

COVID-19

a black swan that changes everything

Risks and opportunities in Telecom Sector

June 2020 edition

The COVID-19 health crisis has produced the biggest economic crisis in the recent history

By the moment, the Telecommunications Sector is one of the least affected sectors. The real impact that could be achieved is still unknown and the threat of a future resurgence puts all sectors of activity in check

It is necessary to take measures that prevent future risks and help us to find opportunities for growth in a new reality

The current context is also an accelerator and stimulator of transformations and latent changes in the Telecom Sector

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HAPPENING?

2 OUR PROPOSAL
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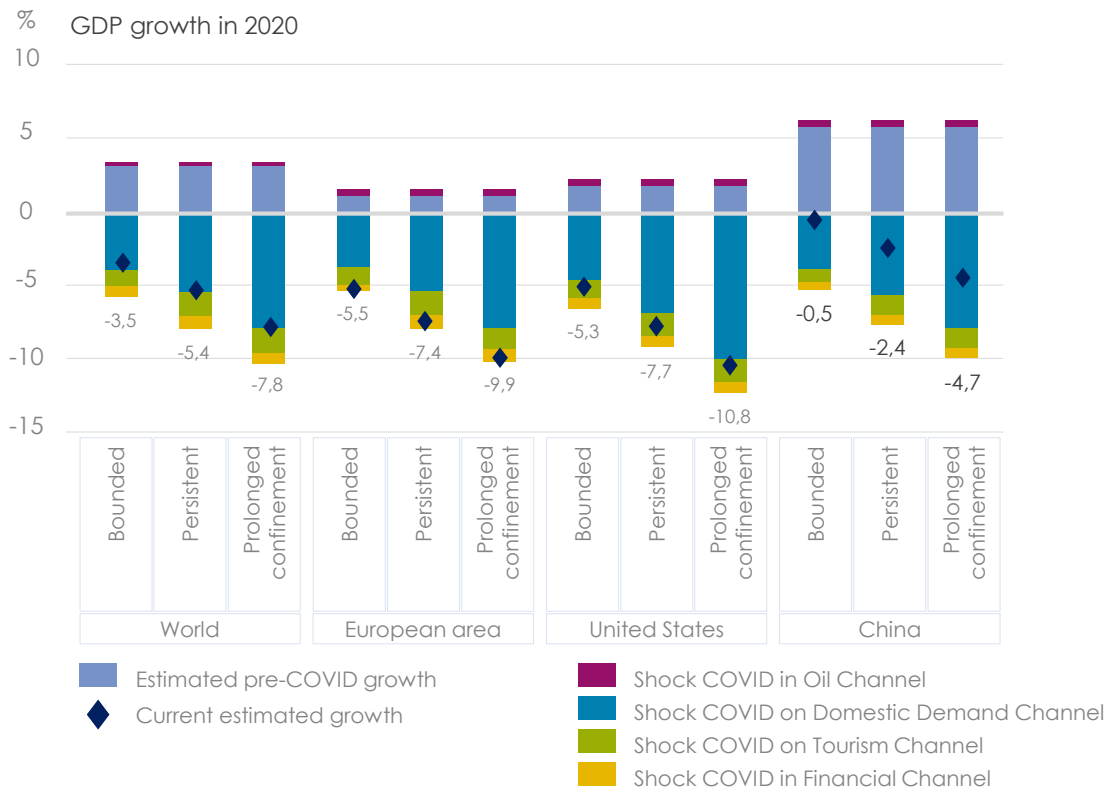
3 TURNING THE
RISKS INTO
OPPORTUNITIES
DASHBOARD

The COVID-19 crisis arises strong challenges in the macroeconomic context

The COVID-19 impact creates new economic uncertainty worldwide

The health crisis has become a global economic crisis that has affected the GDP of all major economies

Health crisis global impact in 2020 (Bank of Spain)

