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# EDITED TRANSCRIPT

RCI.B.TO - Rogers Communications Inc at Morgan Stanley Technology,  
Media & Telecom Conference

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FEBRUARY 27, 2019 / 1:10AM, RCI.B.TO - Rogers Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

## CORPORATE PARTICIPANTS

**Joseph M. Natale** *Rogers Communications Inc. - President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Simon William Flannery** *Morgan Stanley, Research Division - MD*

## PRESENTATION

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

All right. Good evening, everybody, and it's my great pleasure to welcome Joe Natale, CEO, of Rogers. Before we get started, please note that all important disclosures, including personal holdings disclosures and the Morgan Stanley disclosures appear on Morgan Stanley public website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures) or at the registration desk.

So Joe, it's been a strong year for Rogers. It's been a strong year for Canadian telecom, wireless cable, wireline. Overall, I think, we continue to see better trends in Canada than in the U.S.

So take us through what we should expect for 2019 and what you're really focused on.

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**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

Sure. Well, first, and foremost, we continue to leverage the momentum that we have right now in the business in the industry at Rogers. We had a very strong year across all parts of our business. In the wireless front, there's continued growth opportunity in terms of the macroeconomic trends in Canada, the penetration growth, the opportunity to drive lifetime value and drive ARPU economics. So we'll continue pushing on that front of wireless.

At the same time, the wireless really start to drive out some of the economic use cases around 5G. We have a lot of 5G trials planned, a lot of PCs that we're looking to substantiate and really kind of understand more about before we continue and execute the investment through 2020.

On the cable front, we've launched XFINITY last year. We had a great sort of introduction of XFINITY. We're seeing some strong, early signs in terms of the ARPA economics. Customer reaction has been fantastic. The Net Promoter Score, likelihood to recommend, as we call it, has been very strong for the product, so it kind of bodes well for the future as we go from the initial launch to what follows.

And then we've got a pretty exciting road map on the heels of that with respect to managed WiFi and the Connected Home road map that comes naturally with the platform. So we're very excited about that. It's an important investment cycle for the Cable business. And we think it'll fundamentally change the underlying cash economics of that business.

And then continue to build the momentum and the strength of the team. We've got a great team, a team that's worked together now for almost 2 years. And we've established a great working rapport, and we continue to kind of work hard to keep firing on all cylinders.

## QUESTIONS AND ANSWERS

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

All right. Well, you talked about some of the highlights there, and we saw the term reduction in the quarter. But maybe just revisit, when you came on board, the goals that you set out initially in terms of improving the customer service and others, how far along are you? And what is still more to do there?



FEBRUARY 27, 2019 / 1:10AM, RCI.B.TO - Rogers Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

**Joseph M. Natale** - Rogers Communications Inc. - President, CEO & Director

Yes. I think we've made a great first set of steps on that front. I'm really proud of what the team has accomplished overall and look at it from a few perspectives. On the wireless front, our postpaid churn improved by 10 basis points, and we had some of the best churn and loading numbers in almost a decade last year, and that's due to the hard work that the team put forward. We saw a strong overall customer satisfaction score, strong growth in digital adoption as an organization, the use of our digital properties, our mobile apps as a result and it comes with the underlying statement, as you've heard me say before, Simon, is that customer service improvement comes hand-in-hand with margin expansion. And you've seen, we've improved overall margin by 130 basis points last year and 30 basis points over the span of the last 2 years. So the assumption that you can drive both together is holding true for us. I think there's still lots of opportunity. We live in a target-rich environment around this front. And so we're going to keep pressing on that front. We think it will come forward and improve continuous term reduction and therefore lifetime value. And it'll come forward in terms of customers staying with us longer and buying more of our services. It is sort of the very important equation to the future of this business. As the base grows, we'll do a much better job of managing that base of customers.

**Simon William Flannery** - Morgan Stanley, Research Division - MD

Okay. Great. The -- you talked about the industry growth in the wireless sector. And I think it's -- well, the question I get a lot in the U.S. is why has Canada lagged versus the U.S. for so long. I mean, even in the U.S., we're seeing strong subscriber growth. What are the factors that have kept you in the high 80s and way behind it? I mean, do you think there's a potential to even accelerate beyond what we have here today?

