



MVNO Business Essentials

POINT OF VIEW

May you require further info, please contact:

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LAUNCHING A MVNO

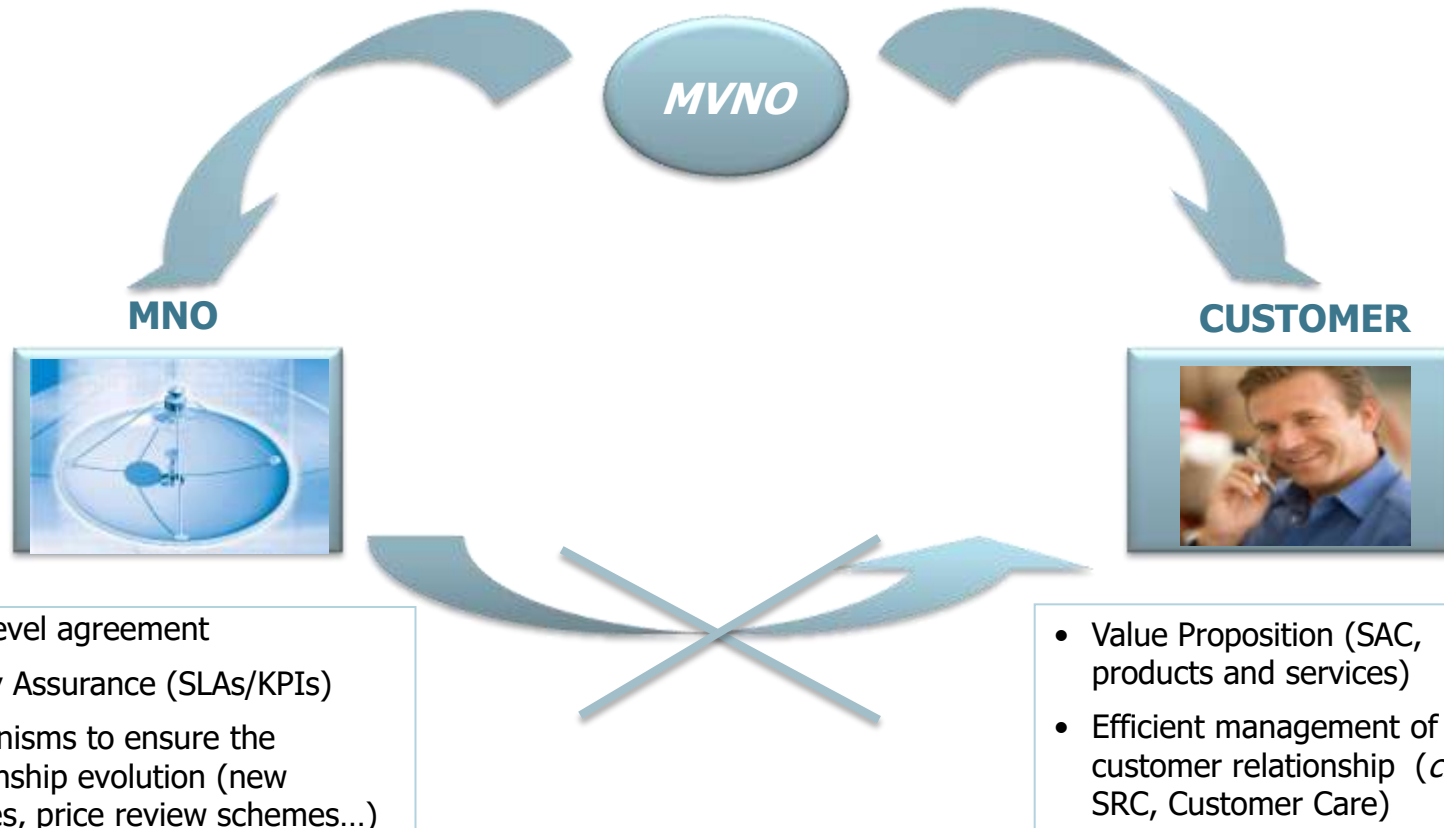
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MVNO business basics

A Mobile Virtual Network Operator (MVNO) provides mobile services without owning spectrum relying on the Mobile Network Operator's (MNO) network infrastructure



**Essentially, MVNO business consists in managing two key relationships:
Mobile Network Operator (MNO) and the end-user**

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Market entry strategies















... which means that MVNO business is mostly a market segmentation game for mature marketplaces.



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Key Assets

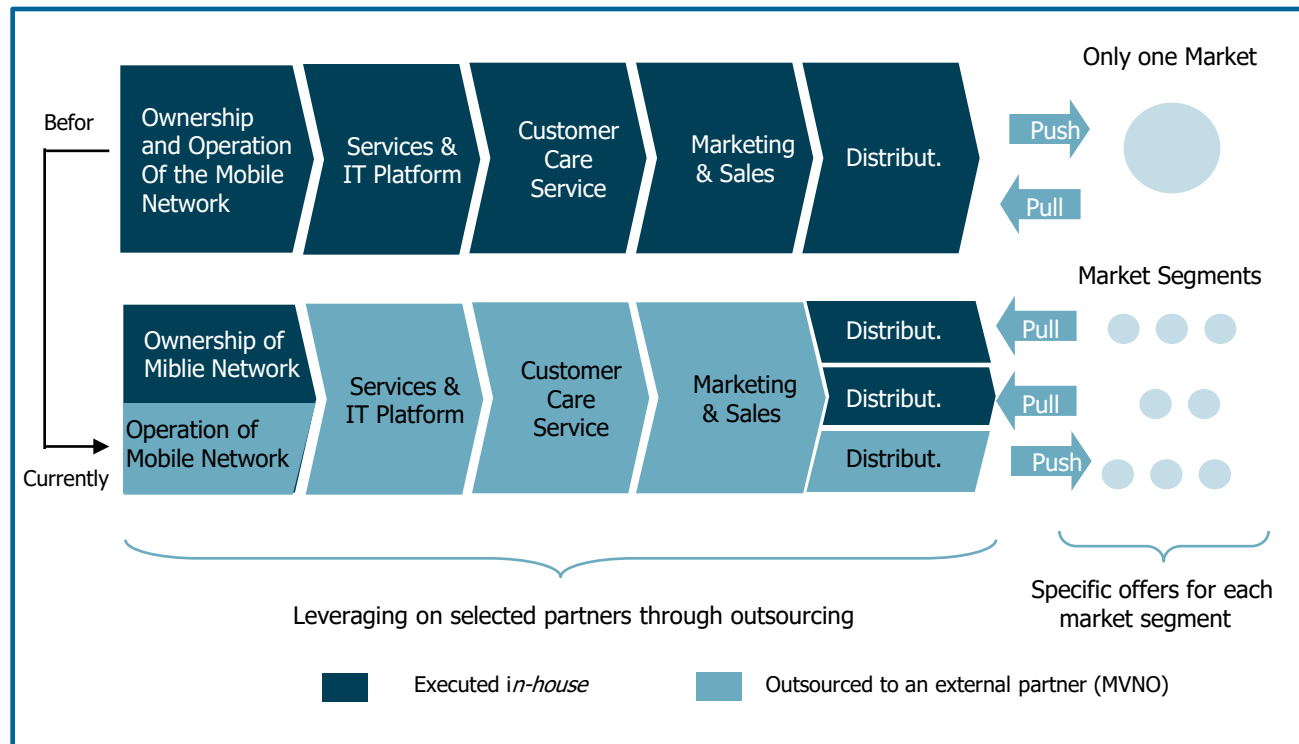
MVNOs need access to certain assets that can use to more efficiently target their market segment than traditional MNOs to add value to the chain