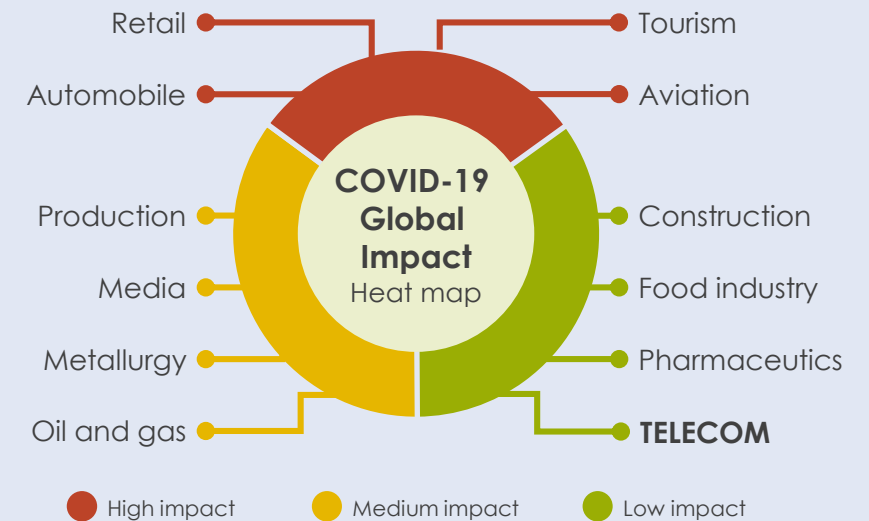


Sources: Escenarios macroeconómicos de referencia para la economía española tras el COVID-19, 2020, Banco de España; El Mundo; Moody

The suspension of activities has affected service branches such as hospitality, restaurants and entertainment, trade and transport

Some countries, such as Germany, are launching various economic measures such as reducing VAT on restaurants and cafes

Heat map of coronavirus impact by sector or activity (based on Moody)



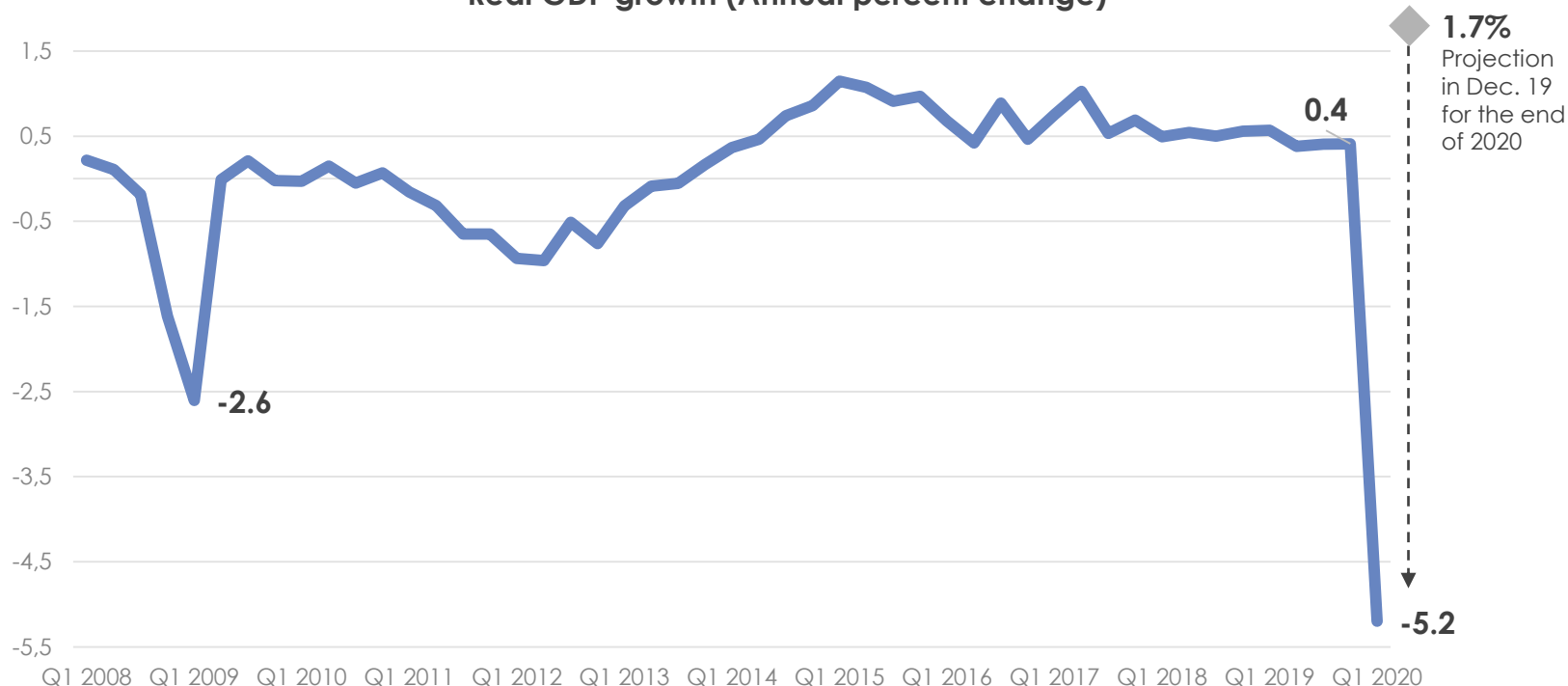
Telecom Sector is considered one of the sectors with the **lowest impact**

