

TELEFONICA BRASIL S.A.
Form 6-K
August 29, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE
SECURITIES EXCHANGE ACT OF 1934**

For the month of August, 2014

Commission File Number: 001-14475

TELEFÔNICA BRASIL S.A.

(Exact name of registrant as specified in its charter)

TELEFONICA BRAZIL S.A.

(Translation of registrant's name into English)

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Av. Eng° Luís Carlos Berrini, 1376 - 28° andar

São Paulo, S.P.

Federative Republic of Brazil

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes

No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes

No

TELEFÔNICA BRASIL S.A.

Publicly-Held Corporation

CNPJ MF 02.558.157/0001-62 - NIRE 35.3.001.5881-4

MATERIAL FACT

Telefônica Brasil S.A. ("Company"), in compliance with Ruling No. 358 of January 3rd, 2002, of the Brazilian Securities Exchange Commission (*Comissão de Valores Mobiliários - CVM*), as amended, complementing the Material Fact dated as of August 28th, 2014, announces to the market and to the general public that the Board of Directors of Vivendi S.A., in a meeting held on August 28th, 2014, has accepted to grant exclusivity to Telefônica, S.A. and the Company, for a period of three (3) months, for the negotiations regarding the acquisition of the total capital stock of Global Village Telecom S.A. ("Transaction").

Attached to this Material Fact is a descriptive presentation of the main proposed steps for the structuring of the Transaction, as well as some projections regarding the financial data related to it. It should be emphasized, however, that all information contained in the presentation is based on preliminary studies.

São Paulo, August 29th, 2014.

Alberto Manuel Horcajo Aguirre
Diretor de Relações com Investidores
Tel: +55 11 3430-3687 Email: ir.br@telefonica.com
www.telefonica.com.br/ri

Disclaimer

This document contains statements that constitute forward looking statements about Telefonica Brasil S.A. (going forward, “the Company” or Telefonica Brasil or VIVO) including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations which may refer, among others, to the intent, belief or current prospects of the customer base, estimates regarding, among others, future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company.

The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions. Such forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties, and other important factors that could cause actual developments or results to differ from those expressed in our forward looking statements. These risks and uncertainties include those discussed or identified in fuller disclosure documents filed by Telefonica Brasil with the relevant Securities Markets Regulators.

Analysts and investors, and any other person or entity that may need to take decisions, or prepare or release opinions about the securities issued by the Company, are cautioned not to place undue reliance on those forward looking statements, which speak only as of the date of this presentation.

Except as required by applicable law, Telefonica Brasil undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica Brasil’s business or acquisition strategy or to reflect the occurrence of unanticipated events.

This document may contain summarized information or information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefonica Brasil.

Finally, it is stated that neither this presentation nor any of the information contained herein constitutes an offer of purchase, sale or exchange, nor a request for an offer of purchase, sale or exchange of securities, or any advice or recommendation with respect to such securities.

Transaction Summary

- Telefónica and Telefónica Brasil have entered into an exclusivity agreement with Vivendi in relation to their binding offer to acquire 100% of GVT
- Total implied consideration for 100% of GVT of €7.45bn, through a combination of cash and a stake in the enlarged Telefónica Brasil
 - (i) €4.66bn of cash, financed through a capital increase at Telefónica Brasil
 - (ii) 12.0% stake in the enlarged Telefónica Brasil (after capital increase)
- Telefónica offered Vivendi the opportunity to swap, a 4.5% stake in the enlarged Telefónica Brasil in return for a voting stake of 8.3% in Telecom Italia held by Telefónica
- Vivendi to decide at the time of signing of the definitive agreements if it wishes to receive the Telecom Italia shares
- Cooperation between Telefónica and Vivendi's subsidiaries globally for the distribution of media content
- Transaction to unlock significant value, with synergies of at least €4.7bn NPV
- Exclusivity period of 3 months
- Signing of definitive agreements after Vivendi's workers' council review
- Telefónica Brasil shareholders' approval required at Telefónica Brasil's General Meeting
- Transaction expected to close in mid 2015, following clearance from relevant authorities

Proposed Transaction Structure

Transaction Summary

Total consideration of €7.45bn

- Acquisition of GVT by Telefónica Brasil for a combination of cash and a stake in the enlarged Telefónica Brasil

- i. €4.66bn in cash, financed through a capital increase at Telefónica Brasil

- ii. 12.0% stake in the enlarged Telefónica Brasil (after capital increase)

