



Rogers Communications Inc. First Quarter 2019 Results Conference Call Transcript

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Speakers: **Joseph Natale**
President, Chief Executive Officer & Director

Tony Staffieri
Chief Financial Officer

Jorge Fernandes
Chief Technology Officer

Paul Carpino
Investor Relations

Operator:

Thank you for standing by. This is the conference Operator. Welcome to the Rogers Communications Inc. First Quarter 2019 Results Conference Call. As a reminder, all participants are in listen-only mode, and the conference is being recorded. Following the presentation, we will conduct a question-and-answer session. To join the question queue, you may press star then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Paul Carpino with Rogers Communications. Please go ahead, Mr. Carpino.

Paul Carpino:

Thank you, Ariel, and good morning, everyone. Thank you for joining us today. I'm here with our President and Chief Executive Officer, Joe Natale, and our Chief Financial Officer, Tony Staffieri, and Jorge Fernandes, our Chief Technology Officer is with us as well.

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 2018 annual report regarding the various factors, assumptions, and risks that could cause our actual results to differ.

With that, let me begin and turn the call over to Joe.

Joseph Natale:

Thank you, Paul, and good morning, everyone. Today I'm pleased to share our first quarter results, which highlight continued strong financial momentum and some breakthrough customer metrics. First, let me start with our financials.

We delivered strong financial results thanks to disciplined execution by our team. On a consolidated basis, excluding certain items for the Toronto Blue Jays, we grew total service revenue by 3% and Adjusted EBITDA by 7%. In wireless, we delivered strong growth in both service revenue and Adjusted EBITDA. We achieved the best postpaid churn in our Company's history at 0.99%, a key milestone in

our customer experience journey. Our focus on customer base management and our strategic investments in customer experience are driving success in this area.

Consistent with our strategy to drive value, we continue to focus on the quality of customer additions. We executed strong pricing discipline to attract high quality customers with the best lifetime value. This discipline was reflected in bundled ARPU growth of 1%. Overall, it was a quiet first quarter for the industry, and you will see this reflected in our postpaid net additions.

In cable, we delivered solid growth in revenue and Adjusted EBITDA driven by strong growth in internet revenue. In media, we completed the divestiture of our publishing business, allowing us to focus more squarely on sports and local programming, the key drivers of our media business. Overall, our Q1 results are consistent with our plans to achieve our full year guidance for 201.

We completed the repurchase of \$155 million worth of shares, our first buyback since 2013. This buyback reflects our underlying confidence in our strategic plan and our long term growth. Between our share buyback program and our dividend increase, we will return over \$1 billion to shareholders this year.

As a management team, we remain steadfastly focused on driving growth in our core business and driving the fundamentals that deliver shareholder value. Execution, discipline, and well-timed investments are the key to our success.

Last week, we announced the successful outcome of a very important spectrum auction. We acquired 52 of the 64 blocks of 600 megahertz spectrum. As the country's only national network operator, we secured this key 5G spectrum in every province and every territory. We went into this auction with a very clear disciplined plan. Our auction team did a terrific job of efficiently purchasing this essential network asset at \$1.71 per megahertz per pop. As planned, we are in the process of upgrading our network equipment nationally with new radios, so we're ready to deploy this spectrum when it is available next year.

We continue to make great headway on our 5G plan. Through our UBC partnership, we are trialing Smart City applications. Working with Ericsson, we completed our first 5G connection test in downtown

Toronto on a 5G-enabled network. We are signing national master service agreements with leading real estate partners to deploy small cells, and we are implementing our unified fibre plan to power 5G in major city centres. Clearly through our investments, Rogers is ensuring Canadians will continue to enjoy the most advanced networks in the world.

In cable, our internet service continues to provide our customers with the best capabilities. We grew internet penetration for the 15th consecutive quarter. We already offer up to one gigabit speeds to all of our customers today and our future DOCSIS road map will support upload and download speeds of up to 10 gigabits per second across our entire cable footprint. This broadband connection is the foundation of the home, and our Ignite platform is built on that foundation.

