

Telefonica

Video Strategy

London, September 27th 2018



Video Strategy Session

Adrián Zunzunegui
Director of Investor Relations

Key Objectives

Laura Abasolo

Chief Financial and Control Officer

Key Objectives

Video at the core

Differential Video Capabilities

Leading position: capturing new opportunities

Focus on ROCE

- ✓ **Video revenue (€1.4 bn in H1 18)**; 44% of Digital Service Revenue
- ✓ **TV base: 8.8m Pay TV** (Spain + Latam); **1.1m OTT TV** (Latam)
- ✓ **Powerful Video platforms:** Fiber in Spain, Unified Platform in Latam
- ✓ **Relevant scale** and distribution power (Movistar series); expanding our partner-based **bundle offerings** (Netflix deal)
- ✓ **Content and functionalities;** AURA
- ✓ **Enriched content portfolio** (aggregation, production, acquisition)
- ✓ **Leading Video distributor in Spain**
- ✓ **Focus on OTT Video in Latam**
- ✓ **Accelerating data monetization and revenue growth** (Spain: 25% lower churn in Fusion TV base, TV ARPU x3 vs. the following competitor)
- ✓ **More sustainable business model**

Video Strategy Latam

Michael Duncan

CEO Group Consumer of Telefónica



M Play

Capturing the OTT video opportunity in LatAm

Telefonica
September 2018

Telefónica already delivers video services in most of its LatAm footprint, mainly via Pay TV



Competition map (main players)



Note: Pay TV (Satellite, IPTV and CATV) includes Set-Top-Box

Huge opportunity to enrich our connectivity with OTT video in LatAm

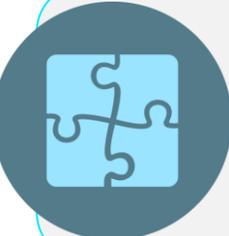
Industry Context opportunities



LatAm socioeconomic specificities



Avid demand for video consumption on smartphones

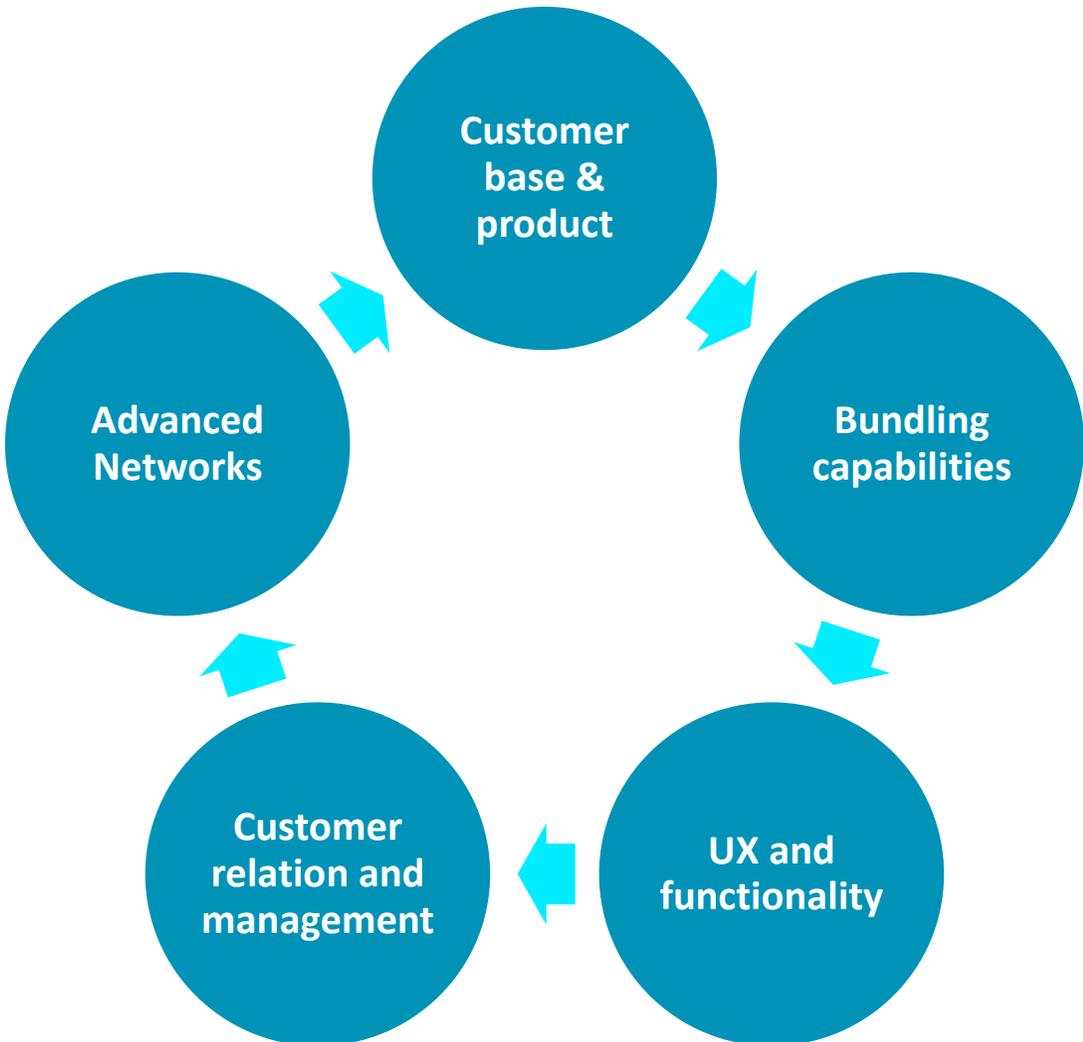


Structural video industry challenges



Telefónica's LatAm OTT video opportunity

TEF's unique strategy pillars (assets & capabilities)



LatAm specifics: opportunity for TEF while huge challenge for traditional TV players



¹ World Bank (2017)

² National Statistical Institutes

³ Statista

⁴ Forbes: Netflix subscribers / Households

⁵ Internal estimations

⁶ GSMA (The Mobile Economy 2017)

Avid but latent demand for mobile video consumption



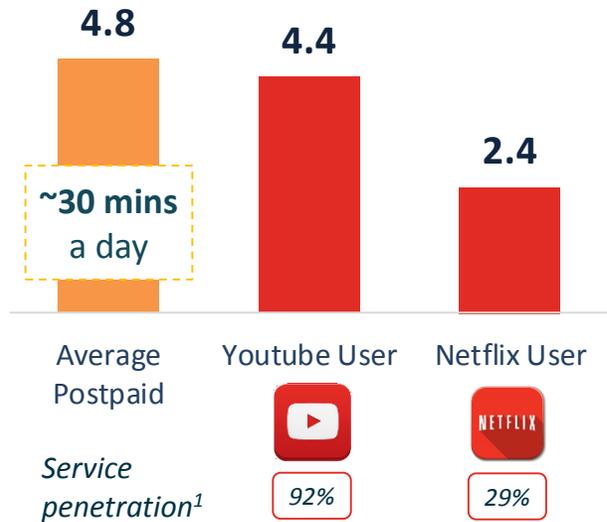
Huge demand for video consumption over smartphones

Although video usage has been limited to WiFi ...