In Spain, GDP may be reduced by up to 15pp compared to initial estimations

The service branches most affected (hospitality, restaurants and entertainment, trade and transport) account for a quarter of Spain's GDP, making it one of the most affected economies

In Spain, it is estimated that the **GDP could decrease between 12.4% and 13.6%**, up to 15.3pp of difference with the initial estimations of 2020 given in December 2019, when a positive variation of 1.7% was expected. The impact will be greater the longer the containment measures are extended or there is a second wave of COVID-19

Real GDP growth (Annual percent change)



COVID-19 IMPACT ON EMPLOYMENT IN SPAIN

24%
employees
affected by
COVID-19 (5.5M)

80%
in hospitality
(1.3M)

40%
in trade
(1.2M)

900,000
Employees
affected from small
companies and
freelancers

1.1M
of families with all
their members
unemployed
(increase of 60k by
the COVID-19)

In the new reality, both demand and consumer behavior will change significantly

Medium and long term analysis

In the new reality post-COVID-19, the crisis's economic impact and the threat of a resurgence will change the consumption habits and the behavior of Spanish people

WORK FROM HOME

The adoption of employees working from home permanently is expected **to increase by up to 4 times** the current values

CAUTIOUS CONSUMER

The **future economic** crisis will lead to more cautious consumers who spend a greater percentage of their **income on savings**

ONLINE PURCHASE

It is estimated that online shopping consumption **will continue to increase, but also price comparison** before the purchase

MISTRUST AND FEAR

There will be high levels of mistrust translated into **fear of contagion, agglomerations and physical contact**

MOBILITY AND TOURISM

Reductions of between 20% and 30% in global mobility and consumption in tourism are expected in the first half of 2020

ONLINE EVENTS

Socio-cultural events will be reduced in face-to-face format, while online event will continue to increase

FOOD CONSUMPTION

Food consumption **will stabilize at pre-crisis levels**, although online channels will be consolidated and unstaffed payment in stores could be extended



The operators are carrying out various internal actions that impact on customers and society

STRATEGIC AND INTERNAL ACTIONS

Telefónica



M&A acceleration between operators

Telefónica signs a merger to create a leading operator in the UK valued at 36M€

Telefónica

Movements to increase cash flow flexibility

Telefónica offers stock dividend and confirms its merger with Virgin Media

Telefónica



Own de-escalation plans definition by the operators

Telefónica, Orange and Vodafone define the return: 70% of all staff will work at home

Telefónica

Internal recognition of employees exposed to COVID-19

Telefónica awards 650€ per employee to the ones most exposed to contagion in Spain

Telefónica

orange™



MASMOVIL®

Operators will come out stronger from their work on coronavirus crisis

Provision of quality services and social actions: Telefónica (IFEMA hospital), Orange (delivery of tablets), Vodafone (support to the government) o MasMovil (donation of healthcare material)

CUSTOMERS DIRECT IMPACT ACTIONS

Telefónica

orange™



MASMOVIL®

Reconfiguration of mobile data packages

Movistar, Vodafone y Orange added 30GB extra for free. MasMovil extended the validity of prepaid cards