We are making steady progress on Ignite TV. The feedback from our customers migrating to our IPTV platform is very positive. We are seeing impressive results, including significantly improved early life cycle churn, likelihood to recommend, and average revenue per account. We continue to work with content providers to drive additional integration into their platforms, and we have an impressive content road map coming up.

As I've said before, Ignite TV is just the beginning. Ignite TV will deliver a road map that not only connects, monitors, and secures everything in the home, it will enhance the customer experience. Ignite is about managing the whole home ecosystem. Over the long term, we truly have a competitive advantage in cable with our world-leading internet and connected home road map. This fully integrated entertainment home automation and security service will ride on and be part of our superior broadband service as a whole.

In summary, we continue to deliver industry-leading financial metrics while achieving record-breaking postpaid churn. I'd like to thank our entire team for their incredible dedication and commitment.

Tony, over to you.

Tony Staffieri:

Thank you, Joe, and good morning, everyone. Rogers delivered solid results in Q1, building on the strong fundamentals we established in 2018. We delivered results that reflected our focus on long-term sustainable growth and our commitment to returning value to our shareholders.

Starting with our consolidated results, we delivered steady total service revenue growth of 1% and flat Adjusted EBITDA. These year-on-year growth rates were damped by the distribution we received last year from Major League Baseball as well as certain baseball-related player transactions in Q1 this year. Excluding these items, total service revenue grew 3% and our Adjusted EBITDA grew 7%.

It is worth highlighting as well that commencing with this first quarter of 2019, we start reporting our financials with the adoption of the IFRS-16 lease accounting standard, which is being applied on a prospective basis. This new accounting standard impacts Adjusted EBITDA primarily in wireless and modestly in our other business units but does not impact the underlying economics of our business. On a consolidated basis, this change improved the Adjusted EBITDA growth rate by three points.

In wireless, we reported strong service revenue growth of 4% this quarter. With a keen focus on revenue market share, we delivered a combination of 23,000 postpaid net subscriber additions along with growth of 1% in blended ARPU and 3% in blended ABPU. As noted by Joe, our improvements in customer experience and base management were very strong and drove churn down to an all-time best of 0.99% this quarter. Clearly, there's significant economic benefit to our business by focusing on improving churn, and this will remain a top priority within the Company.

On the subscriber front, although down from last year, we were pleased with our subscriber gross and net adds in the quarter given the industry dynamics, the disciplined market approach we took, and our exceptional churn results. Even in this quieter environment, we're confident we performed well in terms of share of revenue growth this quarter.

In comparing subscriber activity to the prior year, it's important to note that Q4 of 2017 had quite a bit of heightened promotional activity which spilled into Q1 last year. This wasn't the case this year, and in fact, promotional intensity was amongst the lowest we have ever seen in a first quarter. Nonetheless, we remain confident in robust subscriber growth for us and the industry for the remainder of the year. On wireless Adjusted EBITDA, we reported growth of 9%, which reflected healthy flow-through of our strong service revenue growth as well as the impact of the new lease accounting standard. Turning to cable, we grew revenue by 1% this quarter and Adjusted EBITDA by 3%. Our internet product continues to be the driver of growth in our cable business. Internet revenue grew 7% this quarter, reflecting continued monetization of the increasing demand for data and higher speed tiers. We

remain uniquely positioned to meet customer demand for faster speeds and higher data with our ability to offer Ignite gigabit internet across our entire cable footprint.

We reported 14,000 net subscriber additions, down 12,000 from last year but still reflecting continued growth in our internet penetration rates. As well, we were pleased to see internet ARPU growth accelerate from the previous quarter. On Adjusted EBITDA, despite incremental costs related to the launch of Ignite TV, we expanded cable margins this quarter due to continued focus on efficiencies and product mix shift to higher margin internet.

Moving to media, this quarter's revenue and EBITDA were lower, driven by distribution for Major League Baseball in 2018 and certain baseball-related player transactions occurring in the first quarter of this year. Excluding these items, media revenue would have been flat, and our Adjusted EBITDA would have decreased by 25%. This decline year-on-year was solely due to timing differences in the quarter related to rights fees expense relative to the broadcast revenues. We continue to operate the best media and sports assets in our industry with increasing efficiency, and you'll see that in the full year margin improvement for media.

