

- UOL Inc. -

Can the Brazilian champion recover from the failure of its international expansion?



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I. Executive Summary

Luis Frias, founder and CEO of UOL Inc. was sitting in his 11th floor office in downtown Sao Paulo, trying to decide what will be his next move.

On the one hand, after five years, UOL had become a colossal success story in Brazil: 4 out of 5 Brazilians visited UOL sites every month and it was the No. 1 ISP¹ in Brazil with 1.1 Million subscribers, and 84.8% audience reach² (the highest anywhere in the world). On the other hand its international operations were a failure: the subsidiaries in Mexico, Spain and Chile had to be closed down, after merely on average one year of operations. The only positive international expansion had been Argentina where UOL was the No. 2 portal and No. 3 ISP³.

- ✓ Should UOL continue investing in its under performing portals in Venezuela, Colombia & US?
- ✓ Could UOL try and successfully relaunch its service in Mexico?
- ✓ How many more resources should UOL invest in the Argentinean operation?
- ✓ How could he sustain UOL's leading position in the domestic Brazilian market, where he was now facing the growing strong competition from Terra and AOL?
- ✓ Should he eventually just milk the current operations, and brush away his previous dreams of a pan-Latin American company, with long-lost dreams of a NASDAQ listing?

¹ Internet Service Provider: these companies provide retail online access to the Internet, usually with dial-up connections.

² UOL Press release, 17/11/2000 – “UOL Inc. leads Media Metrix’s ranking, with 84.8% reach”

³ We would like to give special thanks to [REDACTED], who provided extensive time and insight on UOL for this paper. He has worked extensively with UOL for over two years, first as Director of International Expansion and Marketing for UOL International, then as General Manager of UOL Spain, and lastly as Corporate Director of Sales of UOL, Inc.

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II. Internet in Latin America

From the Internet point of view, there are three big markets in the region: Brazil, which is as big as all the rest of Latin America, Mexico and Argentina. However, compared to the Western standards, Internet usage penetration is still low (at less than 5% of the population⁴ on average, vs. over 50% in the USA). Indeed both Brazil and Mexico have low GDP per capita at around \$5,000 (thus hindering the purchase of Internet access devices such as low-cost PCs), and a low telephone fixed lines infrastructure, at about 15% (thus making it difficult and expensive to connect to the Internet). Argentina has a slightly better situation, with a GDP per capita of about \$8,000 and higher fixed lines penetration,

Although similar at first sight, these three markets do not have the same characteristics for the Internet penetration, such as language and cultural behaviour. At the end of 2001 there are approximately 10M Internet users in Brazil, 4M in Mexico and 3M in Argentina⁵. A unique problem of the whole region is low usage of credit cards (less than 1 in 5 Argentinean has a bank account) and poor mail and parcel delivery infrastructure, which significantly oppose a high barrier to e-commerce. Hence, any Internet-related strategy in the region is aimed at that smaller urban portion of the population which concentrates the purchasing power and which has access to a good infrastructure.

The main business to consumer Internet players in the region, in the portal⁶ and Internet-access markets are:

1. Terra, owned by Telefonica, which is present in almost all the countries in the region since 1999. Terra was a late entrant but with deep pockets after their IPO on the NASDAQ (they still have \$2,5b of cash available), so they opted for an acquisition strategy of the biggest players in each market such as Zaz in Brazil and Infotel in Mexico.
2. AOL America Latina, a joint venture between Cisneros Group and the American giant AOL Time Warner, that is present only in Brazil, Mexico and Argentina. They are also a late entrant, but also with deep pockets from their IPO.

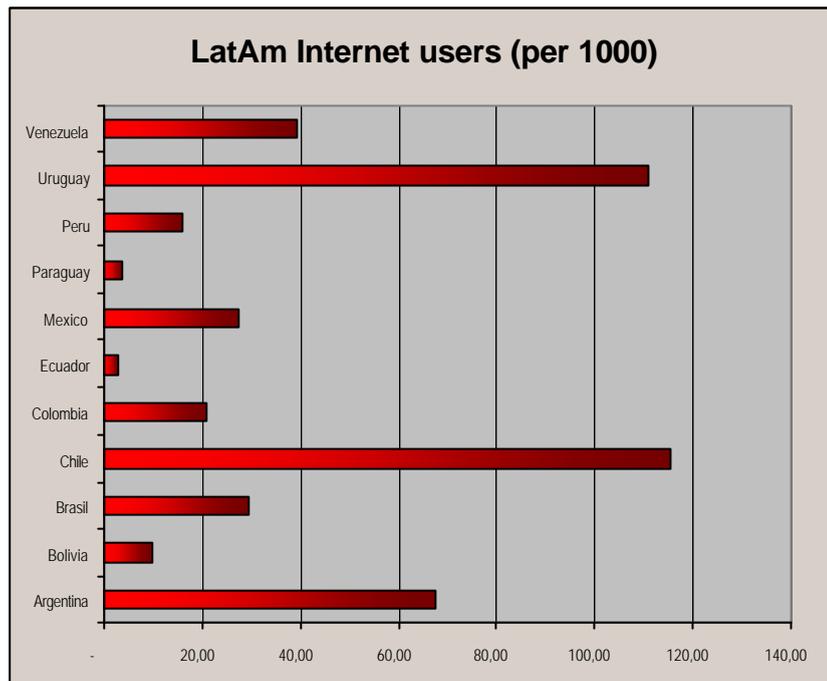
⁴ World Economic Forum Competitiveness Report on Latin America, 2001

⁵ Figures in Latin America for Internet-related activities are particularly difficult to assess, for most sources present conflicting numbers.

