Photo: Vivo.



Lower taxes can promote digital inclusion

Amos Genish

President of Vivo

Solange Monteiro

Amos Genish has a major challenge in 2015: He has to replicate in Vivo the same agility and performance formula that marked GVT, the phone company he helped to create in 2000 that was sold to the French group Vivendi for R$7.7 billion (though he continued to lead the company). Last June, GVT was sold to the Spanish group Telefónica for R$22 billion, a process completed in March this year. After conducting business in Brazil for 15 years, Genish, who is Israeli, is optimistic about the recovery of the Brazilian economy but said that fiscal adjustment should concentrate on cutting public spending because "Additional taxes may severely affect the ability of companies to make investments and harm the consumers of services." He points out that Brazil has the highest taxation of the 10 countries with the largest number of mobile phone customers. "Reducing the tax burden would bring many benefits to people by integrating them into the digital environment and consequently promoting their social inclusion," he says.

***The Brazilian Economy*—What has been the most important challenge in taking over Vivo? Is it possible to make it as agile and efficient as GVT?**

Amos Genish—When the Telefónica Group announced that I would lead Telefónica Vivo, it also announced a change in the company structure: one person would be both general manager and chairman, which considerably speeds up company decision-making. My challenge is to unite the very best of Vivo and GVT. We want to solidify our company's

leadership as an integrated digital telecommunications company in Brazil, reaching the highest growth and profitability in the sector. Less than a week after the Brazilian Council for Economic Defense (CADE) approved the merger of Vivo and GVT, we started planning how to integrate the companies. The planning was comprehensive, with many people participating. In late May, we had a detailed plan for integration, which was launched in June at an event for more than 150 executives. Our goal is that before yearend our customers will begin to see the fruits of this integration.

How has the Brazilian economic crisis affected the telecom sector?

Although the economy is experiencing a period of challenges and adjustments, we have confidence in the potential of the Brazilian market and that the economy will return to higher growth. I am an optimist. I have been in Brazil for 15 years and have had many opportunities. Of course there are better and worse years, but on average, Brazil is a country of opportunities. Telefónica Vivo is a long-term investor in Brazil and believes that the downturn is temporary. Despite its current difficulties, globally Brazil is one of the countries that offer the best business opportunities in all segments. The country accounts for 30% of Telefónica's customers in the world. … I think the fiscal adjustment being carried out is a good start and could pave the way for growth to resume. But these adjustments should be more focused on cutting expenses than increasing the tax burden on society.

Should the Brazilian telecom market undergo consolidation in coming years?

Telefónica Vivo is a long-term investor in Brazil and believes that the downturn is temporary. Despite its current difficulties, globally Brazil is one of the countries that offer the best business opportunities in all segments.

The telecommunications market has already been going through major consolidation in recent years. It is likely that this process still has a few more steps to go, but nothing will change the market dynamics significantly.

How do you see Vivo's position in the market? What are the company's estimates for investment and growth?

The merger of GVT and Telefónica Vivo has already produced the largest and most profitable telecom and cable TV operator in Brazil. We have more than 106 million lines and the highest profitability in the market, with an EBITDA margin of about 30%.[1] We are leaders in the mobile phone and ultra-speed broadband (over 12 mbps) markets.

We have to move forward to further integrate Vivo and GVT, making it a single company with a unique culture and identity. This should help us to capture the benefits of combining the assets

[1]EBITDA, a measure of a company's operating profitability, equals earnings before interest, tax, depreciation and amortization, divided by total revenue.

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and business models of both companies. For example, we have discovered that there is much complementarity between the telecommunications networks of the two companies. In some regions, the GVT network will be connected to the Vivo network, expanding its capacity and coverage; in others, it will be the opposite. There are numerous similar opportunities, and we must move quickly to make them a reality.

Vivo investment in 2015 will be about the same as in 2014, R$8.4 billion for Telefónica Vivo and GVT combined, excluding spending on licenses. The company invested R$2.1 billion in the second quarter of 2015 to expand the coverage infrastructure and improve service quality. We have invested in expanding the coverage of fourth generation technology and increasing 3G capacity. Currently, our 4G services cover 140 cities, home to 80.5 million people. So far this year, investment already totals R$3.8 billion, 7.5% higher than in the first half of last year.

Our main concern is constant improvement of quality in both fixed and mobile phone services and pay TV. Demand for mobile data services is still strong. We are working to integrate and expand our subscriptions for triple-play packages [broadband, pay TV, and fixed telephony] nationally, and we plan to soon offer quadruple packages, combining mobile service with triple play. We will also expand our operations in the corporate market throughout Brazil.

What is the expected impact of competition from Internet companies like Google, and Facebook offering data and voice services?