Turning back to some consolidated highlights, we invested \$617 million in CapEx for the quarter, which increased 2% year-over-year. In wireless, we continue to invest in 4.5G as we ready our networks for next generation 5G capabilities. In cable, we continue to roll out Ignite TV as well as pull forward node segmentation to recognize economies of scale and ensure that our hybrid fibre-coax network continues to be well ahead of consumer demand.

With respect to cash flow and returning capital to shareholders, we generated free cash flow of \$405 million this quarter, a decrease of 8% year-over-year primarily as a result of the timing of higher cash income taxes in the quarter partially offset by lower interest on borrowings. During the quarter, we returned dividends of \$247 million and also bought back \$155 million in Class B non-voting shares as part of our NCIB program.

We ended the quarter with a debt leverage ratio of 2.7 times, which is flat to a year ago despite the lease accounting change, which added 0.2 of leverage to this year's reported number, so a healthy improvement year-on-year in substance.

As you saw in our release this morning, we entered into a \$2.2 billion non-revolving credit facility subsequent to the quarter end. This additional financial capacity gives us ample liquidity to fund our recently secure 600 megahertz spectrum. We had liquidity of \$1.9 billion at the end of the quarter and have solid investment-grade credit ratings with stable outlooks. Additionally, our balance sheet is well positioned with long-term maturities and low interest rates on our outstanding debt. Our weighted average cost of borrowings was 4.43% as at March 31, 2019, and our weighted average term to maturity was 10.5 years.

We've had a strong start towards delivering on our guidance this year and remain focused on driving profitable growth in the business, investing in the future, and returning value to our shareholders. With that, I'll ask the Operator to open the lines for questions.

Operator:

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star then two.

Our first question comes from Jeffrey Fan of Scotiabank.

Jeffrey Fan:

Thanks and good morning. Let's start with the state of the wireless industry a little bit, and particularly on ARPU and ABPU. I know your ABPU held up this quarter, nice growth at 3%, but I guess the gap versus ARPU is starting to widen. The ARPU growth slowed a little bit from last quarter. I'm wondering if you can talk a little bit about the dynamics around that, and which do you think the market should focus on with respect to how to understand the underlying economics.

Then just a clarification on your guidance, 7% to 9% EBITDA growth for the year, does that include these baseball transactions, or does it exclude the baseball transactions that you alluded to? Thanks.

Joseph Natale:

Thanks for the question, Jeff. Let me start with the ARPU versus ABPU question. I think in response to your question, we look at both of them, but clearly ARPU is the more significant underlying metric which we think is important. It really gets at the true service revenue per customer, excluding the handset subsidy that's embedded in the monthly rate, so that really is fundamental to the economics, so that's the one we focus on. The ABPU metric is important relative to the COA and COR that we spend.

In terms of the widening gap between the two, I think what you're seeing is more subsidy embedded in the ABPU numbers. You may recall in the latter half of 2018, we and the industry moved to an additional \$200 subsidy on certain high-end plans, and so what you're seeing is more of that embedded in the ABPU number, so that's the primary difference between ARPU and ABPU. Again, it's the amount of subsidy that's embedded in the monthly service fee.

On your second question related to guidance, the guidance we provided is inclusive of all of our operations, and so it included the baseball operations as well for the full year.

Jeffrey Fan:

Okay, thank you.

Paul Carpino:

Thanks, Jeff. Next question, Ariel.

Operator:

Our next question comes from Tim Casey of BMO.

Tim Casey:

Thanks. Just wanted to follow up on Jeff's question on the state of the wireless market. Can you talk a little bit about or reflect more on your comments that you said it was a very slow quarter across the board? I think you mentioned it's the slowest you've seen in a while. I get the fact that the comps are different because of the spillover from Q1 '17 into '18, but maybe just a little bit more about what you've seen out there in the market, and what your expectations are for the rest of the year. Thanks.

Joseph Natale:

Sure, Tim. Happy to talk about that. As Tony mentioned, it was a quiet Q1, and Q1 is often very quiet, but promotionally so. For the first two thirds of the quarter, it was very quiet, and mind you, we didn't do anything overly aggressive to excite or stimulate the market from that perspective. We saw things start to ramp up again near the last couple of weeks of the quarter, and we saw volume start to kind of grow overall at that point.

