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Rogers Communications, Inc. (RCI)

Q1 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Rogers Communications' Q1 2017 Results Analysts Teleconference. At this time, all participants are in listen-only mode. Following the presentation, we'll conduct a question-and-answer session and instructions will be provided at that time for you to queue up for questions. [Operator Instructions]

I would like to remind everyone that this conference call is being recorded today on Tuesday, April 18, 2017, at 4:30 PM Eastern Time.

I will now turn the conference over to Ms. Amy Schwalm for Rogers Communications management team. Please go ahead.

Amy Schwalm

Vice President-Investor Relations, Rogers Communications, Inc.

Good afternoon, everyone, and thanks for joining us. I'm here with our Chairman, Alan Horn, and our Chief Financial Officer, Tony Staffieri.

Today's discussion will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's earnings report and in our 2016 Annual Report regarding the various factors, assumptions and risks that could cause our actual results to differ.

With that, let me turn it over to Alan to begin.

Alan Douglas Horn

Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.

Okay. Well, thanks, Amy, and good afternoon, everyone. Thanks for joining us. I'll be brief. I think the Q1 numbers largely speak for themselves. And then I'll pass it over to Tony to speak to our results in more detail.

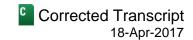
So overall, we're very pleased with our financial and operating performance in Q1, which reflects the high quality of our asset base and the ongoing solid execution against our plan. We recorded strong service revenue growth of 4% and we're seeing that flow through adjusted operating profit with growth of 6% this quarter. It's good to see revenue growth flowing through to AOP.

These results are a testament to the contributions of our leadership team and all 25,000 of our employees in delivering exceptional performance during a period of transition.

Wireless, our largest segment was clearly the main contributor to these results. We delivered across the board on all key Wireless metrics, posting strong growth in revenue, adjusted operating profit and postpaid net additions. We substantially improved churn year-on-year, reflecting our ongoing commitment to improving the customer experience.

In Cable, our leading Internet offering continued to resonate with customers and led to another quarter of improved subscriber metrics. Our preparations for the launch of the compelling X1 platform are on track, and our

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customers can look forward to a continuous stream of innovations and an exceptional video experience in the home.

Media had an improved Q1 helped by distribution from Major League Baseball.

So as we go forward, we expect to maintain revenue momentum. We will continue to focus on streamlining our organization, improving our cost structure and capturing efficiency opportunities. And, of course, we're delighted to have Joe Natale join us as President and CEO starting tomorrow. I think it's actually a one minute past midnight actually. And so all of us, the Board of Directors, our executive leadership and all of our employees will, of course, be working with Joe to ensure a seamless transition.

And so with that, I'll turn this over to Tony.

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Thanks, Alan, and good afternoon, everyone. Alan covered off our consolidated results, so I'll get right into our segment performance.

Wireless revenue and subscriber growth was impressive, and importantly, this robust growth did not come at the expense of profit. In fact, Wireless AOP growth of 7% is the best we had delivered in seven years even while recording the most Q1 postpaid net additions in eight years. Strong service revenue growth of 7% reflected a healthy combination of both subscriber growth and meaningful ARPU growth.

Blended ARPU and postpaid ARPA increased 2% and 7%, respectively, on higher penetration in our premium value bands and as customers add lines to existing accounts. Postpaid net addition of 60,000 increased 46,000 year-on-year driven by healthy gross additions and a substantial reduction to churn. Despite another competitive quarter, Wireless postpaid churn declined 7 basis points to 1.10% which marked the lowest rate since 2010.

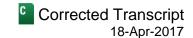
We will continue to target churn reduction as it is one of the biggest value drivers for us given we have the largest subscriber base. Lower churn should help to drive revenue and higher margins as the cost of retention is generally lower than the cost of acquisition. Our high-quality network, value-add offerings and improving customer experience have resulted in favorable trends in churn and subscriber share over the last year, and we expect sustainable traction going forward.

Turning to Cable, revenue and AOP were stable year-on-year. Internet results continue to be the largest contributor and the positive trend in our residential Internet business remained very strong. Excluding the impact of the lower wholesale revenue from the CRTC's decision to reduce rates, Cable and Internet revenue increased 1% and 11%, respectively, and Cable AOP increased 3%.

Cable TSU net additions were positive for the third consecutive quarter driven by Internet net additions of 30,000, up 14,000 year-on year. Nearly half of our residential Internet customers are now on plans at 100 megabits per second or higher compared to just over a third a year ago. It's clear, customers are valuing faster speeds, and Rogers can deliver. We offer the fastest widely available speeds in our footprint, with Ignite Gigabit Internet service available to our entire footprint.

In short, our competitive advantage is tracking well in the market. Not only are we attracting Internet customers, we continue to see positive household net adds and look forward to improving Cable metrics this year on the

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strength of our higher margin Internet offerings. And the prospects for Cable home will get more compelling with the launch of X1 IPTV, and the Digital Home solution expected early next year.

