

Results

4Q19

>>>>

Telefônica Brasil S.A.
Investor Relations

February, 2020 >

Telefônica

vivo



➤ DISCLAIMER



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



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



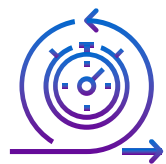
Our actual results may differ materially from those contained in such forward-looking statements, due to a variety of factors, including Brazilian political and economic factors, the development of competitive technologies, access to the capital required to achieve those results, and the emergence of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



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



» 4Q19 HIGHLIGHTS



Key Segments

+30.8%

FTTH Customers YoY

FTTH Revenues
(+37.6% YoY)



+6.9%

Postpaid Customers YoY

Postpaid Revenues¹
(+4.1% YoY)



Revenues

+2.6%

YoY

Total Revenues



+2.2%

YoY

Mobile Service Revenue
(+5.7% YoY Total Mobile²)



Profitability

+5.4%

Recurring EBITDA YoY

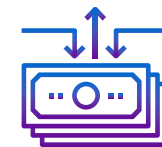
38.2% EBITDA Margin



-1.9%

YoY

Recurring **Costs ex-COGS**
(+1.0% YoY Total Costs)



Cash

R\$ 8.2 bn

2019 Free Cash Flow

+19.0% YoY



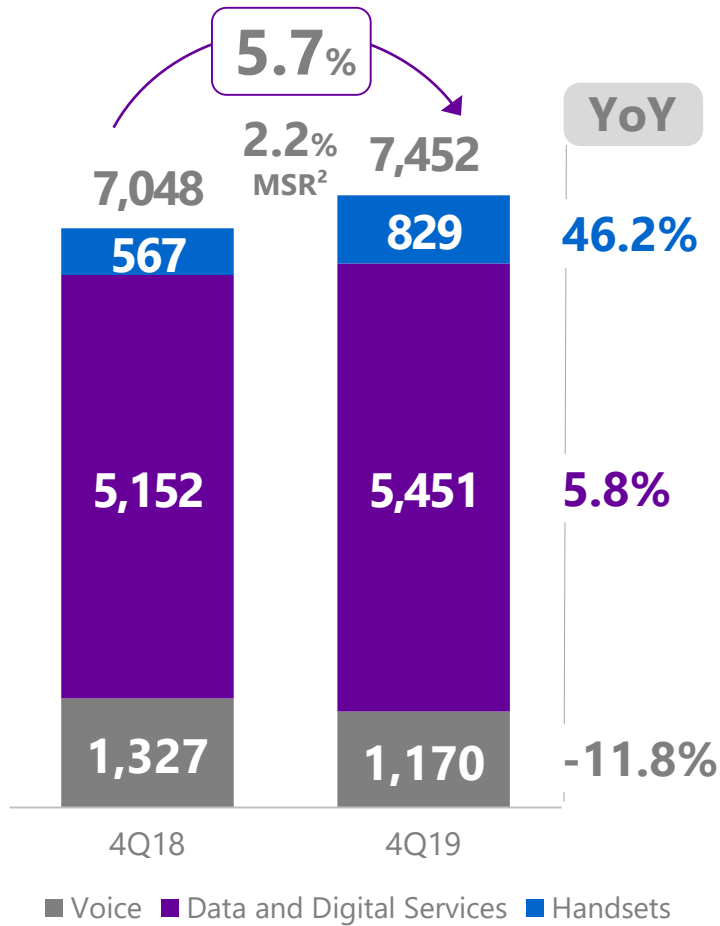
R\$ 5.0 bn

2019 Net Income

R\$ 5.8 bn Remuneration
(116% Payout)

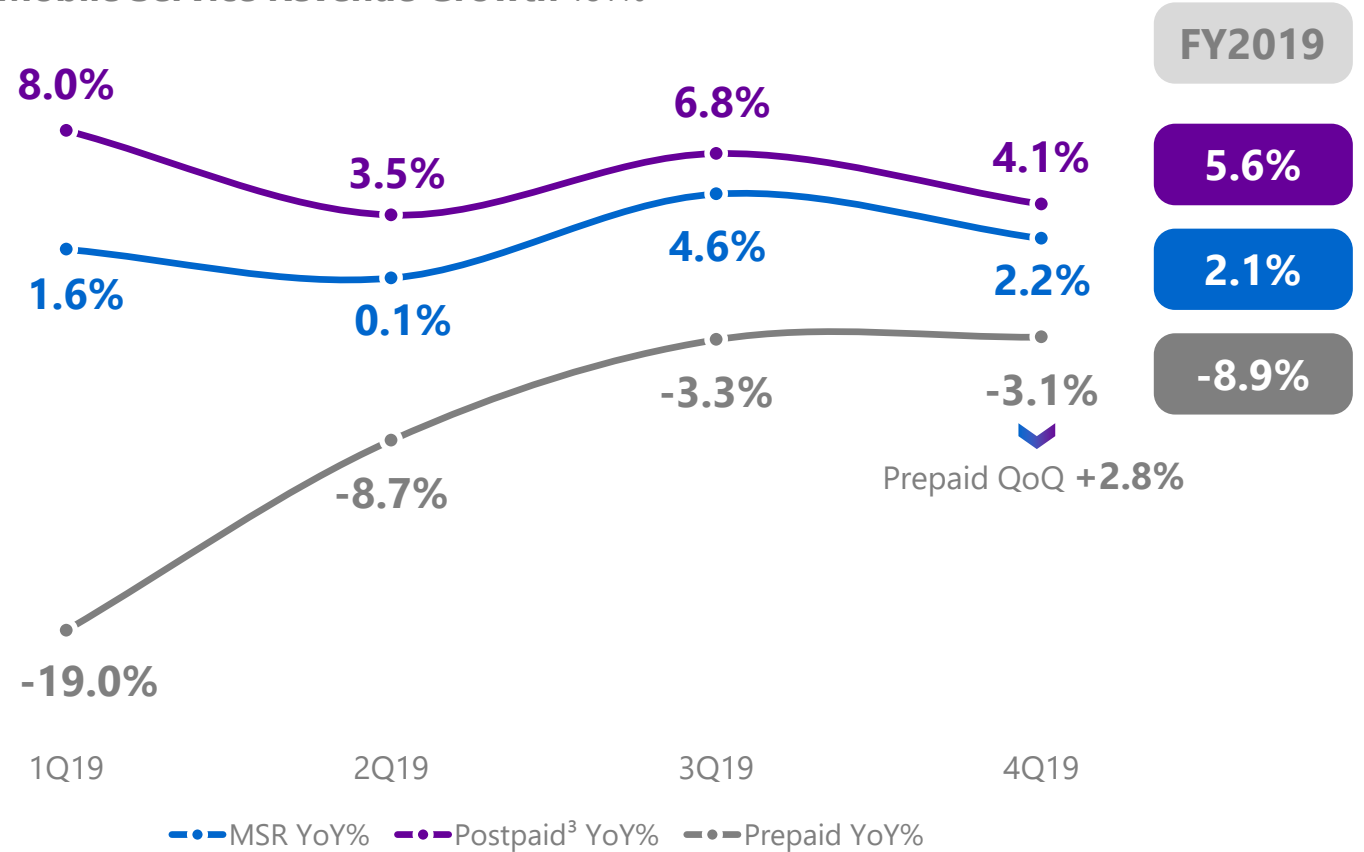
➤ MAINTAINING STRONG GROWTH OF MOBILE REVENUES WITH SOLID PERFORMANCE OF POSTPAID AND HANDSETS