Special discounts for healthcare personnel

AT&T offers 50% discount for first aid staff employees who purchase First Net

Telefónica

Customer services adapted to the elderly

Telefónica has enabled its information (1004) and failures (1002) services for people over 65 years old

euskaltel

MASMOVIL®

Economic or free access to content platforms

Euskaltel is giving away access to its children and film channels and Yoigo is giving away 3 months of Sky TV and FlixOlé



Free trials of IT solutions

DT offers free trial of video conferencing solutions to facilitate the work at home

NETFLIX

Content adaptation to COVID-19

Netflix launches 'Coronavirus, explained' a series of how to cope with the COVID-19

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We propose a first set of measures aimed at reducing the impact of the crisis and taking advantages of new business opportunities

Tactical measures

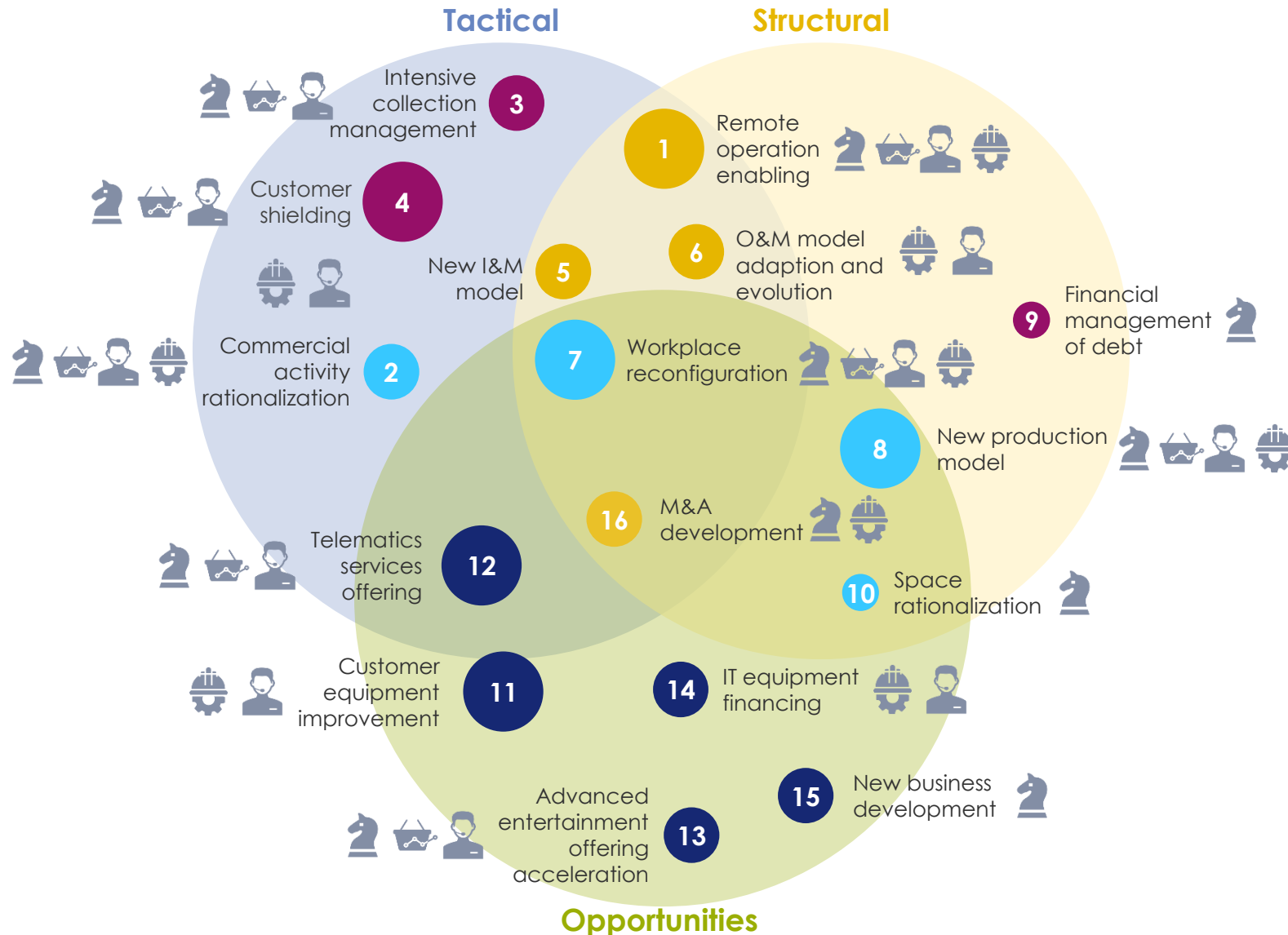
To be applied **at the beginning of the health crisis** to **ensure the continuity** of the business