In addition to the elegant customer experience the X1 platform offers, we also expect Cable CapEx intensity to decline post-launch as the licensing model is a variable of X1 for us, and just as significantly, the average customer investment per home declines as more functionality moves to the cloud and we leverage self-install capabilities.

The X1 integration is underway, and we're leveraging the learnings of Comcast and other partners. Recall this is a proven platform with a history of integration and deployment by several syndication partners, so lower execution risk for us. The ecosystem around X1 is relatively small, so we only need to deal with Comcast and a limited number of other service providers.

We continue with a number of initiatives to improve the customer experience with the focus on self-serve. Our overarching goal is to make things easier for our customers, give them control and save them time to what the customer wants and helps to reduce churn, call volumes, truck rolls, and improves our productivity.

During the quarter, we improved usability of our data manager tool, added online billing features, and expanded our EnRoute service to our entire Cable footprint. We're the first Canadian telecom to launch this sort of time-saving tool, which allows customers to track on their mobile phone when a technician will arrive for an installation or service call. The overwhelming majority of the initial feedback rated the tool 5 out of 5.

These efforts to address customer pain points are reflected in improvements in our Wireless postpaid churn and in our Cable products. We're doing a better job at solving customer problems with positive trends in first-time resolution rates.

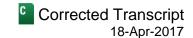
The digital agenda is also a big focus for us, and we're looking to integrate digital solutions into traditional ways of doing business. If we look at our digital sales channel relative to our sales coming from retail traffic, the number is small in comparison today. But we're targeting three times as many digital sales transactions than we have today by the end of this year. We're starting at a small base, but I think it speaks to the focus we have.

Our initiatives continue to resonate with customers. In the first quarter, self-serve transactions were up 35% on the Rogers brand and overall customer contact volumes were down 7% year-on-year. We made progress but we also see a big opportunity to further improve the experience for customers while also enhancing our productivity and efficiency.

Media results trended favorably year-on-year, primarily due to higher sports-related revenue, including a distribution for Major League Baseball and higher subscription revenue from Sportsnet. As you know, we've restructured our print business to shift to digital media in order to keep pace with changing audience demands. This is expected to impact overall Media results in 2017 as digital sales take some time to ramp up to replace print decline.

Turning now to some additional details in our financial results. Higher AOP helped generate operating cash flow of CAD 596 million, which supported dividend payments of CAD 247 million this quarter. Robust AOP growth combined with lower CapEx drove free cash flow of CAD 338 million, up 54% year-on-year. We expect CapEx to ramp up with initiatives like the X1 integration accelerating in Q2.

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Moving to overall performance below the operating line, adjusted net income and net income increased 34% and 28% respectively, largely due to increased AOP and lower depreciation and amortization, partially offset by higher income tax expense and an investment gain recognized in the prior year.

We ended the fourth quarter with a leverage ratio of 3.0 compared to 3.2 a year ago. Due to seasonal increases in working capital, we've typically seen the ratio move up sequentially in Q1. But this quarter remained stable on the back of strong AOP growth year-on-year. We expect ongoing AOP and free cash flow growth for debt repayment to generate further improvement in the ratio. And we continue to focus on enhancing the fundamentals, that is revenue growth to drive higher AOP, free cash flow and return on assets, recognizing these are the key drivers of shareholder value. Our balance sheet remains healthy with our solid investment-grade credit rating with stable outlooks and attractive rates on our outstanding debt.

To sum it up, our first quarter results represent a good start toward achieving our guidance for 2017. We're executing well on a competitive market supported by our high-quality asset base. We expect sustainable revenue momentum with greater cost efficiency to ensure healthy flow through to profit and free cash flow. And as a backdrop to it all, we remain committed to delivering a better customer experience for our customers. All of this should undoubtedly translate to increased value for our shareholders.

With that, we open the call to any questions you may have.

QUESTION AND ANSWER SECTION

Operator: Thank you. One moment, please. Ladies and gentlemen, we'll now conduct the question-and-answer session. [Operator Instructions] We'll now take the first question from the line of Jeff Fan with Scotiabank. Please go ahead.

Jeff Fan

Analyst, Scotia Capital, Inc.

Thanks. Good afternoon. Congrats on the numbers. Tony, I think in the past, you've kind of given us some ideas about the Cable household and the ARPA. I know you're not disclosing the details. But can you just give us a bit of an update as to what's going on in there in terms of the household count and ARPA from a Cable perspective?

And then, I guess, the second part is, do you see enough momentum driven by Internet to continue to allow you to have the positive RGU trends that you've been seeing across the board, I guess, taking into account Bell's fiber expansion and, I guess, with TV improvement going into next year?

Anthony Staffieri

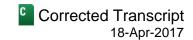
Chief Financial Officer, Rogers Communications, Inc.