Mobile Revenues¹ R\$ Million >>>



MSR evolving positively with solid performance of postpaid and prepaid growing sequentially for the third quarter >>>

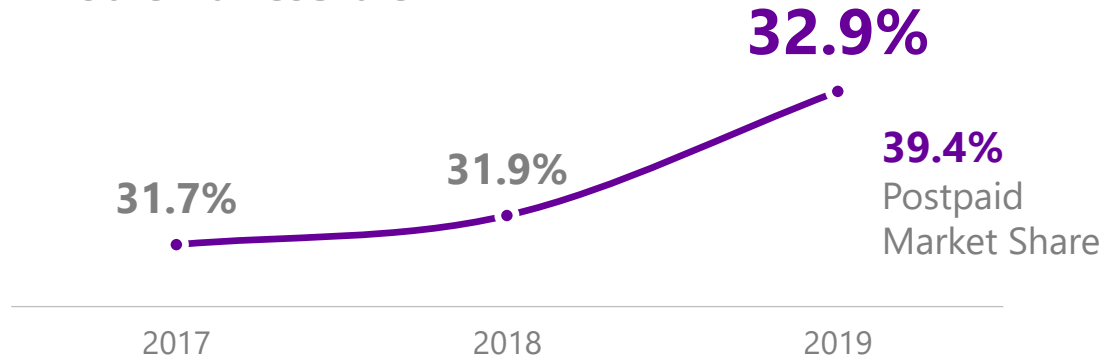
➤ Mobile Service Revenue Growth YoY%



► STRONG COMMERCIAL ACTIVITY IN THE QUARTER SOLIDIFYING OUR MARKET SHARE AND ARPU LEADERSHIP

Highest mobile market share since 2006, attesting our unmatched leadership in quality >>>

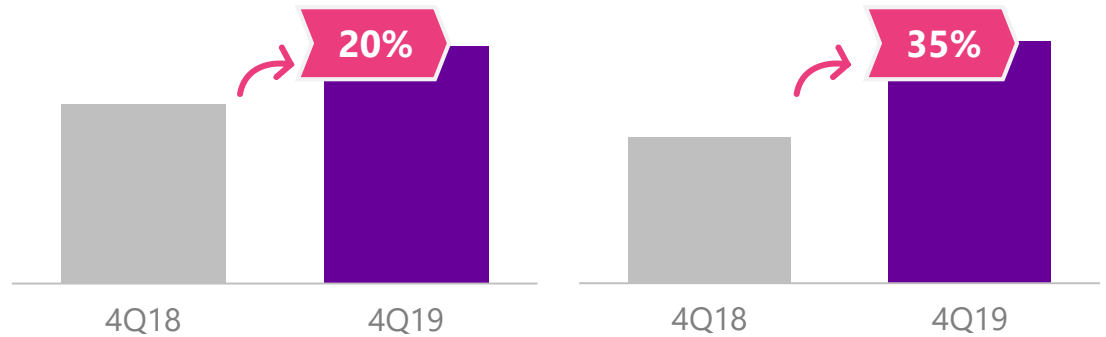
► Mobile Market Share



Handset sales acceleration driven by successful commercial strategy at year end >>>

