
Q2 2020 Earnings Call

Company Participants

- Daniel Hajj Aboumrad, Chief Executive Officer
- Carlos Garcia Moreno Elizondo, Chief Financial Officer
- Daniela Lecuona, Head of Investor Relations
- Oscar Von Hauske, Chief Fixed Line Operations Officer

Other Participants

- Walter Piecyk, Analyst
- Rodrigo Villanueva, Analyst
- Alejandro Gallostra, Analyst
- Marcelo Santos, Analyst
- Diego Aragao, Analyst
- Fred Mendes, Analyst
- Maria Azevedo, Analyst
- Carlos Legarreta, Analyst
- Ernesto Gonzalez, Analyst
- Valentin Mendoza, Analyst

Presentation

Operator

Good morning. My name is Mariama and I will be your conference operator today. At this time, I would like to welcome everyone to the America Movil Second Second Quarter 2020 Conference Call and Webcast. All lines have been placed on mute to prevent any background noise.

After the speakers remarks, there will be a question-and-answer session. (Operator Instructions) Thank you. Now, I will turn the call over to Miss. Daniela Lecuona, Head of Investor Relations.

Daniela Lecuona

Good morning, everyone. Thank you for joining us today to discuss America Movil second quarter 2020 financial and operating results. We have today from the line

Daniel Hajj Aboumrad

Thank you, Daniela. Thank you, everyone for being in the second quarter 2020 financial and operating report.

And Carlos Garcia Moreno is going to make a summary of the results. Thank you.

Carlos Garcia Moreno Elizondo

Thank you, Daniel. Good morning, everyone.

Well towards the end of the first quarter, the financial markets in disarray as the employment number can be US collapsed threatening to worsen the economic contraction stemming from lockdown measures aimed at controlling that controlling spread of the Covid-19 viral, the Federal Reserve announced a huge monitoring positive expansion program action not only stabilize the financial market allowing for new issues of security throughout the second quarter and quail the excessive demand for US dollars - because he's practically all of the currency. Since then, -- all began to recover with the notable exception of the graphic -- 4.8% that is important in making comparisons the Colombian --, the Chilean present all of which absorbs shock in the first quarter ended up appreciating 3%, -- respectively in the second quarter in which practically all our region of operation was only -- The confinement measures adopted throughout our region of operation had an important impact on our commercial activity party on account of the closure of shops and customer care centers and partly because of population and hence the demand for mobile services. Altogether subscribers, segments the most operations are seeing a reduction in reported based notable exception of Columbia and we -- -- million collections -- equals all our operations where internet disconnections in -- well into -- 200,000 clients each. These collections were more importantly in Mexico, MXN 1.7 million of Peru MXN 1 million and the -- Guatemala are approximately 450,000 each.

In -- on the Swiss Bank statement, the -- radio operation forcing an increasing -- except for telecom mostly. There were -- these collections from broadband and internet services Brazil -- this connections are -- 358.5 million access line, which includes 277.5 million to 1 million fixed-line RGUs, need to manage to increase access line, no fixed in mobile products during the course. Our second quarter revenue -- MXN252 million, offset by the -- from the year earlier quartet 0.6% something Mexican peso terms. But we're appreciation for reporting Karen, which was approximately 15.

For questioning the US and Puerto Rico, all our operations so marked reduction of the equipment sales as a result of the confinement restrictions, but also because of our -- most operations. At Costa Rica delaying cycling through a --. Services revenue is coming from -- those coming from 1.7%. Deceleration is every seven years old from closed 5% in the first quarter to resulted from the direct it was the region and its economic solar.

Is there any walk slow down sharply from -- the fastest activities these quarter. Brazil and Colombia where the performance in terms of mobile revenue increases of 8.8% and 4.8% respectively. On the fixed-line platform Covid-19 limited depends on revenues minus 0.7% in the first quarter to minus 1.7% in the second quarter. In Colombia fixed-line Revenues accelerated to 9.9%, up from 9.5% the prior quarter.

Regeneration in mobile service Revenue growth was practically identical in preparing posted revenues of saving and improving -- began to believe in prepaid something from the difficult -- including -- impact on revenues --, including Mexico and the American Republic. In both the regions, revenue growth slowdown of clients, which to lower cost -- in anticipation of the economic difficulties they were to face. Various cases, small and

medium-sized enterprises that have to close on the confinement operations. So, please continue the cervical or reduce its cost even if that data center that more limited availability of data services.