Okay. Thanks for the questions, Jeff. As you've said, in terms of disclosing household and ARPU, we haven't done that. But what I can tell you is, the trend continues to be positive both in absolute and in terms of year-on-year trending. As well, we continue to do that on the back of maintaining a strong ARPA. And so, the good thing you see is household improvement and penetration improvement without diluting our book. And so we're pleased with the way that's coming in.

In terms of the second part of your question, and how we're competing in our marketplace with the competitors' products, as we said, our entire footprint is gigabit-enabled. And so, what we do see is, while the number of adds



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per gigabit in terms of customers is small today, the need for speed and, if you look at customer profile continues to move up. As I said, almost half our customers now are in speeds of over 100 megabits. And at 100 megabits, we're still at a very strong competitive advantage relative to our competitors' product.

And so that will continue to do well, we think, for the next long while. If we were to look at our coverage for gigabit, as I said, it covers our entire footprint. We estimate that relative to our competition, that's at least four times more than they can deliver in terms of gigabit speed. So, as I said, the only thing I should say is, we've added a new tier 500 megabits per second as well. It's still early days, but we continue to add speed tiers that address the demand that we're seeing out there.

That competitive advantage will continue, we think, for some time. And when we combine it with the prospects that we see for the Comcast video and digital home product, we think that's going to continue to help make the customers sticky on the back of Internet that continues to, as I said, offer very strong horsepower.

Jeff Fan

Analyst, Scotia Capital, Inc.

And if I can just add a quick follow-up regarding the Comcast video roll out for next year, can you just remind us when you expect to roll out and how quickly you think you can get it across your entire market?

Alan Douglas Horn

Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.

So, in terms of the first part of the question, Jeff, we plan to launch it in the first quarter of 2018. So that hasn't changed, and we remain committed to that. In terms of the speed of the roll out, we're not going to disclose too much on that for obvious reasons. But as you would expect, the roll out will be well-phased to ensure a very robust execution of the product. But that's probably all I can say at this point.

Operator: We'll now take our next question from the line of Vince Valentini with TD Securities. Please go ahead.

Vince Valentini

Analyst, TD Securities

Yeah. Thanks very much. Couple of things, probably mostly for you, Tony. The Major League Baseball payment, are you able to quantify that? And is this something unusual or is this something you'd see at different times in the year and maybe it came at a different time this year?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

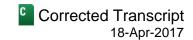
On the distribution, it's related to sale of the [ph] MLMP to Shaw (16:47) that you might have saw. The amount is not disclosed. And so, in accordance with our agreement with the MLB, we can't disclose the amount we received. But I think, to be helpful, what I would say is, if you were to look at Media revenue growth, excluding that one-time payment, it would still be slightly positive year-on-year.

Vince Valentini

Analyst, TD Securities

Great. Second, you just sold the former OMNI building at Lake Shore and Bathurst, I think, for CAD 67 million. So, just to clarify, that would not have been closed in Q1 so it hasn't been reflected in your debt leverage yet. And second, is there any other peripheral real estate that we might expect you guys to monetize sometime soon?

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Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

So, in terms of the sale, that is not reflected in our Q1 results. The closing of that is happening in the second quarter. In terms of additional real estate dispositions, we continue to look at other opportunities for them but nothing that I can talk about or would talk about now.

Vince Valentini

Analyst, TD Securities

And last, you're – I mean, obviously you had 6% EBITDA growth here in the first quarter, and you didn't do it the wrong way, if I can call it that with low sub adds, you had fantastic subloading especially in postpaid. So that should carry through with good financials for the balance of the year. Is there anything we should read into guidance remaining at 2% to 4%? Is that actually realistic or is there a possibility you're just conservative and it's too early in the year to think about revisiting it?

Alan Douglas Horn

Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.

The short answer is yes. It's still too early. I mean, we're a quarter into it. It's a good healthy start to it. But there are a number of things we built into guidance. And I would say, given the cyclicality of our business, they're still a big part of our business to play out in the remaining three quarters.

Operator: We'll now take the next question from the line of Drew McReynolds with RBC Capital Markets. Please go ahead.

Drew McReynolds

Analyst, RBC Dominion Securities, Inc.

Thanks very much. Tony, just a follow-up on that. On the Wireless EBITDA growth, another strong quarter, up 6% or 7%, and that followed a strong quarter in Q4. And then, previous to these two strong quarters, you had struggled with operating leverage. So I'm just trying to understand all the puts and takes and, in particular, can you just talk to the upgrade cycle that is flowing through now under the two-year contract?

And then second, if I could just squeeze in a second one. Just on ARPU growth, can you just remind us if there was a negative impact from Roam Like Home? I think it was neutral last quarter. And just what do you expect in terms of the sustainability of that postpaid ARPU growth or blended ARPU growth looking out for the rest of the year? Thank you.