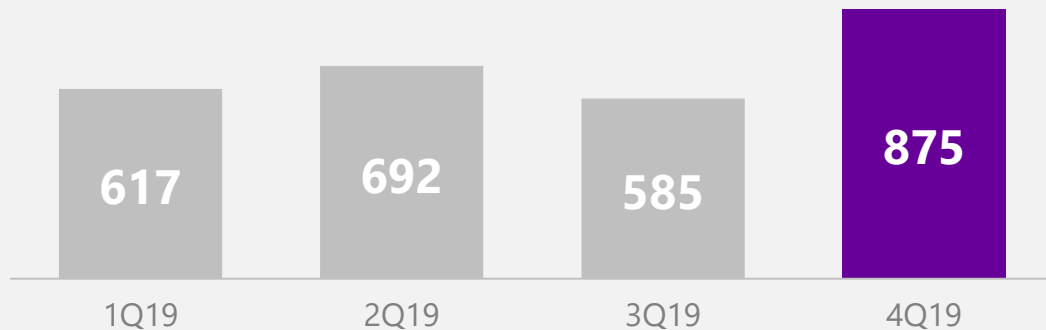
► Handsets units sold YoY%

► Handsets unitary value YoY%



Postpaid net adds picking up in Q4, despite price increases in Q3 >>>

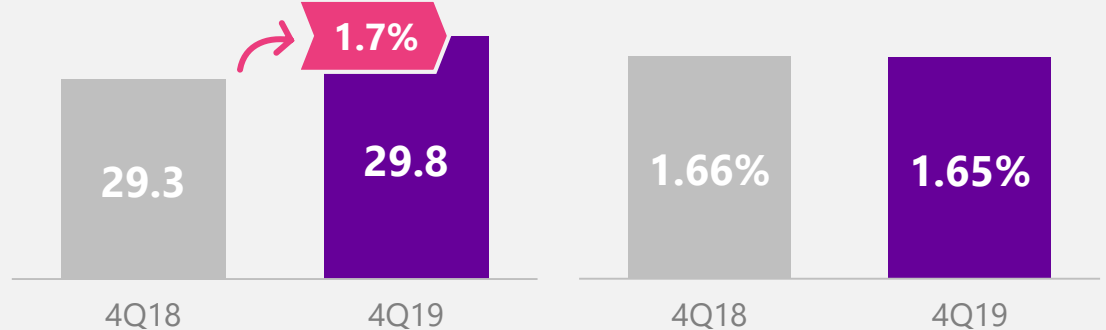
► Postpaid Net Adds thousand



Continued ARPU growth with controlled churn >>>

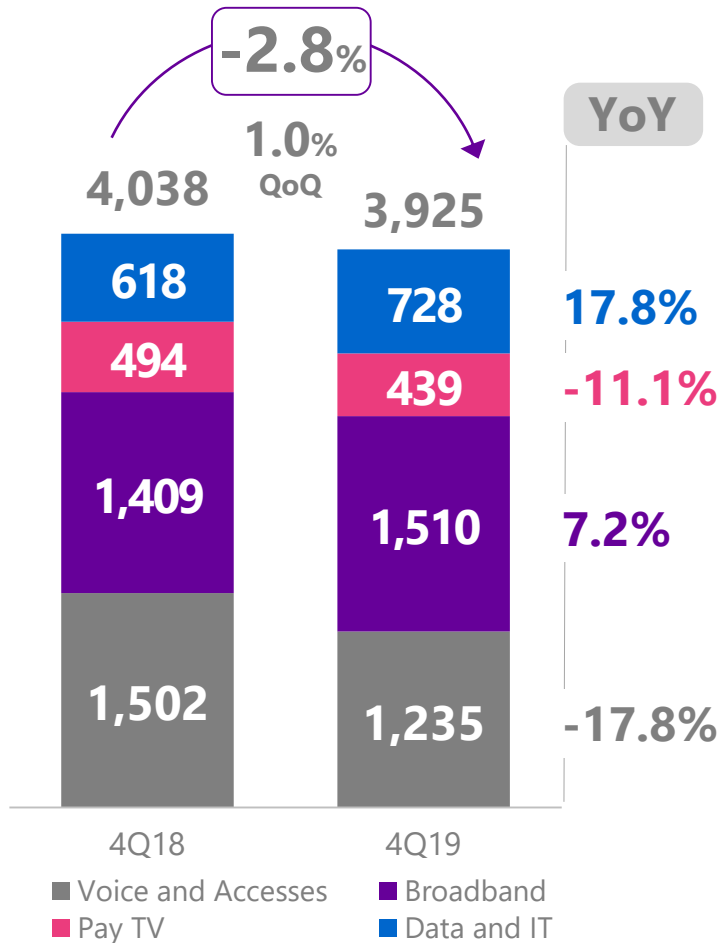
► Total ARPU R\$ per month

► Postpaid Churn ex-M2M



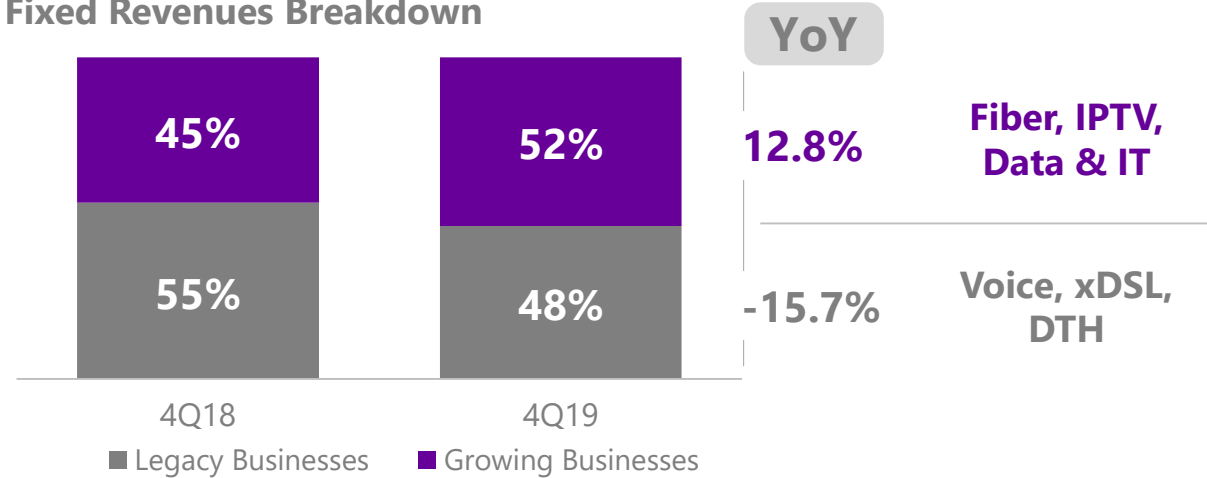
REVENUES FROM GROWING BUSINESSES GAIN PROPORTION, CONTRIBUTING TO SEQUENTIAL GROWTH OF FIXED BUSINESS

Fixed Revenues¹ R\$ Million >>>



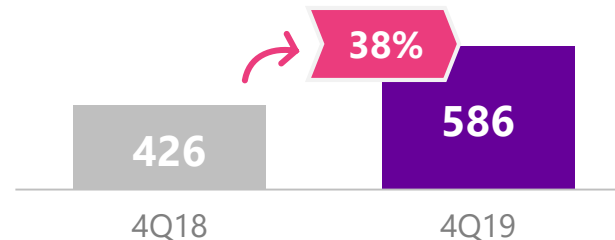
Improved revenue mix on a yearly basis, with growing businesses leading to structural improvement of our fixed segment >>>

Fixed Revenues Breakdown

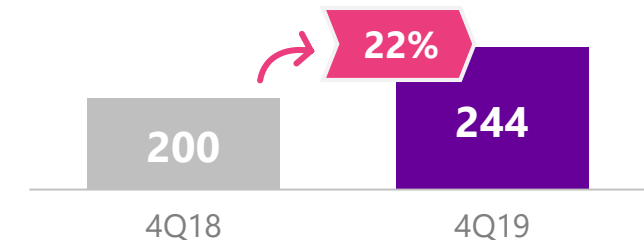


FTTH + IPTV revenues already representing ≈21% of fixed revenues, with a combined growth of 32.7% YoY >>>