Structural measures

They can be **extended in the medium and long term** to **reduce costs and make operations more efficient**

New business opportunities

Based on the **analysis of future demand** and ideally launched **at the beginning of the economic recovery**



Main impact type:

- Business continuity
- Income assurance
- Cost reduction, operational improvement
- Customer development and loyalty

Impacted areas:

- Strategy and Finance
- Marketing and Sales
- Customer care
- Operations



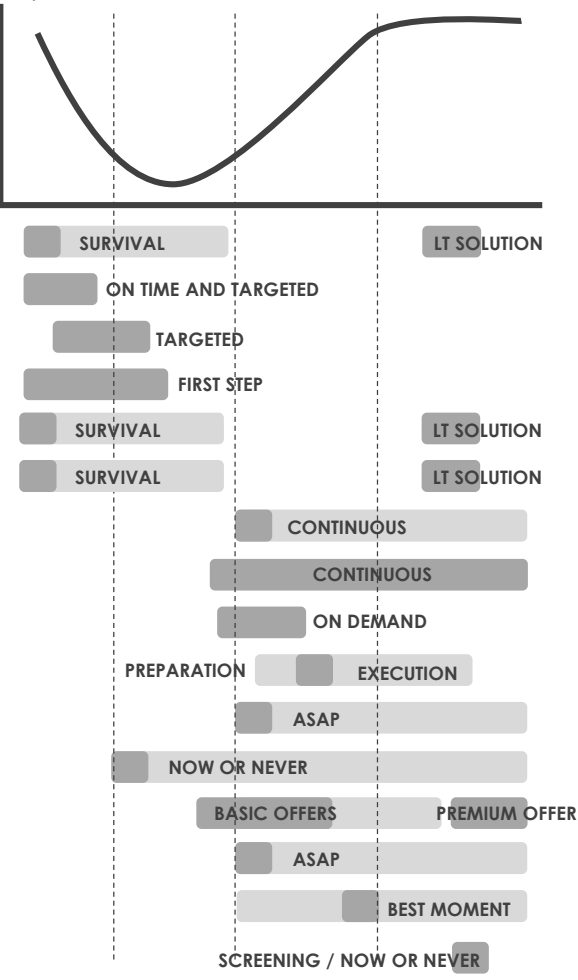
Operators should dynamically adapt the type and intensity of the measures according to the evolution scenario

■ Key moment ■ Execution

- Remote operation enabling 1
- Commercial activity rationalization 2
- Intensive collection management 3
- Customer shielding 4
- New I&M model 5
- O&M model adaption and evolution 6
- Workplace reconfiguration 7
- New production model 8
- Financial management of debt 9
- Space rationalization 10
- Customer equipment improvement 11
- Telematics services offering 12
- Advanced entertainment offering acceleration 13
- IT equipment financing 14
- New business development 15
- M&A development 16