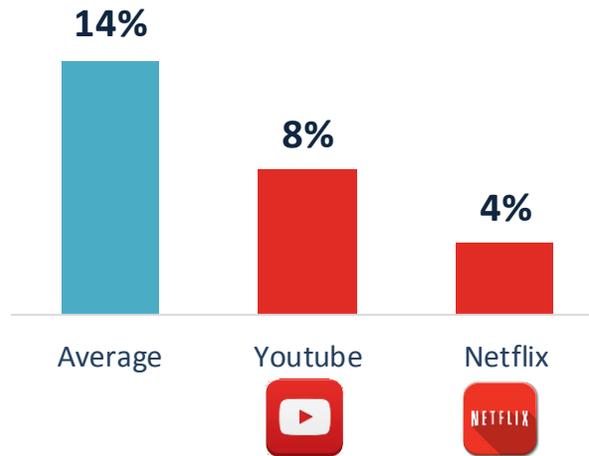
... people are eager to consume on mobility

Demand for **video on mobility** will grow exponentially

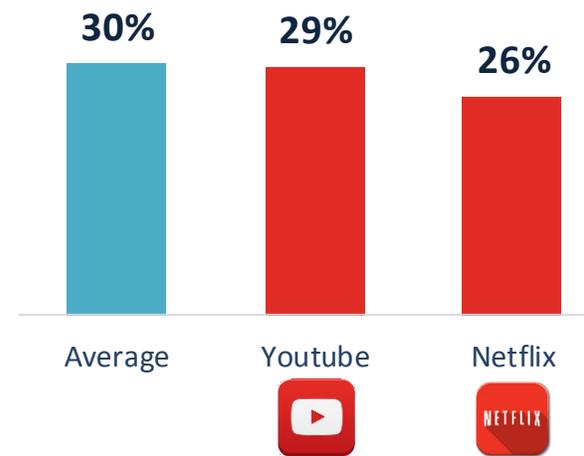
Total video usage per smartphone (GB, WiFi & cellular) ¹



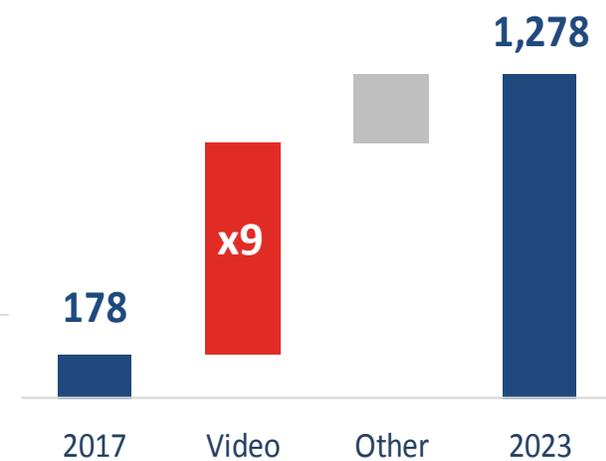
WiFi vs cellular traffic mix (%)
Moderate dedicated data markets ²



WiFi vs cellular traffic mix (%)
Dedicated data markets ³



World mobile data traffic (Exabytes per year) ⁴



¹ AppAnnie: Youtube and Netflix usage for total LatAm TEF's markets

² AppAnnie: AR, BR & CO market average

³ AppAnnie: CL & PE market average

⁴ Ericsson

Content fragmentation and other structural challenges in the video industry



Content fragmentation, makes it difficult for customer to access and discover content

Difficult direct to consumer for content providers

Current players **limited to A/B clusters**

Cannibalization risks for traditional Pay TV players

Some Fragmentation examples:

- 4 of the most iconic TV shows belong to different companies



- Different seasons of the same show in different distribution channels



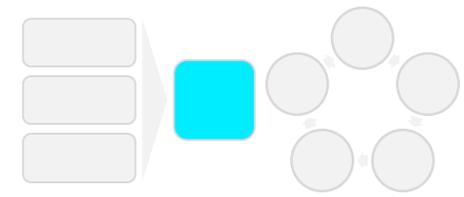
Season 1 & 2



Season 3

- Other very relevant players:   Local TV

Unique opportunity for TEF to leverage video as a new value attribute and improve monetization



Context opportunities

LatAm socioeconomic specificities

Avid demand for video consumption on smartphones

Structural video industry challenges (fragmentation)

TEF's strengths

More than 160M mobile customers, with full bundling and billing capabilities

Network connectivity at the core of our business, with video as one of the most adjacent businesses

We add value via content aggregation and unified content discovery experience

TEF's opportunity

New value lever to foster monetization beyond pure connectivity

Enriching offer appeal:

- **Bundling high engagement content**
- **From pure data to content and digital services**

Reaching customers with a modular product based on aggregation and selective exclusive content



