

*Telefonica*

# Video Strategy

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London, September 27<sup>th</sup> 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



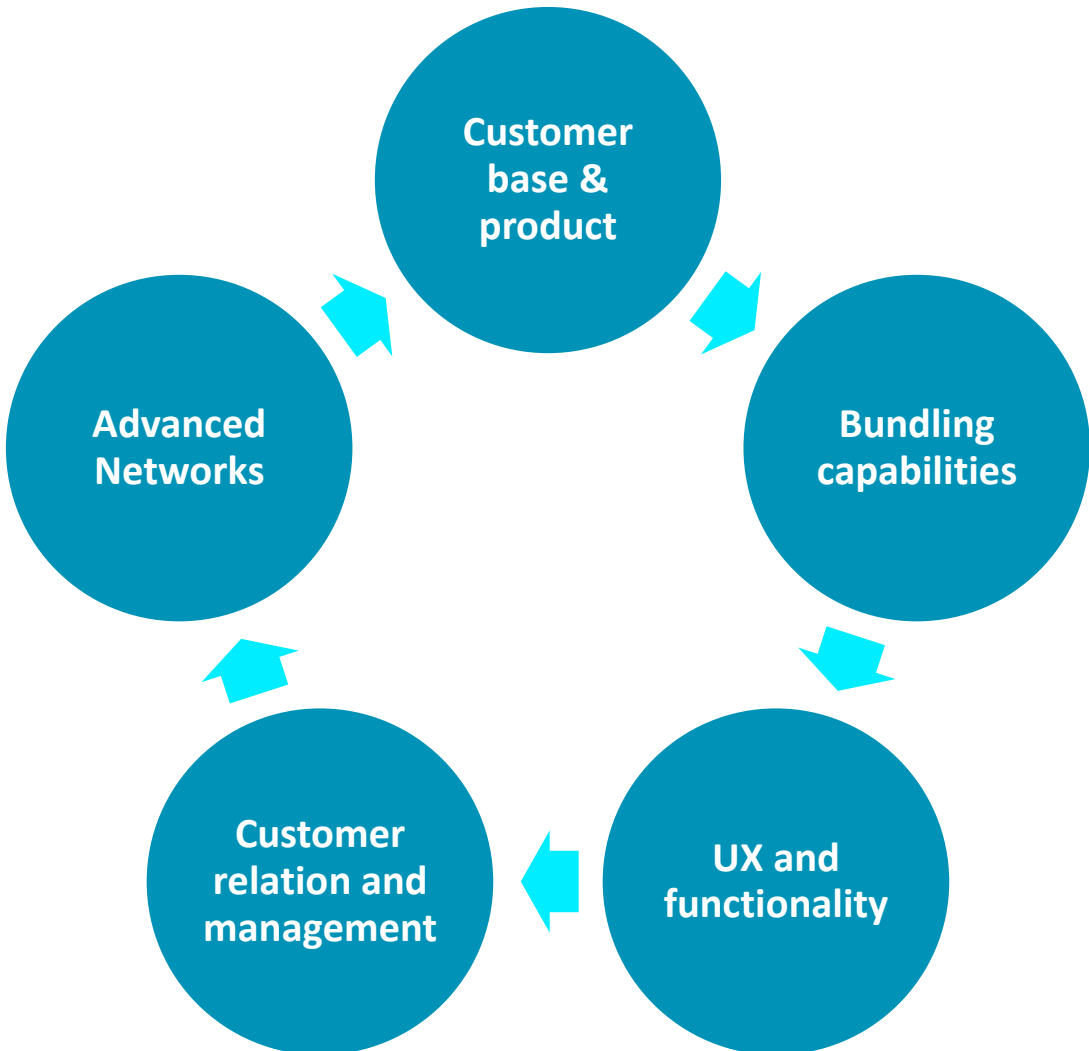
Avid demand for video consumption on smartphones



Structural video industry challenges

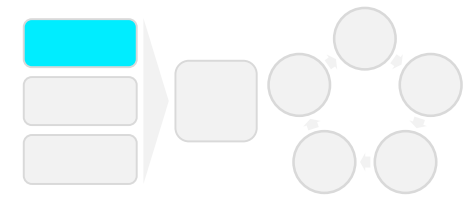
**Telefónica's LatAm OTT video opportunity**

## TEF's unique strategy pillars (assets & capabilities)





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



<sup>1</sup> World Bank (2017)

