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# Rogers Communications, Inc. (RCI)

Q3 2017 Earnings Call

### CORPORATE PARTICIPANTS

#### Amy Schwalm

Vice President-Investor Relations, Rogers Communications, Inc.

#### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

### Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

### OTHER PARTICIPANTS

Jeff Fan

Analyst, Scotia Capital, Inc.

Vince Valentini

Analyst, TD Securities, Inc.

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Aravinda Galappatthige

Analyst, Canaccord Genuity Corp.

David McFadgen

Analyst, Cormark Securities, Inc.

Phillip Huang

Analyst, Barclays Capital Canada, Inc.

Drew McReynolds

Analyst, RBC Capital Markets LLC

Greg MacDonald

Analyst, Macquarie Capital Markets Canada Ltd.

Maher Yaghi

Analyst, Desjardins Securities, Inc.

### MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Rogers Communications' Q3 2017 Results Analyst 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 Thursday, October 19, 2017, at 8:00 AM Eastern Time.

I'll now turn the conference over Ms. Amy Schwalm with the Rogers Communications' management team. Please go ahead.

### Amy Schwalm

Vice President-Investor Relations, Rogers Communications, Inc.

Good morning, and thanks for joining us. I'm here with our President and Chief Executive Officer, Joe Natale; 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 Joe to begin.

### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

Thank you, Amy. Good morning, everyone. It is a pleasure to speak with all of you today. First of all, I'm pleased to report a solid third quarter, reflecting good momentum in our business. In a moment, I will go through the highlights. But before I do that, let me comment on the fundamentals underpinning our business and our success.

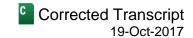
Last quarter, I shared my thoughts on our strategic priorities. And over the last six months, I've dug deeper into our operations, streamlined our team and organizational structure and set a clear focused path for our future.

Overall, I continue to be bullish about our industry and the underlying growth potential. Consumer and business appetite for both fixed and wireless broadband services is strong. This is bolstered by healthy macroeconomic conditions in the markets we serve.

Our primary focus remains on growing our core business. This is where our greatest opportunities lie in driving value, sustained growth and resulting share appreciation. Our key focus is delivering on the fundamentals: delivering sustainable growth in revenue, profit, margins and free cash flow. It is about delivering strong return on investment. To do this, we are focusing on our strategic priorities: our customers, our people along with investments in our network, innovation and growth. These strategic priorities will guide our actions and our decision-making as a management team.

We are driving deeper end-to-end accountability where it matters most: our customer experience, our cost management efforts and our overall financial performance. I firmly believe what gets measured gets done. So

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we're tracking progress with expanded metrics and we're tying them directly to our performance measurement and compensation system.

We are firing up our execution engine, systematically blocking and tackling a multitude of core issues and opportunities to deliver on our priorities and goals. There is no silver bullet. Cost efficiency will be a natural outcome as we drive up customer friction and complexity. To me, customer service improvement and margin expansion go hand in hand.

We are investing capital in our core business with discipline. Our networks are the lifeblood of our business and world-class performance is critical to our future. So we are upgrading our Wireless network to continue to deliver worry-free, reliable performance while ensuring capital efficiency and strong returns on investment.

Our spending is well-timed. We're seeing great unit cost opportunities and increased spectral efficiency that is available with the latest generation of equipment. I truly believe that if we keep a relentless focus on our priorities and execute with discipline, we would drive sustainable growth in our core business. We remain focused on translating this top line growth, integrate our operating profit, free cash flow, return on investment and, ultimately, returns to shareholders.

Now, turning to the quarter, overall, our third quarter results reflect continued solid momentum. Here are a few highlights. We reported strong service revenue growth of 4% and AOP growth of 6%. We've raised our guidance to reflect strong growth in AOP that we will reinvest in our networks. Tony will discuss this further in a moment, but overall, you will see, we're taking a balanced approach to our financials.

Once again, this quarter, we delivered in all of our key Wireless financial and subscriber metrics. We reported growth in Cable revenue and adjusted operating profit, thanks to the strength of our Internet products. We expanded our margins in both Wireless and Cable, given much better operating leverage and cost efficiencies. As previously stated, we intend to improve margins in 2018 from 2016 by 100 basis points to 200 basis points in each of Wireless and Cable. I'm pleased to report that we're on track to achieve this. We also substantially reduced our debt leverage ratio from 3.0 to 2.8 year-over-year.

Turning to Wireless, we delivered excellent results again this quarter. Postpaid ARPA increased 6% and blended ARPU grew 2%. This was driven by the ongoing adoption of our Share Everything plans where churn is well below 1%. The penetration of these plans continues to ramp well with substantial room for more growth.

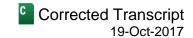
Postpaid net additions of 129,000 were up 15,000. This is the highest we have seen in eight years. Postpaid churn also improved 10 basis points to 1.16%, representing the lowest Q3 churn rate in eight years.

In Cable, Internet net additions of 27,000 were down 12,000, given a hypercompetitive environment. As a result, total service unit net adds decreased 20,000. We saw very aggressive offers escalating in September and decided to only selectively match balancing pricing discipline with subscriber share performance.

Our Internet speed advantage continues to track well. 52% of our residential Internet customers are now on speeds of 100 megabits per second or higher compared to 42% a year ago.

On the video front, we continued to make good progress on the integration of our X1 IPTV platform. Key elements of the platform including linear channels, VOD and Cloud DVR are up and running in the production environment. We're gearing up for the launch of our employee trial next month.

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We see great growth potential in Cable with our strong broadband product and the capabilities that will come with the X1 platform. Bolstered by the exciting X1 roadmap, we look forward to bringing our customers a truly connected digital home experience.