FTTH Revenue R\$ million



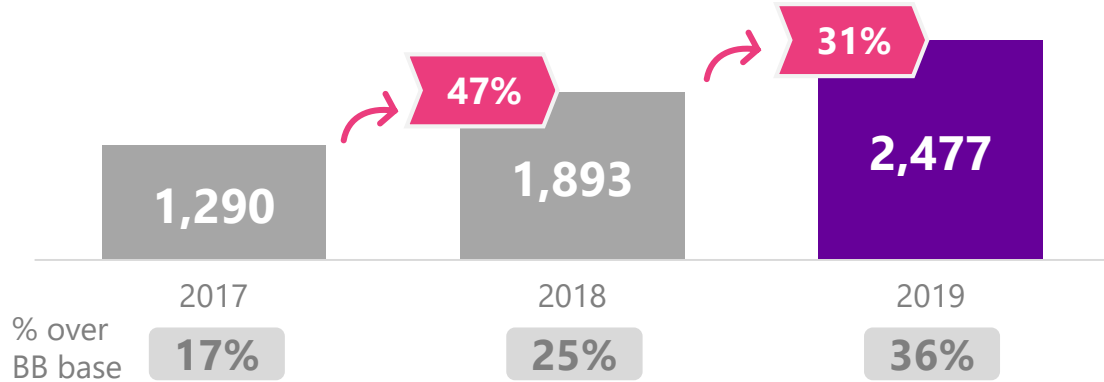
IPTV Revenue R\$ million



➤ FIBER SERVICES ALREADY REPRESENTING ALMOST 40% OF OUR TOTAL BROADBAND + PAY TV ACCESSES, DRIVING ARPU GROWTH

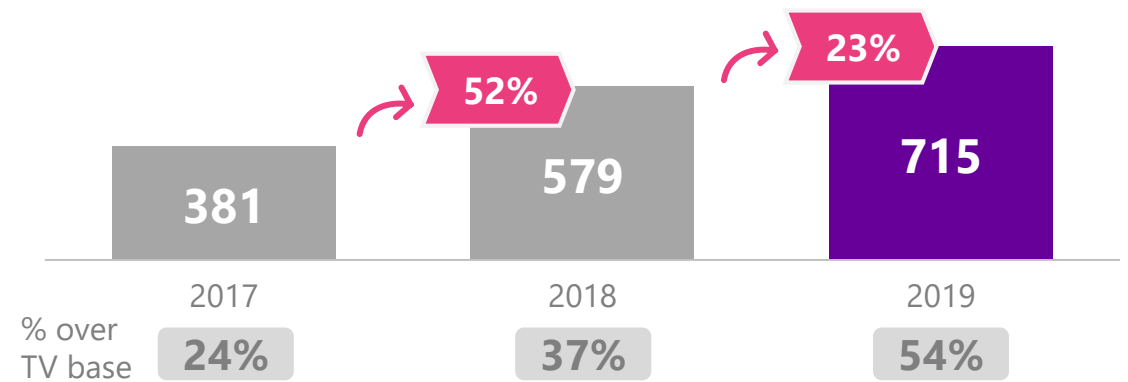
Broadband Accesses and ARPU >>>

➤ FTTH Accesses Thousand

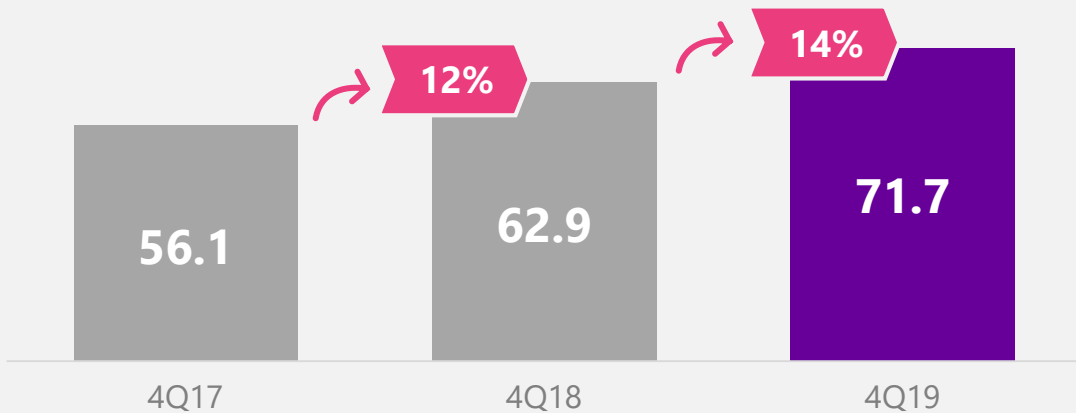


Pay TV Accesses and ARPU >>>

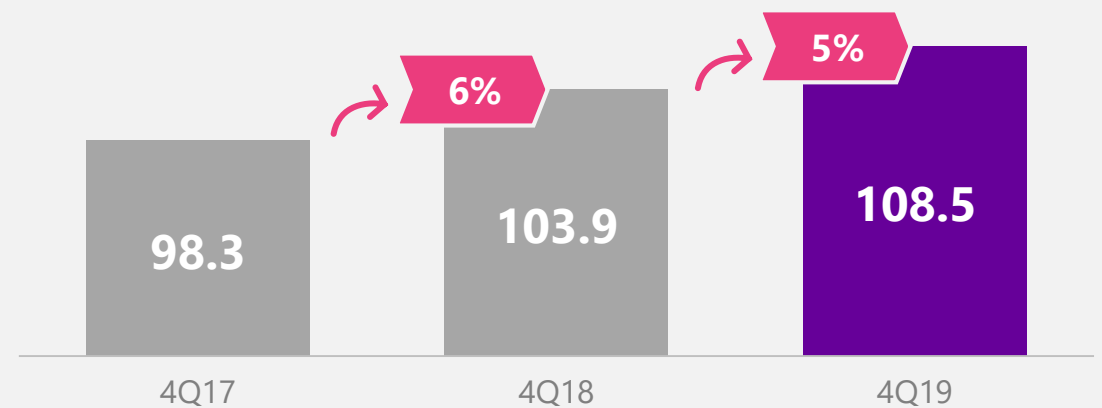
➤ IPTV Accesses Thousand



➤ BB ARPU¹ R\$ per month



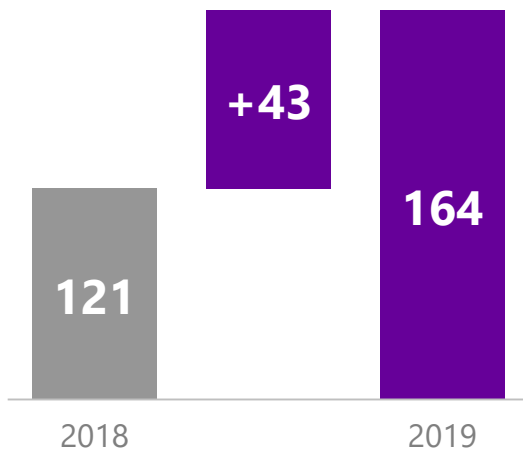
➤ Pay TV ARPU¹ R\$ per month



FTTH EXPANSION AT FULL SPEED, AMPLIFYING OUR PRESENCE AND CONTRIBUTING TO CUSTOMER TOTALIZATION

43 cities launched in 2019 in 12 different states, expanding our FTTH network >>>

