

MVNOs in Europe

POINT OF VIEW

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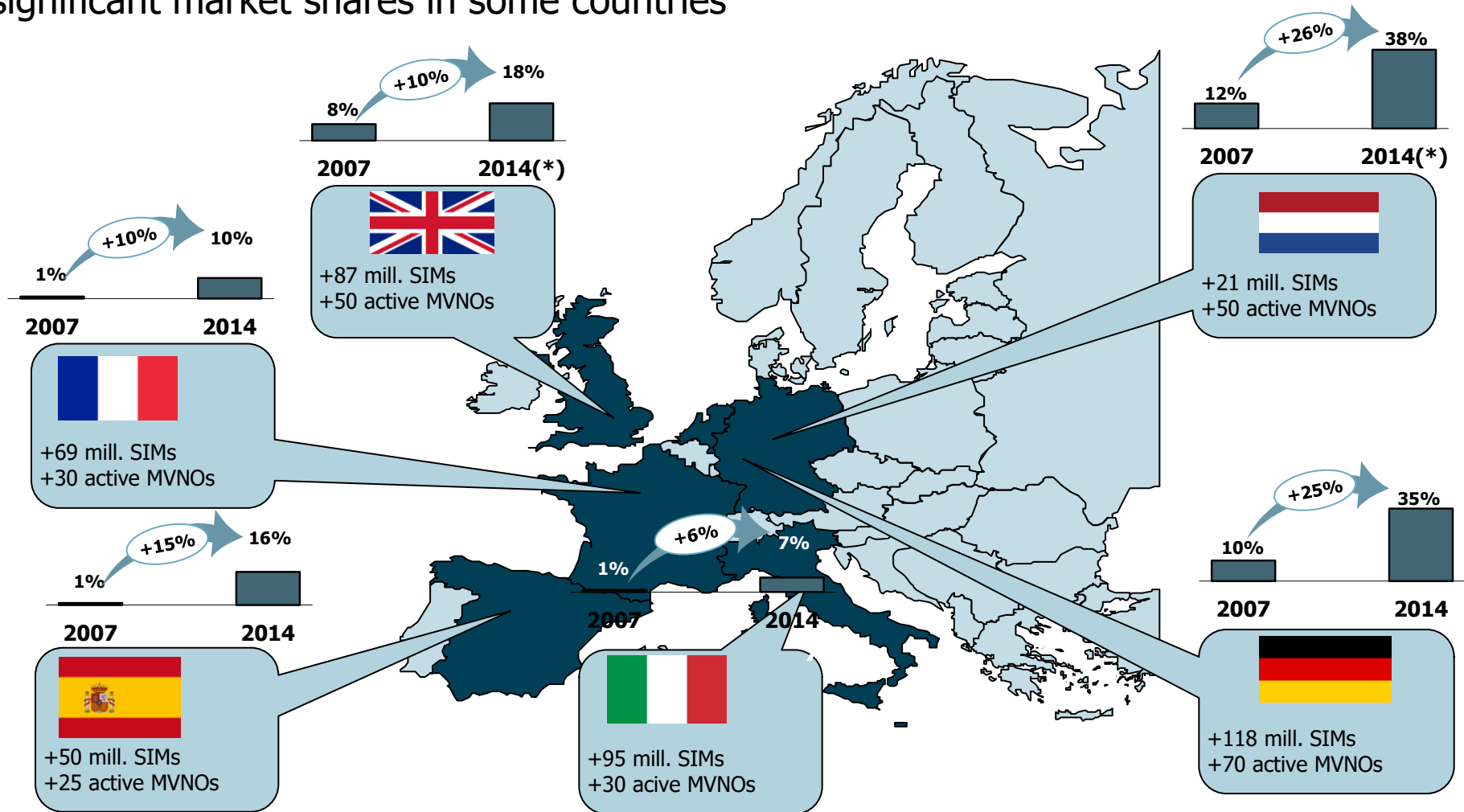
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MVNOs IN EUROPE

Market share evolution

MVNOs ⁽¹⁾ have reached strong growth in recent years in Europe and they have achieved significant market shares in some countries



Source: Regulators, Main Operators, INFORMA, CSMG, NEREO Analysis;

