the IPOs from the ISPs -- some ISPs. And maybe you can give us some overview of how you are seeing competition and how you're competing against these players that are becoming bigger, and now with more money on their hands?

And maybe another question on FTTH and expansion. You were growing in basically three ways by doing investment yourself via FiBrasil and also with the partnership with American Towers. I'm wondering if there are any other avenues or partnerships you can cut to try to grow even faster, maybe exploring other neutral networks, or maybe a partnership with larger ISPs?

I'm just wondering if there is any other thing you can do to make this expansion even faster, which by the way is amazing today.

A - Christian Gebara {BIO 20398802 <GO>}

Carlos, thank you for your question and your comments. Let's see, it's a lot of questions now in one. Let me -- yes, there are many ISPs and they are different nature, the ISPs. Now some of them are very focused in very small cities and our overlap is very limited.

And there are others now, as you would -- you very well described that may be competing face to face with us. And I believe, we have assets that they don't have; I believe our network in -- I don't-- I won't give you names of the ISPs, I think there are different natures and different companies. Some of them, they don't have the same type of technology and the network that we have. So, I believe when speeds and the demand for high speeds come as one -- as strong demand from customers. We are much better prepared to respond to the demand. For the configuration of our network and for the CPs that we are using.

Then there is also the content part in the TV, IPTV. Still there are a number of customers that require IPTV. So -- and they facing with this type of competition, now we are better equipped to respond to these customers. And there is also agreements of OTT. They can offer OTT video, but we have in most of the cases very beneficial agreements that could offer to these customers a better value proposition.

And then there is the mobile piece that we are not using it in a very aggressive way. We don't expect to use it in a very aggressive way. But of course, again, it's another competitor -- the centers that we have, being the leading company in both postpaid and prepaid.

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So, all this glad that [ph], and together with the channel capillarity that we have, and all these new agreements that we are building with the digital ecosystem, I believe we are in a very strong position to compete and to be and continue with these net adds, very, very good ones. And again, being very wise in the price. I don't want to, although I can't, I don't want to reduce prices. I think we should be all be careful about the ARPU of the fiber and be very rational, not to get into a war in price that I don't think it's going to be beneficial to anyone. But specifically for the smaller ones, it will be even worse.

Going forward in the model, yes we are very positive about our partnership with FiBrasil. We are very keen on doing what the plan that we have defined with them. We continue with this one, we continue with the partnership of American Tower, as I said, in Minas Gerais. We continue with the franchising model that's building a lot of new cities and it's good one to smaller cities, and we continue also betting on this as some of the partners that are our partners in the channel. Resellers are also investing in fiber, so it is a good combination to strength (inaudible) partners because it going to be a reseller of mobile but also a fiber franchisee, so it's a good one.

But of course, we are open to see different type of partnerships. There the key partner is FiBrasil, but we are open to listen to other opportunities, as we see now, there are other neutral fiber companies in the market. If then -- and regarding the smaller ISPs, it always depend on the quality of the assets. And I mean quality in all terms: technical, physical, and the customer orientation that they may have.

Q - Carlos Sequeira {BIO 19112435 <GO>}

Perfect, Christian. Thank you very much.

A - Christian Gebara {BIO 20398802 <GO>}

Thank you, Carlos.

Operator

Thank you. (Operator Instructions)

Our next question comes from Alejandro Gallostra. Please proceed.

Q - Alejandro Gallostra {BIO 17362308 <GO>}

Hi, good morning, everyone. Could you please provide a further explanation about how you managed to decrease the cost per Home Passed that much over the past two years if those costs are exposed to FX fluctuations, and how much you can decrease these costs in the future?

And I was wondering if this is the actual cost of passing a new home, or if you're averaging that cost with the Homes Passed that you gained through partnerships as well?

And third, if I may, I was wondering if you could provide us with the additional cost of interconnecting each home once you acquire the customer? Thank you.

A - Christian Gebara {BIO 20398802 <GO>}

Hi, Alejandro. No, the cost is our cost. Is not considered partnerships of the cost that Vivo deploying in the Home Passed. FX has very limited impact. And I think here is the combination of our expertise, the scale of the equipment that we are using, and our ability to be able to just know the expertise is not only local but it's also international as we are one of the leading group in fiber in the world.

So it's -- it's a combination of many things. And also, we are very positive about the possibility of going down in the future. Is also important when we compared our numbers with other numbers that it all depends a lot in the city that we're deploying, we are not deploying in the very small city, maybe the costs may be a little bit lower than the one that I'm presenting here. So, that's why sometimes some companies present the number that's different from ours.

Also, we are building infrastructure. We are not renting, for instance, the wholesale traffic or backhaul. So, that's why we also are building on. And also, when we go to city and the Home Connect that you are describing here, we use top equipment and the price also is going down, that is around BRL800 today, the Home Connect, okay, without IPTV, fiber-connected.