Key assets	Description	Launched MVNOs
Segmentation	<ul style="list-style-type: none"> Ability to target a specific market segment 	 
Distribution	<ul style="list-style-type: none"> Control or access to high capillarity distribution channels 	 
Customer Base	<ul style="list-style-type: none"> Own a wide and stable customer base on which cross-selling strategies can be applied 	 
Branding	<ul style="list-style-type: none"> Leverage on a brand recognition and prestige 	 
Efficiency	<ul style="list-style-type: none"> Develop an optimal operational structure 	 
Applications / Contents	<ul style="list-style-type: none"> Access to appealing contents and innovative applications 	 
Customer Management	<ul style="list-style-type: none"> Deliver a unique customer experience 	 

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How MVNOs create value for MNOs

In saturated markets, competition becomes a market-share game, so this new challenge leads MNOs to seek for MVNO partnerships to sustain the overall market growth...



...by creating offers aligned to the needs of each of the existing segments

...by dividing the value chain and allowing the entrance of new players through:

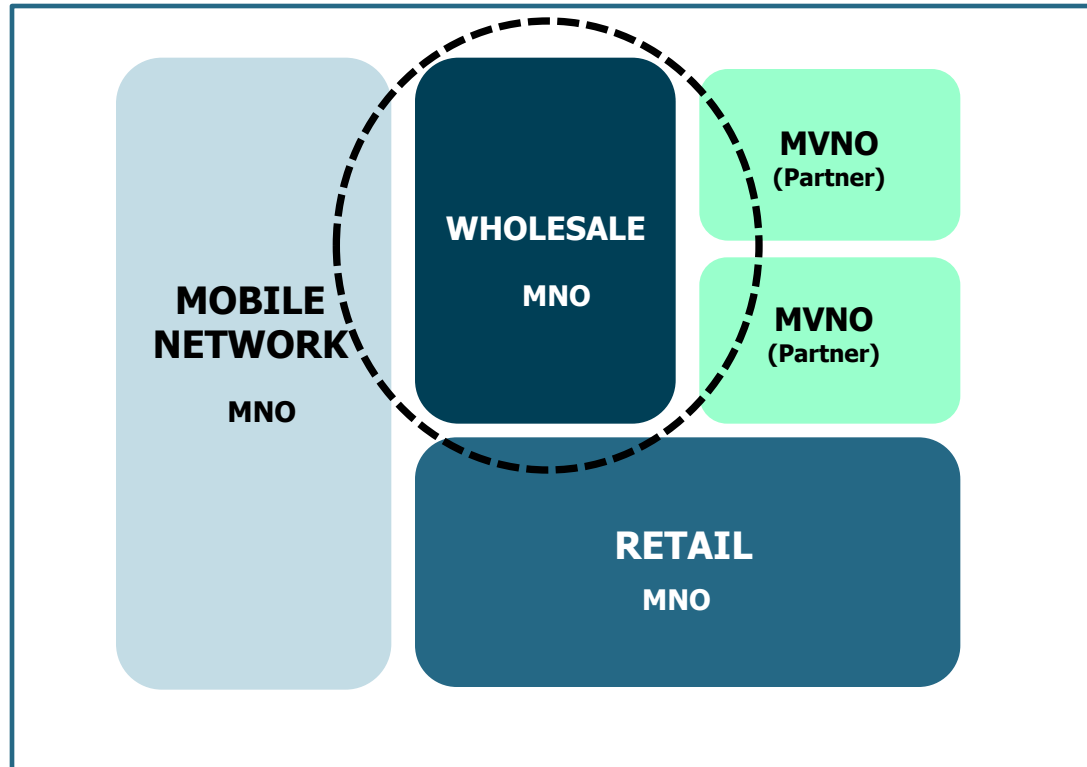
- ✓ Radically reducing costs (**increasing the EBITDA**)
- ✓ Reach new consumers in market segments not yet tapped into (**new distribution channels**)

MVNO allow MNOs to address specific market niches which they have not yet tapped into, while incurring lower Subscriber Acquisition Costs (SAC) —adding efficiency to the value chain

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Creating a new revenue stream for MNOs

... this lead MNOs to develop a completely new business, which is very common in other telecom areas (e.g fixed telephony)