<sup>2</sup> National Statistical Institutes

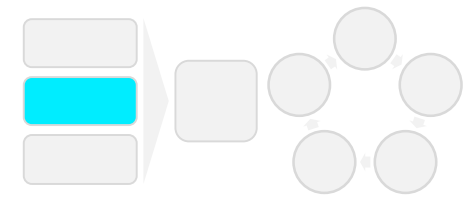
<sup>3</sup> Statista

<sup>4</sup> Forbes: Netflix subscribers / Households

<sup>5</sup> Internal estimations

<sup>6</sup> GSMA (The Mobile Economy 2017)

# Avid but latent demand for mobile video consumption



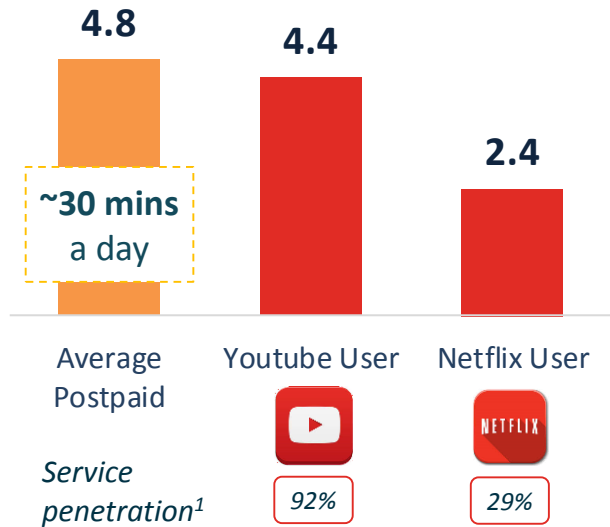
Huge demand for video consumption over smartphones

Although video usage has been limited to WiFi ...

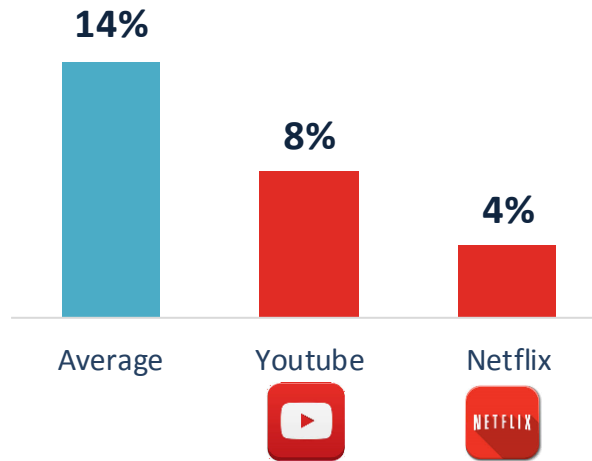
... people are eager to consume on mobility

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

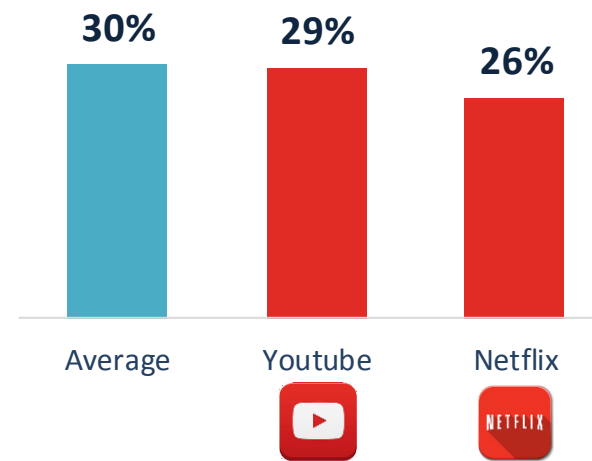
Total video usage per smartphone (GB, WiFi & cellular) <sup>1</sup>



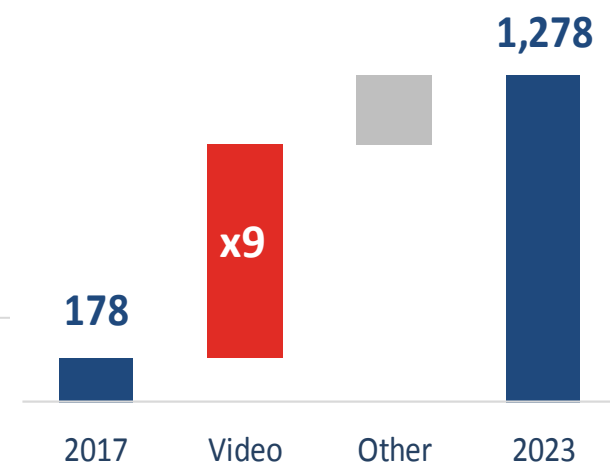
WiFi vs cellular traffic mix (%)  
Moderate dedicated data markets <sup>2</sup>