Looking forward, we continue to see robust growth opportunity. It may not be as high as Q4. Q4 had sort of a 5.7% growth factor, but still very healthy growth overall. The market usually gets stimulated by a couple of factors, either the availability and focus on some iconic handsets that people find compelling and want to get up to go take a look at, we really didn't have that factor playing for us as heavily this time around, and then price stimulation with respect to data promotions, and again that didn't happen until very late in the quarter.

We took every opportunity to kind of focus on price discipline and focus on lifetime value. We talked about ARPU and ABPU a few minutes ago. Lifetime value for us is up 10% this quarter because of the combination of ARPU, ABPU and then the overall churn improvement as a whole, and those are the underlying fundamentals that are there coupled with the fact that we believe there's still strong growth opportunity in the marketplace. Penetration is still moving from 87% to 120% as a whole. Immigration is still running at about 2%, so those fundamentals have been changed, it's just the typical Q1 start to the year, largely predicated by how intensive and how busy was the Q4 period and the Christmas period leading into it.

Tim Casey:

Thank you.

Paul Carpino:

Thanks, Tim. Next question, Ariel.

Operator:

Our next question comes from Dave Barden of Bank of America Merrill Lynch.

Matt Griffiths:

Hi, it's Matt Griffiths sitting in for Dave. Thanks for taking the question. I just wanted to ask again on wireless. I just wanted to get your thoughts on how much of the low churn that you reported this quarter may have been influenced by just that general market quietness and slowness that you referred to, and maybe how much was accounted for by the initiatives that you've had underway for some time now.

Joseph Natale:

Matt, I would say that the vast majority of the reasons for the lower churn have to do with the base management activities that we've been working on as a Company for the last couple of years, and that is taking a look at all the reasons why customers would consider—because they're leaving us, and working hard to overcome some of those challenges, whether it's end of a promotion, a handset upgrade, a particular service issue, whatever that might be. The team has worked extraordinarily hard to really improve the customer experience journey and therefore drive a much better churn improvement, and you can see that quarter-on-quarter for the last many in terms of the types of churn improvements, whether they have come in busy times or quiet times, we've been consistent in delivering on the churn improvement.

Matt Griffiths:

All right, thanks. One more, if I may, on the cable side. There's a slowdown in the internet or broadband net adds, and I was just wondering if this was a slow quarter comparatively year-over-year on that front as well, or if you would expect that to pick up.

Joseph Natale:

Yes, I'd say a couple things. First of all, housing starts in Canada were running at about 2%. I think you've seen the results out there, they're more like 1% in Q1, so it was a little bit of dampening on the housing starts front. Having said that, we're still very happy with the fact that we continue to grow internet penetration, and that penetration for us went up 1.6% overall to 55.8%, and that's many quarters now strong in a row in terms of growth in internet penetration. We're pleased with the fact that we continue to grow the portfolio.

There will be seasonal periods as well within the internet business, largely centred around move periods through the summer, back to school, students connecting and disconnecting. It is one of the quieter quarters, but we're pleased with the continued growth and momentum in penetration.

Matt Griffiths:

All right, thank you.

Paul Carpino:

Thanks, Matt. Next question, Ariel.

Operator:

Our next question comes from Simon Flannery of Morgan Stanley.

Simon Flannery:

Great, thanks. Good morning. Just coming back to the 600 megahertz purchase in the auction, could you just talk about what the plan is, the timeline for building that out over the next few years, and then related to that, obviously it adds some leverage. You talked about the credit facility, but you're also buying back stock, so just help us think about the shape of the leverage, and what you want to get that back to, and how you're going to balance deleveraging versus future buybacks. Thanks.

Joseph Natale:

Sure. Thanks, Simon. Let me make a few comments, and then I'm going to ask Jorge Fernandes, our CTO who is here with us today, to talk specifically about 600, its value to us, and the deployment approach to it, and then we'll circle around with respect to the capital allocation question.