(1) Market shares on 2007 y 2T 2014, including second brands and y JVs

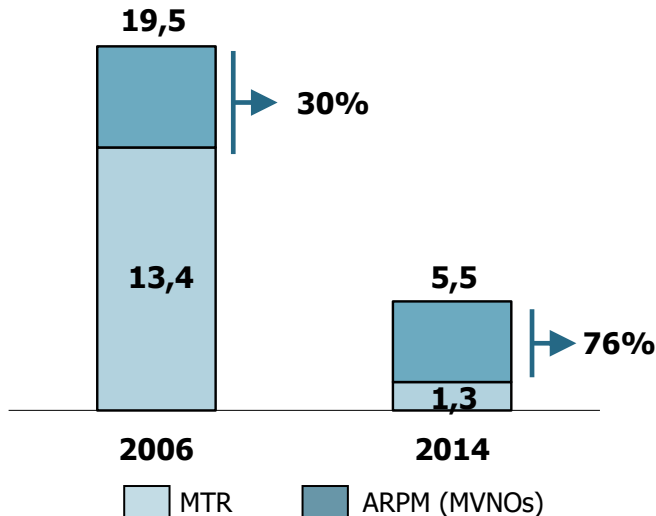
MVNOs IN EUROPE

Main Obstacles

The wholesale agreements offered by the MNOs have had to face different challenges

ARPM vs MTRs

(Spain, c€)

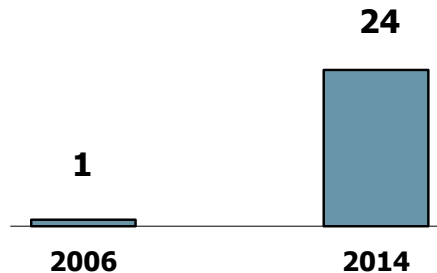


- When the first MVNOs started its operations, high MTRs **did not allow them to build attractive onnet tariffs** that would have helped them to build big communities
- In the last years, **MTRs have decreased significantly** (more than 300% in 3 years), creating the incentives to develop onnet tariffs that facilitated the **migration of customers from the existing MNOs to the new MVNOs**

Source: MVNO Offers for national calls; NEREO Analysis

Flexibility (MVNO Model)

(Number of MVNOs in Europe ⁽¹⁾)



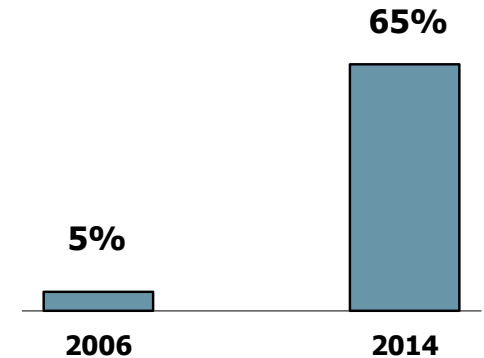
- Initially, the MVNOs only operated the Branded Reseller business model (UK, Germany), which **did not allow them to create differentiated offers**
- As regulation has evolved and the model has matured, **MVNOs have preferred to launch models allowing them to achieve a greater degree of flexibility**

Source: NEREO Analysis

(1) Full MVNOs in UK, Germany, France, Spain and Italy

Unlocked Phones

(% unlocked phones over total in Spain)



- Even for those MVNOs that had access to their own distribution channels, one of the main handicaps they have had to face is to **create a SIM phone offer that could compete with that of the MNOs**
- Pressure to offer attractive service tariffs, new financing options (installment plans), and regulation has created the environment for **unlocked phones to become more popular**

Source: Nielsen; CMT; NEREO Analysis

MVNOs IN EUROPE

Main markets: Germany



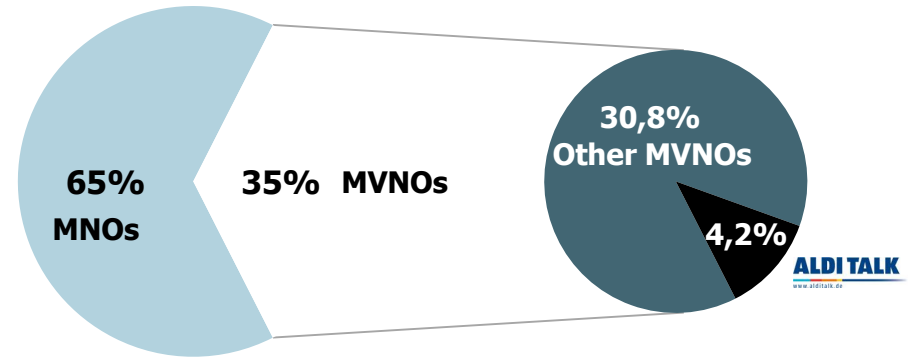
The most successful value propositions developed in Germany were around distribution convenience, offer simplicity and reduced prices