WiFi vs cellular traffic mix (%)  
Dedicated data markets <sup>3</sup>



World mobile data traffic (Exabytes per year) <sup>4</sup>



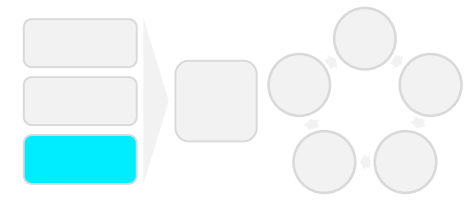
<sup>1</sup> AppAnnie: Youtube and Netflix usage for total LatAm TEF's markets

<sup>2</sup> AppAnnie: AR, BR & CO market average

<sup>3</sup> AppAnnie: CL & PE market average

<sup>4</sup> 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



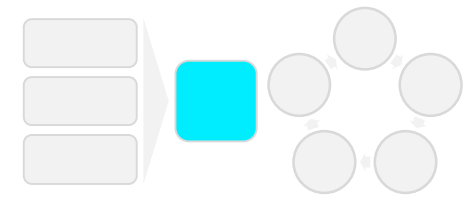
Season 1 & 2



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



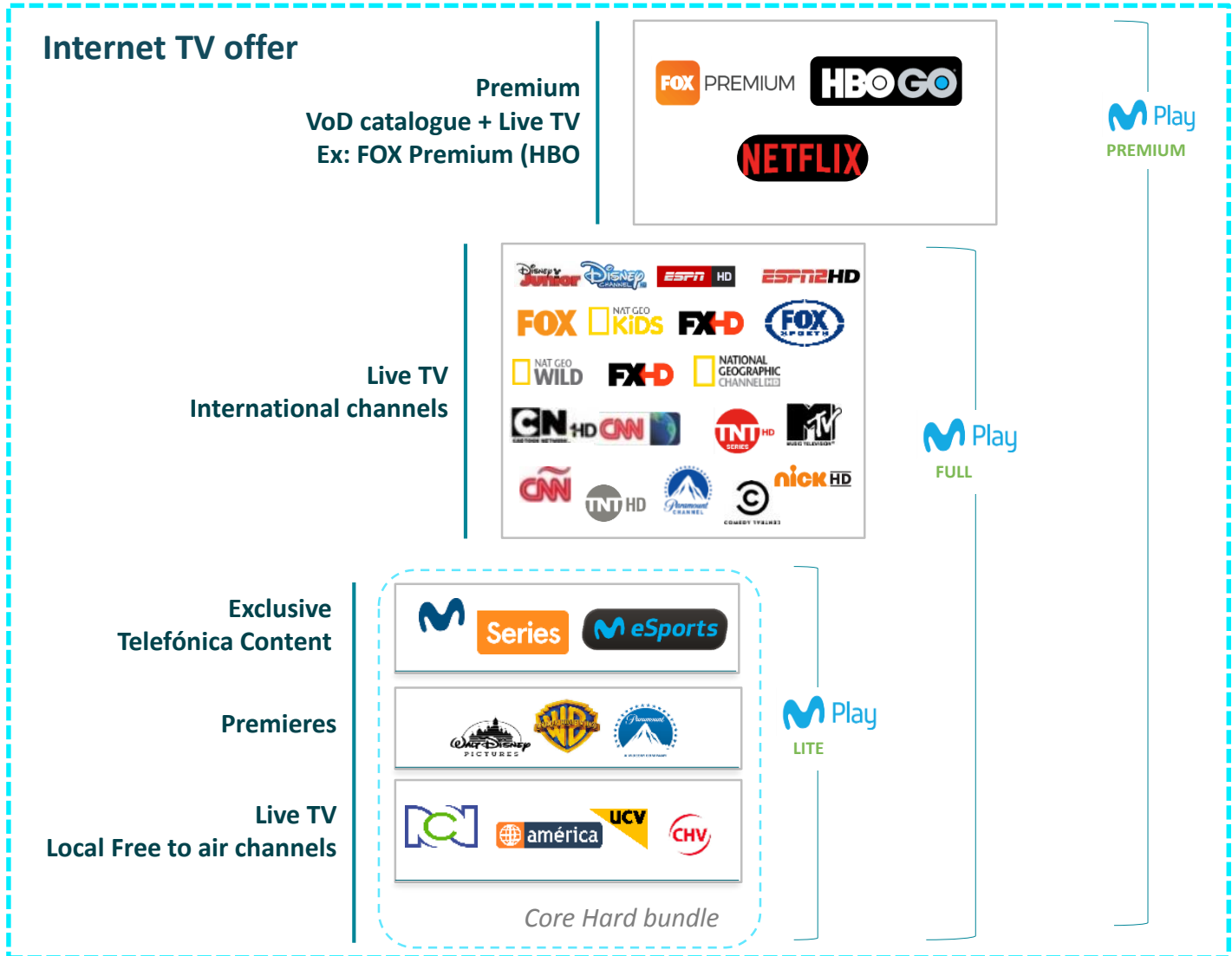
160M mobile customers, most of them **already able to engage with video**: 70% with smartphone