First of all, we're very pleased with the outcome of the 600 megahertz auction. We walked into the auction with a very clear strategy and a plan. We won spectrum coast to coast, as you know, Simon, 20 megahertz nationally and then 40 megahertz in some very specific regions, southern Ontario being the most critical and which is almost half of Canada's population, where we got four blocks. We paid a price consistent with precedent auctions overall and just generally the valuation of spectrum in Canada as a whole. These are 20-year licenses with renewal, so very excited about this.

Bear in mind that in the history of wireless, there have only been three low frequency spectrum auctions, and we've participated in all three and done well in all three. Jorge will talk to the importance of it. We don't see there being another low frequency spectrum auction in the foreseeable future, so this is a generational opportunity for us to make the right investments for 5G and beyond, for that matter.

Jorge, you want to talk a bit about our plans and your thoughts just overall about the importance of the spectrum?

Jorge Fernandes:

Sure, thank you, Joe. Good morning, Simon. For us, the 600 spectrum is incredibly important, and we're very happy to have acquired as much as we did, frankly. As you know, low band spectrum is foundational for any network. Low band gets in everywhere in urban areas and over long distances in rural areas, and we have seen that low band does, in fact, make a difference between a great network and an average network, especially in providing consistent quality across the board. Obviously, if we think about Canada and if ever there was a country that benefits and justifies such spectrum, of course it's Canada with our very low population density.

As Joe mentioned in the beginning, we're modernizing our infrastructure as we speak, and so we will be able to get 600 out there very quickly off the mark as soon as 5G gets into place and the handsets become available, so we will be able to very quickly provide a wide area coverage of 5G without a huge cost. Frankly, as new use cases are developed for 5G, low band will work in tandem with the mid band and high band spectrum that will become available over time to provide this contiguous layer of national coverage and then using the mid band and the high band capacity where we need for both 4G and 5G.

Tony Staffieri:

Then finally, Simon, on your question with respect to leverage, I think even after the auction, we sit in a pretty comfortable place with respect to our leverage. The report at quarter end was 2.7 times, but as I said, 0.2 of that is really due to the change in lease accounting standards, so in substance we sit at 2.5 on a like-for-like basis relative to previous numbers you would have seen. We continue to reduce that year-on-year at a healthy clip of about 0.2. The spectrum acquisition will add 0.2, so on a like-for-like basis it puts us at about 2.7, so again very comfortable within—we've talked about ranges in 2 to 2.5, and that was based on previous accounting standards, so when you put all that together, we're sort of within or very close to the target ranges we've had.

In terms of what does that mean for share buybacks, we've said we've committed to returning of cash to shareholders, and what you saw in the first quarter is a combination of us putting our cash to use that way as well as being opportunistic with some of the—relative to some of the long term values that we see for our business. That will be something that I think we have room to be balanced about going forward, although I would caution that you may not see the levels of buybacks that you saw in Q1. We'll

continue to be prudent about the timing and how much, but expect it to be well-balanced, but again, overall the leverage ratio sitting at a very good spot.

Simon Flannery:

Great, thanks for the colour.

Paul Carpino:

Thanks, Simon. Next question, Ariel.

Operator:

Our next question comes from Drew McReynolds of RBC.

Drew McReynolds:

Thanks very much. Thanks for taking my questions. Two, I guess, bigger pictures ones, maybe for you, Joe. On the balance between profitability and subscriber growth, clearly this quarter and emphasis looks a little bit more on profitability, but just wondering, as the industry overall evolves, is there any change here between how Rogers sees that balance? Then second question on the seasonality of wireless loading across the industry, do you get a sense just based on what we saw with Q1 that that seasonality is shifting or continues to shift a little bit more to the back end of the year, or was Q1 really an aberration in the grand scheme of things? Thank you.

Joseph Natale:

Good questions. Thanks, Drew. I'd say overall, the balance of subscriber additions and profitability is one that we look at on a regular basis. I think you've heard me say before on this call that we're not going after loading for loading's sake. There is a lot of bad loading out there if you want it. We're really focused on adding customers that—and the types of propositions that make sense economically as a whole and are accretive economically, so it's not kind of one or the other. I think it's really kind of figuring out where is that striking balance with respect to the economics as a whole.