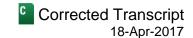
Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Good. I'll start with the second part of the question. In terms of ARPU growth, I'm pleased to tell you that roaming did not have an adverse impact on our revenue and ARPU growth percentages. And so, we took a bold step sometime ago in terms of putting together the Roam Like Home package, and it impacted our total Wireless revenue for some time. And we're now at the point where the volume increases have allowed that to not have an impact and we're sort of slowly entering what I would describe as year-on-year growth, albeit it's very small. But it at least is no longer having a drag on our growth metrics for revenue and ARPU.

The second – or the first part of your question, I hope I got this right. In terms of the 7% AOP growth that you saw in Wireless, I think there's a couple of things I would say there. One is, we continue to see a healthy backdrop in

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terms of size of the market, and so as best we can tell the market seems to continue to do well, much like we saw in the fourth quarter.

And so, we're pleased that both on a gross and net basis, we've got a healthy share of the market. And so you saw that costs come through and notwithstanding the subscriber net additions of 60,000. That's included in delivering 7% AOP growth.

So, I wouldn't necessarily, if that was your question, conclude that there was a slowdown in either the acquisition or retention or hub upgrades, I should say, that slowed down in the first quarter. I think, the underlying metrics continue to be somewhat the same from a year-on-year perspective.

Drew McReynolds

Analyst, RBC Dominion Securities, Inc.

Okay. And if I can just add a third one quickly, Tony, just on Internet net adds, just can you talk to any impact out there from resellers? And in terms of your Internet net adds, just any granularity on kind of the breakdown directionally between wholesale/retail SMB? Thank you.

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Okay. We don't break out the split between retail and wholesale. But what I can tell you consistent with what I've said in the past, the wholesale piece of it continues to be extremely small. Almost all of our Internet adds are on the retail side of it. Given some of the things that we see in terms of pricing on the wholesale side, it's a segment that we've been watching very closely. And I would tell you that the movements that we see in that market in terms of subscribers, at least from our perspective, continue to be very small. And in any particular month, you'll see it move slightly up or slightly down.

Operator: We'll now take the next question from the line of Tim Casey with BMO. Please go ahead.

Timothy Casey

Analyst, BMO Capital Markets (Canada)

Thanks. Any comment on what's happening on trends in Media in Q2, particularly given viewership levels for the NHL contract that's being reported now that's quite strong compared to last year? And second, Tony, can you remind us on price increases for wireline. I know this year's increases for TV and Internet packages go up, [ph] they'll take (23:26) effect in late April. Can you just maybe comment on when you – in terms of timing, when they went through last year, and any comment on stickiness? I know they haven't went through yet, but if you're getting any feedback from call centers on your ability to capture all those increases? Thanks.

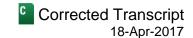
Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Okay, Tim. Let me start with the first one. In terms of Media, clearly the playoff run is having good success. It's still early days in terms of the playoff period but early days and a good mix of Canadian teams. And so that piece of it is coming in well.

Advertising revenue continues to track favorably year-on-year on our NHL specifically, as you would expect. And of course, the [ph] Jays (24:22) started off the year strong in terms of viewership, but both of those are still early days in Q2 but continue to bode well for the quarter.

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In terms of the second part of your question, price increases, last year, on the wireline side, we had done some price increases in the first quarter. It happened later this period, and so they were actually released on April 24. And so you'll see that come through in the second quarter, albeit only for a part of the quarter. There's a billing cycle that happen, so you're into it 30 days, and so you really only pick up about half of it, and maybe a little less than that in the second quarter in terms of flow-through.

Timothy Casey

Analyst, BMO Capital Markets (Canada)

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Thank you.

Operator: We'll now take the next question from the line of Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Thanks very much. Good evening. I noticed you continue to have Internet adds and revenues moving the opposite direction from the TV. I think now your Internet revenue is above your TV revenue, [ph] you're self-serve by (25:35) 21% higher.

Can you just comment on what you're seeing in terms of cord cutting, in terms of the demographics there and move to skinny bundles and how you think about the over-the-top? We're obviously seeing a flurry of new offerings coming out in the U.S. market. I appreciate your thoughts on how that evolves. And is the TV drop temporary and something you can reverse with X1? And then, any comments on what you're doing in terms of trialing 5G and looking at opportunities on that side? Thanks.

Alan Douglas Horn

Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.

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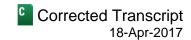
Okay. Thanks, Simon. I'll start with the – in terms of the Internet adds vis-à-vis the video platform, notwithstanding that the video still sits in a negative position, it's made huge progress over the last year if you were to look at it sequentially on a year-on-year basis. It continues to be much better. Absolutely, as we head into first quarter of next year and launched the excellent Comcast platform, our expectation is that that will drive positive net adds and expected to have a positive impact on our ARPU.