**Joseph M. Natale** - Rogers Communications Inc. - President, CEO & Director

I think there's no structural reason why Canadian penetration can't achieve U.S. levels in the fullness of time. If you go back to the very beginning of the wireless industry, we've always seemed to have been a few notches behind the U.S. in terms of the march towards greater penetration. But we sit around 85% to 87% penetration today. The U.S. is roughly at 120%. And I think there's opportunity to continue growing on that front. On top of that, we're seeing roughly 2% immigration growth in Canada. And that's bringing not just a greater population, but a population of information workers that are technology-savvy and want more access to technology as a whole. We're seeing the phenomena around 2 devices take root in Canada, which took root in the U.S. many years ago. And so we think there's great opportunity on all those fronts. And bear in mind that Canada has some of the best networks in the world. Consistently, we're ranked top 2 or 3 internationally in terms of capability. The average network speed in Canada is 2x the U.S. across a landscape that's very sparsely populated, as you know, and very difficult to cover across 5 time zones.

**Simon William Flannery** - Morgan Stanley, Research Division - MD

So I think the -- one of the areas that we do get questions is around competition. Obviously, Freedom has made some strides here in the last few quarters, but you will put up good results. ARPA growth has been slowing some. Do you think we're through that kind of dilution from some of the bigger buckets and all bucket starts there will have better trends going forward and the competitive environment remain fairly stable?

**Joseph M. Natale** - Rogers Communications Inc. - President, CEO & Director

I think there will always be competitive intensity through seasonal periods. We see it through holiday periods. I mean, Black Friday was a U.S. thing that became a Canadian thing all of a sudden. It's become one of our biggest days. So there continues to traditionally be promotional periods of that nature. I did say in the last call that with all the focus around adding data bonuses, we have seen the gap widen between average consumption and average bucket size. And therefore, that will have a moderating effect until people climb up the ladder of that consumption as a whole. But I do think, with the growth in the marketplace and the opportunity in the marketplace, there's room for the market to continue to do well. So we've been competing against different players, the newer players for the last 10 years. And the key to competition is continuous investment, investment in network capability, investment in distribution, investment in customer service as the bar gets raised each and every year.



FEBRUARY 27, 2019 / 1:10AM, RCI.B.TO - Rogers Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

**Simon William Flannery** - Morgan Stanley, Research Division - MD

And you've delivered your targeted CapEx not just at separating the 5G, but also enhancing the 4G experience as well, right?

**Joseph M. Natale** - Rogers Communications Inc. - President, CEO & Director

Absolutely. I mean, we spent a lot of money last year and time building up our 4.5G capability, really readying the landscape for 5G. We formed a very important partnership with Ericsson. They're our 5G partner of choice. And we worked hard to put in all the LTE Advanced technology that is 5G ready and can be activated with 5G with software upgrades. So we feel well positioned for the prospect of 5G and where it might take us.

**Simon William Flannery** - Morgan Stanley, Research Division - MD

Okay. Well, that's a good segue into the trials that you've talked about. So let's talk about where you are today and what are the kind of use cases that you think make the most sense at Rogers in the near to medium term.

**Joseph M. Natale** - Rogers Communications Inc. - President, CEO & Director

Yes. I think there are 2 use cases that we're squarely focused on in the short term. One is good old-fashioned capacity and coverage. You look at some of the more densely populated parts of Canada. You look at downtown urban centers where people congregate more than ever. There is a demand for capacity and speed. And 5G technology and small cells and higher-frequency capacity will help serve the needs there. I think that's the most obvious business case. The second one for us is in the world of IoT. Rogers has been the IoT leader in Canada from the days of connected devices in 2G and then 3 and 4G. And we've got a natural muscle we've built with respect to the go-to-market capabilities, the product development capabilities. And therefore, we see ready-made path for some of the evolution to 5G in terms of connected communities, in terms of some of the vertical industry-specific opportunities as a whole. Those are the 2 most immediate ones. And then we've got a bit of a watching brief on the whole idea of fixed wireless and where it's going. We're watching it very carefully, as some of the U.S. players make significant investments in that area. We've certainly done our own trials, and we worked to create our own sort of pressure testing of the ideas. And as that matures, we may look to add that to our portfolio, on our focus around 5G. But some people talk about that first. For us, it's really about coverage capacity and IoT with that being something that we're just continuing to evolve in our thinking as a whole.