⁶ Interested readers should consult: "Internet Portals in Latin America, a study of possible winners– Industry Note", by Lourdes Casanova & al., July 2001 – INSEAD Case 07/2001-4966

3. There are three other big local competitors: T1-MSN mainly in Mexico, owned jointly by Telmex and Microsoft, Globo.com in Brazil, a joint venture of the media giant Globo with Telecom Italia and Ciudad Internet in Argentina, owned by Grupo Clarin.

The following chart shows the relative importance of Internet penetration in Latin America⁷.



⁷ World Economic Forum, Competitiveness Report for Latin America 2001

At an Internet conference back in 1992¹⁰, Luis Frias had been fascinated by Steve Case presenting his company. He became so obsessed with this model, that he later forced all his management to read a Wall Street Journal journalist's account on AOL¹¹, and constantly made references to this book in management meetings. Thus, Universo Online's management studied AOL's model closely, and launched an ISP business based on AOL's model.

At first, this decision appeared to be difficult to implement because Brazil's domestic Internet infrastructure was very poor and was only then starting to develop. Indeed, there was no Access Service Provider, and only Global One could cover the regions of Sao Paulo and Rio de Janeiro. Expansion into the rest of the Brazilian territory was planned in the long run, but definitely not at the speed required for UOL's growth plans. UOL did not intend to become a telecommunications player, but just wanted to provide access to the Internet and its online content, hence becoming a distributor of the Internet-access service. But they had no choice.

UOL bought some telecommunications infrastructure from Embratel (the local carrier) and started developing its own infrastructure in order to provide Internet access to its subscribers. This project materialized into a new company called AcessoNet (recently sold back to Embratel for \$100m in 2001¹²). Its main purpose was to build POPs (points of presence) in the main cities in Brasil. By the end of 2000, AcessoNet had 66 POPs throughout Brasil (188 cities) and managed more than 120 POPs for UOL affiliates.

A massive marketing campaign to aggressively recruit it's user base

With AcessoNet, UOL now had a subsidiary devoted to building a long lasting stream of new Internet subscribers for its content.

UOL launched a permanent and very aggressive campaign of CD-ROM distribution with over one million copies distributed per month. UOL was using a concept very close to the one of Coca-Cola: no product should be further to reach than an arm's length. Hence UOL entered a co-branding campaign with any type of product they could imagine of: along with the more traditional magazines carrying the UOL CD, the street signs in the centre of Sao Paulo were

¹⁰ Financial Time, 31 August 2001 "UOL Makes Capital out of Steve Jobs' (sic) business model"

¹¹ AOL.com by Kara Swisher, a journalist for the Washington Post and the Wall Street Journal

¹² UOL Press Release 10/11/2000 – "Embratel to Acquire AcessoNet from UOL"

all sponsored by UOL, washing power packs carried the CD, music CDs had special tracks with the set-up program...

However, wisely, Luis Frias adapted AOL's model to the Brazilian market. His business model had two basic differences with the one advocated by AOL:

1) *Connection kit*: AOL's software is proprietary, whereas UOL's connection kit was based on market standards. Indeed, initially when AOL entered the Brazilian market, its set-up program modified completely the configuration of Brazilian PCs, creating a huge resentment with its users, creating a large campaign of bad press for themselves and helping UOL consolidate its market leadership.

2) *Content*: AOL offers only a sliver of content (10%) to the general public, while reserving 90% of its content to its subscribers. On the other hand, UOL understood the importance of creating a stickiness effect to its sites, and offered 90% of its content free on the web, while reserving the 10% premium content (access to the best newspapers and magazine content archives such as Folha de Sao Paulo and Veja, access to exclusive content such as 'Playboy' and 'Caras', access to encyclopaedias, etc.) to its subscriber base. This had the effect of creating a large pull effect.

UOL experienced then a vertiginous growth, with market reach close to absolute monopoly. Indeed, independent agencies measured at the time 84.8% of reach, the highest such number in the world. The ISP business saw also a huge growth, leading to 50-60% market-share.

Additionally, such services as chat-rooms had more than 20,000 users connected simultaneously every night, having therefore a huge impact on advertisers (72% of the chat traffic on the Brazilian Web¹³).

Abril and Folha had understood that by joining forces, not only were they having a perfect match in terms of content, but also that they could use the marketing lever of all publications in both groups to leverage the brand. Indeed, cash outflows in terms of operational marketing were very low. UOL used instead bartering, extensively advertising on the media space of its founding partners. They did however invest heavily in outdoor advertising and TV advertising.

¹³ UOL Press Release, 17/11/2000 – "UOL Inc. leads Media Metrix's rankings, with 84.8% reach"

The UOL brand became synonymous with the Internet in Brasil. One could also argue that Internet was born in Brasil with UOL. Taxi drivers, although never having connected to the Internet, knew about the UOL brand and the Internet access business. An article in the Industry Standard¹⁴ written by an American journalist mentioned that she saw once the UOL brand 10 times between the airport and the centre of Sao Paulo...