FTTH Cities



Cities launched in 4Q19

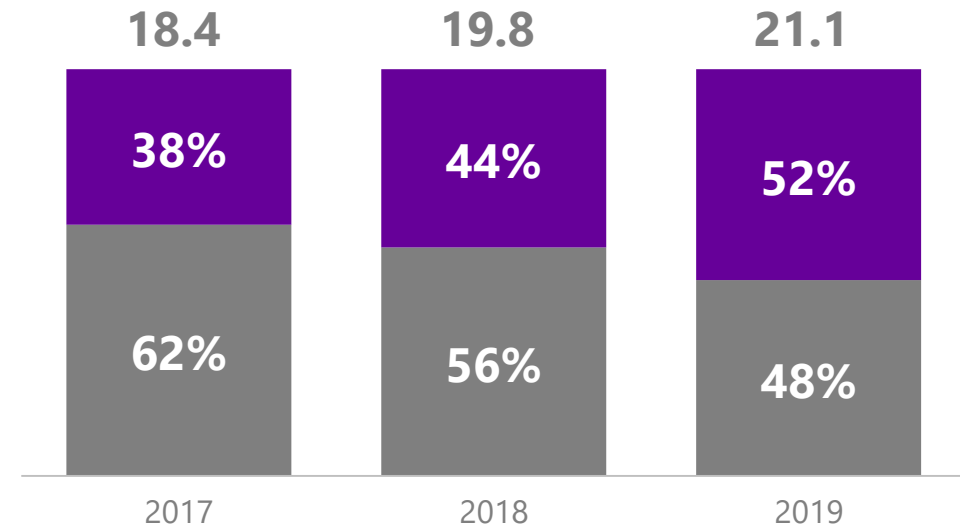
- > Barbacena/MG
- > Cascavel/PR
- > Itapira/SP
- > Jaboatão dos Guararapes/PE
- > Nova Odessa/SP
- > Olinda/PE
- > Ponta Grossa/PR
- > Rondonópolis/MT
- > São João da Boa Vista/SP
- > Vila Velha/ES

Alternative expansion models progressing as expected, with promising early results >>>

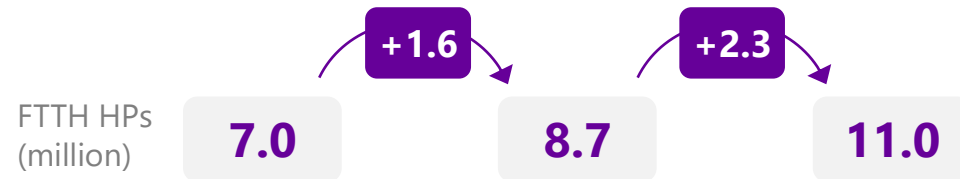
- > We launched the first city in partnership with ATC, Barbacena/MG, with proven success in terms of network, systems and platform integration
- > Two franchises in the state of Goiás are already operating, with more than 30k HPs and strong initial take-up

Fast deployment of new FTTH HPs in 2019, already surpassing the number of FTTC HPs >>>