**Simon William Flannery** - Morgan Stanley, Research Division - MD

And how does your spectrum needs kind of play into that timing? We've got some auctions coming up here shortly, a little bit behind where the U.S. is in terms of getting the spectrum out.

**Joseph M. Natale** - Rogers Communications Inc. - President, CEO & Director

Yes, you're absolutely right. I mean, for 5G, we believe we need strong baseband spectrum in low-frequency ranges, and we've got that from previous auctions. And then on top of that, there's an auction coming up in March. And then we need some strong mid-frequency spectrum in the 3.5 gig area. We own some of that right now, and it's going to be repurposed for 5G. And there'll be an auction coming up on 3,500 at some point in the next 18, 24 months or so is the view. And then millimeter wave will come thereafter. So we are awaiting all 3 of those spectrum auctions put together the full complement. And therefore, it'll give us time to evolve our thinking and the technology around 5G. 5G, I believe, for us, Canada will be much more of an evolutionary investment over time as we populate the various ideas with economics and resource to lay them out to market as opposed to the grand opening of 5G ubiquitously across the network, a little different than 3 and 4G happened.



FEBRUARY 27, 2019 / 1:10AM, RCI.B.TO - Rogers Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

I think one of the things that's helped the carrier some is upgrade rates have been moderating as people have gotten more comfortable owning their phones for longer. And I think it's been clear to people how much their phones actually cost. So can you just talk about what your experience has been and how you see that evolving over time?

**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

I think there's no question that the useful life of smartphones has been growing, both in reality and perception, for consumers as a whole. We're seeing people hold onto devices even longer than before. And we're seeing a secondary market evolve for devices, refurb or resale market. That's actually helping drive penetration even further as device affordability kind of widens on that front. We're seeing different constructs open in the market, like residual value plans that will give you money back at the end of the contract for returning the phone. So I think it's actually good for the industry to have better appreciation of the value and expense around handsets and, therefore, create a much longer use for life around them. I think we'll continuously find ways of creating affordability options for our customers all the way up that spectrum from the most basic phones to the most expensive phones as part of our job is to create those opportunities. It might be new, it might be used phones. But I think it'll help to moderate some of the investment in upgrades, both for acquisition and retention, as a result of creating that broader ecosystem.

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

All right. Well, let's pivot over to cable if we could. You talked about the XFINITY Ignite TV. And perhaps you just provide little kind of level setup where we are today. But what -- how far have you rolled this out? And what are you experiencing so far in terms of customer adoption?

**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

We were very thoughtful last year around a very considered launch, and it's gone very well. The goal of the launch was not quantity, but the quality of the experience and the capability so that we could ramp thereafter. The team did a terrific job of launching what I think is a very high-quality experience for our customers, not just the product itself but all the support around it from installation to the digital experience, et cetera, around it. And we're seeing some really enticing and exciting early indications around the product itself. We're seeing significant lift in average revenue per household, the Ignite household that is enjoying the product as a whole.

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

And it's still in the premium packages. Is that how you're positioned?

**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

It still in -- it's available in kind of the 150 meg profile or higher. And we've intentionally kind of done that to manage to a volume level and also to support the brand and recognition of the product for the quality that it is. I think it's a great product, a high-quality product. And when you have a great high-quality product, you don't discount it out of the gate. You kind of manage it to the value proposition that you're putting forward. But apples-to-apples, better. ARPA characteristics, much stronger. Material change in Net Promoter Score, and a much more material advantage in terms of early life cycle churn and can manage -- we manage churn through the entire life cycle, but we watch churn very carefully in the first 3 or 6 months of any product of any sale, and very strong characteristics on all those fronts. But we're most excited about is the road map that follows. I mean, you think about the fact that there are 10,000 engineers and filled up at Comcast, working on a very robust road map. And we've got capability drops coming throughout the course of time where we'll be launching Amazon Prime as part of an offering very soon. We've got to a managed WiFi capability reminiscent of xFi that's coming very soon. We've got the Xhome Connected Home platform to connect all kinds of other devices in the home. And what it's about, it's really taking our strong Internet capability. We've got a 1 gig Internet capability across our entire footprint and marrying it with a number of reasons to buy and reasons to stay that are feature-rich for the household. We're trying to change the