In Media, sports-related revenue was strong. We continue to believe in the value of true rights ownership content, the content that audiences want most. In our world, that's sports, where roughly 60% of our Media revenue was sports-related. The other strategic plank is what I would describe as fiercely (07:34) local content. I believe this content is a competitive advantage and fills an important gap for audiences that other media outlets don't always offer.

Before I turn it over to Tony, I'd like to thank our entire team of 26,000 for delivering a strong quarter. Thank you for your hard work and commitment to our customers and our future.

### Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Thank you, Joe. Our financial results were very strong again this quarter. We have continued momentum in growing revenue, posting overall service revenue growth of 4% this quarter, and we're doing a good job of translating this top line growth to increased profit and margins, with AOP growth of 6% and consolidated margins expanding by over one full point to 41%.

In Wireless, we reported strong service revenue growth of 7%, driven by excellent subscriber performance and meaningful growth in ARPA and ARPU. Once again, this quarter, we saw a very healthy flow-through rate of 60% of revenue to adjusted operating profit. AOP increased 9% and Wireless margins expanded 80 basis points, notwithstanding our significant customer investments.

Turning to Cable, we grew Cable revenue 1% with substantial increases in Cable AOP and margins. Internet revenue was up 6% this quarter. Excluding the impact of the CRTC's decision a year ago to reduce wholesale access rates, Cable and Internet revenue would have increased 2% and 9%, respectively.

Cable AOP was up 2% in the quarter and, again, excluding the impact of the CRTC's decision to reduce rates, Cable AOP would have increased 5% this quarter. Margins expanded 80 basis points here as well. Higher AOP and margins were primarily driven by cost efficiencies and the ongoing product mix shift to higher-margin Internet services. Internet revenue comprised 46% of total Cable revenue this quarter.

So, on the Cable front, financials were strong, driven by our Internet business. We expect further momentum in Cable fundamentals with the X1 IPTV launch next year. We believe X1 and its roadmap of innovation will offer the best experience and create great customer loyalty.

In Media, revenue was down year-on-year due to the success of the World Cup of Hockey held in 2016 and from lower publishing revenue following our restructuring from print to digital last year. AOP was largely impacted by lower print revenue and higher player salaries at the Blue Jays.

I'll now go through some additional details in our financial results. The timing of CapEx spend impacted free cash flow and capital intensity in the third quarter, in line with our previous messaging that CapEx would grow in the second half of the year. Overall capital intensity was 18%. As we mentioned in the last quarter, we expect Wireless CapEx intensity to come more in line with industry norms. We anticipate Cable CapEx intensity to decline over time. The X1 licensing model is a variable OpEx structure and the average customer investment per home falls considerably with significantly lower equipment costs, high functionality and self-install capabilities.

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As we look ahead, we're assessing the best approach to maximize capital efficiency related to node segmentation. We're finding it makes sense to do more segmentation in adjacent neighborhoods if we can better leverage permits, scope and scale in order to lower unit costs. As such, the declining Cable CapEx intensity may be more of a step-down change through a lower resting heart rate rather than a gradual decline beginning next year. We'll lay this out further as we disclose our 2018 guidance, but as Joe mentioned, expect us to be balanced in our cash flow allocation.

Moving to overall performance below the operating line, adjusted net income was up 22% primarily due to higher AOP and lower depreciation and amortization. Net income increased 112% due to these items and certain writedowns in the prior year. With respect to our financial flexibility, strong AOP helped generate operating cash flow of about CAD 1.4 billion which supported dividend payments of CAD 247 million this quarter.

We ended Q3 with a debt leverage ratio of 2.8 compared to 3.0 a year ago. The improvement is due to both higher AOP and about CAD 400 million of debt repayment this quarter. Over time, we expect ongoing AOP and free cash flow growth to fund debt repayments and generate further improvement in ratio. Our balance sheet remains healthy with our solid investment-grade credit ratings with stable outlooks and attractive rates on our outstanding debt.

For the year, we're raising our outlook for 2017 AOP growth to a range of 5% to 6% from our original range of 2% to 4%. We plan to spend the incremental AOP on network investment and so are raising our CapEx guidance range to CAD 2.35 billion to CAD 2.45 billion from the previous range of CAD 2.25 billion to CAD 2.35 billion. Our free cash flow and revenue guidance for the year remain unchanged.

To close, we're very pleased with our performance and trending. It's excellent to see the team so engaged and squarely focused on the key priorities to drive further enhancement on our fundamentals and a better experience for our customers.

With that, I'll ask the operator to open the line for questions.

### QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Your first question will come from Jeff Fan with Scotiabank. Please go ahead.

Jeff Fan

Analyst, Scotia Capital, Inc.

Hi. Good morning. Congrats on the results. Joe or Tony, I guess, this question is related to some of the new pricing moves by one of your competitors that's been talked about in the market. I guess, it will become more official today. I guess, my question is really towards you guys as to what do you think your exposure to data overage revenue is at this point?

And it looks like as the market moves to more bigger data buckets, that's one area where it might be prudent to start to move people into the right plan so that there is no reliance on top-ups and ARPU growth, and it's more natural usage growth rather than overage. I wonder if you can discuss a little bit about that. Thanks.

Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

Sure, Jeff. Why don't I spend a minute on the competitive dynamic and then, Tony, you talk about data overage and our reliance on it in relative terms.

So, first of all, we have always competed with Freedom on price. This appears to be an extension of that strategy with a lot of marketing bravado behind it. We believe that our distribution strength, our network capability and our customer care strength still remain to be clear competitive points of advantage, and part of the full package when customers choose Rogers.

If you look at our customers, Jeff, in that 10-gig space, a lot of them are – in fact, a vast majority of them are high-value Share Everything customers with multiple lines. They're looking for network quality where [ph] Shaw has done a lot of work to do (15:56) on the network quality side. It wasn't long ago that they had an 8-gig offer in the market for about CAD 60 and it was rather kind of benign in terms of its impact. So I would look at it as a business-as-usual kind of situation and one that we're all prepared to take advantage of our strengths and distribution, customer care and network to really come back.