I would say to you that it's a question of really being well-timed. Every quarter is a bit different from that perspective.

To your secondary question, there is a seasonality more than ever in the wireless business. In a lot of ways, we've trained the market to focus on key selling periods, and then the hardware or handset

manufacturers have kind of aligned themselves to those key selling periods, so we've created these moments in time where there is froth and opportunity in the marketplace, there is retail traffic. Certainly, the busiest period of all, I would say starts with Black Friday and works its way through the holiday season and Boxing Week. I would say the next busy season is back to school as sort of a key period of time, and then there are some other sort of smaller periods out there in the marketplace.

The market is very promotionally efficient; I guess is one way of describing it. The market is very much focused on looking where is there a promotional opportunity, and when is the right time to kind of weigh in and look at changing providers, look at upgrading handsets, etc. I think it's prudent for us as leaders to kind of figure out where is that well-timed balance. We can very easily drive and stimulate the market at any particular point in time, but that comes at an economic price, and at the end of the day, we're trying to drive long-term shareholder value, and that's really underpinned in metrics like continued growth in ARPU. It's underpinned by churn results and therefore lifetime value, it's underpinned in margin expansion, and so we will weigh that off against growth in customer additions in the right time in the marketplace, and kind of save our powder for those times of the year when we really can make a difference and there are great customer adds to be had.

Is that helpful, Drew?

Drew McReynolds:

Yes, that is. Maybe a quick follow-up just for you, Tony. You just talked about the IFRS-16 impact, which you've said before is primarily in wireless. We can take this offline, but just wondering what the actual impact would have been in cable and media, so however you want to quantify that, that'd be helpful as well. Thank you.

Tony Staffieri:

Sure. As you said, we can take it offline, but a couple of things could be helpful that I think really get at what you're asking. In terms of the total impact, I talked about that at a consolidated level. If you were to look at the wireless results in terms of EBITDA growth, IFRS impact was about half of that growth, and then for cable and media, it's almost nothing in terms of growth rates.

Drew McReynolds:

Great. Thank you.

Joseph Natale:

I thought you were going to do a full lesson on IFRS-16. I was looking forward to it.

Tony Staffieri:

It would have been my moment.

Paul Carpino:

Thanks, Drew. Next question, Ariel.

Operator:

Our next question comes from Aravinda Galappathige of Canaccord.

Aravinda Galappathige:

Good morning. Thanks for taking my questions. Just a quick follow-up to start with on the cable subscriber trends. I know you talked to some of the lower household formations, but I was wondering the extent to which competitive actions had an impact as well, in particular, was wholesale a factor? Were the resellers more active as well as, obviously, the fibre rollout of the competitor? I just wanted to get a sense of the activity and the promotions that would have had an impact potentially.

Secondly, with respect to cost reductions, I know that IFRS-16 sort of impacts a direct comparison of the OpEx, but I wanted to get a sense of how you see—you've obviously done a great job in '17 and '18 of containing costs. As you look ahead, maybe just touch on the main buckets that would allow you to strengthen margins and continue to chip away at cost.

Finally, maybe Tony, if you can just remind me of the cable CapEx trend. I know you've talked about returning to that 20% to 22% range within three years, just the shape of that. I think what you've, in the past, referred to is more of a cliff in 2021. I just wanted to confirm that that's still the expectation. Thank you.

Tony Staffieri:

Thanks, Aravinda. Let me start to go through with each of them. In terms of your first question on cable, perhaps focused more on internet, much like wireless, Q1 was relatively slow. If you were to look at the promotional activity out there, I wouldn't at all describe it as heightened. It was fairly muted, particularly if you look at long-term promotional incentives. The market seems to have cut way back on those and

more towards three to six months, and so you see a healthier balance on the promotional front. As Joe said, when you look at macro things like housing starts, I would say that is one of the big factors that you see within a particular quarter that will impact gross adds, and we saw a little bit of that in Q1. I wouldn't read too much into the net number in the first quarter for cable or internet in particular. We continue to see healthy growth in that sector throughout the year, and so that's probably how we'd describe the first quarter.