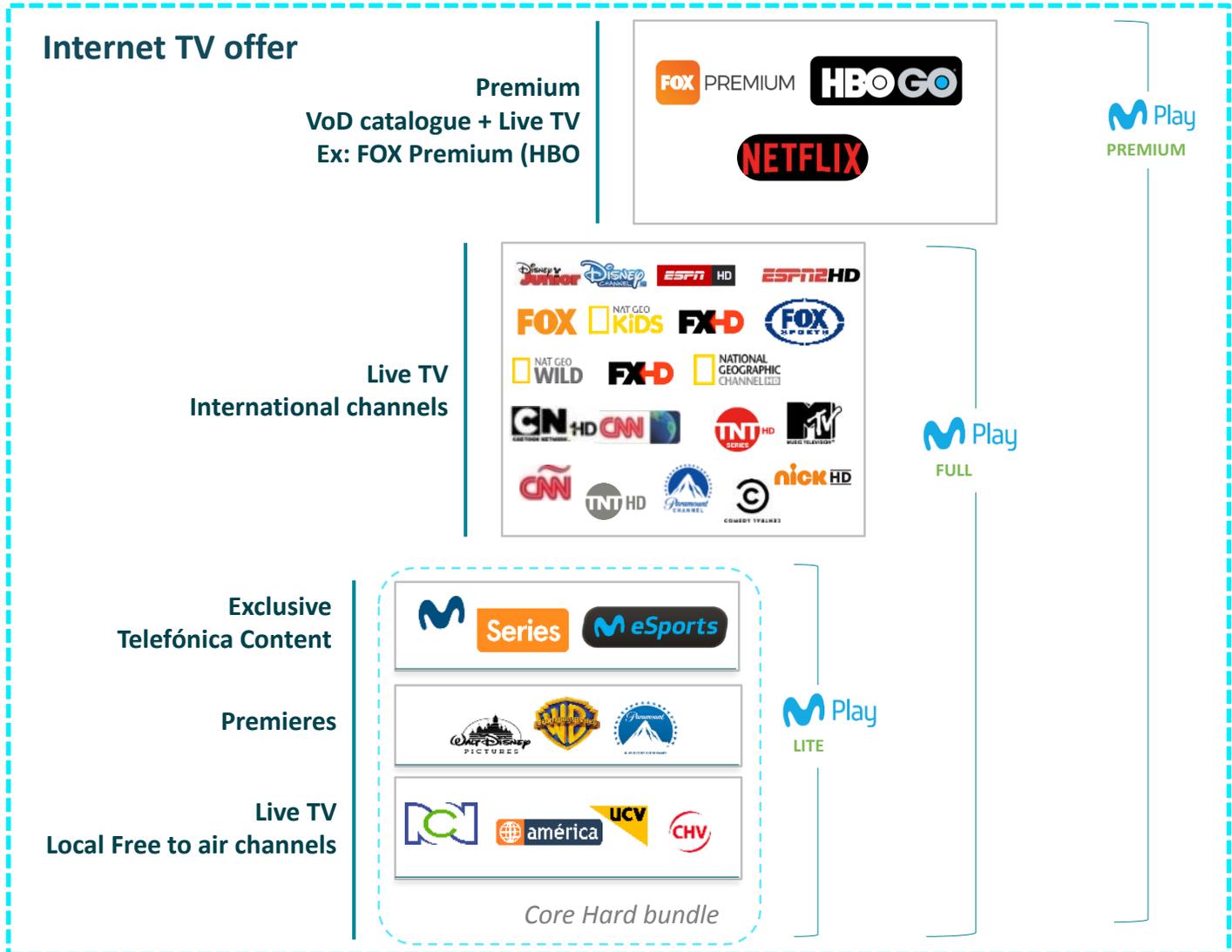
160M mobile customers, most of them **already able to engage with video**: 70% with smartphone

Aggregation is king: Disrupting the fragmentation ecosystem and adding value integrating **all relevant content in one single access point**:

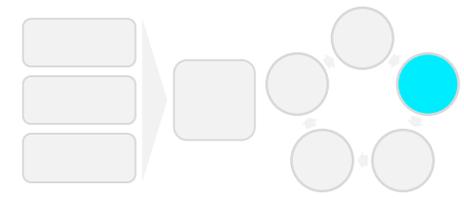
- FTA channels and local content
- International channels
- Premieres
- Premium players subscriptions
- Own content: Movistar series

Leveraging Spain own production efforts with LatAm potential reach

Open platform: Telefónica as **the ideal partner** to maximise impact and scale



Bundling with our core offer to drive up ARPU and improve customer stickiness



Hardbundling video content **to gain scale**

Bundling different products **depending on the plan value** to foster upsell and ARPU

Specific portfolio design to reap the **prepaid opportunity** (weekly / fortnightly plan)

Dedicated data: content plan adoption multiplies almost x2 if dedicated data is included¹

Tier-pricing Bundling to foster upsell and increase ARPU

		XL	L	M	S	XS
Fixed		M Play PREMIUM	M Play FULL		M Play LITE	
Mobile	Postpaid & Prepaid	M Play FULL			M Play LITE	
	Family	M Play PREMIUM	M Play FULL			
Premium Content		N	FOX PREMIUM		HBO GO	
Dedicated data for Movistar Play only		Included	Try and Buy			
Add Ons Billing		M Play FULL FOX turner viacom ESPN Disney		M Play PREMIUM FOX PREMIUM N HBO GO		

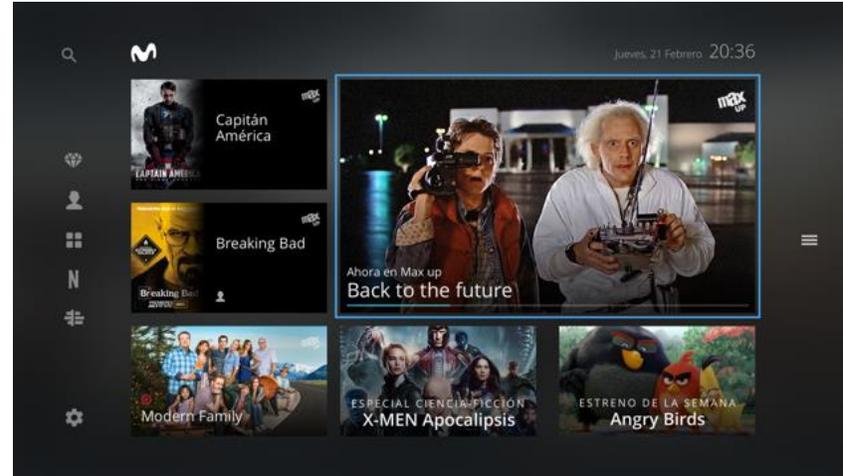
Optimal video experience via best in class functionality



Most advanced, simple and easy UX:

- Personal recommendations and content curation
- Unified search
- Download to Play
- Time-shifting options
 - Start-over
 - Catch-up
- Online recording
- Transactional purchases
- Binge Watching

Unified video service: homogeneous user experience in all devices



Deploy Interactive services and a homogeneous experience across devices



Vuelve al inicio
Retrocede hasta el principio el programa que estás viendo.