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

In terms of looking at our overage revenue, we're seeing the trends you would expect, Jeff. We've put in place pricing plans that encourage the customer to look to larger data buckets that gives them better certainty in terms of bills, but also better value for money. And so as you would expect, as the adoption of higher data bucket plans increases, particularly in the Share Everything category, what you see is less overage revenue being translated into better recurring subscription revenue for us. And so, that trend continues in the right direction for us, and it is a conscious strategy for us in pricing strategy of our Wireless plans.

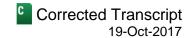
Jeff Fan

Analyst, Scotia Capital, Inc.

Maybe just a quick follow-up.



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#### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

Yeah. A couple of quick follow-ups on that. Just bear in mind, Jeff, that the vast majority of our customers don't get charged data overage overall. And we've really worked hard to be customer-friendly in notifying our customers when they hit 90% of their data limit, we kind of help them get into the right plan, as Tony described. So, we're not really kind of so materially relying on overage and top-ups. We're really trying to get people into the right plan. And that's not just is good business, but it really helps drive a great customer experience.

Jeff Fan

Analyst, Scotia Capital, Inc.

Maybe just a quick follow-up. It doesn't sound like you want to give us any numbers. But if we look ahead to, say, the next 12 to 18 months assuming Freedom – Shaw's network is going to be improved at a quality that might be more competitive, would you plan or what is your objective to get that whatever overage is today down to a level where it's really not that material that could impact ARPU, I guess, down the road? Is that the goal?

Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

The goal will be to continue to leverage our ability to get customers in the right data plan. We have worked hard on creating our data manager type tool sets that help customers manage their account not just with them, but for their entire household, entire family, and that's driving great experience. The tool itself is actually creating a lot of stickiness. As I mentioned in the beginning, we're seeing sub 1% churn rates for people on our Share Everything plans. So, that construct is fundamentally important to us.

The key is customers' data appetites are growing 40%, 50% per year. And we rather have them in a place where they're in the right data plan or they can occasionally have a top-up as they see fit. Consistent data overage month-over-month is not a great customer experience and we're trying to help manage customers into the right place.

Jeff Fan

Analyst, Scotia Capital, Inc.

Okay. Thank you very much.

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

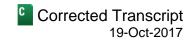
Vince Valentini

Analyst, TD Securities, Inc.

Yeah. Thanks very much. Two things. The guidance range for the year, obviously, impressive 5% to 6%. Can you give us any thoughts on iPhone X and how you thought about that in the guidance? If we get an unusually large supply of the devices and they're very popular, which I don't think is a base expectation, but if that were to happen, is that buffered in the low end of the new guidance?

And then second, just the dividend – I mean, everything is trending right, your debt is coming down, your EBITDA is better than expected. I mean, we can run the math on the payout ratio. Is there anything beyond the math that we need to think about in terms of dividend growth resuming? Is there anything strategically or big picture that would perhaps stop the dividend from going up in January when you report Q4?

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#### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

Let me start with the iPhone and, Tony, you can pick up on dividend. On the iPhone side, to your comment, Vince, analysts have said it's more incremental in terms of product evolution rather than transformational. And what we're seeing is sort of, I would say, more anemic appetite for the iPhone 8 right now. There is lots of anticipation around the iPhone 10 and what it has to offer. The feature that people are most excited about seems to be the augmented reality feature that's available on both the 8 and the 10. It's something that will drive network traffic, so it has some potential and interesting upside for us if that comes to materialize overall.

Our timing is aligned with the U.S. In terms of timing, they expect to take pre-orders on October 27 and launch on November 3. A couple of things to bear in mind is that the iPhone 10 price point is about 75% higher than the iPhone 7. So, it's a very expensive device. Inventory is a question mark in terms of what we will get. We do have reflected in our guidance what we believe is the right balancing factor around how much inventory we'll get, the appetite of the device, the price point, et cetera. So we feel comfortable reflecting that in our guidance. The question will be is how much of the iPhone 10 activity happens in Q4 versus Q1 of next year and we will kind of be prepared for either overall.

#### Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

The second part of your question, Vince, relating to any dividend assumptions, we're still in the process of going through our plans for 2018. And with respect to dividends and capital allocation more generally, nothing has changed from what we said in the past. We continue to focus on revenue, AOP growth with a healthy reinvestment into our network and CapEx. We're going through, as you would expect, our capital plans and capital allocation for next year. And so, there's nothing more we can say at this point and as we continue to work through that.

#### Vince Valentini

Analyst, TD Securities, Inc.

Thank you.

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

#### Simon Flannery

Analyst, Morgan Stanley & Co. LLC

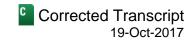
Great. Thank you very much. Good morning. I wonder if you could just touch, Joe, on your thoughts about the portfolio and, in particular, the potential for some asset divestitures. What is your thinking on that right now? And I think you did touch on the X1 for 2018. Can you just update us on what the latest thoughts are on when that arrives and when you start to deploy that commercially? Thank you.

#### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

Okay. Simon, the first question, again, a part of it came off a bit garbled. [indiscernible] (23:18-23:25) portfolio of assets?

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#### Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Yes.

Joseph M. Natale President, Chief Executive Officer & Director, Rogers Communications, Inc.

Thank you. Well, first of all, as you've heard Tony and I say in the past, we're committed to looking at ways of surfacing value from our portfolio assets, whether it be the Jays or whether it be some of our other investments across our business. Our plan is to look at each of those along the way as we kind of look for opportunities to surface that value.

We don't have any plans at this moment that we are announcing or even kind of giving a nod to. Our focus very much is on our core business. Our focus is on driving the key priorities that I've talked about in the last call and we put forward in the press release around our core business is very much the biggest part of the value that we create for shareholders. And to be honest, our 120% focus has been on that right now.