MVNO Market Evolution

- Debitel was one of the first MVNOs to be launched in Germany and it managed to get a significant market share in 2004. There are more than 70 MVNOs currently operating
- Germany and the Netherlands are the countries where MVNOs have reached the higher market shares. Most of them started as independent MVNOs and have later been acquired by MNOs
- German regulation only allows Light-MVNO models. Germany is one of the few countries where there are not Full MVNOs.
- Most of the MVNOs currently offer 4G services

MVNO market share over total (2T 2014)

% over total SIMs



Initial Successful Cases



- It was initially available only in physical PoS. After some time it the offer was also available on Internet
- KPN bought its 630,000 customers in 2008 for 80-100€ mill. (126-160€ per customer)
- Tchibo Mobil was one of the first MVNOs to be launched in Germany (2004)
- Tchibo Mobil is a JV between Telefonica and Tchibo, one of the largest retailers in Germany
- Tchibo Mobil currently serves more than 2 million customers

Current Successful Cases



- Aldi is on the leading *discount retailers* in Germany
- Aldi Talk started operations in 2005
- Its Value Proposition is based on a *no-frills* offer, simplicity and low cost
- Aldi Talk had around 5 million customers in 2014
- Turkcell MVNO was launched in Germany in 2011
- It follows a *reverse ethnic model*, and its Value Proposition is based on low cost international calls
- It has acquired more than 0,5 mill. customers in two years

Source: Piran Partners; NEREO Analysis; MVNOs websites

MVNOs IN EUROPE

Main Markets: United Kingdom



The most successful Value Propositions developed in the UK have been those based on conventional distribution and LDI

MVNO Market Evolution

- Virgin Mobile was the first MVNO in the UK and was launched in November'99. There are more than 50 MVNOs currently working in the UK.
- Initially, British regulation only allowed Light MVNO models. Regulation changed in 2009 to allow Full MVNO models. Some successful MVNOs decided to change their model to become Full MVNOs
- All MNOs currently provide services to MVNOs
- Most of the MVNO currently offer 4G services

Initial Successful Cases

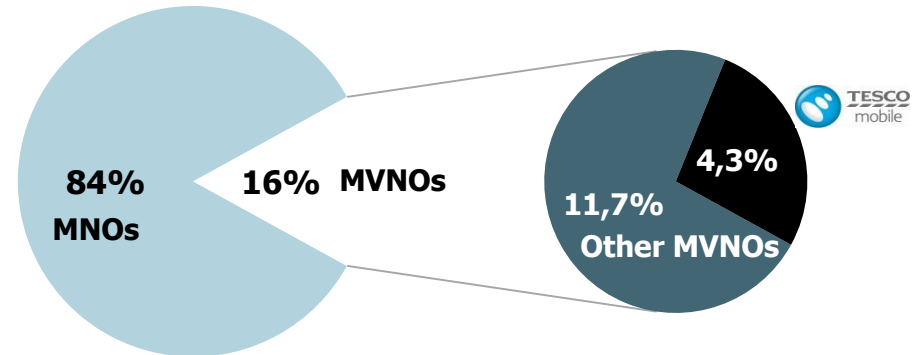


- Virgin Mobile was launched as a JV between Virgin Group and One2One (T-Mobile) in 1999. It was acquired by NTL:Telewest in 2006
- Virgin Media is currently belongs to Liberty Global and it launched the first "quad-play" offer in the UK
- They reached 3,5 million customers in 2014
- Tesco is the leading supermarket chain in the UK and it launched Tesco Mobile in 2003
- Its Value Proposition is based in using its own distribution channels to market its low cost mobile services. Customers get loyalty points from Tesco for using Teco Mobile
- It had more than 4 million customers in 2014

MVNOs IN EUROPE - 1510

MVNO market share of total (2T 2013)

% over total SIMs



Current Successful Cases



- Lebara bases its Value Proposition in low cost LDI calls and a high capillary distribution network (mainly call shops)
- It had more than 1 million customers in 2014
- Lycamobile bases its Value Proposition in low cost LDI calls and a high capillary distribution network (mainly call shops)
- It had more than 2 million customers in 2014