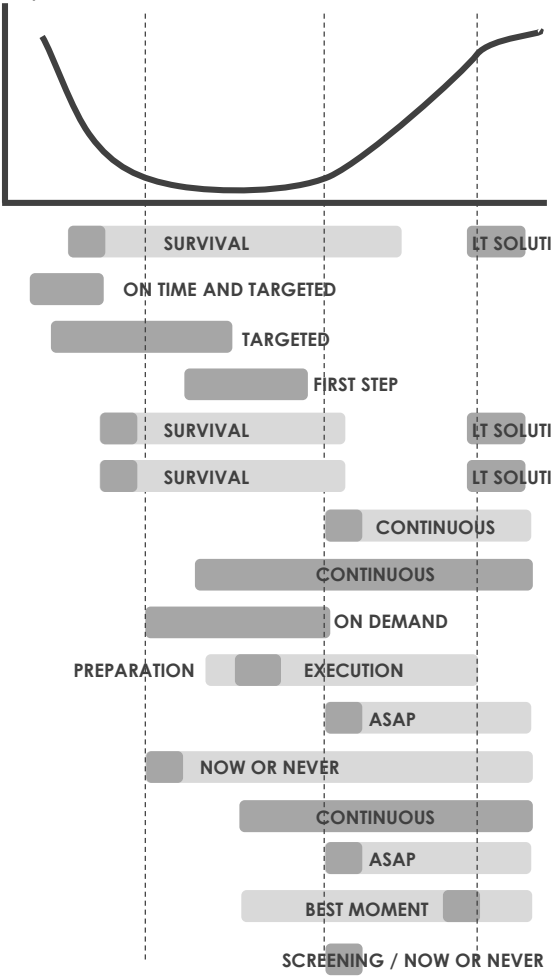
V-shaped recovery

Health and economic measures are taken at the right time, possible drop in GDP of 6.8% according to the Banco de España



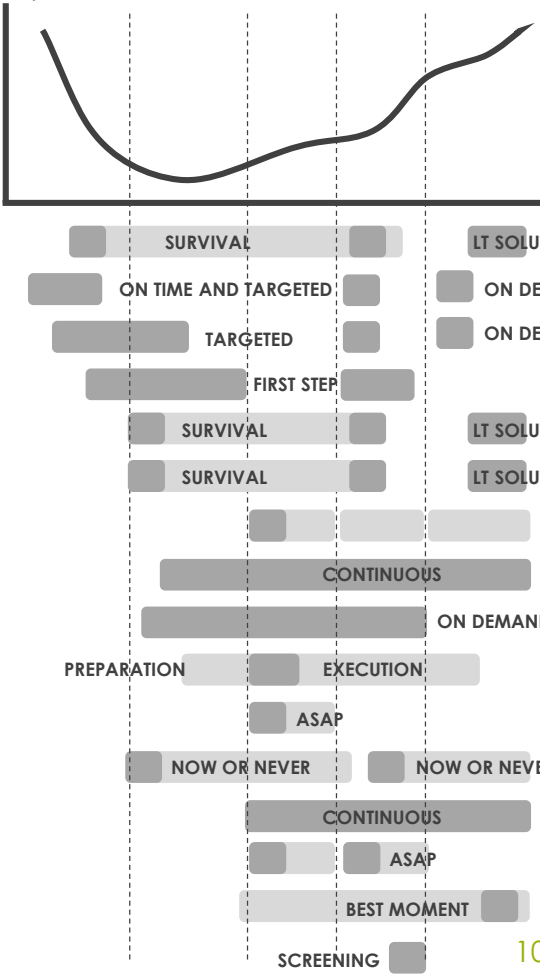
U-shaped recovery

The economy stagnates for an extended period, possible drop in GDP of 9.5% according to the Banco de España



✓ - shaped recovery

It is not possible to prevent new cases resurgences, possible drop in GDP of 12.4% according to the Banco de España



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The results obtained from taking advantage of the opportunities to implement these measures are an invitation to address the risks

RISKS

1

Remote operation enabling

- Cybersecurity threats
- Breach regulatory terms
- Break the balance between quality and productivity

2

Commercial activity rationalization

- Reduction of capillarity and sales capacity
- Breach contractual commitments

3

Intensive collection management

- Increase customer churn
- Incurring a cash loss

4

Customer shielding

- Increase customer churn
- Do not maximize efforts due to not take into account customer vulnerability scoring

5

New I&M model

- Incurring increased costs
- Increase customer cancellation of installation

OPPORTUNITIES

- Increase work at home after COVID-19
- Savings in infrastructure costs
- Reduction of costs in travels

- Review the channel mix to redirect the customer according to his/her usage preference
- Renegotiate contractual commitments