Fear of free Internet access led UOL to a smart launch of an entry-level operator

When the first free ISP launched its service in the United-Kingdom in 1988 (freeserve.com), everyone expected this business model to conquer the world.

At the time, UOL Inc.'s business model came almost exclusively from access fees (subscriptions – In 2001, over 70% of UOL's revenues in Brazil are Internet-access subscriptions). Thus UOL had just one person in charge of advertising revenues.

UOL did not consider to launch a service for just 6 months, until a price war for advertising exploded and focused instead on developing its content. However strong competition emerged almost immediately in the form of IG (Internet Gratis), a free internet provider.

Luis Frias reacted promptly, and launched *NetGratuita*, a free internet access service: results were of over 1m of registered users, but the company was aware that the advertising revenue stream would be insufficient to sustain a profitable business. More over Latin America did not have a revenue sharing mechanism as in England, under which the national carriers pay back a fee to the "retailer", for effective use of the telecomm pipes. After reaching the top 3 position in Brazil, UOL closed down the operation.

However, at the same time, UOL launched another brand, *BOL* (for *Brazil Online*), targeting more the cyber-community with all the services that seemed slightly odd on uol.com.br, such as search engines, price engines, shopping bots, and especially Free Email (such as Hotmail), a service that UOL was charging to its users. In 2001, BOL launched an entry-level ISP service for its customers, competing with UOL but targeting a clientele in search of a plain service at lower prices without any added services such as premium content.

BOL's marketing strategy was based on a heavy promotion of freemail, a news broker (more than 7,000 sources), and a shopping search agent (Metaminer) comparing prices over retailers.

¹⁴ Unfortunately, The Industry Standard, formerly a leading publication during the Internet Bubble went out of business when its revenues dropped, and we were unable to trace back this article. Another article in this publication named Claus Vieira, UOL International's CEO, as one of the top 10 persons to watch in the whole Internet space.

UOL Inc. – Can the Brazilian champion recover from the failure of its international expansion?

This new portal was not assimilated by consumers as being part of the UOL universe, and reached rapidly the second position in the Brazilian market, with more than 5m registered users¹⁵. Additionally, BOL is able to sell today the most targeted regional direct mailing lists.

¹⁵ The latest figures (October 2001) for brazil are available on <http://www.mediametric.com>)

III. UOL International – a 12-month expansion craze

In 1998, UOL had become the Internet leader in Brazil, i.e. the leader of 50% of the Latin American Internet market. But, Luis Frias has the certitude that in order to consolidate his ambition to float his new company on the American markets, he needs to expand his operations outside of Brasil. He has to be more attractive than competition, i.e. StarMedia, El Sitio and AOL. He also knew about Telefonica's plans to launch a pan-regional portal supported by its Telco operations present in almost every Latin American country.

UOL Inc. first tried to enter a partnership with Telefonica, a lost opportunity

Between the end of 1998 and the first half of 1999, Frias entered into long talks with Villalonga, CEO of Telefonica. UOL wanted to be the Internet arm of Telefonica in Latin America.

Unfortunately, both Villalonga and Frias wanted to be majority stakeholders in the new venture. Indeed the Spanish operator had a strong presence in the telecommunications sector all across Latin America, and was making 50% of its turnover in the region. Hence his market being strategic for Villalonga, he wanted a majority stake. Frias also thought that by bringing the largest Internet market share in the largest market in Latin America, he deserved the largest share. Hence the deal collapsed.

These negotiations having failed, UOL decided to launch its international expansion by itself, while Telefonica decided to launch a competing company, Terra Networks.

UOL International, a strategy of joint-ventures with local media players

UOL decided to divide the Latin American continent in 3 regions:

- ✓ Tier 1: Brasil, Argentina, Mexico (the largest markets)
- ✓ Tier 2: Venezuela, Colombia, Chile (the supporting markets)
- ✓ Tier 3: the remaining countries (« we'll see later » countries)

Luis Frias' stroke of genius was to perceive that the killer application for the Internet in the region was however content, and not access. Therefore, his whole strategy for international expansion was based on joint ventures with local media players in each country. This was a

unique and innovative approach in the whole global portal scene. Indeed, nowhere else in the world has there been a large Internet player born originally from the media sector. All the other portals came either from telecom players or where pure-plays.

This is probably what made UOL so strong in Brasil.

Based on this assumption, UOL developed a clear strategy for its international expansion: in each country where UOL would go, the local business would be launched with a local media partner (preferably in the top three in the country). The marketing strategy was based on a major advertising campaign offering a free web-mail account.

In order to finance the international expansion, in September 1999, UOL raised \$100m in an A-round from a syndicate of private equity investors led by Morgan Stanley, and including Credit Suisse First Boston, Reuters, etc. In exchange Frias gave up 12.5% of the company, valuing it at \$800m pre-money.

A very fast-paced execution of UOL's international strategy

Following its defined strategy, UOL targeted the first 2 tier countries, trying to create joint-ventures with local players whom all know the Folha and Abril groups.