We tried to stay close to our clients on several of our plans -- plans better suited for them given the economic difficulties that many were undergoing and to ensure that they would stay current in their payments. In percentage points the decline in postpaid growth rates was steepest in Ecuador and Panama. Equipment sales plummeted early the crises, both in the metrological future combat -- rapidly, remainder of the quarter. Fixed-broadband services continue to lead the within the group the revenues increasing 7.3% very much in line with the -- due to pricing to quarter.

We're only one exception all our operations posted -- revenue increases in the quarter. Our less mature fixed-line operations including both in the Ecuador, Peru, Argentina And Costa Rica all performed well, with the pace of growth picking up speed. Second quarter EBITDA totaled 82.6 billion pesos is a up 5.9% in Mexican peso terms, With the EBITDA margin climbing 1.7 percentage points to 32.9%. At constant exchange rates it increased 3.3% reflecting in part the impact of a new commercial agreement by TracFone in US but brought about reductions in network cost to be applied from January 1st.

I Our operating profit jumped in I have to 24.9 billion pesos, I have bring net profit of about 20 million pesos in the second quarter, after allowing for the financing cost for --, which were -- lower than in the year-on-year course. Our net profit equivalent to 30 pesos per share at the 6% ADR, that's up 40% on the same quarter last year. At the end of June, our net debt product 765 million pesos of -- 77 billion pesos system, which reflects the values of -- the 1.39 times EBITDA there were prior methodology of EBITDA -- I would never claim by a 8.8 that is mass per unit. In addition to the above our cash flow a lot of to cover capital expenditures in the amount of 53 billion pesos and to without 6.2 billion pesos performed were related obligations.

In Mexico service revenues came down 2.1%, mostly on account of mobile service revenues up sell from a 10% growth -- different quarter to a minus 2 .5% in the second quarter with prevents that is very reassuring up there is no design -- bank order recorder. In Brazil, postpaid revenues proved to be very resilient observing an 11.8% increase on the yearly quarter. Although down from the result of the first quarter, we have nonetheless quite a remarkable place.

Fixed growth on revenues and on trends, we think the practical examples of growth in the first and second quarters. All the above, something that brings about an outstanding jump to EBITDA, which was up 10.7% year-on-year with EBITDA margin reaching 40%, which is the highest -- in the field. Finally, a note on Colombia. It was the only operation to to roll it up in -- deadline, and in addition it managed to prevent increasing revenues on both the mobile application platforms at 4.8% and 9.9%, respectively. Let me give it back to --. Thank you.

Daniel Hajj Aboumrad

And we're going to start with the Q&A

Questions And Answers

Operator

Question And Answer

At this time, I would like to remind everyone.

(Operator Instructions) Your first question comes from Walter Piecyk with --. Your line is open.

Q - Walter P Piecyk

Thanks. Just a question on the obviously the very strong performance of margins of TracFone in the United States.

You talked about a repricing going back to January. So I assume that the margin was benefits from some ketchup from the first quarter. So when we think about Q3, where you don't have the kind of the benefit of the first quarter, what should the margins look like in that US, business? And can you talked a little bit more about kind of which carrier may be that benefit or is it across the board basement competition within the market.

A – Daniel Hajj Aboumrad

Well, I think we have a very strong quarter in Tracfone, not only in the carrier cost.

I think we have also a very strong performance in sales in net asset [ph]. I think we have more than 100 -- 200,000 net assets in the quarter. So I think with all the what the US is giving our being good and we have a very good quarter. The -- we have discussions and revisions with our cost carriers for the cost of service and we have a reduction in the cost of the service and we have been negotiating that through all this year at the beginning of this year and starting from 1st of January.

So we finishing the second quarter, but starting first quarter. So, I think you're going to see some also benefits in the third and fourth quarter, as you are saying also know. So our -- we're working with all of them reviewing with all of them and well that's mainly what I can say. No.

Q – Walter P Piecyk

So Daniel, did the did the margin. Was the margin helped from some catch-up credits from kind of backdating the pricing from the first quarter or is that really the new margin that you're going to operate at this 15%?