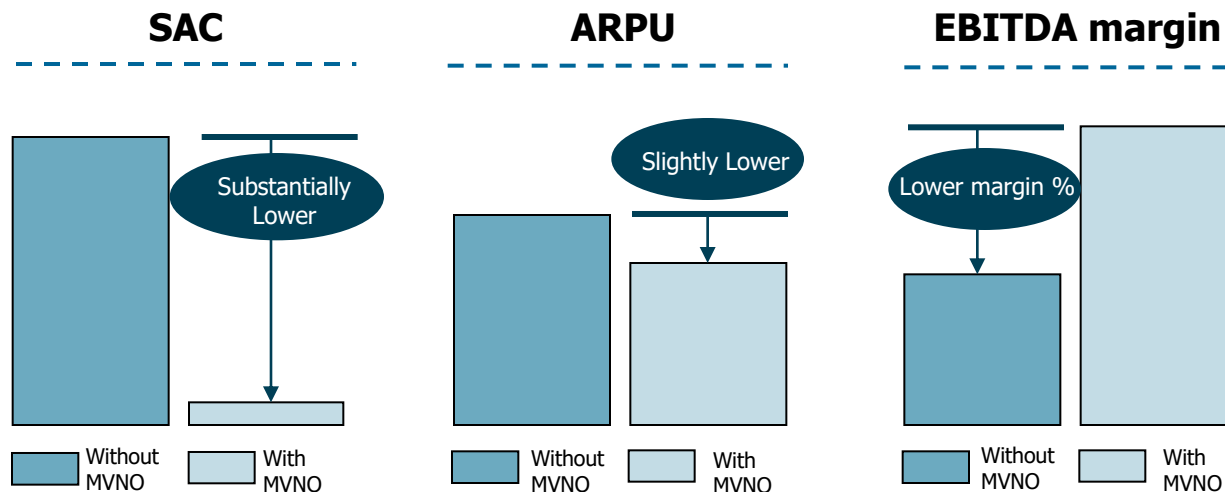
Through this strategy, MNOs can maintain its current retail business and tackle complementary market niches by reaching MVNO partnerships with the appropriate local players

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Benefits of MVNOs for the MNOs

Besides being a source of growth for the client portfolio, MVNOs create significant advantages for the MNOs in terms of improving its business profitability...

IMPACT OF MVNO BUSINESS ON MNO'S FINANCIALS



- The **Subscriber acquisition cost (SAC)** in the wholesale business for an MNO is zero, due to it falling on the MVNO.
- The **Average Revenue per User (ARPU)** in the wholesale business is only slightly inferior to the ARPU of the retail business for the MNO.
- In this way, the **EBITDA margin%** of the wholesale business is much higher than that of the retail one for MNOs.

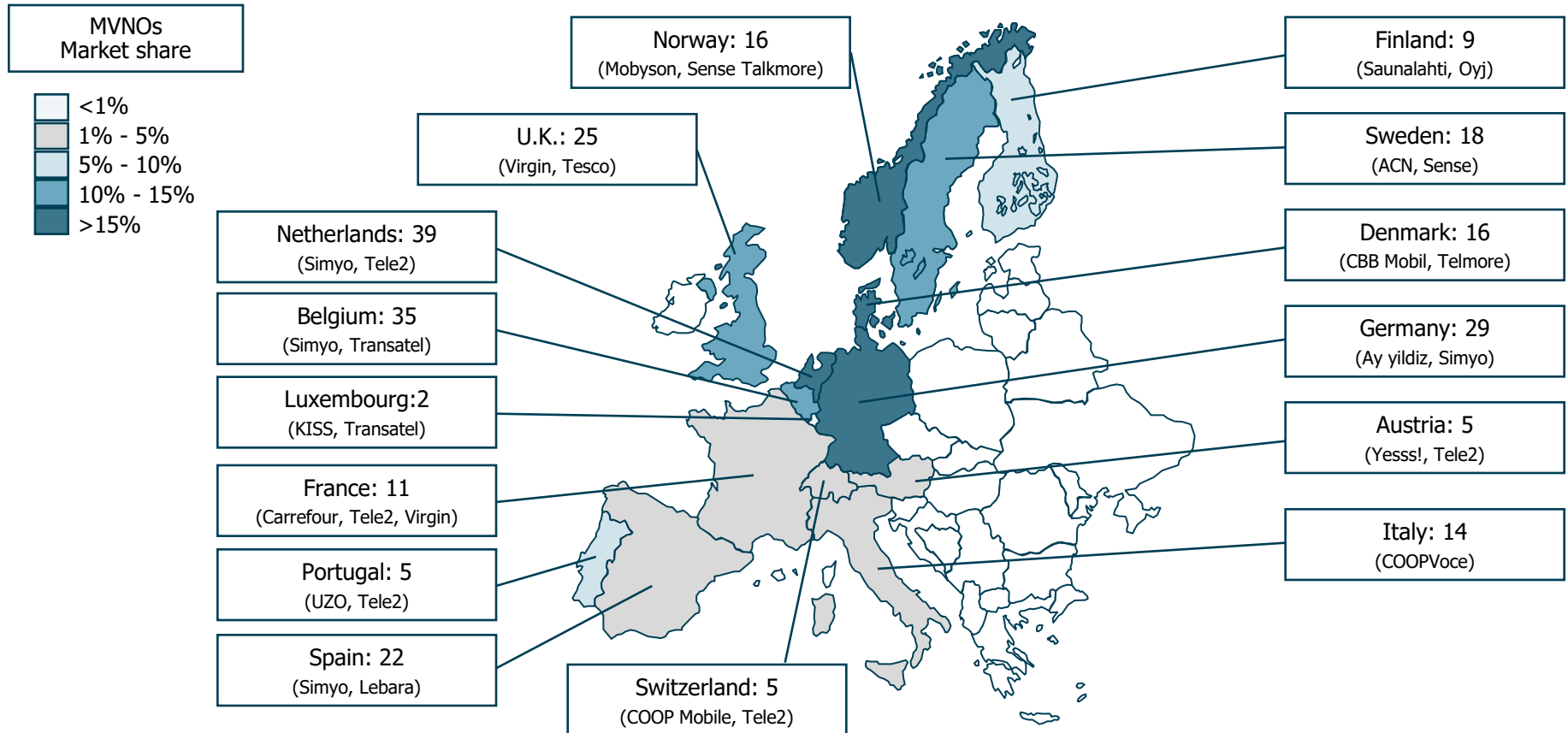
For the Host-MNOs, the EBITDA margins for customers acquired by MVNO is 3x the retail one