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

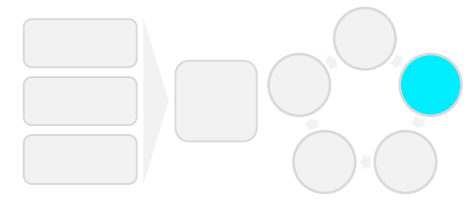
- FTA channels and local content
- International channels
- Premieres
- Premium players subscriptions
- Own content: Movistar series

**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 included<sup>1</sup>

## 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		

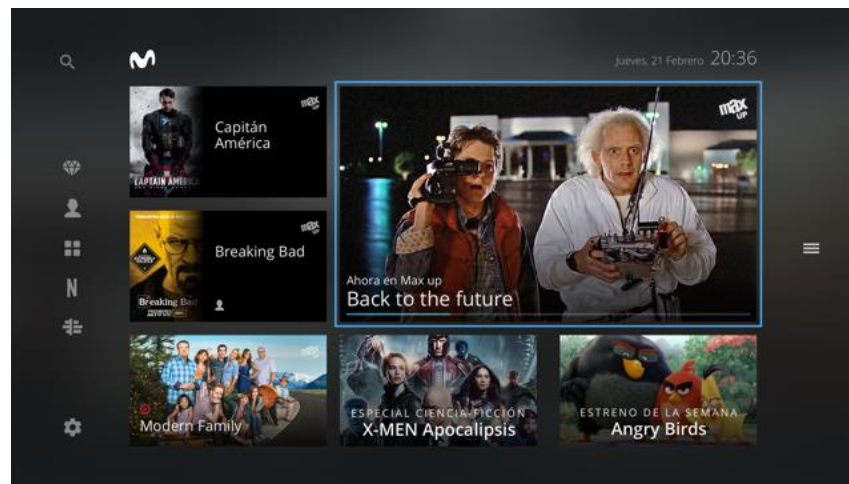
# Optimal video experience via best in class functionality



## 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.



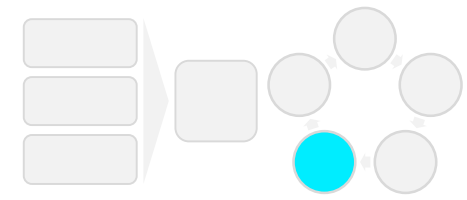
Seguir viendo | Ver todo >



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

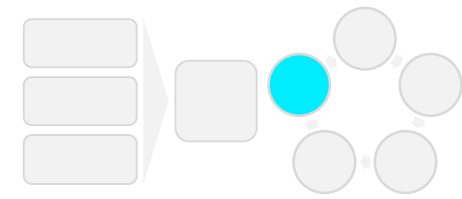
**Sales and marketing power**, leveraging all Telefónica's commercial distribution structure: points of sale, communications and advertising, customer care, self care App, ...