In all cases, UOL's value proposition to these partners was: the software platform, the Internet experience, the brand (UOL insisted on retaining its brand, and if not, that at least that it would be co-branded), and the look & feel and above all, total control over management.

In exchange for this, UOL asked for an exclusivity of content on the Internet for 3 to 5 years, and for advertising barter in the local media (local partners generally did not bring in cash).

Moreover, in all joint-venture deals, in addition to the equity stake in the local company, UOL offered a small equity stake¹⁶ in the holding company UOL Inc. along with a swap option for local subsidiary shares against corporate shares when UOL would be floated on the NASDAQ. This offered an effective exit strategy opportunity for local partners.

In addition to these joint-ventures with local media groups, UOL's concept was to launch portals with 100% local content, in order to make local users feel that the national portal was targeted towards them and was not just a translation of a regional portal (as some of the

¹⁶ These figures are not public. It is understood that it was in each case less than 1%.

competition's portal were). Hence, the opening of each of UOL's local office and the launch of each portal was carefully prepared, and was associated to a massive localized advertising campaign in the country.

However, each portal used a common platform, in order to reduce costs: all countries used the same software suite, the same services portfolio, the same look & feel... Unfortunately, given the bad situation of the telecommunications infrastructure in the region, UOL could not centralise all servers and had to opt for a different strategy by creating local data centres in those countries with the expected most traffic (Mexico, Argentina), and hosting all the others countries in a data centre in the USA.

Country by country expansion analysis

The international expansion was launched in August 1999 with the inauguration of the international headquarters in Buenos Aires, Argentina.

This tactic followed three reasons: this was an important Spanish speaking country, the city was close to Sao Paulo (where UOL Inc. had its headquarters), and also because of the existence of a very skilled editorial workforce in Argentina, potentially able to supply both qualified personnel and managers to the new venture.

All other Latin American countries were launched in less than three months:

- Argentina, 30 September 1999
- Mexico, end of November 1999
- Venezuela, early December 1999
- Chile, early December 1999
- Colombia, early December 1999
- Miami (UOL en Español, uole.com), mid-December 1999 (this sales office was strategically positioned for UOL's revenues stream and acted as representation office in order to prepare for UOL's IPO)
- Spain, press launch in February 2000 and marketing launch in June 2000.

As it is showed in Exhibit 3, Argentina was major success compared to the other operations contributing 42% of the total page views outside Brazil.

UOL Argentina

The country was launched with a 75/25 joint-venture with Editorial Perfil, the largest magazine publishing group in Argentina.

Perfil did not have an online venture at the time, so UOL had to dedicate a lot of effort initially to adapt these magazines' content for the Internet.

Perfil's content was locked in with UOL for a period of five years.

Competition at the time included a very strong player, Clarin (with Ciudad Internet), El Sitio (originally from Argentina), and StarMedia.



By the end of 2000, UOL reinforced its local position by partnering with another media group, adding television content to its site. It sold 20% equity in UOL Argentina to America TV (the second TV group in Argentina), in exchange of this company provides its exclusive content to UOL for ten years, in addition to media bartering.

It is interesting to note that UOL consolidated its local position, also by leveraging the family relationships between Perfil (M. Fontevecchia), Abril (M. Civita): indeed although M. Fontevecchia originally launched the 'Caras' people magazine in Argentina which became a huge success, it was the Civita family with the Abril Group who developed immensely the brand (under franchise) in Brazil. Also this deal provided a good opportunity to establish strong ties with the Avila family, owners of AmericaTV.

UOL Venezuela

UOL International entered into a 60/40 Joint Venture with the largest and most influent local newspaper (El Universal).



This paper already had an online venture, running the first portal in the country (www.eud.com), using content from the newspaper, and content specifically developed for it by a small editorial staff (concentrating mainly on chat, email, forums...). It also had some agreements for buying content from smaller third-parties.

After the agreement, eud.com was rapidly absorbed into UOL Venezuela, and eventually UOL became very fast the local audience leader.

At the time, the local competition was Chevere, which was later bought by Terra, and StarMedia. Both Terra and AOLA had not yet appeared in the local radar screen.

UOL Colombia

UOL International entered in a 67/33 Joint-Venture with Grupo Bavaria (Santo Domingo Family), the largest local economic conglomerate in Colombia, with holdings such as the national air carrier Avianca, beers, investment funds, radio & television with such brands as Caracol (radio and television) and El Espectador magazine. Additionally, Grupo Bavaria had a small local ISP, ranked in the top ten Colombian Internet service providers.



In 2000, UOL consolidated its written content for its local portal by signing also with a series of smaller local newspapers and magazines (5 or 6 companies) to which it gave less than 5% of UOL Colombia.

At the time of the deal, there was no real competition in the local market, apart from *lacidudad.com*, a portal that was later bought by Terra.

UOL Mexico

Mexico represented the first crisis in UOL International's expansion strategy, and UOL did not manage to anchor its activities with a local partner.

On the one hand, UOL claims that in a way, Mexicans are very much alike Brazilians: both people believe they have a significant role to play in the region, and that they have the capabilities to conquer by themselves the Latin American continent. Furthermore, Mexico's geographical and economical proximity to the US further more boosts that feeling.