Because we are attentive to the new dynamics of the telecom market—with consumption of data increasing and competition from Internet companies—we chose to reinvent our business to turn Telefónica into a digital telco. Connectivity remains at the heart of our business, but we also want to offer relevant digital solutions that will make life easier for our customers, whether at leisure or at work. This is a global strategy for the Telefónica group and Vivo is one of the operators within the group that has advanced most in this regard. As a digital telco, we can compete on equal terms with services from outside the telecom sector. And we have the advantage over them of direct access to and knowledge of our customers. This is undoubtedly a huge advantage. The Internet companies offer globally services similar to those offered by traditional telecom operators locally. Telefónica wants to compete, but on equal terms, with the same rules for all operators in the Internet ecosystem.

Which services should lead the growth of the sector?

Because worldwide, the telecommunications

market is experiencing steady growth in the use of data services, at the heart of our strategy for the next few years are 4G data packages, mobile telephony, and ultra wide band.

I think there will be significant growth in such services as pay TV, mobile data, and high speed broadband, which represent significant growth opportunities for Vivo. Consumers will increasingly seek services that facilitate their daily lives, in both leisure and professional life. That is why we have invested in developing value-added services—VAS. In Brazil, we have over 80 such services and over 40 million active customers.

In the second quarter of 2015, data and VAS revenue increased by 33.5% year on year, to R$2.7 billion. In the first half of this year, VAS revenue totaled R$949 million—24.1% higher than in the same period in 2014.

What new technologies are likely to appear in the Brazilian market in coming years?

In future, everything will be connected: your refrigerator, your car, your home appliances, and your clothes. You will be able to remotely command your things. Your car will be connected, providing real-time information. This concept—the Internet of Things—is beginning to emerge.

To serve so many connections at the same time we need more network capacity, so the infrastructure will evolve, just as we witnessed the evolution from 2G to 3G and 3G to 4G. The network will evolve to 5G technologies. The future is therefore 5G, the Internet of Things, and digital services. There is also another paradigm shift coming with regard to consumption of video services. More and more people will want to watch video content whenever they wish on whatever device they choose. So there is growing demand for solutions that deliver the consumer nonlinear video programming—customizing the program schedule.

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There is a huge controversy about the prices of telecom services in Brazil compared to other countries. What is your view?

The tax burden makes telecom services in Brazil more expensive, and the tax complexity increases the cost of business. Taxes on services are high. In mobile telephony, for example, taxes take up 43% of net revenue.

According to SindiTelebrasil data, in 2014 the telecommunications sector had R$234 billion in gross operating revenue, 4.2% of GDP. Users of those services in 2014 paid R$60 billion in taxes, equivalent to 43.2% of the sector's net operating revenues.

Brazil is the champion in taxation among the 10 countries with the largest number of mobile accesses in the world. Our tax burden of 43.9% is 2.4 times more than Russia with 18%. In China, the world's largest market, the tax burden is 3%, in India, the second largest market, 12.2%, in the United States, the third largest market, 17.2%.

Society increasingly uses more information and communication technologies, for work,

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health, education, or entertainment. Therefore, digital accessibility has become a priority for a country's social and economic development and for modernization of society. Reducing the tax burden would bring many benefits to people by integrating them into the digital environment, which would promote their social inclusion.

Is Brazil's mobile phone market mature? Does Vivo expect a new cycle of growth by selling new services?

After several years of strong growth, the Brazilian market for telecom and cable TV has recently entered a phase of moderate growth. Much of the growth in recent years was caused by demand from new segments of the population for telecom services and cable TV. Yet so far only 34% of households have broadband service and 28% have pay TV service. There is still potential for growth in segments that currently do not have these services.

On the other hand, our current customers are demanding faster speeds, larger data packages, and interactive services. Consumption of data increases every day and will not stop. We believe that future growth of the telecom market will come from a combination of these two types of customers. In the next few years, there will be a significant growth in services like mobile data, pay TV and high-speed broadband.

According to a study by the Brazilian Agency of Telecommunications (ANATEL), the government's proposed increase of 189% in the Telecommunications Inspection Fund rate could exclude 40 million Brazilians. What impact do you expect from higher taxes on telecoms?

The increase in taxes can dramatically impact company investment capacity and consequently harm consumers of services, which have become increasingly important in their personal and professional lives. The high tax burden also adversely affects consumers directly. Any increase in this tax rate can prevent expansion of the sector, significantly raise the cost to consumers of services, and reduce the capacity of operators to invest.

The National Broadband Plan did not take off as expected. Can it be revived to incentivize a new expansion cycle for the market?

All initiatives to democratize access to information and digital inclusion in Brazil are positive, especially because telecommunications services are becoming so important in peoples' daily lives and in the economy. But expansion of Internet access depends on many more factors than just expansion of infrastructure to provide the service. We must also reduce the barriers that limit the use of telecommunications services, particularly among families with lower incomes, such as the high tax burden on telecommunications services and on prices directly charged to the end user.