A – Daniel Hajj Aboumrad

No, we're catching what we have in the. Let's say, we have around a \$130 million that we put from this in the second quarter and it's \$65 million from first quarter, \$65 million from second quarter, so that's more or less. Those are the numbers and I think we're going to have more or less the same in the third and in the fourth quarter.

Great. Thank you.

A – Daniel Hajj Aboumrad

Thank you.

Operator

Your next question comes from the line of Rodrigo.

Q – Rodrigo Villanueva

Yes, thank you. Hi, good morning. I have three questions and if you could please elaborate a little bit more -- on the potential alternatives to create value from your towers, will you be considering a spin-off as you did with -- sites or as you now in the contraction? And also, are you continuing to do these you currently own? And then I can have the different question.

A – Daniel Hajj Aboumrad

On the towers, Rodrigo, the only thing I can say and we own 60,000 in Latin America and in Europe in the different alternatives to give value to the shareholders as we said and to reduce our debt.

So we don't know if we going to sell them, we still does not know exactly if there's going to be in all the countries or only in some of the country. So we are analyzing, we are today analyzing what -- to for all these assets and to give value to our 500 hours [ph] that we have said. Nothing, I don't I don't it's not because I don't want to say anything else is because we still doesn't have anything. We are really, really analyzing different alternatives.

Don't that.

Thanks so much. The second question is related to why we have seen several countries around the world including Brazil continue to stop using wild work with increased pressure from the US government? Do you think this could be extended to other data markets? And could you please turn up the leaves that could reduce the negative implications for your next? I'm a potential.

A - Daniel Hajj Aboumrad

Well, well we are not hearing anything today is still on till -- while way in the rest of Latin America.

Something in Brazil, but nothing formal. Okay, so still formal from the government. So that's the only place where we're hearings. Out 5G so still with -- in 5G So all 4G, 3G and that's everything is okay.

So, but still we don't know what to do there Samsung also Nokia, Ericsson, so still on the way, we still have each other -- than that we can use. So I think Huawei[ph] is excellent technology, but still we don't know if there's going to be something in the other Latin countries now.

Q– Rodrigo Villanueva

Understood. Thank you very much.

A– Daniel Hajj Aboumrad

In the -- in also, I don't think there's a problem there. So in Europe, we are country where we already because we are making testings and we're doing something in 5G, but the only decision that we already we are -- problem of weather.

Q– Rodrigo Villanueva

Understood. Think, it's regarding operating performance in Colombia.

As Carlos mentioned, he was pretty soon Covid crisis and I was wondering, if this has to do with any pointers lack of willingness to invest in that and it's good in Brazil and you would expect the competitive environment to change now in Colombia, during their military partners acquired a reputation as represented? Thank you very much.

A– Daniel Hajj Aboumrad

We've been doing big improvements in Colombia, through the last two years. Colombia has been improved not only in one segment, we're improving in postpaid, we're improving in prepaid incorporate costumers, in peaks, in broadband, in TV It's the only it's the only country where we grow in TV also. So we have been an improving a lot through the last year two years, maybe two years of starting to work very hard, and the last year we have been improving we change a lot of our organization, we have been investing good over there.

So, I don't think it's only one thing. I think we're making a lot, where we're going to that we have the option in in the beginning of the year, we win some frequencies and we are going to have a new competitor that it's warm and well with new competitors, maybe it's going to change a little bit. It's going to be more competition in the prepaid and postpaid in the mobile side. I'm sure it's going to be more competition, but I think we are prepared, we had a very good brand, we have good distribution, we have there quality,

capacity, so we are prepared to compete in Colombia.

Q– Rodrigo Villanueva

-- Thank you very much.

A– Daniel Hajj Aboumrad

Thank you very much Rodrigo.

Operator

Your next question comes from the line of Alejandro Gallostra from BBVA Your line is open.

Q– Alejandro Gallostra

Hi, good morning.

Carlos, Daniel, Angel. Thank you for your call. Two questions related to the mobile business, to mention this innovation in mobile revenue growth that was similar in both the prepaid and postpaid segments. However, it expect them to behave differently with postpaid, which probably be more -- so perhaps you could give us a further explanation of why this was the case and your opinion or may be provided with additional breakdown? And the second question is related to the broadband operations which have proven to be very resilient this quarter, but the performance has been quite different among countries.

Perhaps, you could explain the differences in the performance of the global operations in Mexico and Brazil, for example? Thank you.