And that's really based on what we're seeing not only for Comcast but early days for the syndication partners as well. I don't want to get too far ahead of ourselves on that. In the meantime, we continue to make improvements on the video product we have. And we're starting to see that to be a contributor to the numbers.

As I've said on previous calls, when we look at customers either staying with us or coming in, we find that over half of them are choosing their in-home services provider based first on Internet. And having Internet speed and Internet reliability seems to be the most important factor, and we think that will only increase over time.

In terms of OTT alternatives or cord-cutting, always hard to read the market on that. I think what I can tell you and what we've seen play out well with the Comcast product is, it integrates some of the more popular ones as they come on board into the product. And so, in the X1 today, they have Netflix fully integrated. And that seems to be working well. And they've announced recently the addition of YouTube, and no doubt that will work well also.

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And so, I think what you'll find is, it will be a very compelling proposition from a user interface and be the gateway to various other OTT alternatives. So we think it's a good strategy. But as I said, in terms of cord-cutting or cord-shaving, we're not seeing any significant trends to the negative.

In terms of skinny bundles that you mentioned, the numbers – we had the skinny offering over a year ago. We moved to more of a pick-and-pay in December. And I would say, the numbers that we're seeing on, if you want to call it skinny bundles or slimmer packages, is still extremely very small. And consumers generally seem to continue to find value in the bigger bundles that we have.

Then finally, your last question was on 5G and the roadmap for that, not a lot has changed since we last spoke about a quarter ago on this. I would say that there's a lot more discussion about it, but it's still early days. As I said before, we're working with Vodafone and our vendors, and we'll certainly be a fast follower when the technology becomes implementable in a very practical way. But right now, we continue to watch and somewhat participate in the trials, but it's still very early days. And ultimately, our roadmap for five years are going to be defined by the revenue opportunities and the business case, which everything we see today suggest it's still very nascent.

But the last time I've made comment is, fundamentally it's still an evolution of 4G. And so to the extent that we sit with a very good 4G network across the nation, it'll be a very good platform to move into 5G as it becomes much more practical for us.

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Analyst, Morgan Stanley & Co. LLC

Great. Thanks for that.

Operator: We'll now take our next question from the line of Greg MacDonald with Macquarie. Please go ahead.

Greg MacDonald

Analyst, Macquarie Capital Markets Canada Ltd.

Thanks. Good evening, guys. A quick question on the timing of price increases, and then I have a second follow-on. I think, Tony, it was about a two-month delay, this period versus last year, right, where you're going to be impacted by price increases. Is that true?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Yeah, it's a little over two months. It was in the second quarter this year and it was in the first quarter last year towards the end of January. So it's actually a little more than two months.

Greg MacDonald

Analyst, Macquarie Capital Markets Canada Ltd.

A little more than two. And can you possibly quantify revenue or EBITDA. I don't really – it doesn't really matter to me, but can you quantify what that impact was or would be, I suppose, if it was on an apples-to-apples basis, price increase?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.



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No, it's tough to do. And the reason I say that, Greg, is, we – some of that, as you work it through, you end up working it through in terms of retention discounts, et cetera. And so trying to do an apples-to-apples is always difficult in any particular quarter and year-on-year. And so, to avoid the potential of misleading anybody, I'm going to stay away from trying to give you an [ph] absolute on it (31:34).

Greg MacDonald

Analyst, Macquarie Capital Markets Canada Ltd.

Okay. That's fair. And maybe another way, is it possible to say roughly what percentage price increase you're looking for at the end of the day?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

No, in terms of percentage-wise, I mean, if you look at the increases, we did vary – well, I would say, it's low single-digit percentage and it varies from product to product in terms of where the pricing is. But it's generally in and around 3% would be the number if I had to sort of summarize overall across the categories.

Greg MacDonald

Analyst, Macquarie Capital Markets Canada Ltd.

Okay. That's helpful. The second question I have is on the X1 product. You mentioned that 2Q Cable CapEx will pick up a bit as that spending comes in. Can you just describe, generally speaking, what are the major things that need to be done from a network and a back office perspective to prepare for X1? And then, anything you can say on the cost, timing and magnitude on the CapEx line would be helpful as well?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Sure. So, a couple of things. In terms of — I'll start with the second part of it. In terms of CapEx profiling as you expect, as the project moves along, you'll see sequentially more and more CapEx flowing through it. So that's sort of the distribution of it over the next three quarters. Then there will be some into next year as well in terms of CapEx on that project. I would say overall, CapEx for the year, we can provide a guidance early on and we continue to see that as the profile. So, don't take the year-on-year lower amount in terms of CapEx to be indicative of where you'll see the rest of the year play out, still a number of projects to ramp up, in particular, in the Comcast piece of it.

I think the – if you remind me the second part of your question...?

Greg MacDonald

Analyst, Macquarie Capital Markets Canada Ltd.