Replay TV
Vuelve a ver el contenido emitido de hasta 24 horas antes.



Pausa en vivo
Detén lo que estás viendo en todos tus canales de TV en vivo.



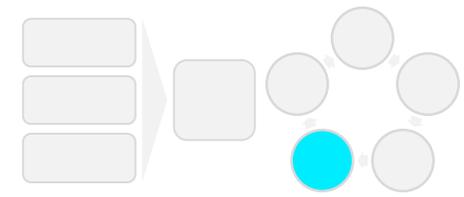
Seguir viendo | Ver todo >



Porque has visto "Babel"



Complemented with distinct customer management capabilities



Differential **billing capabilities:**

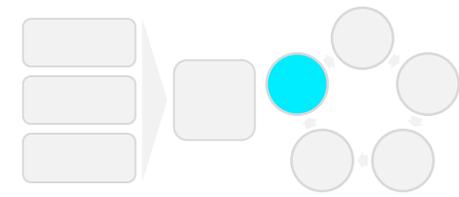
- Simplicity and convenience: Video content integration in one single bill for the customer
- Potential to obtain value from all customer segments, regardless of its banking circumstances

Sales and marketing power, leveraging all Telefónica's commercial distribution structure: points of sale, communications and advertising, customer care, self care App, ...

4th Platform and Aura: personalized experiences leveraging customer behavior analytics and AI



Enabled by our high capacity networks (4G, 5G and UBB)



More **capable, agile and efficient** networks to facilitate traffic growth, and ensure **optimal customer experience**

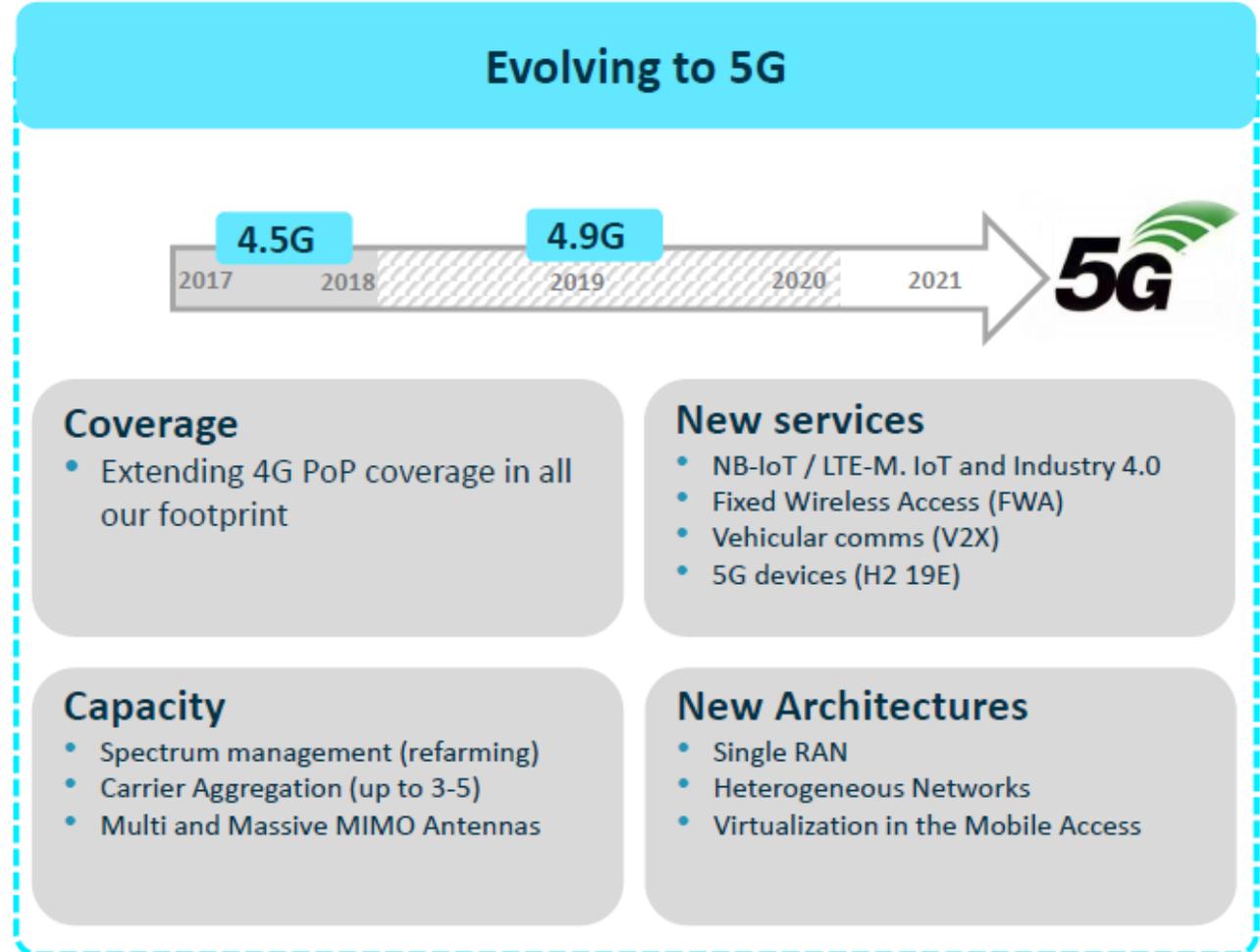
Evolution to 5G, that paves the way for **new formats and service evolution**:

- 4k / 8k video
- Augmented / Virtual reality
- Video 360

Adding value to our **FTTX deployment leadership**

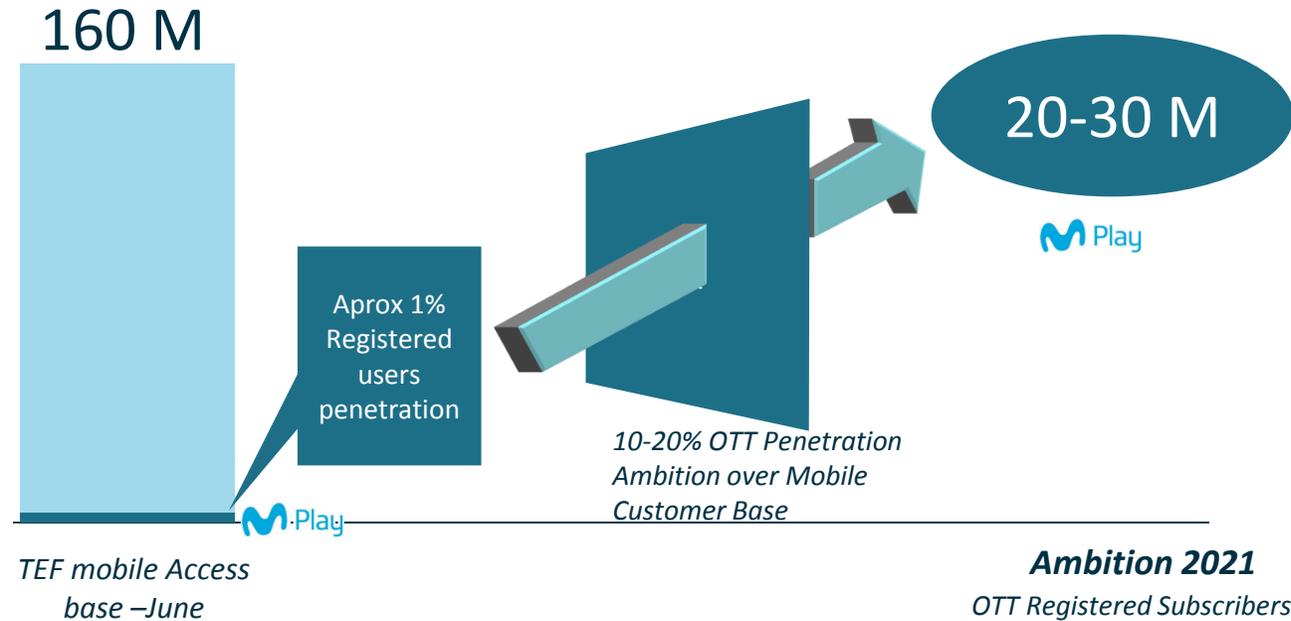
Exploring **new video business opportunities**:
Edge Computing:

- Improved customer experience computing and storing assets close to the end user



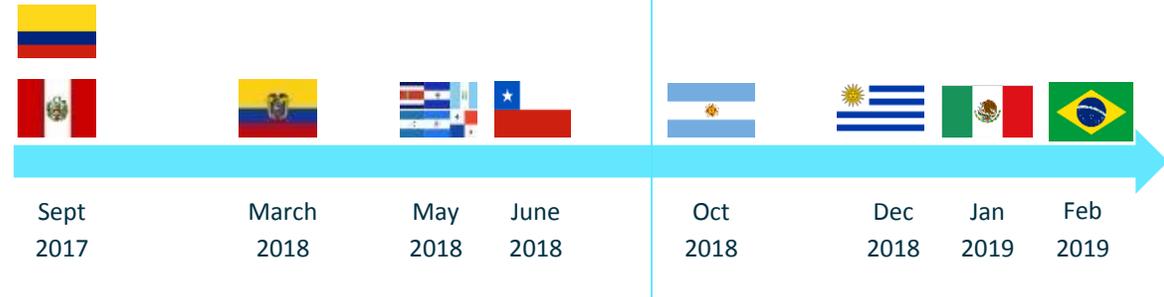
Huge opportunity with encouraging early results

Our Internal Opportunity



Movistar Play growth

Movistar Play roll-out



1.5 M

Registered users
Aug 2018

78%

90 days active users

- Preliminary analysis confirms **very material impact on customer retention**
- In Q4 we will start focusing on add-ons upsell

To wrap up: our objective is to take advantage of context opportunities and unique capabilities to increase our monetization potential



Improved customer engagement and loyalty



Enhanced ARPU development via upsell and add-ons



Increased brand awareness and communication impact

Video Strategy Spain

Sergio Oslé

Video Director Spain/President of Movistar+



Creating sustainable value through leadership

Sergio Oslé

President of Movistar+ / Video Director Spain

September 2018

movistar

ELIGE TODO



Key messages

1

Unbeatable proposition that translates to value

2

A new TV scenario that brings new opportunities

3

A case for growth

Distinctive assets in the market...

Best Network

Largest FTTN network in Europe

~20M Premises coverage
68% households

Modern & efficient 4G network

~97%

Coverage of the population

All TV distribution tech

~100%

TV Coverage - IPTV/DTH

Best Content

Own content production

Originales
movistar+

#0
de movistar+

Sports

#VAMOS
de movistar+

"All football & Top 10 majors sports in exclusivity"

Movies

"~95% Foreign & ~85% Spanish Box Office"

Series

"Most complete offer - all majors"

Entertainment

Best Technology



Multidevice



Aura



Cloud-based

On Demand
&
Linear



...that translates into customer leadership and sizeable local scale...