A– Daniel Hajj Aboumrad

Yes. I think prepaid and postpaid different, different markets and they are behaving different. It's if you compare let's say Mexico and Brazil, I think Mexico we have more than 50% of our service revenue in prepaid and 40% on postpaid.

So that's why we have been more heat in the revenues, because at the beginning April and May prepays the people, we have a lot of stores closed, we have in Mexico when all around Latin America people were not out of their houses. So it was different is very difficult to sell over there. And in a lot of countries, in April, we gave some packages to help people with this pandemic. So let's say an example in Mexico, we gave a package call AMIGO CONTIGO that we give free calls for 15 days for free and there's around 28 million packages that we do in April.

So well, that's what is happening in April, May and in June starts to grow a little bit to recuperate in the prepaid side, different in Brazil in Brazil only 20%-25% of our revenues are prepaid and the rest are postpaid. Then what is happening in postpaid? Postpaid is

different. People are starting to reduce their plans. If they have a 500 pesos plan, they want to go to a 400 peso plan or reduce their gigs or they are taking, they're being careful with their money.

So, we are seeing some reductions on the rent of their plan. So, that's --. On the other side, what you are going to see is that you're going to have a lot about that in the postpaid. So there's going to be people who are going to stay without a job and maybe they are going to cancel and not paying you some of the of the of the build.

So that's more or less how we feel is going to behave prepaid and postpaid the all through Latin America. In the Broadband, I think all around were doing both the Telmex to goes here to 64,000 in the three months, Brazil a 100,000 broadband subscribers. Columbia, we also do very good all overall. We have been growing our net assets of broadband, but Oscar -- of Oscar if you can you can talk a little bit more on the broadband side, please?

A– Oscar Von Hauske

Sure.

Given the pandemic and pushing the people work of -- from home, the requirements of bandwidth in the homes has been increasingly very much. So the people in the home is doing taking classes and working from home and a lot of streaming video and gaming, so that I think that push the product and that's what Daniela mentioned. We are getting this net up. And not only net ups, our customers are asking for more bandwidth in all the countries.

A– Daniel Hajj Aboumrad

Thank you Oscar

Q– Alejandro Gallostra

Thank you, Daniel and Oscar.

A– Daniel Hajj Aboumrad

Thank you.

Operator

Your next question comes from the line of Marcelo Santos from JPMorgan.

Your line is open.

Q – Marcelo Santos

Hi, good morning. Thanks for taking my question. I have two.

The first, could please provide some view on how things evolved during the quarter? You mentioned a little bit how the in April and a prepaid with slower. So could you expand a bit and talk how prepaid, postpaid evolved and how things ended in June, just sort of we could get a feeling of how the trends should shape up for the third quarter? This is the first question. The second question would be a regarding your appetite for M&A So whatever you could color, you could provide on that. We have some assets and sales, specially in Brazil.

So, what if you could provide some update on that would be very good? Thank you.

A – Daniel Hajj Aboumrad

Yeah, well in pre-paid and postpaid, I think, what you, let's talk about especially in prepaid. As I said, people staying home in April and May, so we're with the reduction in sales of the prepaid cards were higher than what we're seeing in June and July, so as the economies are open and starting to be more open and we have more stores and then the retails are open, we are seeing that prepay. This is starting to grow a little bit from what we have seen in April and May, so that's all over all in Latin America.

Still some countries are opening faster than the other ones, other ones are opening and then returning to close a little bit. So, still we are a little bit time of what -- when we're going to have all the economy open totally open as we used to have at the beginning of the year. So it's different in all -- in the postpaid side as I said, people is reducing their

ARPU trying to take care of my about their money, their rent. They don't want to pay if they don't use it.

They are staying at home. So maybe they use more the Wi-Fi and that makes them feel that they don't need the X amount of gigs that they have in their plan. So that's why they are reducing a little bit, but I think all overall everything is going return as that's what we used to have at the beginning of the year. It's going to take a little bit of time take time also for the economy to recover to open, but I think everything is going to return.

On M&A, well, if you are talking about early in Brazil, we are aware and we're interested in the asset. So for us will be a good fit. We do Nextel, I think in Nextel we have all the synergies done. I think through the mostly of the synergies done.