In the fullness of time, we will address each of the portfolio assets and figure out what is the best way to surface value.

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

All right. And on the X1 status?

Joseph M. Natale

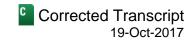
President, Chief Executive Officer & Director, Rogers Communications, Inc.

Yeah. We expect the X1 – we have it running now in the production environment. What does that mean? That means that a number of us are using it at home and in the office as our primary source of video entertainment. And we are getting ready now with all the preparatory work to do a full-scale employee trial. That is scheduled to start in November. And that will see 1,000-plus Rogers' employees leveraging the product in their homes through the normal course of activity in terms of placing orders, truck rolls, installations. So, there's no sort of unique process for our employees. We're using the exact same process that we plan to use with our customers around commercial launch. We're going to really work hard to iron out what I believe at this point will largely be process issues, order issues, et cetera, plus anything else on the platform side through the course of that trial.

And then we'll have, in late Q1 right now is the plan, a soft commercial launch. A soft commercial launch meaning we'll kind of open up the universe of customers to a broader set of employees and also a portion of our - an external customer base, with really the goal of hardening our capabilities even further. I really believe that you have to go slow to go fast. We do know judging by the experience at Comcast, judging by the experience at Cox -Cox just revealed that they have 1 million customers up and running on the X1 platform, and they've gotten to about a quarter of their base already. They're seeing a 20% improvement in churn for customers on this product. So we believe that the price is really worth making sure that we have a great execution capability and a great experience for our customers.

So, what that will mean is at some point later in 2018, we will do a full commercial launch. I call it the loud-andproud phase where you will see advertising in all forms announcing the arrival of our X1 platform. Between the soft launch and that point, we'll be doing it more tactfully, and then at some point in 2019, we will stop selling our legacy platform, and continue a focused, thoughtful migration of our entire base over time to X1.

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So, that's the kind of general kind of milestones around what's happening with X1. I'd tell you that the product is a great product. We've been enjoying meeting the – Tony and I have been enjoying meeting the people as part of a trial audience, bringing a lot more feedback from us than they probably would like, but that's a good thing. But it's a team sport and the entire organization couldn't be more focused and more excited about the advent of X1 and what it means to our business.

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

All right. Thanks for the color.

**Operator:** We'll now take the next question from the line of Aravinda Galappatthige with Canaccord Genuity. Please go ahead.

Aravinda Galappatthige

Analyst, Canaccord Genuity Corp.

Good morning. Thanks for taking my question. I was wondering if you can expand a little bit on the Cable CapEx side, some of the comments you made in the prepared remarks. Should we be sort of expecting a bit of an uptick in Cable CapEx as we go into 2018 before sort of the step-down that Tony talked about, or is it more kind of a flatter trajectory through 2018? And connected to that, should I sort of translate the commentary that you're looking to sort of accelerate node splitting going forward and the fiber deployment, is that how we should be looking at it? Thank you.

Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

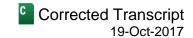
Thanks, Aravinda. Let me just kind of frame it up and then I'll ask Tony to comment on as well. There's no question that in the medium to long run our Cable CapEx intensity is coming down. We believe that we have all the right ingredients to reduce, as we've been calling it, the resting heart rate to a materially lower point in terms of Cable CapEx intensity.

It's important to understand the Cable side two things. One is that in the X1 world and in the DOCSIS 3.1 and beyond world, our Cable CapEx is really success-based. We truly do have 1-gigabit services enabled to entire footprint. It comes down to adding capacity as is required as there's take up on those features, as we get more connected devices in the home. So that can truly be done on a neighborhood-by-neighborhood basis, as we have been doing it.

I have been pushing the teams to look more closely at how we're doing that to see if there is a more efficient way of rolling that up. You can imagine that doing one neighborhood at a time is sometimes inefficient. Look at it and say, what about the neighborhood running next to that neighborhood, maybe there's no need for node segmentation right now. But while we're in the middle of getting work permits and lining up construction teams and buying equipment, et cetera, we can get economies of scope and economies of scale in doing things in a more contiguous fashion and handing out some longer-term contracts to our contractors and getting, as a result, a better unit cost.

I've been pushing the team to answer the question, can we get a CAD 1.20 or CAD 1.30 worth of work done for CAD 1 of investment if we leverage economies of scope and economies of scale. I believe that we can. So, the focus is there. And what it means is that Cable CapEx will come down in more of a stepwise fashion rather than a

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roll-off to this resting heart rate that we've been talking about. In the short term, it's fair to say that you will see a flatter Cable CapEx profile. We are not intending to take it up, but just to take it down in a more stepwise fashion.

I don't know if you want to add to that, Tony, just more broadly, but...?

#### Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Yeah. Just to reiterate on some of the key points with some numbers. So we've talked about the two ingredients that are going to bring Cable CapEx down, the biggest one being the unit cost related to our customer base. The X1 platform, there are significant cost opportunities in terms of CPE, in terms of Cloud DVR capabilities and also has a real potential for self-install. And so, we see our average cost per home going from what today is over CAD 1,000 to something that's less than CAD 400 per home. That's going to be a big driver.

And as Joe said, in terms of node segmentation, we continue to have a very efficient ROI model where we can invest where it's needed. And it's really about, is there an opportunity to pull together certain contracts and allow us to bring that down and it's in the context of not bringing Cable CapEx intensity up, but rather the pace of which it comes down. And so, for the near term, what we're thinking about is whether there's the opportunity to hold it flat or down slightly from what would otherwise be the case.

#### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

And what's underpinning all of this, Aravinda, is we're incredibly excited about our outlook for the Cable business. We already have a great superior Internet product. With the arrival of X1, we'll be able to, as I said in the past, fight with both hands. And we believe that that excitement, that capability, that marketplace opportunity fully supports our investment and what we're talking about. This is an investment that we would be making anyways over the fullness of time and we're trying to get more bang for our buck by doing it in a more of a contiguous and stabilized fashion.