Movistar+



The reference in the Spanish market

~4M TV Households

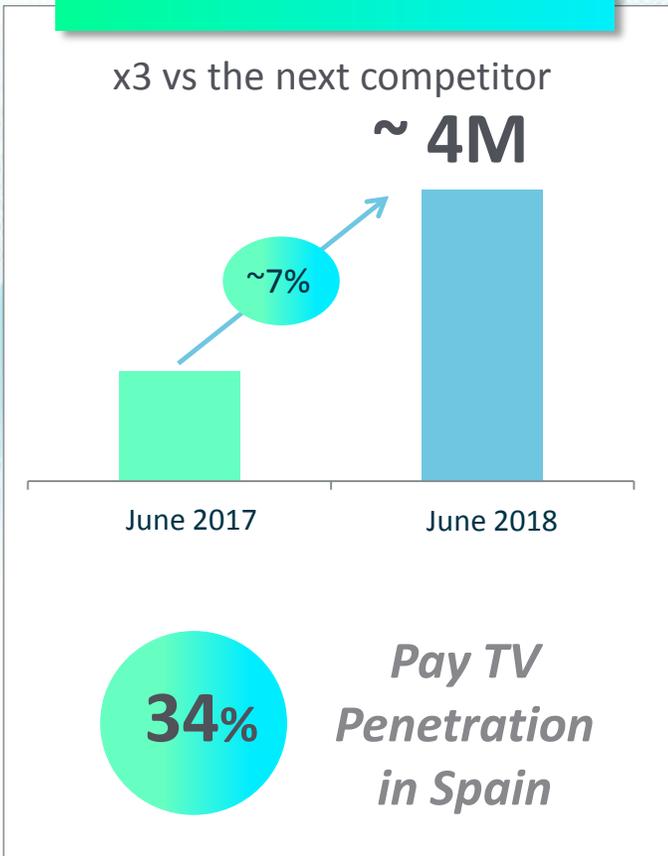
~12M TV users

~60% Pay TV market share

15-20% “Prime time” share
M+ own production channels

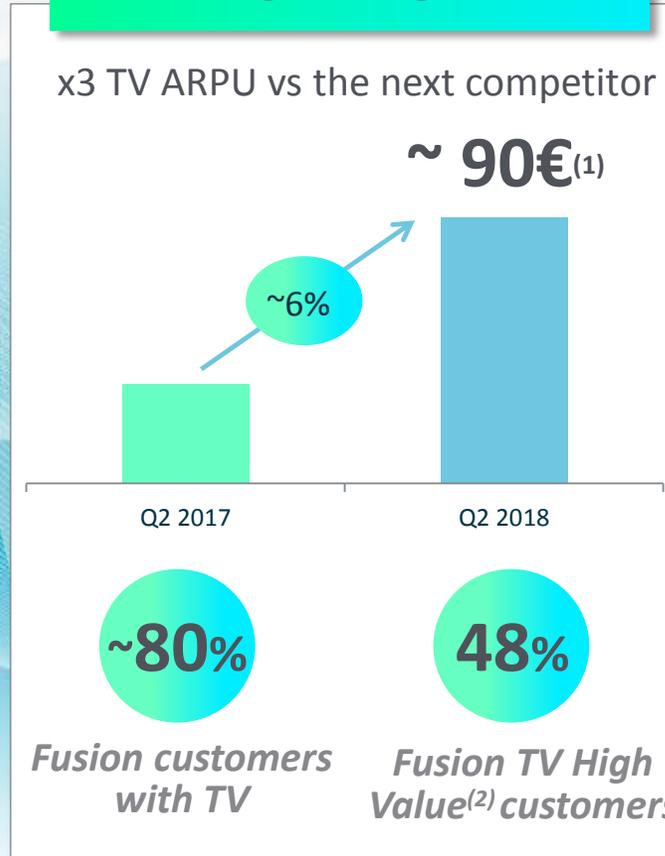
... ensuring a healthy growth and customer stickiness

More TV subscribers...



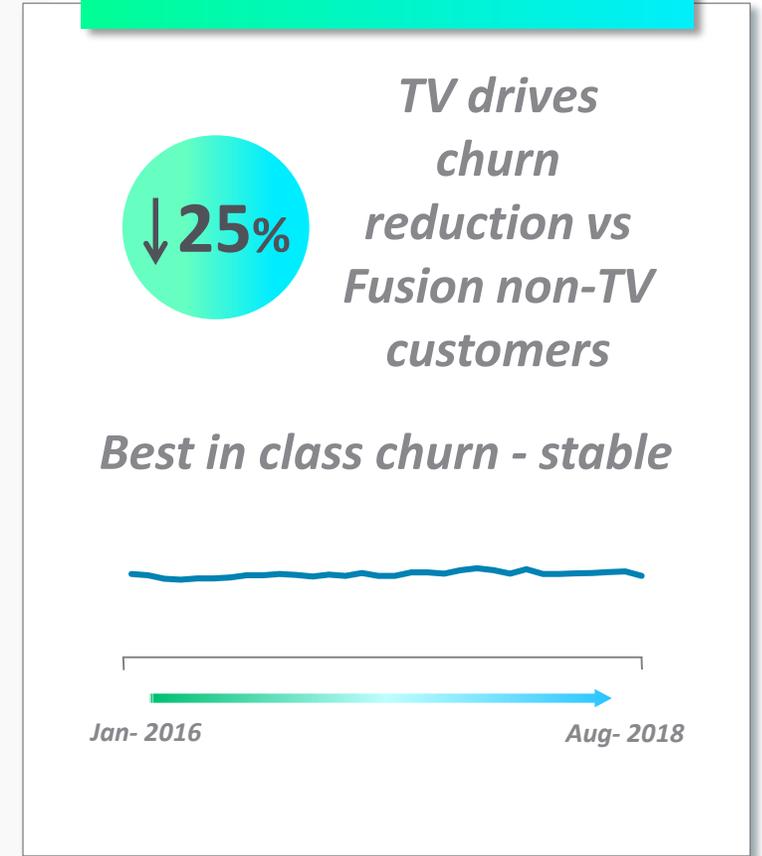
Source: Telefonica, Quaterly reports – June 2018 – CNMC
Data 2017 – and Analysys Mayson Dec. 2017 TV penet.

...while growing ARPU...



(1) Fusion ARPU
(2) High value customers does not include Fusi3n Series, Fusi3n #0 and old modalities such as Contigo, Mini

... and increasing loyalty



Data as of August 2018

As a plus, positive spillover in brand attributes



Movistar + Moves Into Original Film With Alejandro Amenábar's Next Project (EXCLUSIVE)

By JOHN HOPEWELL and EMLIANO DE PABLOS



Movistar+, the high-flying pay-TV division of Telefonica, one of Europe's biggest telecoms, is powering into original film production with a project by Spanish director Alejandro Amenábar ("The Others").

ELLE

La primera gran alfombra (azul) de la temporada

Por Marta Alameda 12/09/2018



1/33 DIAPOSITIVAS © Gtresonline

Pantalla completa

Movistar+ celebró ayer su evento 'upfront' para presentar durante su alfombra azul todas las novedades de la temporada televisiva 2018/2019. Amaia Salamanca, Mónica Cruz, Marta Hazas, Inma Cuesta, Juana Acosta, Mario Casas... nadie quiso perderse esta gran cita que da comienzo a todas las fiestas de la temporada tras el final del verano. Repasamos los mejores looks de los invitados.



NOMINACIONES DE LOS PREMIOS IRIS 2018: LA SERIE 'EL DÍA DE MAÑANA' PARTE COMO FAVORITA

Los Premios Iris, que reconocen a los mejores producto y profesionales televisivos de España, se entregarán en octubre.

Por ÁLVARO ONEJA 20/07/2018



Pleno para Movistar+ en los Premios Feroz, emitidos por la plataforma

'Vergüenza' y 'La Zona' fueron las grandes triunfadoras de la noche



La actores Javier Gutiérrez y Malena Alterio posan con los premios a "Mejor actor y mejor actriz protagonista de una serie" por su trabajo en "Vergüenza", durante la entrega de los premios Feroz (Jaime Martín / EFE)



6 FEROS Awards

4 Vergüenza - 2 La Zona



San Sebastián International film festival

'La peste', first TV series that participates in the Official Section



2 Fotogramas Awards

"La Zona", Best Spanish TV Series 2017 according to the critic.