**4<sup>th</sup> 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**

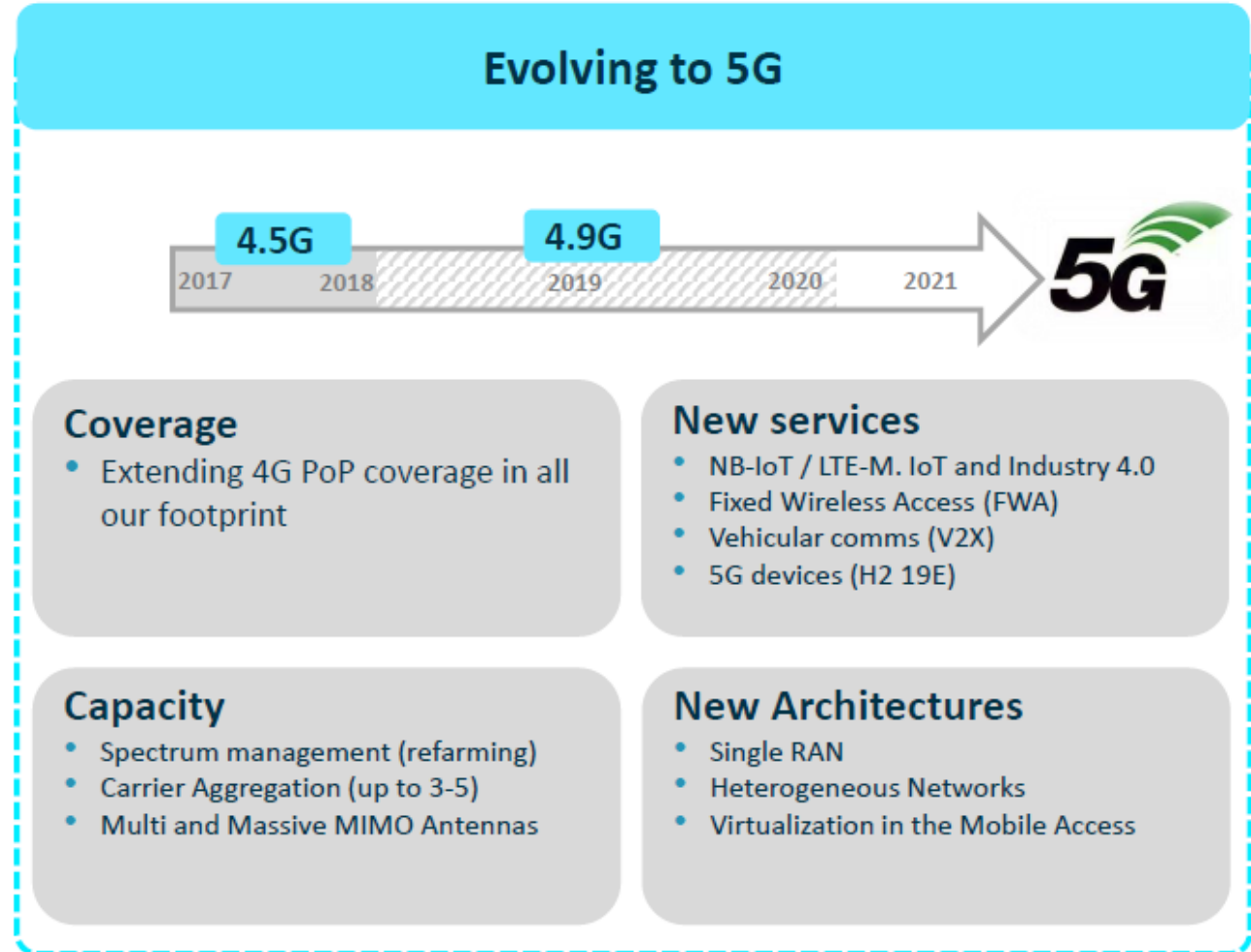
**Evolution to 5G**, that paves the way for **new formats and service evolution**:

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

Adding value to our **FTTX deployment leadership**

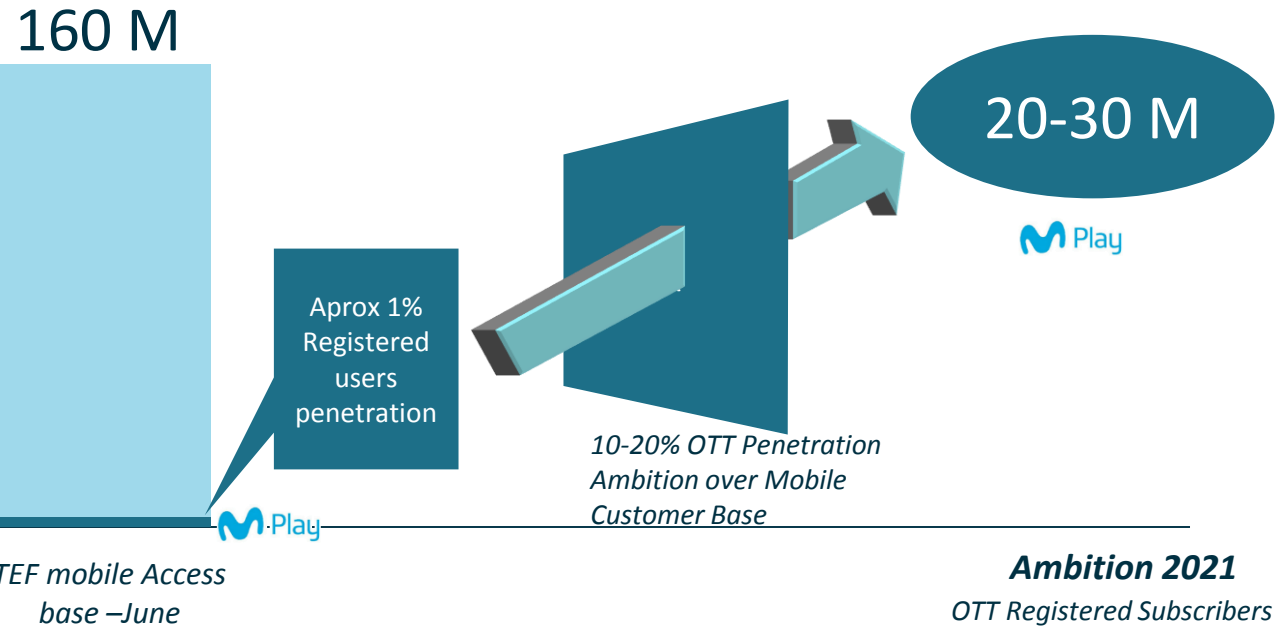
Exploring **new video business opportunities**:  
Edge Computing:

- 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**

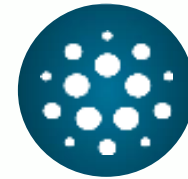
"Most complete offer - all majors"