#### Aravinda Galappatthige

Analyst, Canaccord Genuity Corp.

Okay. That's great color. Thank you.

Operator: We'll now take the next question from David McFadgen with Cormack Securities. Please go ahead.

#### David McFadgen

Analyst, Cormark Securities, Inc.

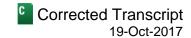
Hi. Just following along on that. So, you ranged your AOP guidance and then you raised your CapEx guidance. Is most of the CapEx increase going to the Cable plan or some of that going to Wireless? And then, Joe, can you just comment on your assessment of the quality of the Wireless and the Cable network, and do you really see big reason to step up the investment there or you're quite happy with the performance of those networks?

#### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

Sure, David. Why don't I start with the last question first? I would say that we're very happy with the strength and capability of our networks, both Wireless and Cable. Canadians enjoy some of the best wireless networks in the world. The recent OECD study is, once again, underlying the fact that Canadian wireless networks are considered

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to be amongst the strongest across the 34 OECD member countries and the number 4 in terms of investment. And the capability of a Rogers network is certainly showing the example of what that investment can deliver overall.

And on the Cable side, we have worked very hard to create a Cable Internet capability that supports 1-gig profile across our entire business. The team has been on it in terms of managing the capability and the performance of that network as a whole. The DOCSIS roadmap for the future is very exciting if you look at what's beyond DOCSIS 3.1 with [ph] m-gig (34:58) capability and symmetrical capability. The roadmap is very rich and vibrant. So we believe that we've got great situation already.

If you look forward, the appetite for data continues to grow. I talked about it in the beginning. Our customers are consuming 40% to 50% more data each year. The average Canadian household has 12 connected devices, on the road to 50. The average consumer spends about three hours a day on their mobile device, up from one hour a day. So, there's a huge data appetite. The onus on us is to continue investing in the capability and maintaining discipline around pricing and capability in the market so we make sure we extract fair economic rent for the investments that we're making overall in our Cable infrastructure and our Wireless infrastructure for that matter.

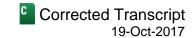
I think the key to all this is to really stay focused on some elements that are important. One is, you will see us really stay close to what are proven global roadmaps. The excitement you hear around Xfinity is certainly around the product feature set, but more importantly, the fact that we're drafting behind an organization that has 10,000 software engineers devoted to the roadmap and creating a proven capability that is shared across many organizations. So, you'll continue to see us not go at it alone, but drafting behind the large players globally that are doing good and proven things.

Next, we're committed to sweating the investments that we already have in our networks. We have a lot of unutilized fiber. We have fiber stretching across vast parts of our footprint that could be better utilized for our Wireless and Cable networks but also for our enterprise customers. And before we put new fiber in the ground, we're going to make sure we sweat and utilize the fiber we have already to a greater extent. So, it's not just about the CapEx as a whole, but it's making sure that we have better efficiency in what we have and the money we spend going forward.

In terms of us taking up guidance in CapEx this year, if you look at it year-to-date, we're slightly below where we were last year after three quarters in terms of CapEx expenditure. Yes, we're going to be putting forward a higher CapEx investment into Q4. It's really driven by a couple of things. Number one, like a lot of capital plans in our industry, they tend to be more back-end loaded. That's the nature of it. On top of that, something happened in April. The new CEO showed up on the scene that said to people, let's just, everybody, take a breath for a minute, really understand our priorities, really help to re-vector where we're taking the business, and then we'll come back, add it with zeal. Those priorities are now set and walked in, and we're coming after it with zeal as a result of that as a whole.

And the last thing, the team has done a great job at running different procurement exercises in the last few months to get us great unit cost performance on some of the critical equipment that is fundamental to 4.5G. So, you've heard me talk about, in the past, four-carrier aggregation, 4x4 MIMO, 256 QAM, these are all technologies that we are busy installing right now as we speak that we've lit up in the last little while. And we're getting not just better spectral efficiency given that we're using the latest version of our technology, we're getting very strong unit cost outcomes as a result. So, to your question, more specifically, David, yes, the big preponderance of that will be invested in our Wireless network to take advantage of 4.5G. And by the way, the technology we're putting in place will all be 5G-ready, which is important to the future overall.

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And I'll make the comment I made just a few minutes ago to Aravinda and that is that these investments are underpinned by our excitement around the growth potential in both our Cable and Wireless business. Otherwise, we wouldn't be considering making these investments and doing them in the manner I've just described.

Operator: We'll now move onto the next question from the line of Phillip Huang with Barclays. Please go ahead.

#### Phillip Huang

Analyst, Barclays Capital Canada, Inc.

Yes. Thanks. Good morning. Couple of questions. First one is I wanted to ask about the Full Duplex DOCSIS 3.1. CableLabs has recently talked more about that as a solution for providing symmetrical download, upload feeds. I was wondering if maybe you guys could help provide some context around that in terms of what phase we are in, in that technology, any thoughts on timing of its availability and, of course, the cost to implement it?

And then, my second question is on the 2% decrease in device upgrade. I think you've already answered part of that when Vince asked a question earlier, but wanted to get a bit more color behind what you think is driving that. You mentioned the demand for iPhone 8 appear soft. Are you also getting the sense that the decrease this quarter is just delayed because consumers are waiting for the iPhone 10? Thanks.

#### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

Okay. Why don't I comment on DOCSIS Full Duplex. Tony, maybe you can talk about device upgrade roadmap or strategy around that. So, on DOCSIS, the technology is real and capable. But realistically, the specs are just out and it's early. It'll be, I think, 2019 plus before we see it truly commercially available in the full sense. I think that's fine, given the upload desire of our customers. We can fully support their capabilities for our business customers that may have more significant upload needs right now. We have other products and solutions that fully meet that capability. The important thing to understand is that DOCSIS 3.1 is backwards compatible overall. And Full Duplex DOCSIS will be timely in its arrival. We're going to be ready for it in terms of commercial installation and commercial limitation.

#### Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

With respect to the second part of your question, Phillip, as you saw in the quarter, spend on device upgrades was about flat, just up slightly 2%, and that's really driven by volume of our postpaid base. We had 5.1% upgrade in the quarter and that compares to the prior year at about 5.4%, so still relatively soft in terms of iPhone 8 demand from a hardware upgrade perspective. And as Joe talked about earlier, we expect some of that volume to fall into the fourth quarter and possibly in the first quarter depending on supply.

#### Phillip Huang

Analyst, Barclays Capital Canada, Inc.

Thanks very much.

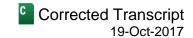
Operator: We'll now take the next question from the line of Drew McReynolds with RBC. Please go ahead.

#### Drew McReynolds

Analyst, RBC Capital Markets LLC



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Yeah. Thanks very much. Good morning. Two questions from me. Just first, I guess, maybe for you, Joe. On the churn side, curious just to get your big picture thoughts, not so much on specifically what Rogers is doing, but more the structural decline in churn that we're seeing across the industry. Can you kind of comment as to how low it can structurally go relative to certainly what investors had been seeing in the rearview mirror over, let's say, the last kind of 5 or 10 years?

And then secondly, just on the regulatory environment, we obviously always have some files underway, we have a new CRTC Chairman. Just wanted to get your latest thoughts just characterizing the regulatory environment as you see it going forward? Thank you.

Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

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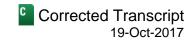
Sure. So, Drew, on the churn side, I think there are a few factors that are driving overall industry churn and certainly, Rogers is both driving and benefiting from those factors. One, overall, is that there is an industry-wide effort around driving the customer experience. It wasn't long ago that there wasn't much discussion on calls like this around the customer experience. And now, it's my steadfast belief that what are we really doing as a business where we are a service provider and, therefore, we must focus on the service experience as being a key differentiator, truly underpinned by the fact that the days of having technology exclusivity in some way, shape or form are gone. We're really on a technology parity level and the days of having GSM versus CDMA or having certain device exclusivity just isn't the dynamic right now in the marketplace as we are in a more mature wireless market and the result we've harmonized a lot of technologies across the globe for that matter. So, there's an overall uptick in the focus on the customer experience and, therefore, it's important to drive a much better experience to really drive the power of the brand behind it.

Second thing I would say is that the share constructs have changed the nature of how a household behaves with respect to churn as a whole. No longer is an individual decision one by one in the household, there're still elements of that. But usually the household decides together and we work very hard to create strong Share Everything construct. That's why I said earlier, our Share Everything churn rate is already below 1%. Our ARPA, or average revenue per account, which is a reflection of that, is up 6% this quarter. So, those economics are very strong. And we think that's a place to continue to focus on. And when I look at loading each and every week, I don't just look at loading. Tony and I are actually scrutinizing the quality of loading. How much of it is into Share Everything constructs versus out-of-line versus tablets versus BYOD, et cetera, and we're very much focused on adding households to help enriching that mix.

Third thing I would say is that the life of devices is growing. We now have the equivalent of a used car market for devices. The iPhone 6 that I [ph] retired it a (46:03) while ago I gave to my daughter. She really wanted an iPhone 7, but she got the iPhone 6 instead. So, families are handing down devices. It wasn't long ago that you would never consider doing that. These devices were just kept getting trunked with iteration after iteration. And now we're seeing sort of more incremental evolution in devices as a whole.

The key is to put the pressure on all of us to execute. So, the focus at Rogers is very much on execution – execution on the customer experience and execution around taking cost out of the environment. Now, the two go hand in hand because the path to the better world is one where we're not just driving churn down, but we're improving margin at the same time and, therefore, have a better ability to invest in new ideas to serve the customer and new ideas to drive better churn performance and new ideas to leverage the power of our distribution. We have the best distribution network in the country. And we have the opportunity to actually leverage that better if we're not as vulnerable to the overall churn impacts. So, that's sort of my philosophy overall on the churn and customer service world as a whole.

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On the regulatory front, I believe that our government is squarely focused on the importance of investment. I had a very good discussion with Minister Bains just a few weeks ago in Ottawa and we talked quite a bit about how we enjoy some of the best networks in the world and how Canadian operators have done a good job of creating high-quality networks and extending reach to the vast majority of Canadians. 99% plus of the Canadian population can avail themselves of high-speed wireless networks.

We talked about finding better ways of connecting rural Canadians with fixed-line broadband services. We talked about affordability for lower income Canadians. We talked about circumstances to create better value for Canadians as a whole. A more-for-more kind of focus in terms of better ability. We talked about just really forming a stronger partnership between government and the industry and I gave my commitment to look for better ways to doing that. So, it was a very good conversation as a whole.

And when the new chair of the CRTC is ready to speak to me and industry leaders – right now he's getting settled – love to continue the dialogue with Ian Scott as well. But the important thing here is to form a strong partnership with the government and go after the social and economic development issues that underpin our country and the issues that are important to the future of our industry. I will always advocate for our industry. You've seen our advocacy very clearly around the 600 megahertz spectrum auction. Spectrum is the lifeblood of our business and very important. And I understand the government's thinking around set-asides, but I believe that large players like Rogers who have a big customer base, we have the largest number of customers in Canada, need to make sure we have an opportunity to gain a relative share of that spectrum that will help to support our customers' needs and demands, especially in this fast-growing world of data appetite.