Malena Alterio, best TV Actress for 'Vergüenza'



'Radio Gaga' (#0), Revelation Show Award

Key messages

1

Unbeatable proposition that translates to value

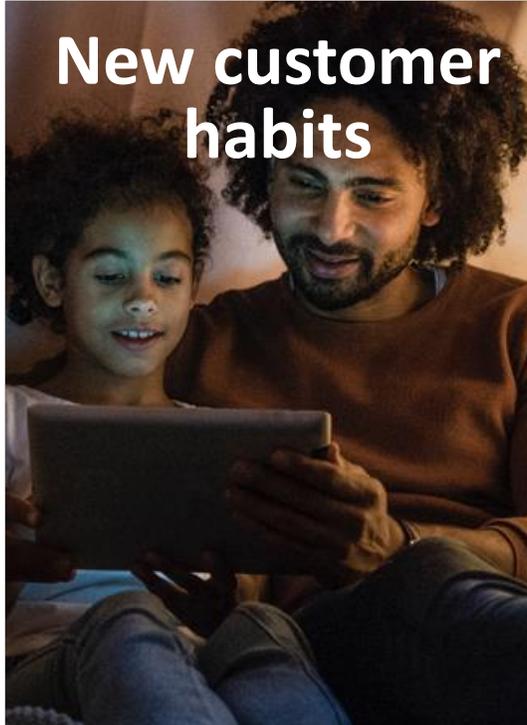
2

A new TV scenario that brings new opportunities

3

A case for growth

A new scenario that brings new opportunities



✓ Unique platform

✓ New alliances

✓ Differentiation through exclusivity

✓ Cognitive capabilities

✓ Telco-Media advantage



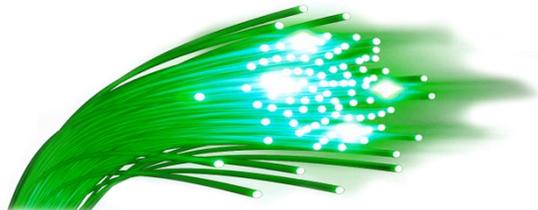
A unique platform, differential for new consumer habits



Network

300M TV interactions/day

3Tbps CDN Capacity
(x10 in two years)



Efficient Architecture

~2M Multi device customers

Robust OTT - already tested



20% Of total M+ Consumption is OnDemand

Cloud-based

80% Customers using advanced functionalities

Cost-effective equipment

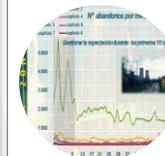


Cognitive Intelligence

~500K Customers have used AURA



x3.5 Personalization - Content viewing multiplier



Improvement of own production

Data as of August 2018

Differential content: The case for own production

EXCLUSIVE Fiction Originales movistar+

10 Movistar Originals Series launched

5 Originals in TOP 6 platform series audience

48 Countries – International sales



1st Movie - producing:
"Mientras dure la guerra"
Alejandro Amenábar - End of 2019



12-15 series per year

EXCLUSIVE Entertainment #0 de movistar+



+35% Ratings growth in prime time vs 2017

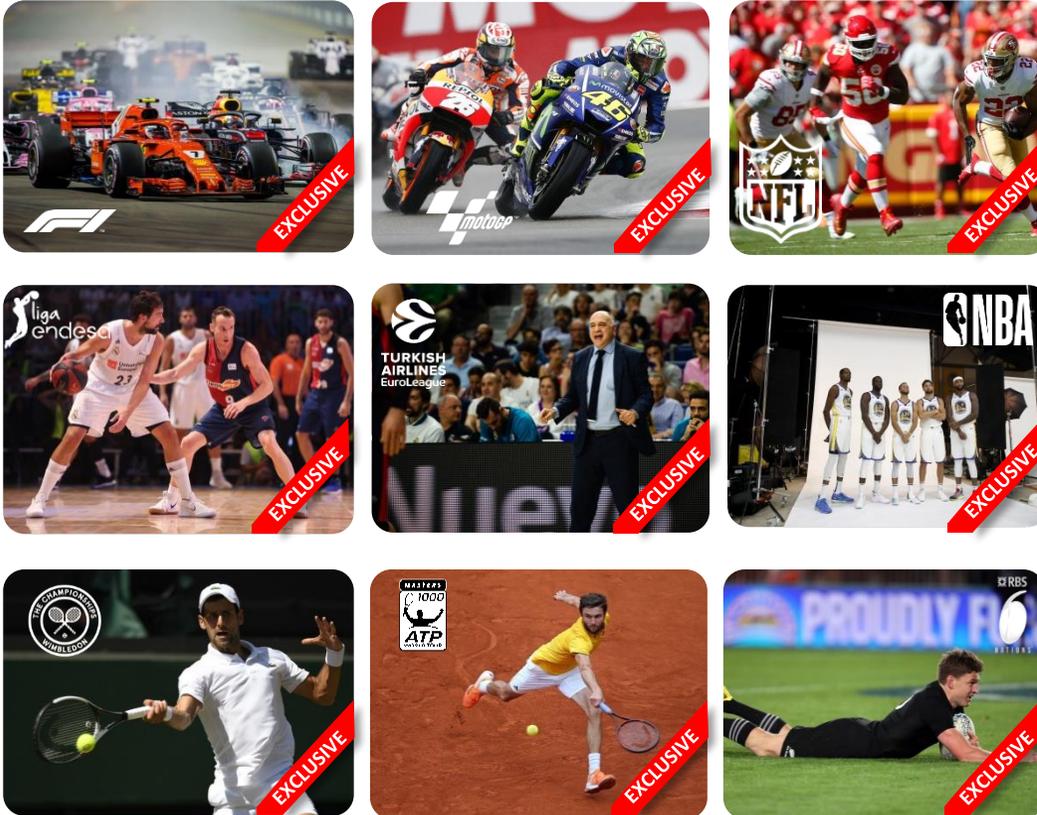
23% #0 addicted fans

5 Shows nominated to Spanish TV Emmys in 4 different categories

20-30 entertainment shows per year

Differential content: The case for selected exclusive rights

Sports



Premium content

Exclusive deals...