**Entertainment**

## Best Technology



Multidevice

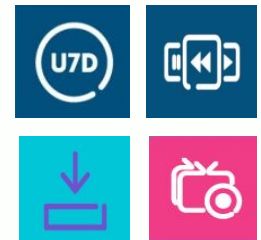


Aura



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

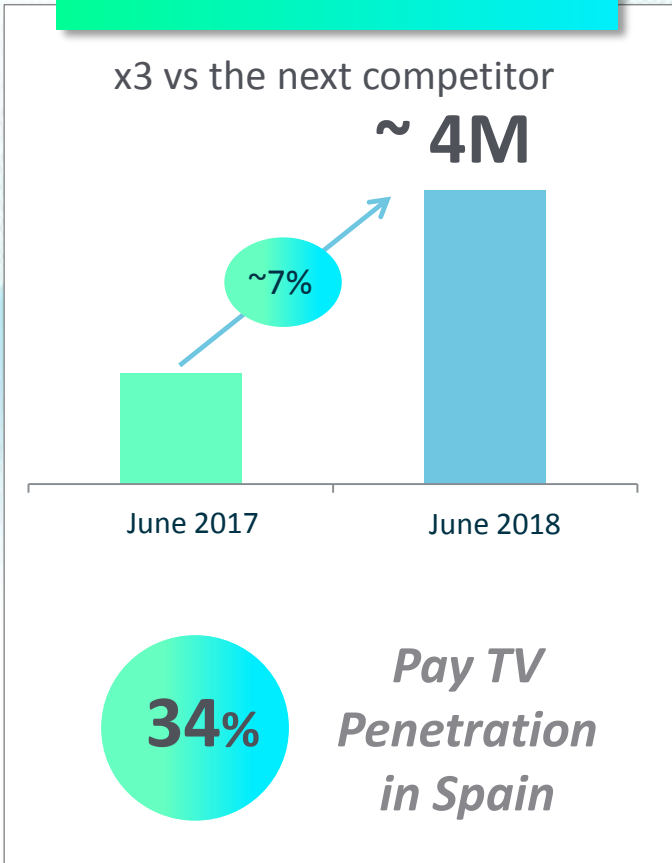
**~60%** Pay TV market share

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



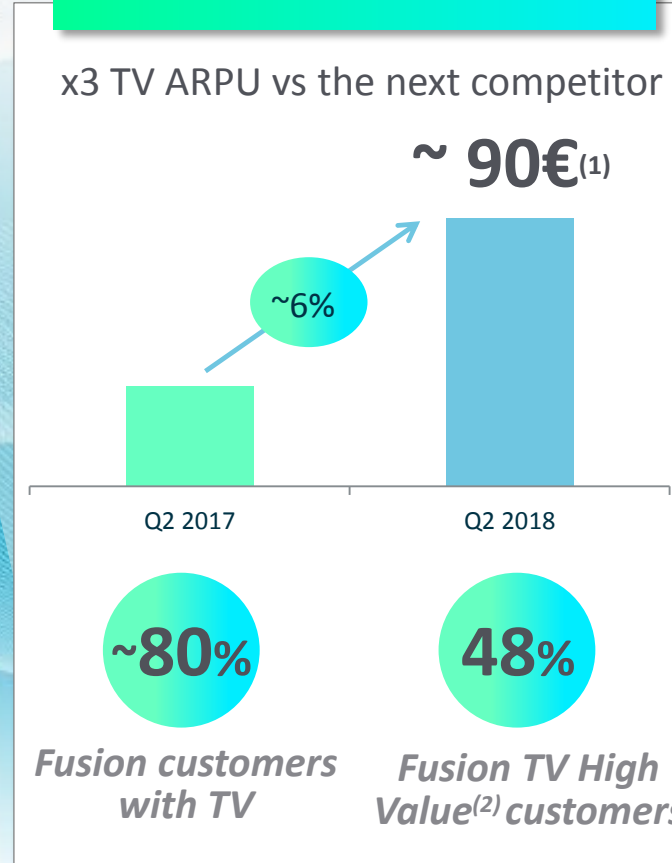
# ... ensuring a healthy growth and customer stickiness

## More TV subscribers...



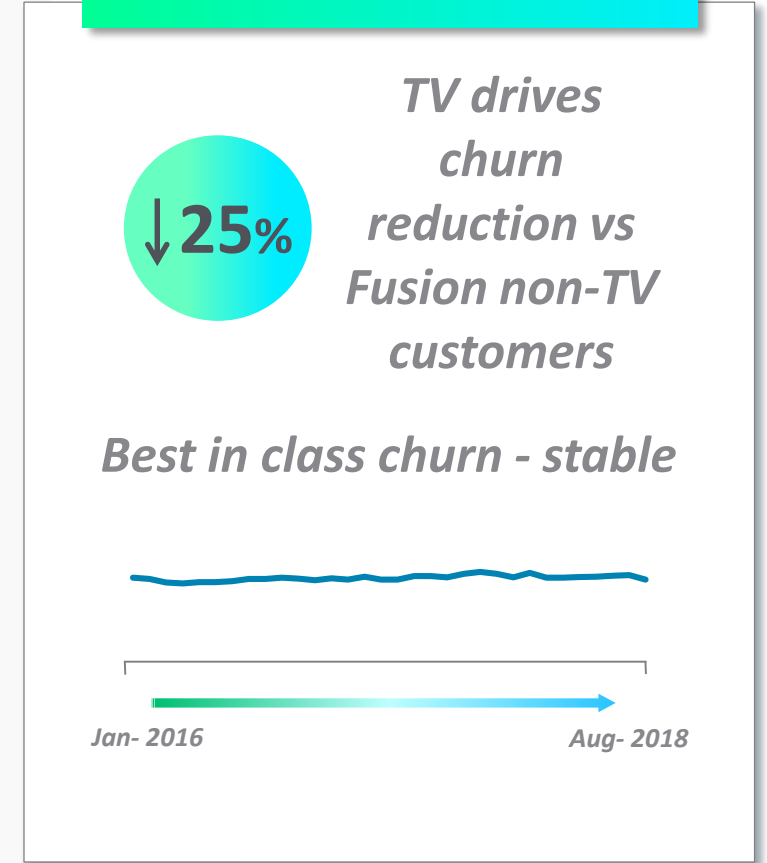
Source: Telefonica, Quaterly reports – June 2018 – CNMC  
Data 2017 – and Analysys Mayson Dec. 2017 TV penet.