Source: Ofcom; INFORMA; NEREO Analysis; MVNOs websites

MVNOs IN EUROPE

Main Markets: Spain



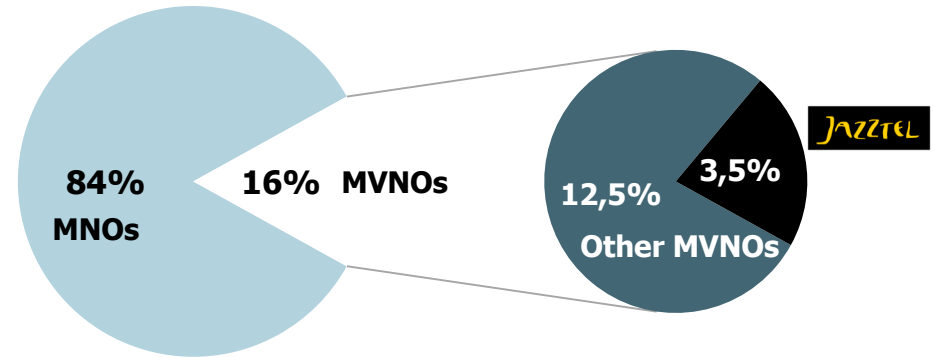
The most successful value propositions in Spain were built around fixed-mobile convergence and LDI

MVNO Market Evolution

- Carrefour Móvil was launched in Oct'06 and was the first MVNO in Spain. Currently, more than 25 MVNOs operate different business models (including MVNA model)
- Spanish regulation allowed all business models (including Full MVNOs) from the beginning
- Initially, Orange was the most active MNO in the MVNO market, but Telefonica is currently the one with the biggest market share (Lycamobile, ONO, Pepephone)
- Currently, only some MVNOs offer 4G services (Pepephone and Jazztel)

MVNO market share of total (2T 2014)

% over total SIMs



Initial Successful Cases



- Simyo was KPN's first MVNO in Spain
- It bases its Value Proposition in online sales, lack of commitment from customers, and a simple offer
- Orange bought it (around 380,000 customers in 2013 for 30€ million (~ 79 Euros per customer))



- Lebara operation in Spain was launched in 2007 and it belongs to the UK based Lebara group
- It bases its Value Proposition in low cost LDI calls and a high capillarity distribution network (mainly call shops)
- It had around 300,000 customers in 2014

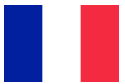
Current Successful Cases



- ONO and Jazztel are both Fixed line operators
- They base their Value Proposition on the Fixed-Mobile Convergence
- ONO was acquired by Vodafone in 2014 (1,5 million mobile customers)
- Jazztel was acquired by Orange in 2014 (1,8 million mobile customers)
- Lycamobile is an ethnic MVNO w/ presence in +15 countries
- Lycamobile was launched in Spain (2010), and has managed to increase its market share thanks to an aggressive price policy
- It currently serves more than 1,5 million customers

MVNOs IN EUROPE

Main Markets: France



The Most successful Value Propositions in France have been those based on content and LDI, with Full MVNO models developing only recently (2012)

MVNO Market Evolution

- Debitel France was the first MVNO in France (Jul'04) over the SFR network and it operated as a Branded Reseller. More than 30 MVNOs currently operate in France
- Initially, French regulation only allowed Light MVNO models. Regulation changed in 2011 to also allow full MVNO models. Virgin Mobile is now the largest MVNO
- Only Free does not currently provide wholesale services to MVNOs
- Currently, most MVNOs also offer 4G Services

Initial Successful Cases



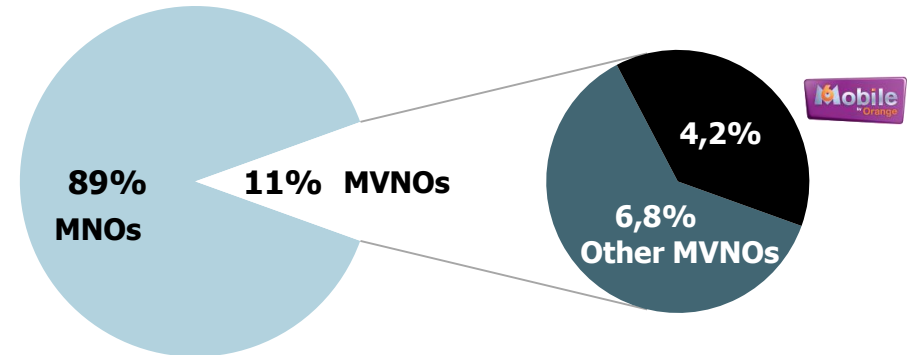
- NRJ bases its Value Proposition in its brand and contents to increase its customer loyalty
- They operate a Full MVNO model and are connected to two MNO networks
- It has more than 1 million customers