I think at the end of the year we're going to have almost all of the synergies done except for the towers that we that we need to reduce some towers that we already have, extra towers that we already have. But all the rest of the synergies, we have been doing very good. The frequencies that we get are very good, also help us to have more capacity and if we can do with -- to have more customers and capacity also will be good. So we are interested and we are going to participate in the -- for the mobile site.

Q – Marcelo Santos

Thank you very much.

A– Daniel Hajj Aboumrad

Thank you.

Operator

Your next question question comes from the line of Diego Aragao with Goldman Sachs. Your line is open.

Q– Diego Aragao

Yes. All of the helps Carlos and Daniela. Thank you for taking my question. I just ask question is still boarding some of some Brazil, and then --- from of mobile? And its we would call all these growth such as the postpaid list increase frequently charged of grow bound rates of them.

I think year-on-year growth will be compounded? This is my first question.

A– Daniel Hajj Aboumrad

Thank you. We paid at because I don't hear you very well. Can you be talk a little bit louder please?

Yes.

Q– Diego Aragao

Can you hear me well?

A– Daniel Hajj Aboumrad

Yes. A little bit better. Yes.

Q– Diego Aragao

Okay.

Yes. So I was wondering if you can walk us through unique pillars of your performance in the Brazilian market, particularly in mobile business, if you can compound the growth just at the first eight weeks in terms of like the prepaid recharge, upgrades and downgrade to plans and compound how your year-on-year growth was in this quarter? That will be very helpful.

A– Daniel Hajj Aboumrad

Yes. I think in Brazil, we're doing great.

I think we have a great about a great platform. It's -- I can not only talk about mobile, I think our mobile platform is great. We have been increasing capacity, doing more coverage speed is very important in Brazil and we are moving also and doing a lot of things in the network to give a very good speed 4G, 4.5G So we are investing and we're doing very good in Brazil. Also in the fixed platform we have also a great platform.

We have 30 million households passed a lot of broadband PayTV a great platform of PayTV and also we have very good management in place and good strategies for that. So all overall, we are doing good. And in this quarter, we also reduced and not only in Brazil, in all America mobile. We have been increasing and reducing -- increasing efforts to reduce cost and expenses.

So I think that's something that we have been doing very well and help us to gain market share. Let's say in Brazil, in postpaid in the first quarter, I think the revenues were growing 15% year-over-year. So it was an excellent first quarter. I think, second quarter is still very good growing.

I think it's around 8%. I don't remember exactly but only in the --. Sorry.

11.8%.

11.8%. So is still working and doing very good. We're making our bundles with the -- broadband and TV So we have a good platform and we're investing there and we're managing very well our company. Nextel give us also good frequencies to to give more capacity and speed to the customers all over all the I don't think there's only one thing I think all over all we're doing very good.

Q– Diego Aragao

Okay. Thank you, Daniel. And I guess my second question is related to your mortgage if you can justify the follow up on these when I looked to the region, but I'd like several letting moving parts that lead me to believe that margins have some room to expand for instance you mentioned using competition in some of the markets right industry

consolidation even like the rising of infrastructure players in -- and lastly but not least let's say digitalization trends, but what we would like to hear from you, how do you see these trends impacting America Movil? And how much do you expect to benefit in terms of margins going forward? Thank you.

A– Daniel Hajj Aboumrad

I think Carlos wants to answer or do you want me?

A– Daniel Hajj Aboumrad

-- I can tell you a little bit about the margin, I think a margin grow in terms of percentage all around Latin America because two things.

First, we thought less -- the service revenue was mainly growing and the equipment revenue was reducing a lot. So that's why the margins growth, especially let's say in Mexico, -- their margins growth because equipment revenue were down. The other important thing is the -- that we're, as I said, reducing and making big efforts to reduce cost and expenses. Very important, we are moving a lot more to the digitalize all our network, our sales, our -- we're trying to do everything digital.

So we're working very hard on IT -- on that and it's also going to reduce the expenses. and well. As you said, M&A in Latin America is well. We're seeing a new competitor in Colombia.

But then in Brazil, maybe -- is it's going to be sold, then sell. Then there's going to be less competitors in Brazil. So, all overall is moving in some directions in one country, in other directions in other country. But all overall, I think our margins can go the way we have been having the margins growing a little bit and growing our EBITDA also.

A– Daniel Hajj Aboumrad

What I but I don't know Carlos if you want to say something else.