Fiber HPs Distribution million

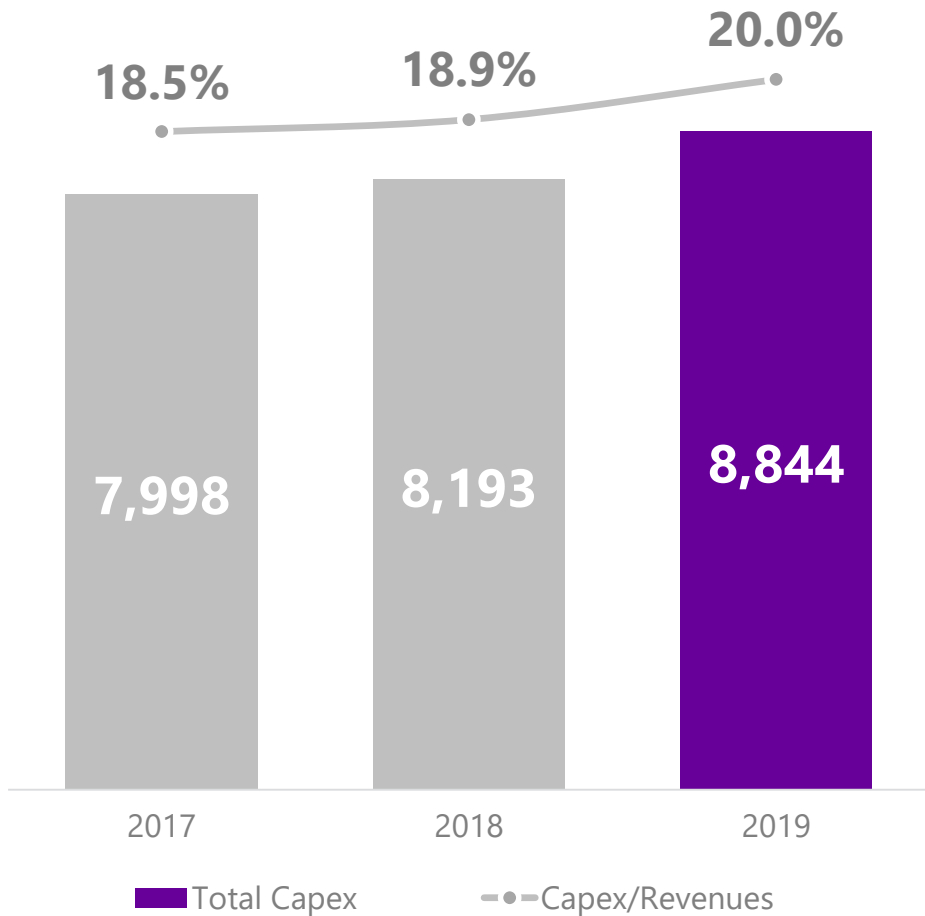


■ FTTC ■ FTTH



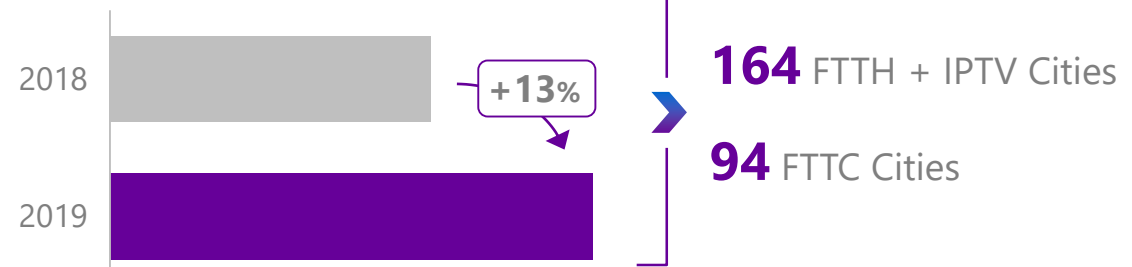
➤ INVESTMENT OF R\$ 8.8 BILLION IN 2019, BELOW GUIDANCE DUE TO EFFICIENCY IN DEPLOYMENT

Capex ex-Licenses¹ R\$ Million >>>

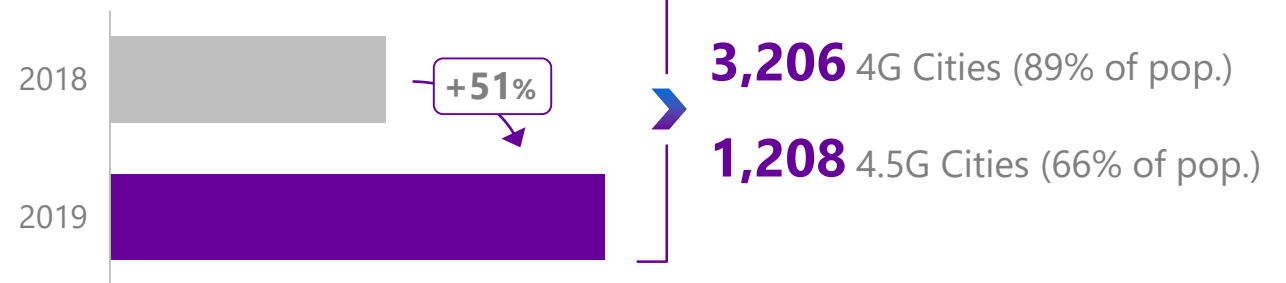


Best-in-class network infrastructure further improved throughout the year with investment in fiber and 4G >>>

Fiber Investment



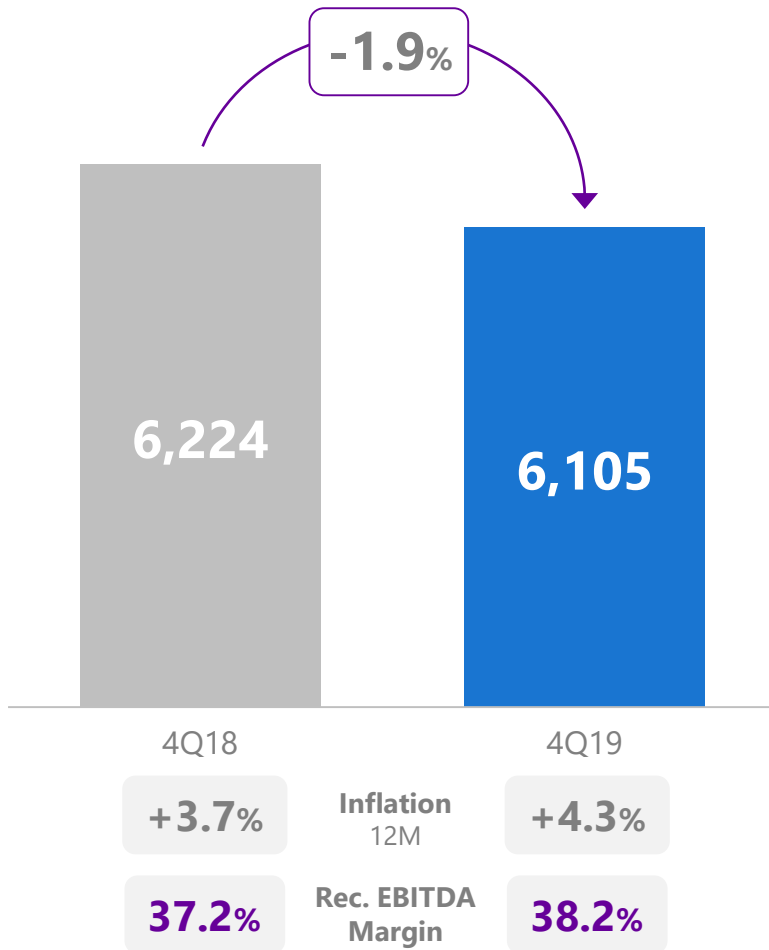
4G/4.5G Investment



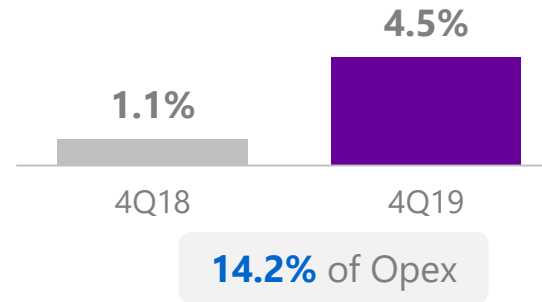
The Network Sharing Agreement signed with TIM last December is pending regulatory approval to start being implemented and produce efficiencies

➤ DIGITALIZATION AND AUTOMATIZATION PROCESSES CONTINUE TO CONTAIN COSTS, ACCELERATING EBITDA GROWTH

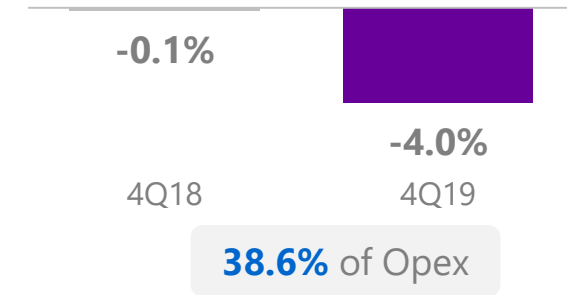
4Q19 Cost Evolution ex-Cost of Goods Sold¹ >>>