Does it need to be done, generally speaking, from a network and back office perspective?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

In terms of – a couple of things I would say. One is, there is a little innovation that's being done on the product itself. The product is the Comcast X1 product. Like the other syndication partners, we intend to roll out that product. So you're not going to see customization from a user interface perspective.

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But with that, there's integration of the product into our systems, everything from the way you order and buy it to the way it gets – goes through our ordering process, truck roll process, and eventually billing process. And so all of that integration into our systems is a key part of it when you think about it from end to end. So without getting into all the details of it, it is much more than just the product itself. [indiscernible] (34:52)

Operator: We'll now take the next question. All right. Go ahead, sir.

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

The final point I'd make on it is each of those pieces in terms of integration is something that Comcast has dealt with not only for their own purposes but for their other syndication partners. And so while there is always a bit of customization to it in terms of integration, it's a road map that has been followed by the others. And so, as I said earlier, carries with it a low level of execution risk.

Operator: We'll now move on to the next question from the line of Maher Yaghi with Desjardins Capital Markets. Please go ahead.

Maher Yaghi

Analyst, Desjardins Securities, Inc.

Yes. Good afternoon, and congratulations on the results. I just wanted to start with a quick modeling question. How many cents in EPS do you think Tyler Bozak's goal yesterday was worth?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

One more time, Maher. We didn't get that.

Maher Yaghi

Analyst, Desjardins Securities, Inc.

Yeah. I just wanted to ask you how many cents in EPS do you think Tyler Bozak's goal of yesterday was worth to your results in Q2. Okay. Seriously, now. My first question I wanted to ask is – I'm trying to get to the bottom of what's driving the decrease in year-on-year cost of acquisition. It seems like when you look at the net losses that you had on prepaid, is it fair to say that you were much better in converting prepaid to postpaid in the quarter than you have been previously, and that has helped to use your cost of acquisition?

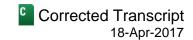
Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Tony here. I think it should be helpful in terms of some of the dynamics. I would – cost of acquisition, if you think about – the key components of it is the hardware subsidy. And I would say that piece of it is, if you're to look at it sequentially or year-on-year, that's not going down and generally has been stable to slightly up.

The other piece of it is commissions. And that one we are seeing improvements in efficiencies and so on. On a per unit basis, that had some good trending. But to be clear, it's the subsidy piece that's the biggest part of it. And that one is relatively stable to up slightly. If you're looking at our prepaid numbers, I would say the migration from prepaid to postpaid continues on the track it's previously been on. If you're looking at the lower prepaid subs this quarter and trying to understand whether there was a higher-than-usual migration in postpaid, that's not necessarily the case.

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Our prepaid really, lower sub numbers related to our Chatter brand and some changes we made during the quarter in our commission with our one of our big channels that had an adverse impact. We corrected that late in the quarter. And so our prepaid business is, I would say, resuming to back on track. And so that isn't necessarily what you're seeing in the COA metrics.

Maher Yaghi

Analyst, Desjardins Securities, Inc.

Thank you, Tony. That's a good clarification. And just on the dividend, since you – I mean, you held your dividends stable. Now, we're starting to see nice progression in AOP. Is it fair to say that the decision to increase – the board's decision to increase the dividend now is basically waiting for the AOP improvement or growth year-on-year to be sustainable and that will be the final measure in which probably when that is held, then you can start looking at dividend growth?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

I would say – I don't want to box it in as narrowly as you defined it, Maher. I would say nothing has really changed from what we have been saying. Look, we're focused on the fundamentals of long-term value and its revenue growth, its profit growth, cash flow, and return on assets. That's what we're focused on. And at the right time, we'll look at the dividend, and our board will look and consider it. But it's still too early to give you any indication of anything on dividends.

Maher Yaghi

Analyst, Desjardins Securities, Inc.

Okay. Thank you.

Operator: We'll now take our next question from the line of David McFadgen with Cormark. Please go ahead.

David McFadgen

Analyst, Cormark Securities, Inc.

Yeah. Hi. Two questions, if I may. I was wondering if you could give us an idea on what you expect your leverage target to be reduced by in 2017, 0.2, 0.3 or whether you think it actually might end up flat at the end of the year?

And then secondly on the Wireless ARPU, you're tracking in the 2% range, and that's obviously very good. But it's still a bit below BCE and TELUS, and I was wondering if there was anything structural that would explain why it might be lower than they are. Thank you.

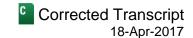
Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Thanks, Dave. Good question. On both of those, in terms of leverage, we don't expect it to be flat year-on-year. We have been over the last several quarters making good progress on it. And I would say in general, that's the pacing that we continue to see as we head to the end of the year. And so we expect continued improvements sequentially and year-on-year as the year unfolds.