In terms of opportunity for margin expansion within cable, as you said, 2017 and 2018 was good execution on cost efficiency, healthy flows through of the mix shift towards internet revenue, and so that came in nicely. As we said when we provided our guidance in January, we see continued opportunity for margin expansion in both wireless and cable. It may not be to the extent that you saw in 2018, but certainly we continue to chip away at those things that improve efficiency, and you'll see that continue to come through. Again, that will be exclusive of the IFRS accounting impacts.

Then finally on your question related to cable CapEx, as we've said, we think about our business as the natural resting place for capital intensity in the 20% to 22% range, sort of where our industry peers sit at. That is the direction of travel that we have. The primary items that get us there have largely taken place, and the first one being a switch to a much more efficient CPE setup within the home. We've talked about the Ignite platform taking our average cost per home on installation from something north of \$1,100 to south of \$400, and more and more becoming well south of \$400, so that's already taking place, and you'll see that come through in the numbers as we continue to scale up the number of subscribers on Ignite.

Joseph Natale:

Aravinda, just a couple of comments on the cost side, if you're looking for the categories of where the cost and margin expansion is going to come from, it's a lot of the things we've talked about before, but one, it's continuing to drive improvements in customer service, which improves our ability to deliver service at lower cost, exceptional service at lower cost, driving digital adoption, which is going very well for us, we continue to kind of press the gas on more digital adoption for all different types of customer transactions, systematically looking after all the various COGS costs, whether it's content COGS or device COGS and going after some of the elements within that category, taking a look at process automation opportunities, and we've got a whole list of things to leverage automation to drive far more

efficiency. It's a very real playbook that Tony and I manage with each of the leaders in the various business units, and we're kind of working our way through that playbook.

Aravinda Galappathige:

Thank you very much.

Paul Carpino:

Thanks, Aravinda. Next question, Ariel.

Operator:

Our next question comes from Richard Choe of JP Morgan.

Richard Choe:

Great. I just wanted to follow up on the ARPU a little bit. It seems like this might be the trough for ARPU on the wireless side, and it seems like, for internet, we could see some acceleration from there. Is that the right way to look at it? I have one quick follow-up.

Joseph Natale:

Richard, I'll talk to both of them, starting with the second one on internet. We continue to see good momentum. As I said, we saw the acceleration to 3% this quarter on internet, and we continue to see momentum that will continue on into future quarters, so you ought to expect to see that internet ARPU move in the right direction.

Similarly, on wireless ARPU as well, we report the blended ARPU, good result for first quarter, and we continue to see opportunity to have growth on ARPU. In terms of whether that will accelerate as we head into subsequent quarters, I think we continue to see good growth. It's going to depend a lot of market conditions, but right now we continue to see that growth there.

Richard Choe:

Then as the follow-up, in terms of the cable side, in the U.S. we're seeing pressure on video but a shift to broadband, especially with younger, newer household formations. What are you seeing up there and how should we think about it longer term? Are you seeing the same trends?

Joseph Natale:

I think we're seeing similar trends, but I think not as accentuated as we see them in the U.S. If you take a look at the TV industry as a whole, cord cutting in the U.S. has typically been almost 2x what it has been in Canada. We've been running typically about 1.5%. Having said that, we see us drifting closer to 2% in terms of the cord cutting assumptions in our models, but nowhere near what's happening in the U.S. as a whole.

I think the important thing to consider is that with our Ignite TV platform, we've got an opportunity to really redefine the game with respect to content viewing. We're seeing some very good results already with respect to Ignite TV for the base we do have. We're seeing improvements in ARPA, we're seeing major reductions in churn, and we're seeing net promoter score improve substantially. We just recently hit a very important milestone of 100,000 TV nets in Ignite TV. Still got a ways to go because it's still a very small portion of our base as a whole, but we look at the product road map. and the ability for the product to adapt to various segments, youth segments, broadband-only segments, and we're very excited about some of the things that we have ahead of us so that we can have variations of content viewing approaches, form factors and packaging that will suit all types of customers. You'll see that materialize in the fullness of this year.

Richard Choe:

Great, thank you.

Paul Carpino:

Thanks, Richard. Ariel, we have time for two more questions, please.