FEBRUARY 27, 2019 / 1:10AM, RCI.B.TO - Rogers Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

narrative away from just speed to around here are all the things you can do to change the way you live and conduct your life given the technology in this tool set that's available to you like never before, whether it's about home security or entertainment or managing your lifestyle as a whole. And we think that will resonate very much with consumers and that will change the lifetime economics of that business. Couple that with the Internet capability that we've had, we've been doing very well. We've grown our Internet penetration now for the last 14 quarters. And last year, even despite the fact that our major competitor went loud and proud with their fiber to the premise capability in terms of advertising, we had a great uptick in penetration. And our Internet net additions were up 13% year-over-year.

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**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

And you're getting people buying up higher speeds as well.

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**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

Higher speeds, you go back 5 years, we had 4% of our base, 4 at a 100 meg or greater, and that number is now around 60% of our base.

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**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

So what are you seeing in terms of broadband on every household. Obviously, it's a big phenomenon here. A lot of cord cutting going on, and you're seeing some of it in Canada. But it feels like it's not quite as intense. So how are you kind of catering to that millennial perhaps that are happy with that bring-your-own content-type solution?

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**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

Well, in the short term, it's important to recognize that cord cutting in Canada is not quite as significant as it is in the U.S. It's roughly about half of the volume of cord cutting on a run rate basis, call it, 1.5% to 2% in Canada. I think it's closer to 3.5% to 4% in the U.S. depending on the analysis. And it's a combination of the fact that video ARPU in the U.S. is actually substantially greater than it is in Canada to begin with. And I think, in the short term, we've got a solution that will change the video experience and bring to bear all the things that we might have to offer from voice command to cloud PDR to a deep integration of Netflix and Amazon Prime and YouTube and others to follow. At the same time, we're going to be looking at how do we recraft the value proposition. This industry grew up in a place where more was better, right? You have sort of small, medium, large, extra large kind of package set. And now we're migrating to a world where choice is better. So you'll see us evolve the packaging constructs and let people choose more and do more with their content. And I think the Ignite platform is very conducive to that. And I think that will actually help people step into video entertainment with Internet at different levels of consumption and different levels of packaging.

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**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

But presumably, you're still -- you're -- if somebody moves over to a broadband only, the margin profile on broadband is probably a lot more attractive than on the video side of the equation.

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**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

Yes. I think our stated goal had been very clear about this. If -- we believe that the future of this business is the Internet connection, and the economics will all be driven around the Internet connection. And we'll get to a place where the video entertainment business will be a breakeven proposition. And video entertainment, coupled with other Connected Home services that we've just talked about, will become the reasons why people see more value of the Internet connection versus just being. And we'll change fundamentally the churn and lifetime economics of the business. So we are engineering our business from a cash flow economics point of view to rely on the Internet connection as the main source of true cash flow economics, and everything around it becomes lifetime value-driven.



FEBRUARY 27, 2019 / 1:10AM, RCI.B.TO - Rogers Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

Yes. Okay. Well, you had a capital allocation move with earnings in terms of a dividend increase the first time in several years, but also highlighted that the policy was going to be more focused towards buybacks and not necessarily [rebates and] dividends. So perhaps, let's talk through how that's been received by your shareholders and the rationale behind this. And then just talk about the other kind of uses of cash flow.

**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

So we've been very clear about the fact about the #1 use of our cash is to invest in the core business and the future growth prospects of our business. Now is the time. Now is the time given the momentum we have, given the cost of capital out there in that market to really kind of make the right investments for the future along the way. And we've proven that we can drive the right economics with those investments. You look at our wireless business last year, and we took 40% of the revenue and EBITDA growth in the sector. You look at our Cable business and right now, the Cable business is sitting at roughly about 35% CapEx intensity. It's a moment in time given we're in the middle of transforming it. And we see the resting CapEx intensity in that business coming down to the low 20s, somewhere in that zone. So we're determined to use our cash to make those investments to get to the momentum and the operating cash profile that I just talked about, and that's sort of job one. To the extent of excess cash, then we'll direct it towards share buybacks for all the reasons that you understand fully, Simon, as a whole. On the dividend front, we'll continue to look at dividend increase on a selective basis. But I was trying to be very clear and emphatic. I don't want to get into a place where they become routinized and that we use up capacity just to pay the dividend. #1 obligation is to the future growth of this business, the core business. We don't have any sort of, I call them, hobby planned, any sort of diversification strategy that seem off the core, off the center. And therefore, you can rest assured that you can trust us to leverage that cash with the right purposes for the future and then return it as appropriate.