On the other hand, Mexican industry is dominated by a handful of families. Their media industry is no exception; additionally, interestingly enough, Mexican media groups are exclusively concentrated in television, without a dominant player in the written press.

The best explanation is that Mexicans have a very low consumption of daily press (the largest newspaper in Mexico with a population of 98m has the same circulation than El Mercurio in Chile with a population of 15m).

Hence, UOL immediately experienced difficulties with rolling out its usual strategy. It was then faced with two choices:

- 1) Attempt to develop a partnership with a series of small size players: this proved to be an unrealistic challenge since most of them were very conservative and lagged Internet awareness.

- 2) Try to reach an agreement with large Mexican players, in telecommunications or television. Frias entered into negotiations with the unavoidable Carlos Slim (Telmex), but did not reach an agreement. Talks with TV Azteca and Televisa were also unsuccessful: the local Mexican groups all wanted to retain equity control, which at the same was not acceptable for Frias.

Unfortunately, while negotiating these potential partnerships, UOL Mexico had already committed to substantial investments in a local data centre, and in hiring people.

Competition arrived in Mexico after these initial talks, and Microsoft was able to strike a 50/50 deal with Carlos Slim in order to launch TIMSN, who later acquired Yupi.com. Starmedia bought a series of smaller players.

After heavily restructuring its operations by end 2000, UOL Mexico and the portal itself closed down in mid 2001.

UOL Chile

Chile was a problem in the expansion strategy of UOL International. The country seemed important to cover, since it had become a benchmark country in the region: although much smaller in size than the three other regional heavyweights, Chile had better ratios than the others (connectivity, GDP per capita, etc.).

UOL did not succeed in signing on a joint-venture in the Chilean market and underperformed, hence again proving that the original strategy was correct. Several reasons have been mentioned:

- On the one hand, the Internet usage at the time in Chile was under-developed, and there were not enough number of users for most local media groups to believe in the Internet market potential.
- On the other hand, the larger national players (such as the largest daily newspaper, 'El Mercurio') already had an Internet presence. In this particular instance, Luis Frias did not succeed to lock a deal because the Chileans wanted to retain control and management of the venture. Additionally, it is said that Chileans were only interested in their local market, and did not see additional value by signing with UOL Inc and on the possibility of floating the company on NASDAQ. All negotiations with the main media groups failed. Eventually, with a different control strategy, Starmedia and Terra were able to strike a deal with them.

Operations in Chile were stopped in early 2001, because it had become evident that break-even for the local subsidiary was nowhere close, particularly because the local advertising market was not providing a sufficient revenue stream.

UOL en Español (USA)

The launch of the Miami office as a sales office was really targeted at the international press, and particularly to the US press, marking the final achievement in the expansion of UOL International in Latin America.

Nevertheless, UOL International's sole revenue stream came from advertising. Hence the Miami office was uniquely positioned in order to conclude regional deals for Latin America, either for US clients with activities in Latin America, or for Latin American corporations (most of them had their headquarters in Miami) in order to target a larger client base in Latin America. Competition at the time included StarMedia, Yupi and Quepasa.

UOL soon realised the difficulty of targeting these different communities, acting as separate entities. They identified three axes:

- country origin: a Mexican in the USA behaves very differently than a Cuban immigrant;
- geographic location: the demographics are very different when targeting these communities in New York, New Mexico, California or Florida
- integration into American society: in particular, a Hispanic in the USA will behave and consume cultural products in a very different manner whether he was born in the country or not, whether he pursued college in the US or not.

Hence, market research soon proved that targeting the US with a single product was not feasible (even competition such as Terra and StarMedia have not succeeded yet). Only Yupi.com seemed to have pulled the trick, but when approached by UOL, their price per page view was too high. They were ultimately purchased by T1MSN.

UOL's US strategy had been to develop local content in each of the Latin American countries and to consolidate them into a different portal (UOLE) targeting the different Spanish-speaking communities in the US. Eventually, the main users of this portal seem to be the Latin American users (from Peru, Uruguay, etc.) who do not have a localised

portal in their own country, and those from countries where UOL already had its local portal and who were browsing UOLE in search of pan-regional information.

UOL España

The main idea behind the launch of UOL in Spain was to develop a presence in the homeland of its main competitor, Terra, which had already entered UOL's domestic market, Brazil. The venture did not really exploit a business opportunity and appeared to everyone as a bold macho game between Frias and Villalonga. UOL's newly appointed General Manager in Spain even went on record saying "soon UOL will beat Terra in Spain!".

The official launch of the Spanish subsidiary occurred in February 2000, but operations could only start in June of that year. Had it occurred earlier, we believe UOL Spain might have succeeded in capturing local market-share. Unfortunately, a bureaucratic Spanish administration took 4 months to authorize the use of the domain name UOLmail.es. and finally granted it in late April. All media space having been bought for the month of May, the launch could only occur in June, already two months after the Internet bubble crash. Additionally, a large advertising battle started in March 2000 in Spain between the main local players such as Terra, eresmas.com (Grupo Retevision), ya.com (bought by T-Online for \$500m at the end of 2000), each investing on average \$5m per month, leaving little room for a start-up such as UOL Spain, with a mere \$1,2m in advertising budget. UOL was not even spending that amount of money in Brasil.