- Achieving a strong customer commitment
- Increase the social commitment

- Ensure income sustainability
- Increase customer loyalty
- Ensure return on investment
- Increase the social commitment

- Improve the operator's image
- Enhance remote and autonomous troubleshooting
- Increase the capacity to negotiate logistics contracts



The results obtained from taking advantage of the opportunities to implement these measures are an invitation to address the risks

RISKS

- | | | |
|----|---|---|
| 6 | O&M model adaption and evolution | <ul style="list-style-type: none">• Incurring increased costs• Breach regulatory terms |
| 7 | Workplace reconfiguration | <ul style="list-style-type: none">• Cybersecurity threats• Breach regulatory terms and break the balance between quality and productivity• Increase space costs |
| 8 | New production model | <ul style="list-style-type: none">• Suffering resistance to change• Find contractual limitation |
| 9 | Financial management of debt | <ul style="list-style-type: none">• Incurring a cash loss• Incurring loss of operator's image |
| 10 | Space rationalization | <ul style="list-style-type: none">• Finding an obstacle because of the safety distance measures• Breach contractual commitments |

OPPORTUNITIES

- | |
|---|
| <ul style="list-style-type: none">○ Enhance remote and autonomous troubleshooting○ Increase the capacity to negotiate logistics contracts |
| <ul style="list-style-type: none">○ Savings in infrastructure costs○ Reviewing worker benefits |
| <ul style="list-style-type: none">○ Efficient operational processes○ Redefining profiles and the organizational model○ Cost savings through operational improvement |
| <ul style="list-style-type: none">○ Minimization of financial loss |
| <ul style="list-style-type: none">○ Savings in infrastructure costs○ Creating collaborative spaces |



The results obtained from taking advantage of the opportunities to implement these measures are an invitation to address the risks

RISKS

- | | | |
|----|---|--|
| 11 | Customer equipment improvement | <ul style="list-style-type: none">• Increase the availability time of advanced equipment |
| 12 | Telematics services offering | <ul style="list-style-type: none">• Manage multi-brand products• Incurring loss of differentiation against operators with this type of products |
| 13 | Advanced entertainment offering acceleration | <ul style="list-style-type: none">• Management of entertainment investment / ROI• Breach content regulations• Losing agreements with key third parties |
| 14 | IT equipment financing | <ul style="list-style-type: none">• Investing it material without return |
| 15 | New business development | <ul style="list-style-type: none">• Losing agreements with key third parties• Failure to meet demand due to its volatility |
| 16 | M&A development | <ul style="list-style-type: none">• Losing focus of business/operational• Losing options due to their time limitation |

OPPORTUNITIES

- | |
|---|
| <ul style="list-style-type: none">○ Acceleration of device integration○ Development of new services / backup |
| <ul style="list-style-type: none">○ Increase customer loyalty○ Development and sales of new services and products |
| <ul style="list-style-type: none">○ Development of new business in 'best in class' events○ Selling immersive equipment |
| <ul style="list-style-type: none">○ Accelerate equipment sales○ Development of new business |
| <ul style="list-style-type: none">○ Expansion into new sources of income○ Increase customer loyalty |
| <ul style="list-style-type: none">○ Carrying out non-organic business expansion |