MVNOs help MNOs to drastically improve their EBITDA margins by reducing SAC costs with only a slight reduction in ARPU

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MVNOs in Europe

Number of MVNOs and their market share in Europe (end of 2009)



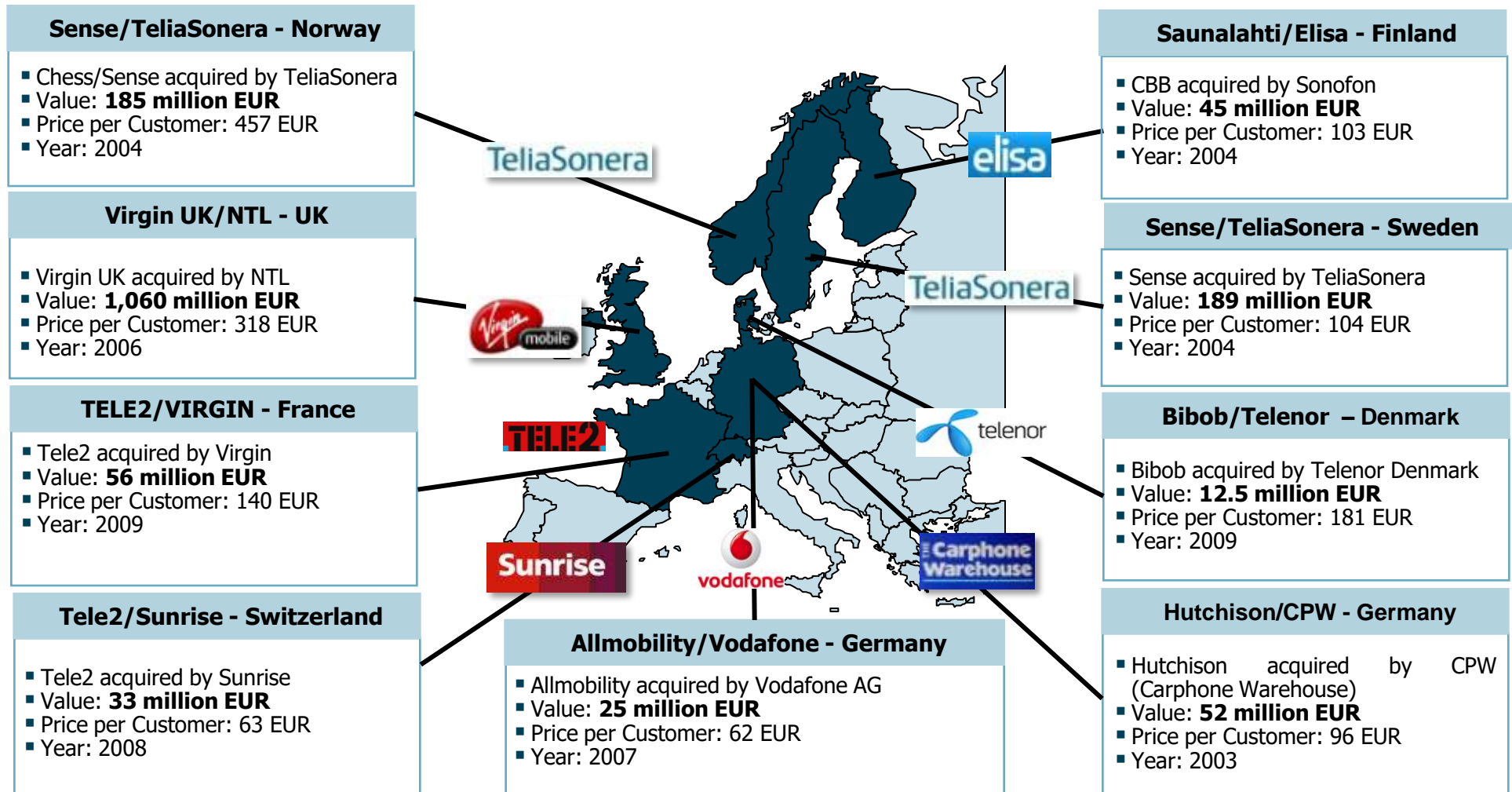
Source: Nereo Analysis with company data

MVNOs have been quite successful in garnering market share in most European countries

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MVNO Transactions – Exit strategies

MVNO transactions across Western Europe in the last few years serve to highlight that exit strategies have been successfully achieved by investors....



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— Operational Models

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Operational Models (I)

There are several options for MVNOs to build the required infrastructure over the MNO radio access network...