Operator:

Certainly. Our next question comes from Sanford Lee of Macquarie.

Sanford Lee:

Hi, thanks for taking my question. Can you just clarify your comment on Company on track to meet 2019 guidance? The '19 guidance is 7% to 9% growth. Do you mean this is—you know, you're on track excluding the MLB impacts, or are you expecting a massive acceleration for the rest of the year?

Tony Staffieri:

To help clarify, our guidance that we provided is on a consolidated basis and on a stated basis, so it includes our baseball operations, so we're not excluding the one-time items for the full year in achieving guidance.

Sanford Lee:

Okay, great. Then one more on the wireless CapEx side. I think you may have won more 600 megahertz spectrum than you initially thought going into it, just because—you know, with Bell dropping out, so does this potentially reduce your wireless CapEx needs going forward for—you know, will this affect cell site splitting and densification?

Jorge Fernandes:

Sanford, it's Jorge. Yes, essentially 600, as I was saying, 600 spectrum alongside our current 700 assets allows us to deploy a very wide area coverage across the country in a very efficient way, which means essentially, we can get off the mark with our existing footprint. Part of the modernization program that we have underway already takes this into account, so we don't have the need to deploy many more sites to provide that coverage, so it's a very capital efficient way for us to provide a great quality network.

When you take into account the point you made on the additional spectrum that we have, we're sitting essentially with a fantastic asset not just in terms of being able to provide the coverage, but given the amount of spectrum that we have in the low band, also being able to provide capacity as well. This puts us in a very good position to provide a very good quality of network service in a very capital efficient way.

Joseph Natale:

Please bear in mind, Sanford, that as we make the move to 5G, we have also now got very important tranche of spectrum to make that transition happen. If you look at the combination of 600, 700, and 850, it's very clear that 700 is not going to be available for 5G or tagged for 5G in the short to medium term, and the ability to grow on 5G will mean we won't have to vacate 850 in order to make 5G happen. That's a very expensive proposition to have to vacate 850, 850 is 3G right now plus non-VoLTE customers in that particular band, so we've got this, I would call it hopscotch spectrum that really will

help us to kind of not just get more capital efficient in driving network performance across the country, but also in terms of making the 5G transition far less painful and far more cost effective.

Sanford Lee:

Okay, thanks for that. I'll take the rest of my questions offline.

Paul Carpino:

Thanks, Sanford. Last question, Ariel.

Operator:

Our final question comes from David McFadgen of Cormark Securities.

David McFadgen:

Great, thanks for fitting me in. Just a question on wireless. When I look at Shaw's postpaid net adds, their quarter end in February, it doesn't exactly line up with you but they had 65,000 postpaid net adds, you delivered 23,000, and clearly their postpaid net adds are lower ARPU, so I don't know if we can draw a trend into one quarter, but do you plan to just kind of sit out on going after those lower ARPU postpaid subs and just yield that market to Shaw, or Freedom, sorry, or what's your view on that?

Joseph Natale:

Well, we've got three brands, the Rogers brand, the Fido brand, the Chatr brand, and they all have different value propositions and different abilities to work and operate in different parts of the market. When the market is growing 5% plus, there is opportunity for growth that lives in all segments of the market, but we have no intention of yielding anything to anyone, if you want to answer the question more directly, David, but at the same time we're also not going to tell you exactly what we plan to do for highly competitive reasons.

We've been competing in this market since the very beginning. We've been competing with the likes of Freedom and others for about 10 years, and I think we've done a very good job of it as a Company, and we'll continue to drive growth. The nets is a one-quarter point, and to your comment, it's very hard to draw any trend from one data point. I think if you look at the last number of years, you can feel that we've done a good job on behalf of shareholders and customers with respect to competitive intensity. Thank you for the question, David.

David McFadgen:

Okay, all right. Thank you.

Paul Carpino:

Thanks for the questions. We have our annual shareholder meeting that we'll be going to. You can listen to it as audio cast on line. As well, you can pick it up at rogers.com in the Investors Relations section, and we'll be happy to chat after that as well. Thanks for your time.

Operator:

This concludes today's conference call. You may disconnect your lines. Thanks for participating and have a pleasant day.