A - Carlos Garcia Moreno Elizondo

Hold on. You have I think the anything multi -- I think it's important on it's --- they were more significant platform has reducing our cost so, some of their market permanent, everything that activate will be --- all of our permanent all your need is being on there more of education that we want we are phasing it is more arrogant something about some coffee[ph] come back, then -- something that also came down negatively because of the confinement but getting experience is going to be like no and you can values or commercial related. Those are temporary reduction, we also came down in some time, --

A– Daniel Hajj Aboumrad

And one more thing that I want to add is also it's going to depend a lot on the economy.

Okay. So let's see how the economy is economies all around Latin America are going to be have no. So, let's see how does this pandemic is going to result at till the end of this year and the next one. So it's important that.

Q– Diego Aragao

That's helpful. Thank you.

Operator

Your next question comes from the line of Fred Mendes with Bradesco.

Your line is open.

Q– Fred Mendes

Hello. Good morning, everyone, and thanks for the call. I have two questions on pretty much the same line here.

I just want to get a better understanding of these of these strong that ads for --, especially when broadband situated 63,000. Just other companies already reported results and then they had ads were also quite strong on the second Q So my impression here is that the penetration of the service, it is increasing. So, just want to confirm with you this video, it is correct? Instead of more like a gaining market share from other page looks at the size of the market is increasing? Then also, if you can give us a breakdown of the net ads, if it's more towards FTTH or if you being able to gain clients with copper? This will be my first. Thank you very much.

A– Daniel Hajj Aboumrad

Oscar, you want to answer that?

A– Oscar Von Hauske

Yes. But yes, you're totally right. I mean -- has been an increasing of penetration and we are getting net gains from fiber as you know and as well from copper. So I wish half of half coming from fiber and coming from copper or you're totally right.

What we've been seeing in the market is that the penetration is increasing.

Q– Fred Mendes

Perfect. Thanks, Oscar. And if I just if you allow me just to for a follow-up.

I do understand that close to 25% to 30% of your network today in Mexico, it is already FTTH Just wondering if you if you have do not your guidance, but just an estimate of if you plant you continue to aggressively grow this network, or if now the main focus will be more towards the leverage in the company instead of deploying cut of stored as -- Thank you.

A– Oscar Von Hauske

Well, within the situation that we are living we are focused really on migration of customers and improve their penetration of the network in the next month.

Q– Fred Mendes

Perfect. Thank you very much.

Also thank you, Daniel

A– Daniel Hajj Aboumrad

Thank you.

Operator

Your next question comes from the line of Maria Azevedo from Santander Bank. Your line is open.

Q– Maria Azevedo

Thank you very much everyone. My first question is a follow-up on the CapEx you just comment. What is the CapEx key strategy for 2020? And specifically in Brazil, do you room to be a little bit more rational and cuts to spending this year the 20% you mentioned on the first call? And the follow-up question would be on 5G You launched the first initiatives in Brazil, do you think the 5G market of -- is going to be on consumer mobility? Is there room to charge a premium for 5G services? Or -- and do you see it as a substitute to fixed wireless access? For -- how it's going to I was going to be the 5G strategy for the company.

Thank you very much.

A– Daniel Hajj Aboumrad

Thank you. On the CapEx, it's -- we have been reviewing that I think we are going to reduce the CapEx from the our forecast that we have for this year. Yes, we're going to reduce.

Still we don't know exactly how much we're going to reduce that. We're still reviewing and seeing how those the traffic is going to behave. And also the sales no because part of our CapEx is some CapEx related to the sales of neck at new customers, but also we're going to see how much that we're not we are not cutting anything there. So we're going

to see how much and how it does that is going to be.

Okay, so still we don't know. We are a company that moves fast and we're flexible. So we're going to use and do what is necessary to do. But we think that we can reduce CapEx from the forecast that we have this year.

So, that's mainly. In 5G, I think, yes, we're doing something in Brazil. And 5G is going to work. It's a very good question.

I hope, we can mark-up and sell a little bit more at higher price, the 5G than 4G and 3G But it's also going to depend depends a lot on competition and what does and

customers, and also 5G will now work for the fixed wireless asset. So that's what the intention is and we're going to do that all around Latin America. So that's what we have.

Q– Maria Azevedo

Thank you very much.

Just as a quick follow-up. In terms of capital allocation priorities, would you also consider a potential network spin-off? But how do you see those networks sharing deals happening in long-term? Thank you.