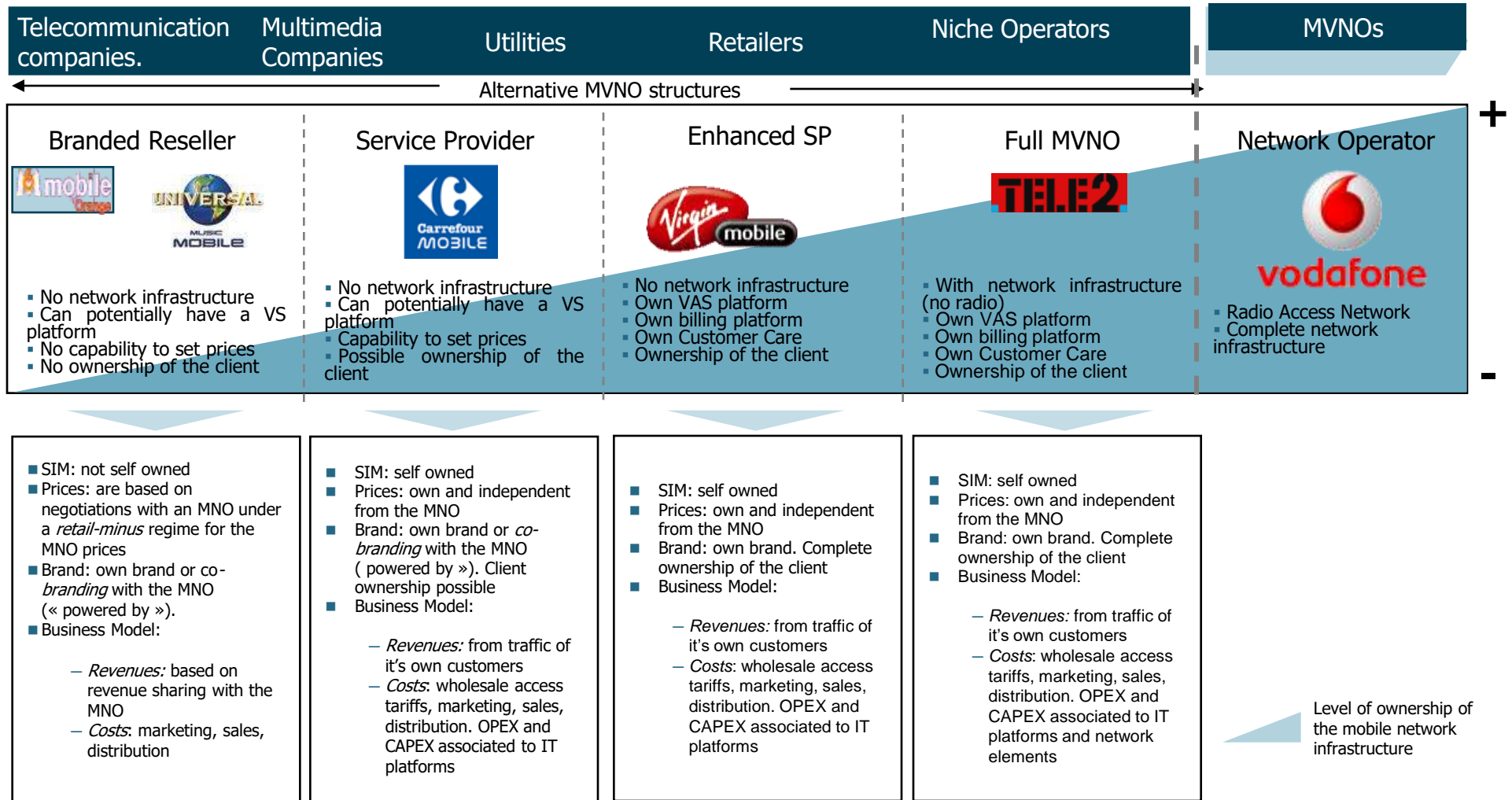
	FUNCTIONAL MODELS	Branded Reseller	Service Provider	Enhanced SP	Full MVNO
Enabling infrastructure and network provision	Radio Spectrum	White	White	White	White
	Network Switching	White	White	White	Blue
Content & Service Applications	VAS	White	White	Light Blue	Blue
	Service Platform	White	Light Blue	Light Blue	Blue
Operations	SIM Card	White	Light Blue	Light Blue	Blue
	Billing	White	Light Blue	Blue	Blue
	Pricing Capability	White	Blue	Blue	Blue
	Provisioning	White	Blue	Blue	Blue
	Customer Care	Light Blue	Blue	Blue	Blue
	Own Brand	Blue	Blue	Blue	Blue
Branding, Sales & Marketing	Distribution	Blue	Blue	Blue	Blue

MVNO owns
 MVNO may or may not own
 MVNO does not own

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Operational Models (II)

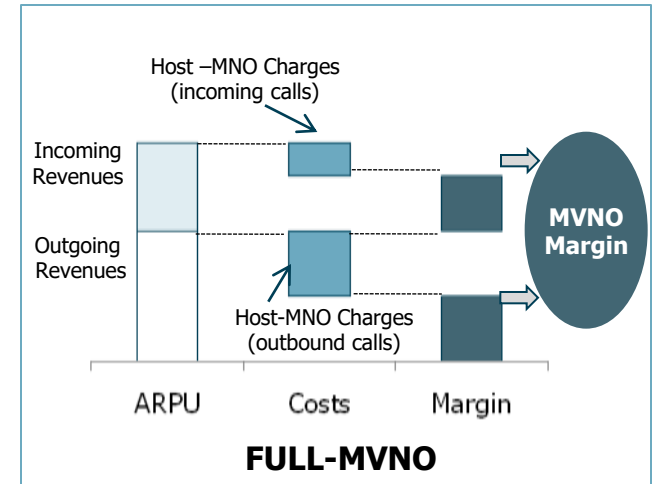
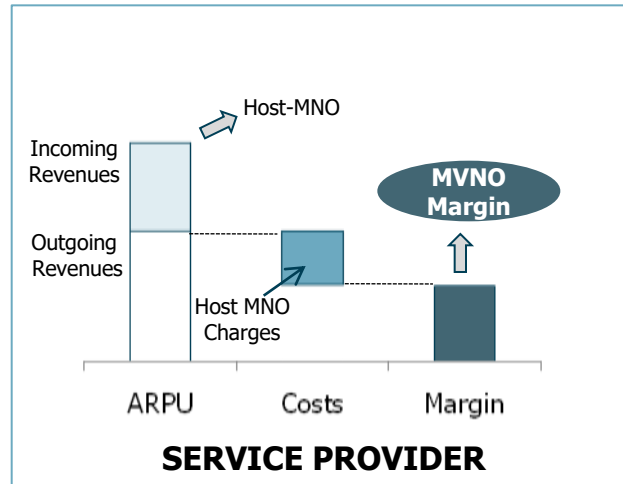
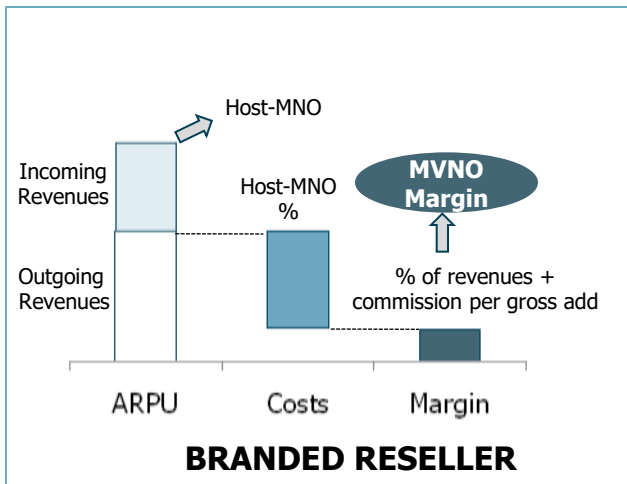
Selecting a specific MVNO operational model depends mostly on the commercial strategy that the new player wishes to implement in order to tap into the market...