In terms of ARPU growth, it's the blended ARPU that you're referring to. So keep in mind, it includes, for us, given the prepaid base that we have, the impact of the prepaid side of it also. I think the direction of travel for the ARPU

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growth is what we've been planning for and it's headed in the right direction for us. And so I wouldn't say too much more than that in terms of the ARPU breakdown.

David McFadgen

Analyst, Cormark Securities, Inc.

Yeah. All right. Thank you.

Operator: We'll now take the next guestion from the line of Phillip Huang with Barclays. Please go ahead.

Phillip Huang

Analyst, Barclays Capital Canada, Inc.

Yeah. Thanks. Good afternoon. Just a clarification question on X1. I was wondering if there's – if there will be any significant differences in the X1 product that you guys will launch versus what Shaw already has in its market. You guys obviously have gone through a lot of preparation for a different IPTV product in the prior years. But I was wondering to what extent you guys might be able to benefit from those prior investments?

And then secondly, I think that you, obviously, had a very solid quarter on the Wireless side. And I was wondering – you alluded to healthy market overall. But I was wondering if there's any – is Rogers enjoying greater differentiation in the market and also potentially gaining some market share from your competitors? Thanks.

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

So on the – with respect to the X1 product, we'll say that we're launching the IP version of the X1 product. So it's the next evolution of it. And one of the main advantages of the IP version is that it will allow for more features, more functionality. I don't want to, again, get too far ahead of ourselves in terms of what all that entails other than to say it will be the next version of it, and it will largely be what you see today plus additional features.

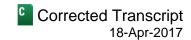
And so, that's really all I can say about it. It rides on the IP network and so it leverages the DOCSIS CCAP 3.1 investments that we've made. And we continue to make sure that we have a network that's capable and ready to carry the all-IP transport.

Second piece of your question related to Wireless and you faded out a bit. But I would say we continue to, as best we can read it, see healthy growth in the Wireless market. We think the key contributors for it continue to be some of the fundamentals in the Canadian economy both in terms of immigration, GDP, disposable income, and all those macro factors. And at the same time, Wireless penetration rates continuing to be much below with some of our neighboring – well, the U.S. is. And so we see opportunity for continued growth there and we see that moving up.

But I think [ph] to ship the (44:14) Share Everything constructs that we have are a good platform to provide – build certainty as consumers add more and more devices and businesses adopt Share Everything type plans. And so that's only going to help the penetration rates. When we look at our Share Everything, we continue to see – when we look at average number of devices per account, we continue to see that moving nicely in the right direction. And so it's that type of penetration that we were aiming for and that's moving in the right direction.

I don't know if that answered your question completely.

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Phillip Huang

Analyst, Barclays Capital Canada, Inc.

Yeah. No. That's very helpful. Maybe just a quick follow-up on that last point. Do you see any room for greater differentiation for Rogers on the Wireless side maybe over the next several years or even as we look towards 5G? Is there perhaps greater room for differentiation than where it seem like now? Because it sounds like the overall market has been pretty healthy, and it's lifting sort of – the tide is lifting all boats. I'm just wondering if that could potentially change in any way over the next several years, and how you see that potentially unfolding for Rogers? Thanks.

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Well, without getting too out there in terms of strategy, I think it will continue to revolve around the fundamentals of it. Our success to-date has been centered around a quality network, first and foremost, and that will continue to be there. We put around value offerings both in terms of plans that make sense. And get what the customer is looking for, adding to the innovative apps and online tools that give the customers what they need.

So there's a lot of different things. It's really about focusing on what the customer is looking for, and just trying to be slightly ahead, and delivering on that need and so it has been the key piece of the formula to-date, and that's what we'll continue to focus on is what the customer is looking for.

Operator: We'll now take our next question from the line of Rob Goff with Echelon Wealth Partners. Please go ahead.

Rob Goff

Analyst, Echelon Wealth Partners, Inc.

Thank you very much for taking my questions. My first question would be on the broadband side. Could you support whether or not reduced churn or increased SME traction were significant factors behind the broadband outperformance?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Rob, can you – we're having trouble on our end. And you're fading out, in and out on us. If you could please repeat it. Sorry to make you do that.

Rob Goff

Analyst, Echelon Wealth Partners, Inc.

[ph] Sure thing (47:04). No problem, Tony. On the broadband side, could you say whether lower year-on-year churn was a significant factor or was higher traction in this SME market a significant factor?

Anthony Staffieri

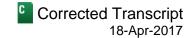
Chief Financial Officer, Rogers Communications, Inc.

And this is, Rob, for the Cable broadband side of it?

Rob Goff

Analyst, Echelon Wealth Partners, Inc.

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Yes. And I know you don't give out churn figures, but just in terms of behind the numbers.

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Yes. I would say it's all of the above. So, if you're looking at certainly in the small business side of it, I think they're very much appreciating the reliability and speed that we offer, and so we're making good inroads on SME side of it. You see our Internet subscriber churn numbers coming down and for a lot of the same reasons. And then finally on the acquisition front, we see that moving nicely and it's increasing our penetration rates very nicely as well. So it's all-of-the-above factors that seem to be going in the right direction for us.