UOL Spain applied the same joint-venture strategy with local media groups as in Latin America, and held extensive talks with Grupo Prisa (largest media group in Spain, including titles such as El Pais, Canal+, etc), Recoletos (owned by the Pearson Group, extremely strong in vertically integrated publications), Zeta (3rd largest group in Spain, 1st in Catalunya, including a series of magazine publications) and Godo (a large Catalan media group).

All these groups, including UOL, changed their market priorities (respectively Latin America and Europe) after the Internet bubble crash.

IV. UOL's future prospects

A phenomenal success in Brazil

We believe UOL's phenomenal success in Brazil was due to an entrepreneur's willingness to exploit its potential. Luis Frias foresaw the rise of the Internet early enough to be the largest first mover in his market. He imported a successful business model from the USA and adapted it for his local market, while adjusting to bad local conditions by building the necessary market consumer base and then launching a marketing blitzkrieg, capturing immediate mind-share. The fact that UOL had access to the content of Folha and Abril was a key success factor, not only for UOL but also for the expansion of the Internet in Brazil as a whole.

Therefore we see the threat to the UOL leadership in its homeland coming from two directions:

1. Globo.com – the leading cable company internet venture with Telecom Italia
2. Abril – the last reduction of its stake in UOL might lead to a total break-up and to its content leading to one of the main competitors: AOL and Terra.

The way to address these threats is tightening again the relationships with Abril.

The international expansion stumbles on local joint-venture deals

When Frias felt secure enough in his original marketplace, he hired a pair of talented business developers to grow his international business. As he had realized before competition that "content is king", he set out to lock joint-venture deals with the largest media players in the region. In Argentina and Colombia where he succeeded signing agreements with leading media groups such as Perfil, AmericaTV and Bavaria, the business success followed. The problem was that in other countries he did not manage to attract the big media groups.

In Mexico, a key market in Latin America, Frias was not flexible enough in the negotiations with Carlos Slim, throwing him to the hands of Microsoft that formed with him T1-MSN.

We believe that Frias made a significant strategic mistake in this market. He lost a significant revenue stream potential, while at the same time losing the opportunity to operate a subsidiary very close to the US Latino market. More importantly, it allowed north-American competitors to set foot in force into the Latin American market, in UOL's backyard. By being

more flexible, for instance with Telmex or TV Azteca, UOL would certainly have had a great time defending the Mexican market against Microsoft and AOL.

This inflexibility also blocked earlier negotiations with Telefonica, which could have changed the map of the Internet in Latin America.

The UOL attempts of expanding to the Hispanic market in the US and to Spain, to compete with Terra, Starmedia and Yupi in their own territory, seem to make little business sense today but at those Internet hype days, it appeared like a low investment venture with interesting potential.

Two more reasons we found for the unsuccessful international operations are:

1. The speed in which UOL had to launch portals all over the region, which did not let time to localize enough.
2. Bad luck – if the internet bubble would have continue a few more months, UOL probably would have raised billions of dollars in NASDAQ and it's present could have been different.

A financing strategy that failed to materialize for both internal and external reasons

UOL's first private equity financing was led by Morgan Stanley in 1999. The original IPO date was December 1999 and started to drift away slowly to February then March 2000. When the Internet bubble exploded, all exit strategies on public capital markets vanished.

Expanding UOL Brasil outside its frontiers was a sure way at the time to achieve a much higher valuation on the IPO day. This imperative explains mainly why UOL engaged in this very fast-paced international expansion.

However, when with 9 portals operating in 8 countries, UOL Inc. was finally ready to be floated in March 2000, it did not file an S-1. It would have been a splendid timing, benefiting from the peak of the NASDAQ craze, just in time before the crash.

Talks with UOL executives led us to understand why this original delay occurred. After several years of marriage to Folha with their respective online ventures, Grupo Abril grew tired of the deal that prohibited it any Internet manoeuvre. In particular, it became interested in developing more vertically integrated portals, in which they would have some controlling power. Hence, Abril decided to pull out of UOL. Such an announcement would have killed the IPO process as well.

UOL ignored the Internet-access market in Latin America

After developing online content in Brasil that created a stickiness effect and attracted new customers, UOL Brasil realized the importance of creating a steady flow of increasing revenues with a Brazilian ISP business, AccesoNet.

The lack of enough funds and time because of the rush to an IPO, made it impossible for UOL to create the infrastructure and operate internet-access services in Latin America. The plan probably was to add the ISP services in second step using the funds from a successful IPO. As we know the IPO did not take place, but UOL did follow this tactic in Argentina where it recently purchased the 3rd local ISP, Sinectis¹⁷, thus consolidating its presence locally. Indeed, UOL International's COO, Claus Vieira declared "we believe that the Portal and the ISP combined in a full-package strategy (Online Service Provider) and enhanced by America TV & CVN exclusive contents, will enable us to conquer the leadership in the argentine market".

[In a way, UOL did not follow in its international operations its own (and AOL's) strategy that is based on two legs: web and connection. This strategy was proposed already in 1996 in Lazard Frères report. We believe that revisiting this strategy today is still feasible, but it will require significant capital expenditure, in a market where competitors are better prepared to sustain a financial battle.