MVNO OPERATIONAL MODELS

Economics associated to each MVNO model

MVNOs can be classified broadly into the following 3 models, each with their specific economic implications for the business



- MVNO has no control over retail pricing nor over the client, who belongs to the H-MNO
- MVNO agrees with the Host-MNO a certain gross margin over the existing retail offer
- The MVNO may also receive a commission per client acquired
- Interconnection revenues from incoming traffic go directly to the Host-MNO

- MVNO can establish its own retail rates and owns the client, but not the IMSIs
- Wholesale rates may vary with the type of call/sms (destination):
 - On/Off Net
 - National / International
- Interconnection revenues from incoming traffic go directly to the Host-MNO

- MVNO has full control over the retail pricing and also over the client with its own IMSIs
- The MVNO pays the Host-MNO a certain rate per min. for outgoing calls (A-leg) as well as for incoming calls (B-leg) to its end-users
- Interconnection revenues from incoming traffic go directly to the MVNO

Full-MVNO operational model provides higher margins and total independence from the Host-MNO, and it requires also the lowest effort to be implemented by the MNO

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Operational Models – Main Business Ratios

Depending on the MVNO operational model and the segment of the target market selected, payback of the investment can be expected usually between 4 and 6 years...

	Branded Reseller	Service Provider	Full MVNO
Subscr. Ownership	<ul style="list-style-type: none"> The Client belongs to the MNO 	<ul style="list-style-type: none"> The Client belongs to the MVNO 	<ul style="list-style-type: none"> The Client belongs to the MVNO
EBITDA Margin (% of revenues)	<ul style="list-style-type: none"> 10-15% 	<ul style="list-style-type: none"> 15-20% 	<ul style="list-style-type: none"> 20-25%
Project Peak-funding	<ul style="list-style-type: none"> 4-6 Mill. USD 	<ul style="list-style-type: none"> 7-10 Mill. USD 	<ul style="list-style-type: none"> 10-15 Mill. USD
CAPEX	<ul style="list-style-type: none"> 2 Mill. USD 	<ul style="list-style-type: none"> 3-5 Mill. USD⁽¹⁾ 	<ul style="list-style-type: none"> 12-15 Mill. USD⁽¹⁾



Source: NEREO analysis

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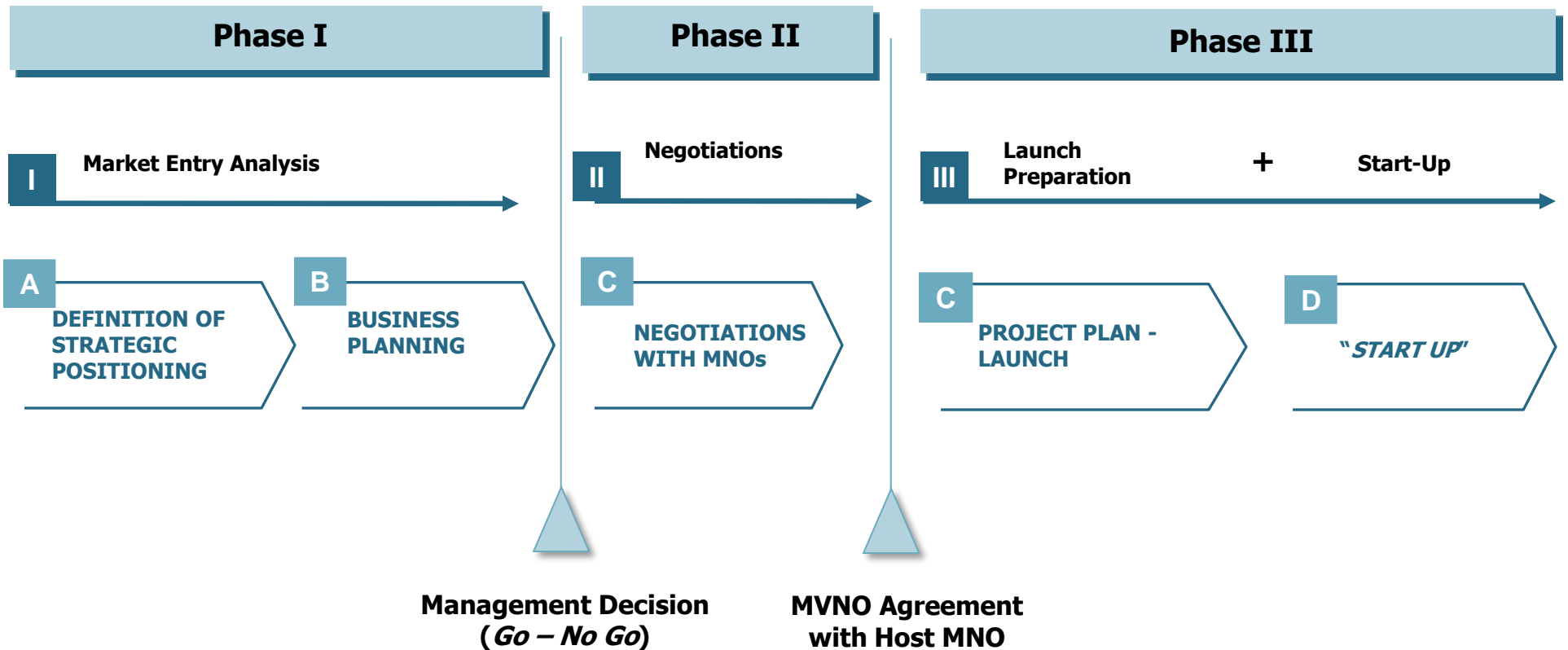
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Phases