Rob Goff

Analyst, Echelon Wealth Partners, Inc.

Okay. Thank you. And if I could one question on the Wireless and this maybe link back to a prior question. Do you feel that your relative outperformance on gross adds is also consistent with perhaps a more modest year-over-year ARPU growth relative to your peers?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Rob, I think if I understand your question, is the subscriber performance coming at the expense of ARPU, and I would say absolutely not. I think if you were to look at on the gross add side, we've consistently performed well in our channels in getting what I would describe as the majority share of the gross add market and that continues to perform well for us for a number of factors. And so, that piece of the model is working well.

When you look at our plans relative to the marketplace, they continue to be competitive. We like what we see in terms of the mix of subscribers to the premium plans. I would point you – if you look at ARPA, ARPA increased year-on-year of 7%, continues to be a healthy number for us.

And so, when we look at lifetime value and APRU on a segment-by-segment basis, we're actually really pleased with the way it's trending. As I've said, when you're looking at the blended ARPU side of it, you're mixing in the success we've had on the prepaid side. And so, relative to what you're seeing from the others, who seem to be exiting that space, for us, it's been a growth area. And so, it weighs on the blended ARPU growth numbers that you see.

Operator: Ladies and gentlemen, we have two more questions. The first of which will come from the line of Richard Choe with JPMorgan. Please go ahead.

Richard Y. Choe

Analyst, JPMorgan Securities LLC

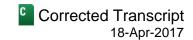
Hey. Thank you. On the Wireless side, I was wondering if we can get a little more color on what drove the churn improvement and should we expect to improve on a year-over-year basis kind of going forward at this level, or is there something more on the competitive landscape that could change to help to not drive that higher?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Yeah, Richard, I think there's – on the competitive side, we're always looking to see what's happening in the marketplace. And if there's something that's driving our customers to leave us, then we're always working to stay

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on it. I would say over the last little while, we've seen good churn improvements. As I've said, this quarter 7-basis point improvement year-on-year.

Our plan is to continue to make improvements on a year-on-year basis as we go forward. And it's really come down to we think customer experience being first and foremost, we set out a plan to focus on the things that were pain points for the customers. And as you would expect, we looked at reasons why they were leaving us and we're trying to get us focused in addressing each of those in a very disciplined and methodical way, and what you're seeing come through is success in that.

There's still more work to do. We certainly have things to improve on, but very good progress quarter-on-quarter and year-on-year. And so, yes, we continue to expect to see it continue to improve. But as I said at the outset, it's always tough to predict the competitive dynamics. But that is our goal.

Richard Y. Choe

Analyst, JPMorgan Securities LLC

And then on the video side or Cable side, it seemed like there are lower losses, but the television revenue is almost flat without the price increases coming in, in the first quarter. Can we see this kind of flattened out at some point or should we expect declines to continue?

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

So just real quick on the video side of it, if I understand your question correctly and as I said before, we didn't have price increases in the first quarter. And so that's not contributing to — I think you're getting at the video ARPU. What is driving that is customers moving up in packages. And so they continue to see the value in that and that's what you're seeing on that side of it.

Operator: And your final question will come from the line of Adam Ilkowitz with Citi. Please go ahead.

Adam Ilkowitz

Analyst, Citigroup Global Markets, Inc.

Thanks for taking the question. I was wondering back on the Wireless side, have you seen any shift in the gross adds that you're having coming in on a BYOD basis, of people bringing their devices?

And then secondly, can you talk about the shift between phones and other devices? Is there any difference that you're seeing in the number of tablets or other types of connected devices that might be connecting? Thanks.

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Thanks, Adam. So in terms of customers that we're seeing on the gross add, I wouldn't say that there's any shift towards or from BYOD sort of relatively stable quarter from what we've seen in the previous ones, if anything. It's slightly coming down, so a slight uptick in terms of fully subsidized model in the quarter. But again, it's a very small shift. So nothing that I would draw from it in terms of conclusions.

And then the second part of it is what we're seeing in terms of tablets. Tablet numbers continue to be very small in the overall scheme of our gross and nets position. It's certainly something that consumers find helpful and they share everything and get more value from that. But the numbers continue to be small.



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Adam Ilkowitz

Analyst, Citigroup Global Markets, Inc.

Thanks. And maybe just a follow-up. Can you share the number of devices per account at this point?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

We don't disclose the number of devices per account. But what I can tell you, it continues to very quickly approach two, which for a relative [ph] little (54:49) period of time that we've been in – we share everything, it's been a pretty good progression over the last little while.

Operator: And, ladies and gentlemen, this will conclude the conference call for today. Thank you for your participation and you may now disconnect your lines.

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