ATRESMEDIA



MEDIASET *españa.*

...and exclusive priority **blockbusters releases**⁽¹⁾



Focus on key properties

Differential content: The case for football rights



- » Critical rights for **high value customers**
 - Highest ARPU
 - Lowest churn
- » Provides **stability** while controlling **inflation**
 - Gaining visibility for 3-4 years
 - From Q3 2019, flat football costs
- » Ownership of rights providing extra **flexibility**
 - Gaining commercial/monetization flexibility
 - Financial flexibility by eliminating intermediary margin
 - New advertising revenue streams
- » **No Champions League FTA TV** from Q3 18
 - Additional growth for Pay TV market/ higher penetration
 - Football 3 out of 5 most watched TV events last season
- » Status today: **plan is working**
 - Strong commercial traction in August (the start of La Liga) & Sept (Start of Champions League), first “Clasico” (R. Madrid-FCB Barcelona) in Oct
 - Strengthening Revenue growth & value for the future

Differential content: Extracting the best value from other sports



New channel, new experience

» Launched **16th September 2018**

» Upgrade tool for premium packages

» Advertising opportunity

Building new alliances: Netflix as a case of example

UX Integration



Total integration of the Netflix experience within the Movistar+ UX

Commercial bundling



Agreement with Netflix allows us to boost **commercial offers with bundles to maximize ARPUs**

Establishment of a new integration model



In conversation with **other partners**



New tech that enables new opportunities

1 Personalized advertising



VoD
(today)

Linear
(Oct-15th)



Creation of different signals for advertising commercial clusters - #0 channels

2 Movistar Home



October / November

Comms, television, video calls and connectivity, all in the same device to manage and interact with Aura

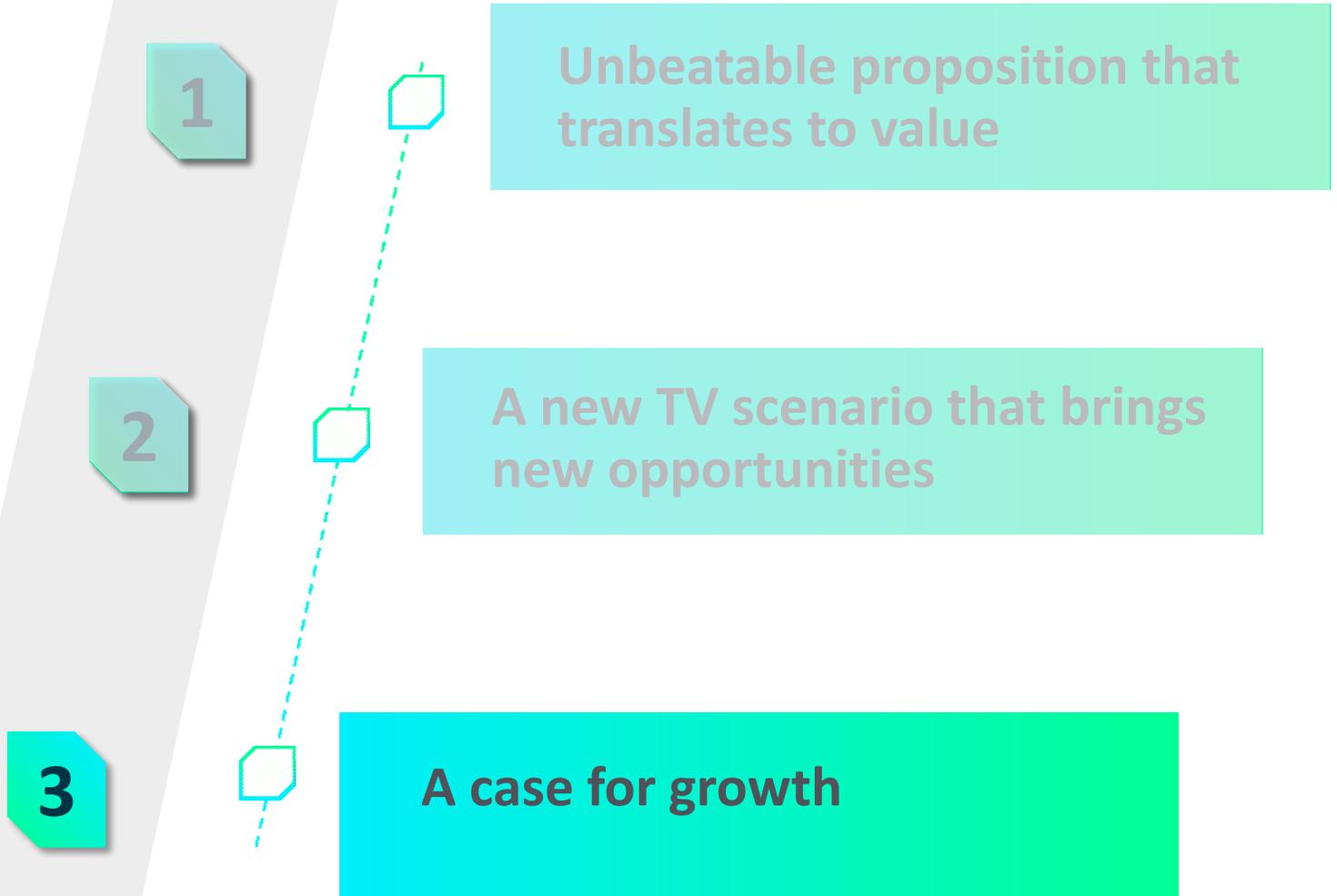
3 More than TV



2019

+ **Button** that allows enjoy new services and products such as e-commerce, videoconference and home automation

Key messages



A case for growth



Value generating business: positive margins stand-alone plus additional value through increased stickiness and ARPU growth



Leadership position, enabling **differentiation** on scale and commercialization



Relevant scale enabling **efficiency in negotiation** and own content production



34% **TV market penetration** in Spain allow for further healthy growth



Superior tech platform opening up **new growth opportunities**



Strong focus on value creation

Key Takeaways

Laura Abasolo
Chief Financial and Control Officer

Key Takeaways

Unmatchable Video Platform

We built a superior platform to deliver a unique UX and drive stickiness

Flexible approach

To continue leading in Spain and to unlock value in Latam leveraging enhanced capabilities

Sustainable and profitable lever

Video to drive further scale and profitable growth

Q&A Session

Laura Abasolo

Michael Duncan

Sergio Oslé

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