A– Daniel Hajj Aboumrad

No, we're not considering a network spin-off at this moment. We haven't considered anything there and Well, I think in some in some places make sense to have a shared network.

In other ones doesn't make sense maybe in the rural areas where there's going to be a small traffic make a little bit of sense to make share networks in another places where the growth is and then you have to add an at capacity doesn't make sense for us, but we are not considering to be in of any part of our network.

Q– Maria Azevedo

Thank you so much.

Operator

Your next question comes from the line of Carlos De Legarreta with GBM Your line is open.

Q– Carlos de Legarreta

Hi, thank you. Good morning. Sorry to go back to the US please. I just want to understand this new agreement.

What's it perhaps a result of basically perhaps a consequence of the M&A between T-Mobile and Sprint or what was the origin of this? Thank you.

A– Daniel Hajj Aboumrad

I don't think it's related to something special. I think this reduction in cost is related to the market in the US and at our carriers want us to be more aggressive sometimes in the market to have better our plans and to react faster to that. So, that's mainly what we have.

Maybe, I don't know if T mobile and sprint merger will help us to do this. I don't know, but it wasn't related to that. Okay. We have been discussing this and we discuss this every year.

So every year, we have been discussing new plans, new rates, and that's something that happen in this time.

Q– Carlos de Legarreta

Okay, thank you. That's very clear. Anything a follow-up and perhaps we're all come and just their broadband editions of 64,000 don't seem to be a great number given that the past quarter you guys have more than 100,000 and have reported over 250,000 quarterly editions.

Do you think maybe there's a difference in return policy that could explain this such large difference between the numbers are between you guys in the competent -- the competition?

A– Oscar Von Hauske

Yes, we changed a little bit the policy of our own collection in order to liberate network. So you are right.

Q– Carlos de Legarreta

Okay. That makes sense.

Operator

Your next question comes from the line of Ernesto Gonzalez with Morgan Stanley.

Your line is open.

Q– Ernesto Gonzalez

Hi. Thank you so much for the call. Just one follow-up on the margin expansion.

I don't know if you could give us more colors on what is the percentage that goes from lower equipment fails, how much comes from cost savings and on cost savings? How much could we expect you structural and how much from temporary items? Thank you.

A– Daniel Hajj Aboumrad

I don't have it here. I think what we have been having is good negotiations on CapEx. We have been having also reduction on cost of let's say sales, reduction of cost of marketing, reduction of cost Now first of all over all the cost and expenses related to the operations.

We have increased our cost in the bad debt. So in we have been having more on collectibles than what we used to have. So what I don't have country by country, but as I said we have a very good effort on reducing costs. So, I don't know if that's clear.

So, I thought I don't have it specifically for country and how much per segment I don't have it here.

Q– Ernesto Gonzalez

It's great. Thank you.

Q– Valentin Mendoza

Thank you very much. My forward question has to do with your thoughts.

You could share with us your thoughts regarding the interest of 2 MVNOs Mexico? with very aggressive merchant strategy. You guess just mentioned also that you seen some customers could plan? And I would wondering your planning to address these results probably some plans on launched? Or what your thoughts and be tried?

A– Daniel Hajj Aboumrad

Well, I think, if you have two MVNOs, Well, it's more competition in the market, but we have to one be a knows that what we had been having six MVNOs for the last two years. So there's another two that are coming in this quarter, but we already have like 6 or 7 MVNOs there. It's more competition of course, but I think we have the best network tip, if they are entering with Alton.

I think still Alton dosing fact the coverage that you need for the mobile service. Maybe they have a good service in their home, but when you go out and move then I don't think that's the best service. We have also very competitive plans. We have 199 pesos plan,

unlimited voice, unlimited data -- sorry, unlimited voice, unlimited social networks, the SMS unlimited and with some data.

So we are also competitive and of course, more competition is the then we're having more competition and but I think we're prepared to compete.

Q– Valentin Mendoza

Thank you very much.

A– Daniel Hajj Aboumrad

Thank you.

Operator

Due to time constraints, this was the last question.

I will now turn the call back over to Mr.Daniel Hajj for final remarks.

A - Daniel Hajj Aboumrad

Just thank everyone to be for being in the call. Thank you.

Operator

This concludes today's conference call.

You may now disconnect. The Event has Ended

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