We also regret that UOL did not leverage its unused bandwidth capacity in Accesonet during the day to develop a more B2B activity and target corporations.

A promising consolidation process in the way in Argentina and Brasil...

UOL recently sold its telecomm infrastructure business in Brazil for \$100m, and sold a large chunk of Grupo Abril's original equity (17.9%) to Portugal Telecom. In 2001 it also sold 20% additional equity in UOL Argentina to America TV.

We believe that UOL has understood the threat of loosing ground in both its two largest markets. Hence is has entered into steady consolidation moves, strengthening its local positions, and leveraging several synergies in the telecomm infrastructure (access to mobile phone infrastructure, mcommerce) and with an additional media channel (television, cable

¹⁷ UOL Press Release, 12/09/2001 – "UOL Inc. acquires Sinectis"

TV, interactive television). We also welcome the early experiments by UOL to specific broadband-, Palm- and WAP- ready content.

Furthermore, we believe UOL would gain significant leverage by sharing more experience (both in terms of market analysis, and Internet processes) between its Brazilian and Spanish-speaking countries operations. We understand that until today, these two entities have been managed pretty much independently.

... requiring a more focused strategy

Additionally, UOL has recently secured cash inflows that will allow it to sustain its business. However this cash balance is nowhere near the deep pockets level of its main competitors, Terra, AOLA and T1MSN. UOL will have to find other creative ways to defend financially its local market-shares in Argentina and Brasil, and come up with a coherent international strategy to acquire market-share outside its home base. It is particularly unclear to us how sustainable are operations in Venezuela and Colombia.

It seems that the most interesting market for UOL to try and re-enter is Mexico. In order to do it successfully UOL will need this time to focus on one market expansion at a time, be flexible with the partners in order to achieve premium local content. This is a very risky strategy, which will require heavy investment. Another possibility that looks less possible is that in Mexico UOL will join forces with one of its main competitors: Terra, AOL, or T1-MSN to compete against the others. The question is what value UOL brings to such joint venture.

In summary, although a pioneer and extremely successful company in Brazil, UOL did not manage to duplicate its success story to the rest of the world. Still its success in Argentina, and the retention of its market share in Brazil against the two multinationals of Terra and AOL, are a proof of quality to this company that we are convinced will be one of the winners at the end of the shake out of the Internet industry in Latin America.

* * *

Exhibits

Exhibit 1 – UOL main events timetable

28/04/96	Folha de Sao Paulo launched its online edition
18/08/96	UOL starts providing Internet access services in Rio and Sao Paulo
27/09/96	Abril join Folha to create a 50/50 joint venture– Universo Online
11/04/97	UOL is chosen best Brazilian website by 7 of 8 publications
02/12/97	Chosen best Internet provider by Exame
22/05/98	UOL again is chosen best Brazilian site by IW
04/01/99	UOL introduces the unlimited access service at R\$35 per month
22/06/99	UOL reaches 400,000 subscribers
14/09/99	UOL raised \$100 million to expand in Latin America
30/09/99	UOL launches its portal in Argentina
30/11/99	Info Exame elect UOL as the most admired Brazilian company
30/11/99	Chosen for third consecutive year best domestic ISP and best portal by Info Exame
30/11/99	UOL launches its portal in Mexico
2/12/99	UOL launches its portal in Venezuela
7/12/99	UOL launches its portal in Chile
14/12/99	UOL launches its portal in Colombia
23/01/00	UOL announce its free access service in Brazil: NetGratuita
22/02/00	UOL launches its portal in Spain
25/09/00	UOL signs agreement with Japanese biggest ISP Nifty for international roaming
31/10/00	New record of 45 million page views a day
09/11/00	UOL sell AccesoNet to Embratel for \$100 Million.
22/02/01	UOL raise \$200 million from Portugal Telecom
26/04/01	UOL reaches one million subscribers