So, that's the general kind of thought through around the regulatory environment. We'll continue to kind of work our way through some of the open files. We're very anxious to get the third-party Internet access rates kind of finalized. Right now, we've been living with kind of preliminary rates for well over a year or so, Tony, I think it's even longer than that potentially. I can't remember the exact date, but it's time to kind of get on with nailing down specific rates that will help us make the right decisions around investment in the future more clearly. But that's the general tone of the relationship with Ottawa and I'm pleased that it's going in a good direction.

Drew McReynolds

Analyst, RBC Capital Markets LLC

That's great. Thanks, Joe.

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

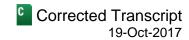
Greg MacDonald

Analyst, Macquarie Capital Markets Canada Ltd.

Thank you. Good morning, guys. Question on the Cable subscriber trends. It looks to me like, Joe, you're talking a little bit about broadband competitive pricing in the market, and I'm going to make an assumption that the double-play impact had some impacts on the Cable side as well. One of the big trends the U.S. MSO has talked about this quarter on the subscriber side was the impact of online services and cord-cutting. It seems we have a little more installation in Canada. But I wonder if you might comment on whether that had an impact in the quarter, whether you're seeing a change in that overall, and then thoughts going into 2018 as we get more U.S. carriers – more U.S. players coming up to Canada with OTT products. Thanks.



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#### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

Okay. A couple things I would say is that I think it's important to understand that the U.S. market in cable is very different than the Canadian market on a few different dimensions. One, first and foremost, the degree of vertical integration in the media market is fundamentally different in North and South of the border. So, as a result secondly, it's a different construct around OTT players between the U.S. and Canada. The U.S. has many more OTT players, many more splintered capabilities in that vein.

The one interesting part about that, Greg, is that with our X1 platform, we have the opportunity to not just aggregate but merchandise those OTT capabilities. So, as some of that splintering or fragmentation comes to Canada, we view X1 as not just a video entertainment platform, we view it as a merchandising platform to lay out the best of content from Netflix, from other studios, YouTube, et cetera, and therefore present that to our customers and be the curator, for lack of a better description, overall.

The U.S. has taken the approach to bundling these services to try to differentiate their wireless services as a whole. We don't see that dynamic in the marketplace in Canada. We think that we're doing very well with the current strength of distribution capabilities that we have in our Wireless business. We don't see the need to bundle some of those services in overall. If you look at ARPU in the U.S. in video, it's much higher, it's more like \$80 to \$90. So I think that they're more vulnerable to cord-cutting as a result. In Canada, we have skinnier basic capabilities. We have a lot more optionality in terms of adding and subtracting channels and theme packs, et cetera. So I believe it's the different construct as a whole.

### Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Yeah. To pick it up, in terms of the subscriber performance that you saw in the third quarter had more to do with our strategy on focusing on double and triple plays. We talked about that last quarter and we started in earnest to pick up the pace on that in the second quarter. And so, what we're seeing is a good healthy trend of two and three product households in the third quarter. At the same time, competitive intensity in the third quarter really picked up around single-product Internet, and we made the conscious decision to pause on some of the pricing that was going on in the marketplace that didn't make economic sense for us. And so, again, the focus in our Cable business – overriding focus continues to be on household penetration and ARPA, and so we continue to see the trends in line with the plans we have for that business.

#### Greg MacDonald

Analyst, Macquarie Capital Markets Canada Ltd.

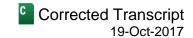
Thanks. And one just quick – one quick follow-on [indiscernible] (54:22) the U.S. has been the ability to price skinny and then sports on top of that because a bunch of the customers out there don't want sports. So, as you get the opportunity to drop that out, that's what's created some of the churn. Do you think that, in Canada, you've reached the spot on pricing overall that that is not a risk that you'll face as more ala carte pricing comes in?

#### Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc.

I think the pricing dynamic in Canada will evolve in the coming year or two. I do believe that customers want more choice overall. But to my experience, if you give customers like absolute ala carte choice is actually overwhelming. And all of our focus group studies have shown that they really don't want to start from a blank sheet of paper and pick and choose individual channels. They'd rather have some base options that are leaner in nature and then have the opportunity to kind of add on top [ph] when and as (55:31) they see fit. And we think

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sports content is a very important part of our anchoring into home. So, it's something that we are going to make sure that we leverage that unique competitive advantage that we have.

Sportsnet now has the largest sports audience in Canada. Full stop. So, for us, it's a very important weapon in the marketplace, a very important competitive advantage. I think the important part of all that, Greg, is that the platform has to be able to support the ability to really help customers find the content they love. But that's at the heart of it, right? And what I like most about the X1 platform that now I've been enjoying the last number of weeks is the search and discovery capability. The voice search capability is absolutely stunning. And [ph] you'd say (56:21) what's the big deal about voice search, we all have it on Siri and all the other places. But it's a very clever voice search capability that works hard to be intuitive as to what you're looking for. It's very good at understanding accents. I mean, I had some fun with it and pretending to be some of my older uncles in their heavy Italian accents and managed to get them to find the right programming and content result regardless of whatever accent I may choose.

But most importantly, it's very natural language search that doesn't force you down some sort of construct where you have to say things a certain way. You just speak. And what that means is that you can easily navigate your way through all the content. And it's not like Netflix is an app sitting on its own. It's deeply integrated into the platform. So, as you search, you have access to the latest in sports, whatever is on Netflix, whatever is on any of the overall capabilities that are out there.

And as we strike the right arrangements, we'll be adding more streaming services to the platform. [ph] I really want to be Switzerland (57:28) when it comes to inviting and integrating streaming platforms into our X1 capability. I think that's the future of video where we have to be the purveyor of choice for customers and the destination for all their video consumption needs. You've heard me say in the past, it's a battle for the HDMI 1 source button on your TV. The minute we relinquish that source input, and someone else gets it, then we're relegated to being number 2 and number 3 in terms of video entertainment. Only one has to be the destination for all that they might want – sports, Netflix, other streaming services, the latest movies. Then discovery and search is an important part of that, and that's why we're putting so much emphasis on it.