Needs and KPIs dashboard

Measures	NEEDS			KPIs IMPACT			
	△CAPEX	△OPEX	Resources reorientation	Incomes	Costs	Customer experience	Churn reduction
1. Remote operation enabling	■ ■ □	-	■ □ □	■ ■ ■ Short term	■ □ □	■ □ □	-
2. Commercial activity rationalization	-	■ □ □	■ ■ ■	■ □ □	■ ■ □	■ □ □	-
3. Intensive collection management	-	■ □ □	■ □ □	■ ■ □	■ □ □	■ ■ □	▼ ▼ ▼
4. Customer shielding	-	■ ■ □	-	■ ■ ■	■ □ □	■ ■ ■	▼ ▼ ▼
5. New I&M model	■ □ □	■ □ □	■ ■ □	■ ■ □ Short term	■ □ □	■ ■ ■	▼ ▼ ▼ Short term
6. O&M model adaption and evolution	■ □ □	■ □ □	■ ■ □	■ ■ □ Short term	■ ■ □	■ □ □	▼ ▼ ▼
7. Workplace reconfiguration	■ □ □	-	■ □ □	-	■ ■ □	-	-
8. New production model	■ ■ □	■ ■ □	■ ■ ■	-	■ ■ ■	■ □ □	▼ ▼ ▼
9. Financial management of debt	-	■ □ □	-	■ □ □	■ □ □	■ □ □	-
10. Space rationalization	-	■ □ □	■ □ □	-	■ ■ □	■ □ □	-
11. Customer equipment improvement	■ □ □	■ □ □	-	■ □ □	■ □ □	■ ■ □	▼ ▼ ▼
12. Telematics services offering	-	■ ■ □	■ □ □	■ ■ □	■ □ □	■ ■ □	▼ ▼ ▼ Short term
13. Advanced entertainment offering acceleration	■ ■ □	■ ■ □	■ □ □	■ ■ □ Correlated	■ □ □	■ ■ ■	▼ ▼ ▼
14. IT equipment financing	■ ■ □	■ □ □	-	■ ■ □	■ □ □	■ ■ ■	▼ ▼ ▼
15. New business development	■ ■ ■	■ ■ ■	■ □ □	■ ■ □ Correlated	■ □ □	■ ■ ■	▼ ▼ ▼
16. M&A development	■ ■ ■	■ □ □	■ ■ ■	■ ■ ■	■ ■ ■	-	-

Positive impact

Low High

Negative impact

Low High

- No impact

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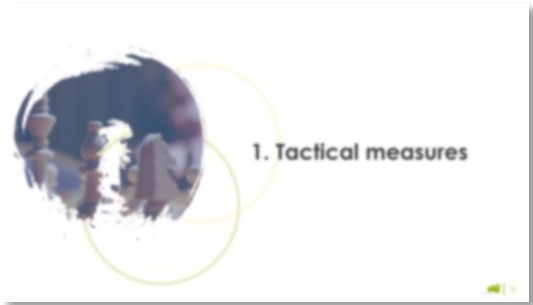
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APPENDICES

DETAILS OF MEASURES

More information in the full report



1. Tactical measures			
Critical measures that companies should apply at the beginning of the health crisis in order to ensure the business continuity			
Measure	Description	Initiative	Impact
1. Remote working	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	70-80% reduction in office space usage
2. Commercial policy adjustment	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	30-40% reduction in commercial costs

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1. Tactical measures			
Critical measures that companies should apply at the beginning of the health crisis in order to ensure the business continuity			
Measure	Description	Initiative	Impact
5. New B2B model	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	70-80% reduction in office space usage
6. Digital marketing and sales	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	30-40% reduction in commercial costs



2. Structural measures			
Structural measures that can be extended in the medium and long term to reduce costs and make the operation more efficient			
Measure	Description	Initiative	Impact
7. Remote working	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	70-80% reduction in office space usage
8. New production model	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	30-40% reduction in commercial costs

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10. New production model	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	30-40% reduction in commercial costs



3. New business opportunities			
Based on the analysis of future consumer demands, new opportunities to expand the product portfolio, make internal operational improvements and grow the business			
Measure	Description	Initiative	Impact
11. Customer engagement	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	70-80% reduction in office space usage
12. Internal marketing	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	30-40% reduction in commercial costs
13. New production model	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	70-80% reduction in office space usage

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15. Internal marketing	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	Adjustment of commercial policy, ensuring the continuity of the business and the safety of employees.	30-40% reduction in commercial costs
16. New production model	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	Shift of non-essential personnel to remote working, ensuring the continuity of the business and the safety of employees.	70-80% reduction in office space usage

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The everis logo consists of the word "everis" in a white, lowercase, sans-serif font, centered within a green, irregular, blob-like shape.

an **NTT DATA** Company

The background of the slide is a photograph of a rocky coastline. In the foreground, there is a calm body of water reflecting the sky and the rocks. A line of large, light-colored rocks extends from the right side towards the center. The sky is a clear, pale blue. The overall color palette is dominated by blues and greens, with a yellowish-green gradient overlay on the right side.

Thank you

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