Personnel¹ YoY

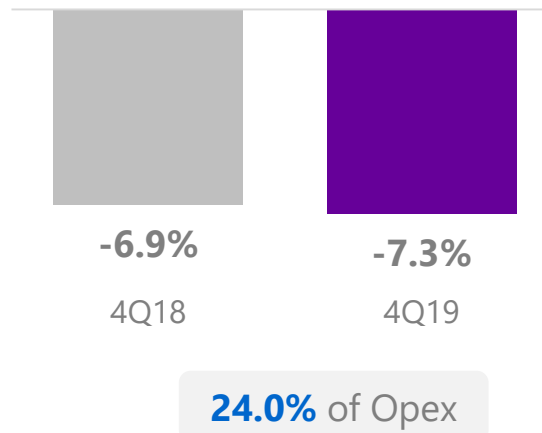


Cost of Services Rendered YoY

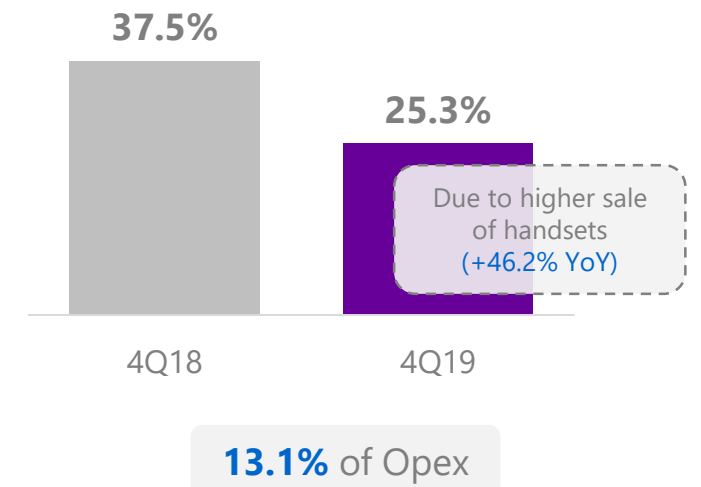


Reclassification of costs from third-parties included in Cost of Services Rendered to Personnel due to the **insourcing of IT and Security activities** with productivity and quality gains

Commercial Expenses ex-Bad Debt YoY



Cost of Goods Sold YoY



➤ R\$ 846 MILLION IN SAVINGS FROM DIGITALIZATION AND AUTOMATION ALREADY CAPTURED, IMPROVING OUR COST STRUCTURE AND CUSTOMER EXPERIENCE

YE 2019

Billing & Collection

73%

e-billing penetration
(+15 p.p. YoY)

53%

payments through digital platforms

Customer Care

16mn

digital channels users
(+14% YoY)

-25%

call center calls YoY

Automation

508

robots in use
(85% accuracy)

62%

technical support through Meu Vivo solved digitally

Opex savings, net of inflation

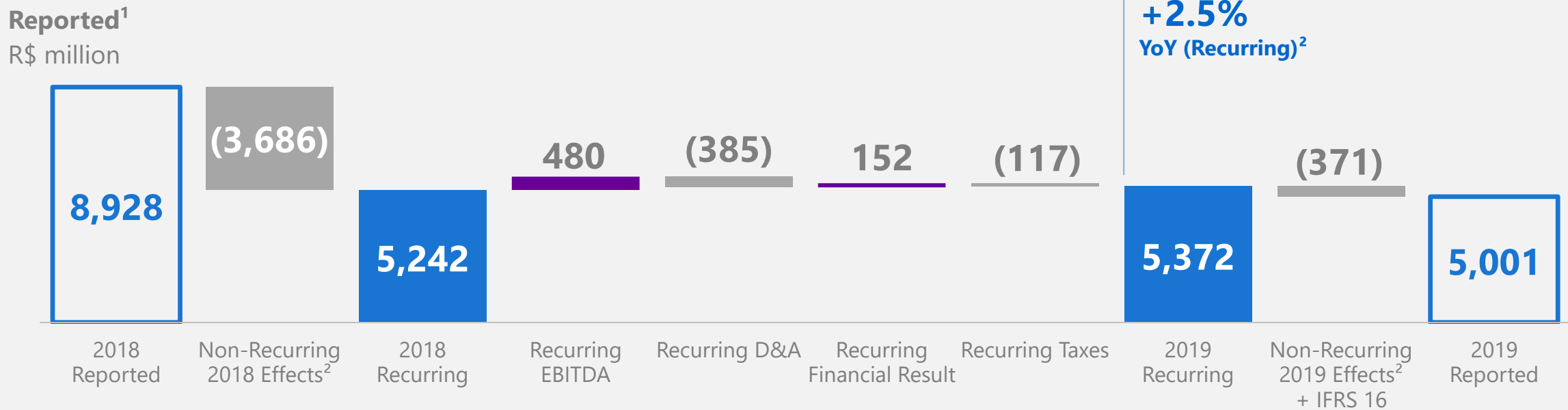
2019 vs. 2018:
R\$ 452 mn

2019 vs. 2017:
R\$ 846 mn

54%
of R\$ 1.6 bn captured¹

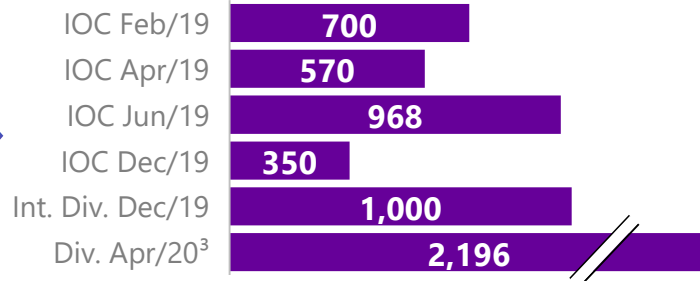
➤ DIVIDEND PAYOUT OF 116% OVER THE NET INCOME OF 2019, WITH A STRONG SHAREHOLDER REMUNERATION OF R\$ 5.8 BILLION