Exhibit 2 – Company Structure

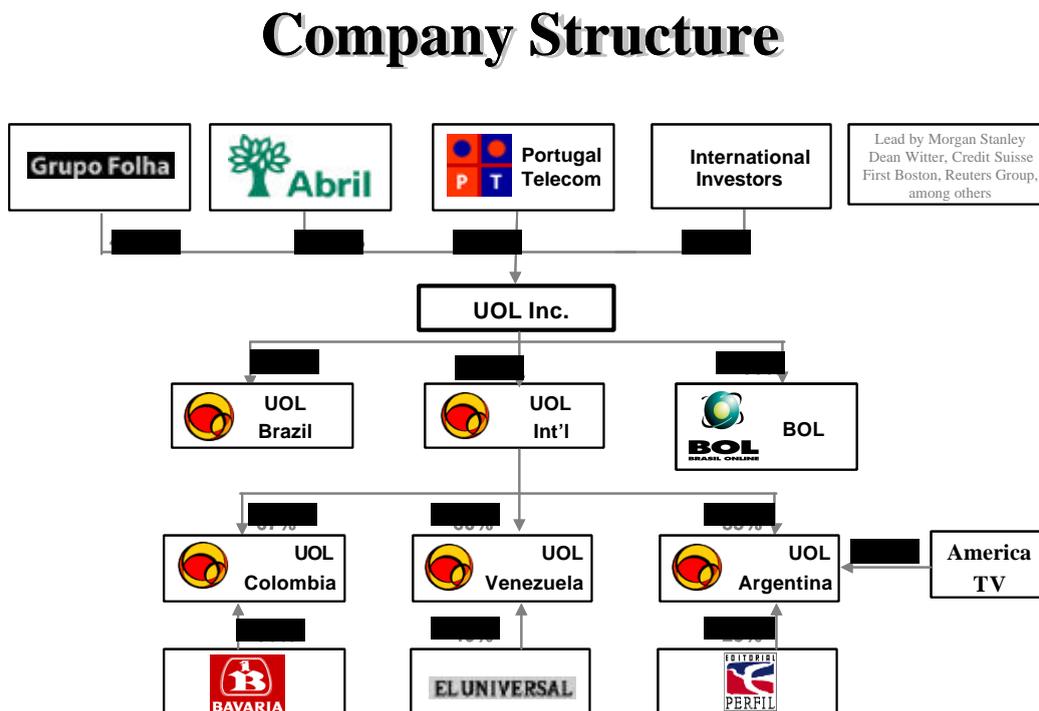


Exhibit 3 – Relative weight of international operations in February 2001

UOL INTERNATIONAL		Page Views (Feb. 01)								
Canales	Total Consolidado	%	Ar	Cl	Co	Ve	Us	Mx	Es	
Chat										
Editorial Perfil										
Indice										
UOLSex										
HP de www.uol.com										
HP de www.uolmail.com										
Uol Mail: Pagina Interna										
UolMail: Toolbar										
UolMail :AD										
Otras Jproxy										
Totales diarios por país										
Acumulado Uol-I del mes hasta la fecha										

Exhibit 4 – UOL Ads

DESCUBRA QUE NAVEGAR NÃO É PRECISO. É FUNDAMENTAL.

ACESSO GRÁTIS Já com a UOL a primeira mala é de graça. Mas tem 30 dias para ler e ver se gosta. E o reembolso? Jágo para a UOL a pagar a CD de instalação automática.

ACÉSSO LIMITADO Depois de teste grátis, você tem acesso. Por 20 reais por mês, você acessa e lêmos a Assa que quer, não importa que quito.

EXCERTESE AUTOMÁTICO Já com a UOL você dá o tempo. Você é conectado automaticamente de acordo com o seu perfil, mas sempre a mesma hora dia.

INTERNET Não importa se você está no Rio de Janeiro ou em Brasília. Sempre com o mesmo acesso. Por isso, você não precisa pagar ou ter o mesmo acesso como se estivesse em casa no Rio de Janeiro.

ACESSO EM QUALQUER LUGAR Você pode usar a UOL em qualquer lugar. Basta acessar em mais de 100 cidades de Brasil e em mais de 2.000 cidades espalhadas pelo mundo.

O MELHOR CONTEÚDO EXCLUSIVO PARA ASSINANTES Só na UOL você encontra os melhores e mais interessantes conteúdos do mundo. Como, por exemplo, o conteúdo de Le Monde, The New York Times, Aljazeera e outros.

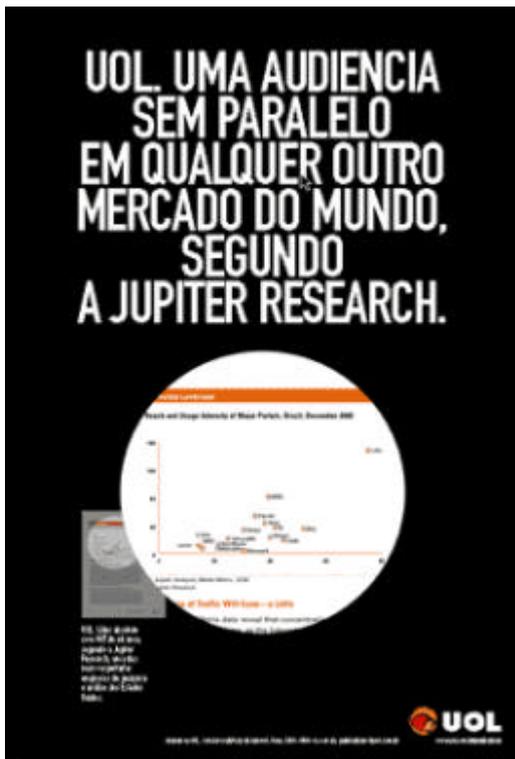
E MAIS SERVIÇOS Além de UOL, você tem acesso a mais de 100 serviços e conteúdos desenvolvidos com a UOL, para ler e facilitar a sua vida.

SALAS EXCLUSIVAS DE BATE-PAPO Você pode criar salas exclusivas de bate-papo e conversar com quem quiser. Para conversar, é por isso que a UOL é o maior ponto de encontro de Internet brasileira.

ASSINAMENTO DE NOVO Com a UOL você tem acesso a mais de 100 serviços. Todos 24 horas por dia, 24 dias por ano, quando quiser, sem precisar de nada. E o melhor ponto de encontro de Internet brasileira.

UOL NAVEGAR SEM ERRO
LIGUE 0800 175757

September 1999, “Surfing the Internet is not needed but fundamental”



2001, UOL- Audience without parallel in any other market in the world according to “Jupiter Research”