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

Okay. All right. We've got time for a couple of questions here.

**Unidentified Analyst**

I was wondering if you could talk about the Media business. You've talked year-over-year comp because of the onetime payments. And you also had a difficult year to with Blue Jays attendance. So how are you thinking about growing that part of the business?

**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

Sure, you're right. We have a tough comp with the payment from Major League Baseball Advanced Media. But the team has done a really good job of architecting the margin and EBITDA economics of that business, continuing to invest in the right properties and ideas and look at some of the OpEx constraints. So I feel we've got a good organic run rate with respect to Media business. With respect to the Jays, I mean, when I've learned about the sports and Media business that it all falls to sort of how the season evolves and moves forward. The good thing is that we don't get much value for ownership of the Jays, so it's only an opportunity to purposely increase the value going forward. It is Canada's baseball team, and it's one of the largest baseball audiences anywhere in the league. And we're immensely proud of owning the Jays. And we think we'll continue to have opportunities to monetize that audience over time. But we are in the rebuilding stage and that will take some time to rebuild.

**Unidentified Analyst**

I would just want to follow up on the Freedom Mobile question. I'm just wondering if you've seen any impact, specifically in Western Canada where you don't have necessarily all the bundles to offer. Just curious if you could share a little bit more color there.



FEBRUARY 27, 2019 / 1:10AM, RCI.B.TO - Rogers Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

Yes. We don't disclose sort of regional differences and how we're doing in the marketplace as a whole. But I think it's fair to say that we feel we're doing well in every region of the country. We don't feel disadvantaged anywhere, specifically. And bear in mind that in British Columbia and lower mainland, we are the incumbent in many ways. The Fido brand has been very well out there for a very long time in multicultural communities. And we've got a very strong presence in that market. So we'll continue to make the right investments in distribution and marketing, and we feel we can continue to win in those markets.

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

In the back.

**Unidentified Analyst**

Can you talk about some of the margin levers you have that are not top line driven?

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

The margin levers that are not top line driven.

**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

The margin levers on the top? Sure. So we've got a number of margin levers at our disposal. They're not top line-driven. One is, one I've alluded to already. I believe that improvements in customer service and the customer experience go hand-in-hand with margin improvement. Why? Because ultimately, you're taking calls out, you're taking truck rolls out. When you think about the fact that average phonecall costs us \$10 to \$12. And when you're taking over 40 million phonecalls a year, there's opportunity there of substantial nature. A truck roll is a few \$100. So taking out low-impact, no value truck rolls as a very immediate benefit. And the list goes on from that perspective. So it's a very much -- a very important lever. The next important lever is that, as an organization, we spend well over \$5 billion in procurement, and that's both a CapEx efficiency and an OpEx efficiency opportunity for us, as we -- we've upgraded the quality and strength of our procurement team and they're making their way through every single category of commodity and they're getting some fabulous economics for us in terms of moving money to the bottom line, which create capacity for CapEx investment. I used the phrase of the team, if we can spend \$0.80, I'd rather do that based on the ability to drive better unit cost economics. And then on expense materials, we're seeing it show up in the supplies and consumables throughout the organization. I think there's a big opportunity in that front as a whole. Those are part of the 2 biggest levers that we have from a margin expansion point of view. Though there are some COGS opportunities that are out there, it all comes down to mix of smartphones and the types of devices people want, and that kind of tends to go up and down depending on where the market power lies.

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

All right. Joe, great overview. Thanks so much for your time.

**Joseph M. Natale** - *Rogers Communications Inc. - President, CEO & Director*

Thanks, Simon. Thanks for having me, and thanks for your support.

**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

Great. Have a great evening, everybody.



## FEBRUARY 27, 2019 / 1:10AM, RCI.B.TO - Rogers Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

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