Greg MacDonald Analyst, Macquarie Capital Markets Canada Ltd.	Q
Great. Thanks a lot, Joe.	
Operator: We'll now take the next question from the line of Maher Yaghi with Desjardins. Please go ahead.	
Maher Yaghi Analyst, Desjardins Securities, Inc.	Q
Thank you for taking my question. Certainly a strong quarter in Wireless, but can you talk a little bit about the pause or the change in momentum in gross additions on postpaid? Do you see this as a pause or have we reached a new plateau, let's say, higher plateau but going forward? And certainly, churn has helped on the neadds in the quarter. Can you discuss also, as we switch, let's say, from focusing less on gross adds versus mon reducing churn, what the implication of the cost in terms of retention versus cost of gaining a customer wo	et nore

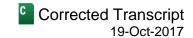
Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

impact your margins going forward?



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All right. I'll start and, Joe, pick it up. So, couple things just to ground this. So, if you saw, post-paid gross adds were flat year-on-year, and we saw that really more reflective of the demand for device and some of the pausing that Joe talked about earlier with the latest iteration of iPhone. It's down sequentially from the second guarter by about 5%. But overall, in terms of what it means for the size of the market, don't know. We'll see when everyone else reports what that looks like. But from our perspective, it's always a balance as we look to net share of subscribers between churn and gross adds. And so the flipside, it was much better churn performance in the quarter from a year-on-year perspective down 10 basis points. In terms of go-forward, we'll continue to look to lead and have healthy share on gross adds and translate that to an appropriate share on a net add basis. So I wouldn't necessarily suggest that we are taking our eyes off gross adds. We'll continue to focus on both in a balanced way.

Joseph M. Natale

President, Chief Executive Officer & Director, Rogers Communications, Inc. Let me just add, I think, Maher, the benefit that better churn performance gives us is the opportunity to be more

disciplined and more sanguine on the gross adds front. We still will continue to focus on gross adds, but there is a level of activity that happens during the end of every quarter, that goes from sometimes competitive intensity to crazy pricing and promotion structures. If you head into that period with strong churn performance, then you can be much more sanguine about how you might approach that crazy period. And that's the real benefit. I think, above all, in a very simplistic way of better churn performance is to make sure that we're spending our COA and COR dollars in a manner that is driving accretion in terms of our overall economics.

When you [ph] approach into (01:01:33) quarter, you happen to have a good churn performance, but sometimes, you tend to lead more with promotional plans around rate. And that tends to wash back into your base and causes rerate in the base. And that could be destructive at times. So, it's a question of having the ability to really kind of moderate as appropriate to get the best of gross adds and net adds as a result.

Maher Yaghi

Analyst, Desjardins Securities, Inc.

Thank you for the clarification. And just to follow up on this, when we look at your current market position, your focus on churn, when we look into the future and 2018, we've seen good margin improvement in Wireless, should we expect additional improvements in the line with what you guys discussed in terms of 100 basis points to 120 basis points improvement potentially? Is that a stepwise function increase or it's a intermediate increase and that could be followed by additional improvement longer term?

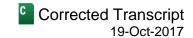
Joseph M. Natale President, Chief Executive Officer & Director, Rogers Communications, Inc.

That's really kind of the important thing to understand.

What we said that our plan is to improve margin by 100 basis points to 200 basis points, in 2018, when you compare it to 2016 overall, we're not done. We're going to continue to focus on finding more cost opportunities and continue to look for opportunities to take out costs in the environment. We've been focused on that already. As customer experience improvement happens, so does margin improvement. There are some cyclical orders or seasonality involved in the business that will always be there. But the relentless focus on margins will not abate.

We're living in a world where customers are expecting more capability, more data, more functionality and expecting to see reductions in unit prices for that capability over time. And, therefore, the onus is on us as a business to look at what are ways of changing the cost profile, what are ways of taking cost out of the organization in its various forms. I mean, you look at the amount we spend on procurement alone, we spend CAD

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5 billion plus on procurement. And Tony and I are going through systematically every category with our suppliers and saying, can we take things down 10%, 20% depending on the category, rationalize our supply base. I mean, there's big opportunity there as a whole.

You heard me talk about calls in our call center, we take 47 million phone calls a year in our call center and roughly CAD 10 a call. By improving the customer experience, we will decrease the propensity of our customers to call, by definition, have a better cost profile. The key is to build the culture that leverages the great culture we have already at Rogers, but build a culture that's much more tuned into customer service and margin improvement going hand in hand. And that's what we're up to right now. The key is to simplify processes along that route and make things clear, simple and fair for customers, but take out the complexity.

If you look at the average amount of information we send to our frontline, it's a lot. If I were sitting in one of our stores or in our call center or as a field technician, I look at the information coming their way because of the complexity in our environment, I'm not sure I can fully absorb what's happening in the business. So I'm on a mission to actually simplify a lot of that by simplification, we'll improve communication and take out costs and really develop some tools, tools for both ourselves and tools for our customers. We're not talking about large systems implementation programs, just to be very, very clear. I'm talking about incremental capability to drive greater web adoption, to drive better app adoption, helps customers manage their capabilities and self-serve in a better way. It also helps our agents do a better job of serving our customers because they have the screens at their disposal and the capabilities at their disposal to make real-time decisions in support of our customers.

So, those are the things that we're focused on and they will continue to drive benefit for our customers and for our organization as a whole.

Maher Yaghi

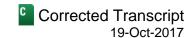
Analyst, Desjardins Securities, Inc.

Thank you, Joe.

**Operator**: Ladies and gentlemen, this does conclude the Q&A session for today. Thank you for participating, and you may now disconnect your line.



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