2019 Net Income >>>



R\$ 5.8 BILLION IN REMUNERATION BASED ON 2019 NET INCOME

Distributions – R\$ million



GROSS/PN **R\$ 3.53**

PAYOUT **115.6%**

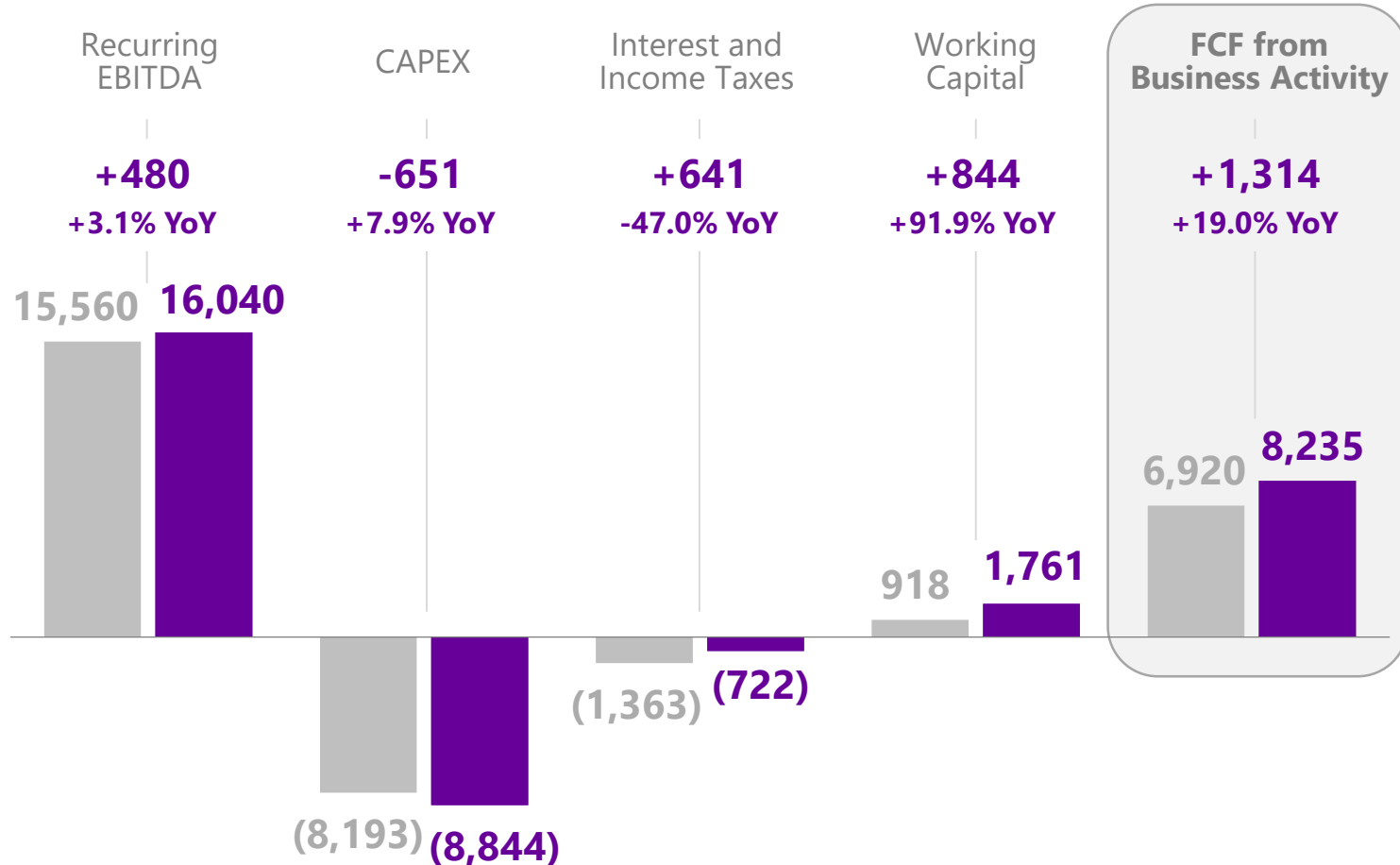
PAYMENT OF REMUNERATION BASED ON 2019 NET INCOME

Aug 2020: R\$ 3.6 bn

Dec 2020: R\$ 2.2 bn

➤ FREE CASH FLOW GROWING 19% YOY AND REACHING R\$ 8.2 BILLION IN 2019, LEADING TO A FCF YIELD¹ OF 9%

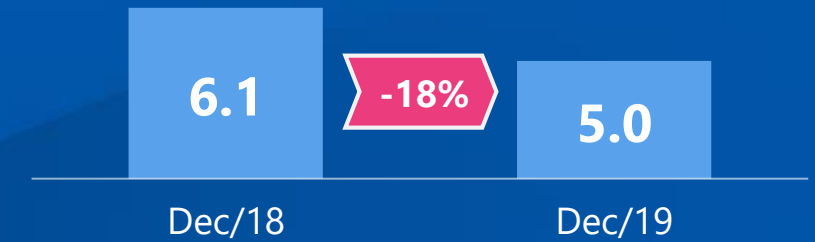
Free Cash Flow² R\$ million >>> 2018 2019



Strong cash generation leading to debt reduction



Gross Debt³ R\$ billion



Net Debt³ R\$ billion



Considering IFRS 16 effects, Net Debt reaches **R\$9.9 bn**

» EFFECTS OF IFRS 16 ON OUR 4Q19 RESULTS



» » » »

R\$ Million	Pro forma		Reported		
	4Q19 w/o IFRS16	Δ% YoY	IFRS Adjustments	4Q19 w/ IFRS16	Δ% YoY
Net Operating Revenue	11,377	2.6%	0	11,377	2.6%
Recurring Operating Costs	(7,026)	1.0%	489	(6,538)	-6.1%
Cost of Services Rendered	(2,712)	-4.0%	434	(2,278)	-19.4%
Commercial Expenses	(2,104)	-3.7%	23	(2,082)	-4.7%
G&A Expenses	(372)	-2.1%	32	(340)	-10.5%
Recurring EBITDA	4,351	5.4%	489	4,839	17.3%
Recurring EBITDA Margin	38.2%	1.0 p.p.	4.3 p.p.	42.5%	5.3 p.p.
Depreciation & Amortization	(2,497)	7.5%	(492)	(2,989)	28.7%
Recurring EBIT	1,854	2.8%	(4)	1,850	2.6%
Financial Result	(73)	-42.0%	(111)	(184)	47.1%
Recurring Taxes	(517)	296.4%	25	(492)	277.2%
Recurring Net Income	1,264	-18.4%	(90)	1,174	-24.2%

IFRS 16

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

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

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