## ...while growing ARPU...



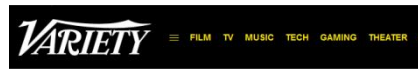
(1) Fusion ARPU  
(2) High value customers does not include Fusi3n Series, Fusi3n #0 and old modalities such as Contigo, Mini

## ... 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 ONEIGA 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

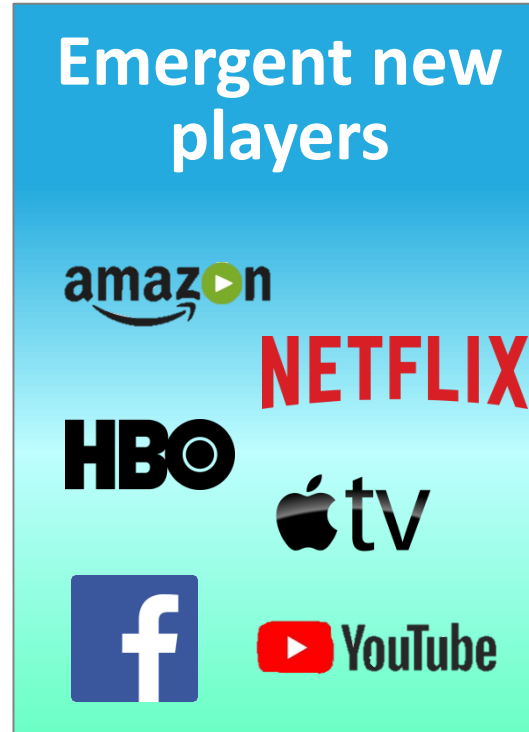
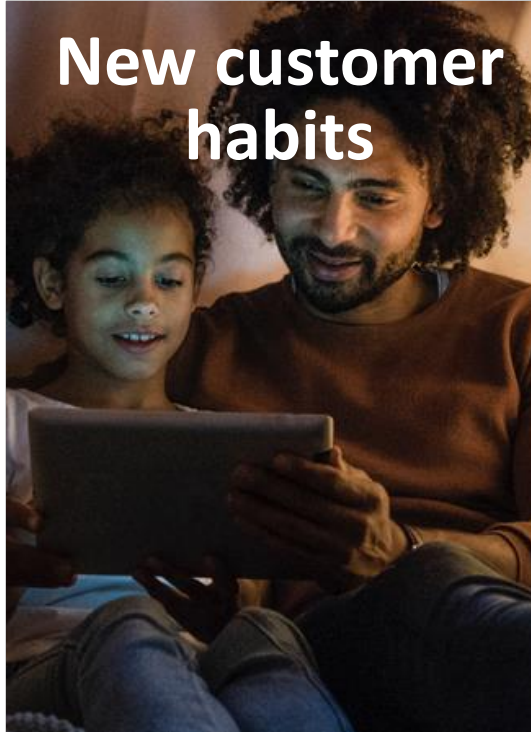
2

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

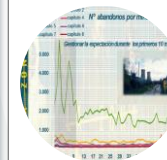


## Cognitive Intelligence

**~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



1<sup>st</sup> 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**<sup>(1)</sup>



## 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

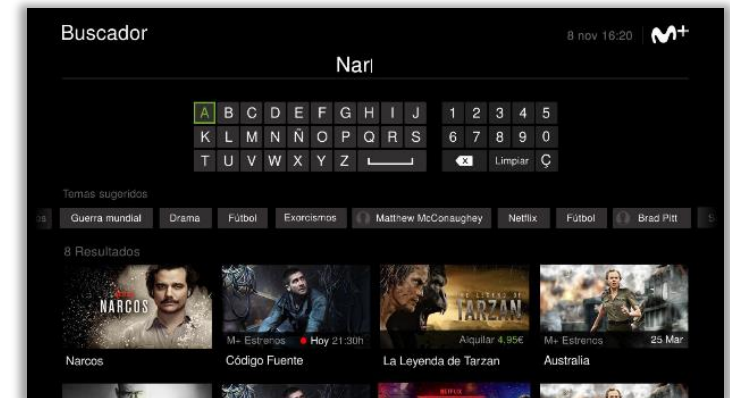


Agreement with Netflix allows us to boost **commercial offers with bundles to maximize ARPUs**

## Establishment of a new integration model



In conversation with **other partners**



# New tech that enables new opportunities

## 1 Personalized advertising



VoD  
(today)

Linear  
(Oct-15<sup>th</sup>)



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

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## 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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