- Vivendi could request that, Telefónica exchanges 1,110m Telecom Italia ordinary shares (8.3% of voting capital) it owns for 4.5% stake in the enlarged Telefónica Brasil

Transaction Rationale

- Strong NGN with more than 10.4m Homes Passed in 152 cities/21 Brazilian states
- More than 2.5m UBB clients (86% > 10Mbps), of which 92% outside Sao Paulo
- Sustained double-digit growth (26% revenue CAGR 10-13) with further potential
- Strong management track record underpinned by impressive operating and financial performance

• Leading integrated operator with nationwide footprint and a 29% revenue share

• Leader in mobile and UBB, well positioned in high value segments in both services

• Enables Telefónica Brasil to offer high quality quad-play products

• Accelerating growth profile both at Telefónica and Telefónica Brasil

• Reinforced competitive positioning:

• Mobile: bundling services and supporting LTE deployment by leveraging GVT's extensive fiber network

• Fixed in Sao Paulo: optimizing fiber deployment by transferring operational best practices to VIVO

• Corporate/SME: improving profitability, competitive positioning and quality of services by migrating to owned infrastructure

Transaction Rationale (Cont'd)

- NPV of total synergies of at least €4.7bn, net of integration costs
 - Net savings from year one
 - Annual run-rate of operating and revenue synergies of at least €450 m; c70% of run-rate synergies by year 2017
- Revenue synergies (20% of the total):
 - Cross-selling synergies on similar customers profile, corporate and wholesale
 - Improved customer satisfaction and loyalty
- OpEx and CapEx synergies (49% of the total):
 - Leveraging GVT's fibre network for LTE deployment
 - Lower direct costs as a result of higher scale
- Incremental value from additional financial, fiscal and other synergies (31% of the total)
- Highly experienced management team with a proven track record of integration
- Accelerating growth profile
- Unlocks significant value for Telefónica Brasil shareholders
- Improved profitability and enhanced cash flow generation for enlarged entity
- Increases financial flexibility, with no incremental leverage
- Maintaining optionality for potential additional sector evolution

a

Investor Relations
Telefônica Brasil S.A.

7

Source: Company filings, Anatel and Teleco; Converted to € using average 2013 R\$/€FX rate

1. Considers retail and corporate segments; Considers América Móvil Brazil only; Considers Oi standalone

Investor Relations

Telefônica Brasil S.A.

8

Identified Synergies of at least €4.7bn NPV

Investor Relations
Telefônica Brasil S.A.

9

Synergies Value of at Least €4.7bn NPV

- **NPV at least €4.7bn:**

- „Net savings from year one

- „Run-rate operating and revenue synergies at least €450 MM from year 2020; c70% of run rate by 2017

Investor Relations

Telefônica Brasil S.A.

10

Attractive Transaction for Telefónica Brazil Shareholders Pro forma Financial Impact on Telefónica Brazil based on Broker Consensus estimates

Source: Broker consensus, not adjusted for differences in accounting policies

1. Defined as OIBDA-Capex
2. 2015 post includes run rate synergies

Investor Relations
Telefónica Brasil S.A.

11

Transaction Entirely Financed with Equity

- Transaction entirely financed with equity at both Telefónica and Telefónica Brasil
- The cash consideration to Vivendi will be fully financed through a capital increase at Telefónica Brasil

„Telefónica will subscribe its proportionate share of 73.9%, or €3.4 bn, which, in turn, will be funded through a capital increase at Telefónica level

- Transaction to strengthen Telefónica Brasil's results and balance sheet

„Consolidation of GVT financials and value creation from synergies

Expected Transaction Timetable

Investor Relations
Telefônica Brasil S.A.

13

Closing Remarks: The perfect fit

- A natural strategic move to improve market positioning and growth profile while improving financial flexibility
- Telefónica Brazil to sustain as the leader in subscribers and network quality
- Creating a leading integrated Telco in Brazil with a nationwide footprint and high value customer profile, in the largest telecoms market in LatAm
- Significant value creation through at least €4.7bn NPV synergies crystallization
- Substantial value creation for Telefónica Brazil shareholders
 - „Improving growth profile and market positioning, while maintaining intact further optionality
 - „Enhancing cash flow generation profile

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 29, 2014

TELEFÔNICA BRASIL S.A.
By: /s/ Luis Carlos da Costa Plaster
Name: Luis Carlos da Costa Plaster
Title: Investor Relations Director