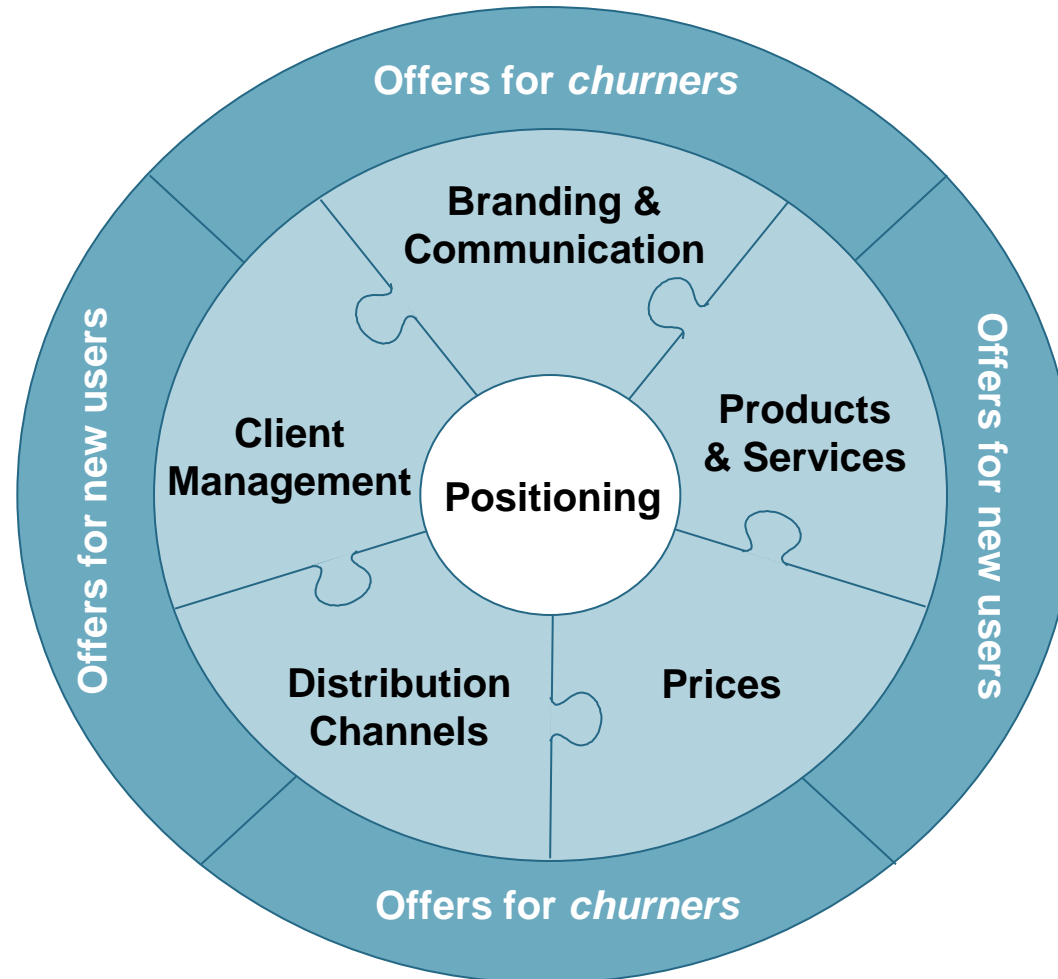
The Launch of a MVNO can be broken down into 3 separate Phases:



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Strategic Positioning

The strategic positioning has to be examined in the light of the following variables:



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- ✓ MVNOs are **an instrument to stimulate the growth of mobile market** once it is approaching or has reached saturation in terms of penetration
- ✓ The MVNOs create value in a mature market by **segmentation**, with offers focussed on the target market and leveraging their assets to **introduce efficiency in the value chain as a whole**
- ✓ MVNO experiences in many countries have demonstrated the importance of an **adequate regulatory framework** in helping the MVNOs flourish.
- ✓ The regulatory framework should explicitly define the rights and obligations applicable to the agents in the business relationship; **the MVNO, the Host MNO & the Consumer**

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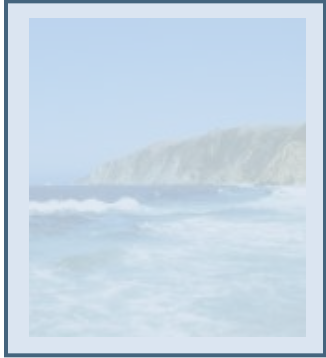
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Nereo & Nereo Green Capital

NEREO ofrece soluciones practicas y efectivas, desarrolladas para alcanzar las metas de nuestros clientes



¿Quién es NEREO?

NEREO ha sido creado por un grupo de profesionales con amplia experiencia en el área de Energía y Telecomunicaciones, con sólida formación en Marketing, Finanzas, Regulación, Operaciones y Estrategia

Actividad

Se centra en desarrollo de negocio, gestión de inversiones y estrategia, en las áreas de energía y telecomunicaciones, con orientación a los resultados

Objetivo

Desarrollar ventajas competitivas sostenibles para nuestros clientes, a fin de alcanzar mayor rentabilidad

Enfoque

Desde el inicio Nereo ha tenido un enfoque internacional lo cual le ha permitido ampliar sus horizontes para incluir diversos rincones del mundo

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Credenciales

NEREO tiene una amplia experiencia, habiendo trabajado para las principales empresas de los siguientes sectores:

SECTOR ENERGÍA



SECTOR TELECOM



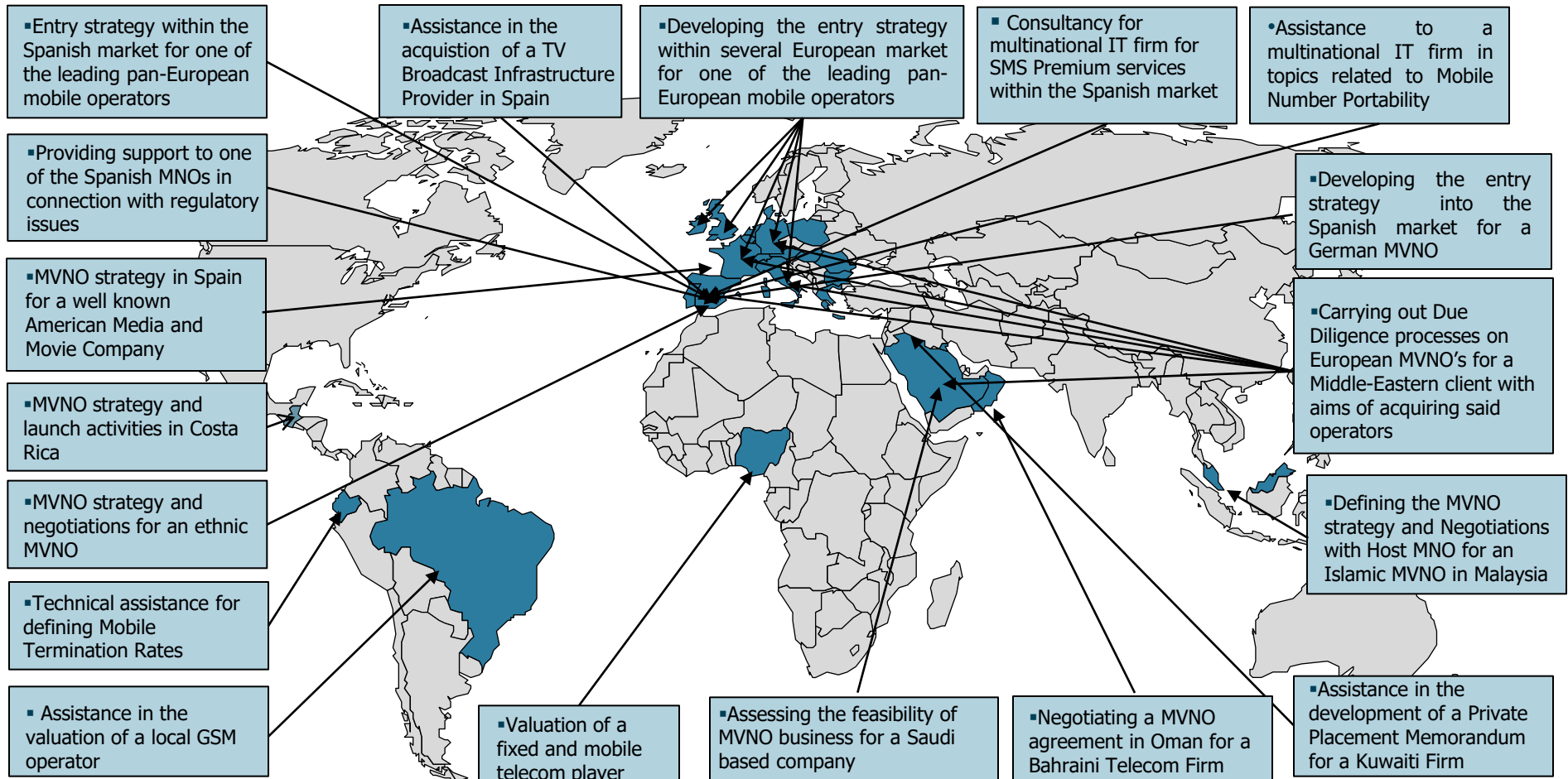
OTROS SECTORES



CREDENTIALS

Telecom Practice

NEREO has an extensive experience in the mobile telecoms space worldwide....



NON EXHAUSTIVE

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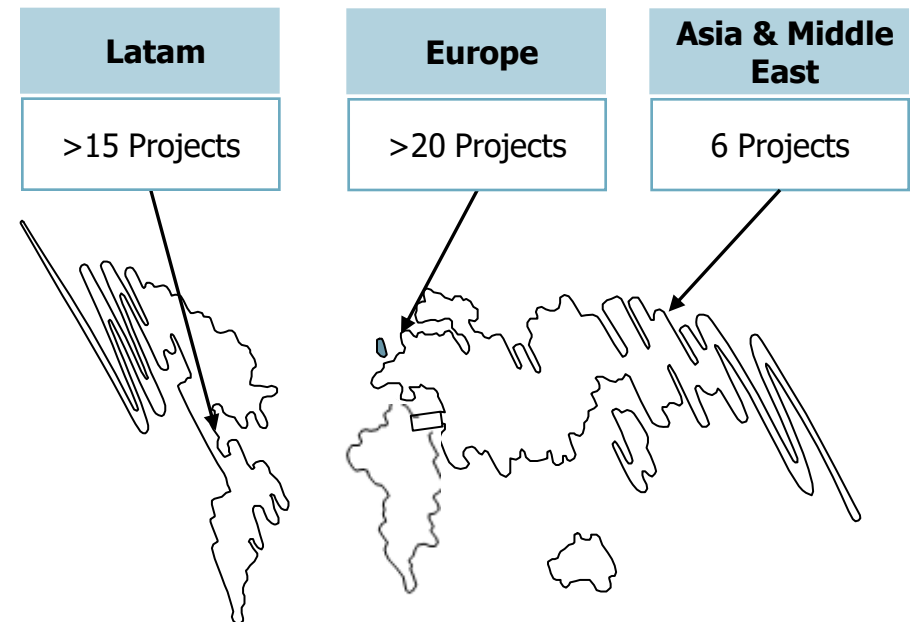
Experiencia en MVNOs (I)

En el ámbito Telecom, NEREO dispone de una amplia experiencia internacional MVNOs, habiendo realizado proyectos en más de 15 países ...

Experiencia en MVNOs

		PROYECTOS DESARROLLADOS
Modelo Funcional de MVNO	Branded Reseller	>10
	Service Provider	>10
	Full-MVNO	>20

Alcance geográfico



La especialización de NEREO en el ámbito de los MVNOs nos ha permitido desarrollar más de 40 proyectos en los últimos 4 años

NEREO

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