- It is a JV between Virgin Group and Carphone Warehouse that was launched in 2006 that also offers fixed telephony internet access and pay TV
- Its 1,5 million customers were sold to Numericable-SFR in 2014 for more than 200€/customer

MVNO market share of total (2T 2014)

% over total SIMs



Current Successful Cases



- M6 Mobile by Orange is a licence Agreement between Orange and the M6 TV channel
- The brand targets the 15-25 years old market segment
- It had 2,8 million customers in the beginning of 2014



- It started its operations as a Service Provider and then changed to a Full MVNO
- Even though it came late into the market, it managed to become the leader among the LDI players, reaching +1 million customers just in 18 months

MVNOs IN EUROPE

Main Markets: Italy



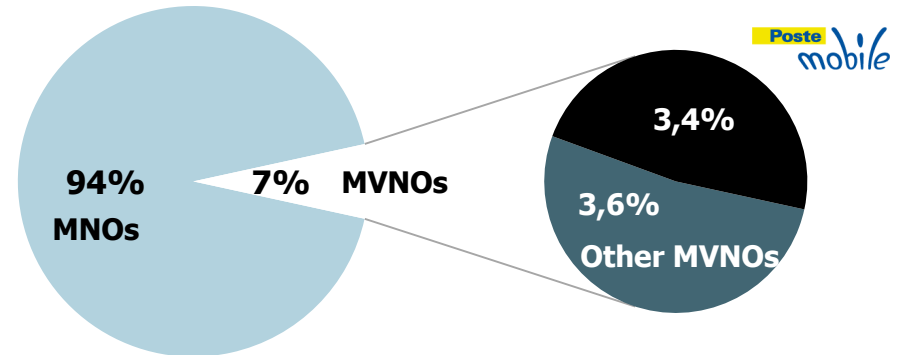
This most successful Value Propositions in Italy have been those that have been based on distribution channels and financial-telecom services convergence

MVNO Market Evolution

- Coop Voce was the first MVNO in Italy and it was launched in Jun'07. There are more than 30 MVNOs currently operating in Italy.
- Only Light MVNOs were allowed by Italian regulation initially. Regulation changed and allowed Full-MVNOs in 2011.
- TIM, the incumbent, was the first MNO to reach an MVNO agreement. Nowadays, all MNOs provide all MVNO business models
- Only Green Mobile offers 4G services today

MVNO market share offer total (2T 2014)

% over total SIMs



Initial Successful Cases



- Coop is the largest supermarket chain in Italy. Coop launched its mobile service (Coopvoce) in 2007.
- It based its Value Proposition in leveraging on its own distribution channels to market its affordable prices mobile telephony services
- Coopvoce is a Light-MVNO that reached 1 million customers in 2014

Current Successful Cases



- Poste Italiana (the Italian public PTN) launched PosteMobile in 2007 and reached more than 3 million customers in 2014
- Poste represents an interesting case of innovation and diversification. Its offer is based on financial and telco services convergence
- It offers Mobile Financial Services that allow its clients to access their bank accounts and operate them (money transfers, bill payments)

MVNOs IN EUROPE

Conclusions and recommendations

LATAM started recently to take the first steps in the development of the MVNO business

1 Timing (Market Development):

- The development of any MVNO market is a **slow process**
- It usually takes 5-7 years for any MVNO market to **reach market shares around 10%**

2 Growth Accelerators (Game Changers):

- **MTRs reduction or set of asymmetric MTRs** allow new entrants to develop more appealing offers to their clients while keeping a healthy financial situation and helps them to grow their customer base
- Increase of availability and number of **unlocked phones** in the country allows MVNOs to reduce the entry barrier into third-party distribution networks
- Availability of **business models** that give the MVNO the operational and marketing capacity to differentiate their offer

3 Business Models:

- MVNO candidates with access to **high capillarity distribution networks** (better if its they own that network)
- MVNO candidates with **existing customer bases**:
 - Telcos (Quad Play)
 - Financial institutions (Base of the Pyramid)
 - Socio-demographic (homogeneous groups: geographical, cultural, religious)
 - Innovative commercial models: Multi-level, Member-gets-Member

NEREO

www.nereomc.com

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