Q - Alejandro Gallostra {BIO 17362308 <GO>}

(inaudible). Okay. Thank you very much for the explanation.

A - Christian Gebara {BIO 20398802 <GO>}

No problem. Thank you.

Operator

Our next question comes from Marcelo Santos, JP Morgan.

Q - Marcelo Santos {BIO 20444938 <GO>}

Hi. Thanks for the follow-up. I wanted to ask you about the prepaid to postpaid migration, you have been having a lot of success, and I think that's part of your strong postpaid revenue growth. How much more space is there for you to fish in the prepaid aquarium? And is the fact that the economy is deteriorating and the macro outlook is not good, does it like slows down this process? Thank you very much.

A - Christian Gebara {BIO 20398802 <GO>}

Marcelo, we're still being very positive commercially in acquiring new customers from prepaid. So the lake that we could use for migration is still very large. So, that's why we still being very successful in migrating. So, I see the possibility are still there. So, we continue to do that, and again after all this movement that we have in the competitive

movement that we are having in the market may also give us opportunity to get more prepaid customers and also migrate to the future.

I think here it's much more, how do I migrate, and also there is a possibility to up-sell within the hybrid, that we are also doing that. And also adding to this hybrid customer, new digital services. So also I think I see the opportunity to increase the ARPU. So positive that we still have room to go. Of course, the economic situation of the country impacts the prepaid. Now we have the new government add, now that was approved. That's positive for the prepaid.

So once that's in place, it will be a positive impact in the prepaid. So, going forward commercially, we will continue to be strong and possibility to migrate is still there, and we should consider incremental ARPU in the hybrid, if you're successful -- commercially successful in giving more services to the customers already in our customer base.

Q - Marcelo Santos {BIO 20444938 <GO>}

Perfect. Thank you very much.

Operator

Next question comes from Carlos Sequeira, BTG. Please proceed.

Q - Carlos Sequeira {BIO 19112435 <GO>}

Hi. Thank you for taking my follow-up question.

Now, switching to mobile and the 5G auction, we also (inaudible) showed that there were 15 bidders for the upcoming auction, naturally, it was one of the bidders. My question is, do you anticipate an increase in competition coming from this potential new bidders or do you think they are more -- they are going to focus more on maybe niche opportunities or -- how do you see -- I know it's early and the auction is only next week, but how do you see the interest that was shown by these potential bidders in the upcoming auction, please?

And one more. And I know this might be a little sensitive but there are news in all newspapers talking about maybe -- maybe a discussion between CADE Ventures and the three telcos that are -- that made an offer to buy Oi. My question is: is it a negotiation or how do you expect this to move forward or are you just waiting for CADE's final say probably in February, next year?

A - Christian Gebara {BIO 20398802 <GO>}

Carlos, for the second question, that's the standard process of approval of operation that size. We've been interacting through lawyers in the normal process of the technical team in CADE, nothing different from what was expected. Although, the operation was very well designed, as I said before, both in the spectrum split and customer split, complying

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with all requirements, both from the regulatory agency and the CADE. So normal discussions in a operation this size.

In the 5G, as you know, Carlos, it's a large auction, although it's 5G. But it's a lot of things there. Some of these blocks [ph] have different configuration. Some of them started national then become regional; some of them are regional from scratch. We're also talking about the very high band, millimeter [ph] band. So there are so many configurations and opportunities for players that the number of players don't see a lot. Also, let's wait for the auction itself because we really don't know who is betting for what. Now, it's -- that's something there -- just find out on the day of the auction.

But the names that we saw are names that are already acting here in this market in telecommunication, a way or another, no? So, let's see what their real interest are. I think it's an auction, that are many different things, and a lot of obligation, no? As you know, there is a lot of investment committed to the acquisition of any of the blocks. So I believe we have a very strong position to be very competitive because we've been investing in the country for so many years. We have a customer base that is unique and we have the infrastructure already in place that gives us much more scale and synergies going forward to comply with the new obligations that will be put in place. So, let's wait; let's see.

Q - Carlos Sequeira {BIO 19112435 <GO>}

Perfect. Thank you, Christian.

A - Christian Gebara {BIO 20398802 <GO>}

Thank you.

Operator

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

A - Christian Gebara {BIO 20398802 <GO>}

So, thank you, everyone. As final remarks, just to highlight that we are very excited about our fixed revenue, is now growing after so many quarters that we've been talking about this transition and reverse trend. Also, very optimistic about our business going forward, now to the rise in customers in the mobile and fixed, but also in the digital opportunity that we see ahead, being a key player in a digital ecosystem in our country.

So, thank you all, and we are always here available for any further questions you may have.

A - David Melcon {BIO 20331862 <GO>}

Thank you.

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Operator

Thank you. This concludes today's Telefonica Brasil 3Q '21 Results Conference call. You may disconnect your lines at this time. Have a nice day.

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