



## BofA Media, Communications & Entertainment Conference - Sept 9, 2020

### Rogers Communication

DAVID BARDEN: All right, everybody, thanks and welcome back. Our next session in the telecom track is Rogers Communications. We're joined today by Joe Natale, who is president and CEO, and Tony Staffieri, CFO. So we've got the full deck of the Rogers management team joining us today. I'm David Barden. I cover US health communications and comm infrastructure, as well as Canadian telecom and cable companies. Thanks for joining us, and thank you, Joe and Tony, for joining us on the line.

JOE NATALE: Yeah, thank you, David. Great to be here virtually. Always one of our favorite conferences.

DAVID BARDEN: Joe, and again, thanks so much for being here. I know there's been a lot going on as regards to some of the strategic stuff that you guys have been working on. And I think you had some comments that maybe you wanted to just address upfront regarding the Altice-Cogeco transaction.

JOE NATALE: Sure. Thanks, David. We just announced our proposal last week, so I don't want to provide any additional commentary other than what we've said already and just reinforce some of the comments we've already made. And that is that we're committed to our offer firstly. Also that we have immense respect for Mr. Audet and his family, and for the legacy of the company. And that-- in a time when connectivity and economic recovery are more important than ever, what we're seeking is to be a partner with Quebec, investing in the ambition to build innovative communication infrastructure, including across rural areas. And we think we can take the tech sector to the next level and create more high paying jobs in the province, et cetera.

Overall, we believe that this is a compelling transaction for all of Cogeco's customers in Quebec and Ontario, and for all the company's shareholders to create even more long term value. So that's where we're at at this stage, and once we have more to say, we will-- we'll reach out.

DAVID BARDEN: Thanks, Joe. I guess two-- I guess people-- well, I have one question, and I think that's another question, but my first question is there anything about the background here? How did you find a partnership with Altice? How did that relationship come to be?

JOE NATALE: Altice reached out to us. We don't have any desire at this moment to enter the US market. So as we looked at the potential, and have looked at it over the



years, when Altice reached out to us, we thought this could be a great partnership. And it has been that.

DAVID BARDEN: And then, I mean, I think the last question on this topic for me would be I think that the Audet family has been pretty clear about their position for a long time in terms of their commitment to the business. And you guys are no strangers to-- given your Cogeco stake and the historical work you've done on looking at assets. Why was the idea that now was the right time? What did you think you knew about now that made it different than previous times?

JOE NATALE: We just wanted to make our intentions perfectly clear, and there's no other reason for it than right now. And as I said, as we kind of think about what's next, we'll come out and give people the benefit of our thinking in terms of next steps. But this is something that we've contemplated for a long time.

DAVID BARDEN: OK. So let's maybe shift gears. I have more COVID-- or not COVID. I have more Cogeco questions coming on, but I think that-- I think we kind of got the message that we're going to kind of hear more when we hear more.

So let's kind of-- I want to talk about some high level stuff maybe related to this idea of the acquisition, which is the conversations we've been having about surfacing value in the business. We recently saw the data center sale. It feels like it's the wrong time to maybe be looking to monetize sports assets or media assets. I'd be interested if you agree.

But at the same time, it also feels like this is a good time to be thinking about monetizing infrastructure assets, as you did with data centers. And one of the assets that you kind of get asked about a lot is towers. And I was wondering if you could kind of then kind of run us through your asset value surfacing latest thoughts.

JOE NATALE: Sure. Well, first of all, we believe we have a set of core assets that are very important to us across wireless, cable, and media. And we don't really have, at this stage, any non-core assets that we believe should be set forward through disposition. We don't have any non-core data centers, as an example. We've seen a number of those sales happening in the marketplace.

Our focus is on growing the core business. And there's been a question around sports over the years, but we're finding, through the last number of months, that, of all the different types of content, sports has proven to be one of the most important and one of the most resilient in terms of a consumer appetite as a whole. And we've just-- we've seen that as we went from no sports to plentiful sports in the last little while.

So we believe we've got the right core businesses. On the tower front, I believe, especially on the doorstep of 5G, that towers and tower access is one of the most



strategic considerations that a wireless provider can have. There are no-- there are no new, easily attained tower sites that don't take a long period of time to kind of acquire, and establish permits for, and the like. And therefore, it's a strategic asset. And especially as we develop the market capability for 5G, owning, managing, controlling towers we think is every bit as important as every other part of our infrastructure, whether it's fiber, and whether it's our access network, or transport network, for that matter, et cetera.

DAVID BARDEN: I mean, I think almost on a global basis most carriers would disagree with you, and they're right as a function of having watched almost every carrier in the world look at monetizing their tower portfolio. What is it about not owning the towers that you fear would happen to your ability to deploy a network that other people don't seem to fear?

JOE NATALE: Yeah, I don't know if it's fear. I wouldn't say it's fear. Just I've talked to my peers across the globe, and there's no question of the degree, the complexity, or effort required to establish positions on towers, et cetera now has been complicated because no longer people control the asset.

It's no different than controlling a lease on a piece of property or a right of way for a piece of network or infrastructure. I mean, there is an underlying real estate business in our business, which is all about owning the attachment rights and the access to build and deploy our network. And I think as soon as you insinuate someone else in the mix, then you kind of complicate that.

And we've got a very strong balance sheet and a strong cash position. And we've got our prospects in terms of generating cash flow are very strong. So it's not like we need to sell a strategic asset to generate the cash from that perspective as a whole. And we've proven over time that, in Canada, having the ability to manage and control your network is an important part of deploying next generation technologies.

DAVID BARDEN: Great. So I think the second big kind of topic is what we've been-- we've kind of been talking about this with every carrier is 2Q was the COVID quarter. 3Q is the comeback quarter. Could you kind of give us a description as to how much has the business come back? Both as a business-- both as your business from reopening and kind of business normalcy standpoint, and then how much has the consumer come back to normal, which is probably less. But I'd love kind of your kind of take on that at this stage.

JOE NATALE: Sure. I'll start, and then I still need to augment it, as well. I would say Q2 was a very, very quiet quarter. We saw retail distribution network essentially shut down during the quarter. We saw customers not really feeling comfortable or as desirous of transacting. As a result, the relative volume in the market, whether it was in the wireless



business or in the cable business at all-- on the sports and media side, there wasn't really anything to broadcast, so advertising revenues are under pressure, et cetera.

So it really was a very, very quiet and locked down quarter. What we saw heading into the latter part of June is the market woke up. The market woke up, and we saw customers popping up and looking to transact as we reopened all of our stores. And right now, they're all open. We're seeing latent demand, pent up demand through the early part of summer, but that has persisted throughout the whole summer as people have continued to want to shop, and see what's out there, and look for a new wireless device, or look at our TV service, et cetera.

So the marketplace truly has come back to life, and there's a renewed energy pretty much across all of our businesses. As I said earlier, sports is back on the air in a substantial way. And we're seeing advertising revenues beginning to recover also from that perspective.

And so we're feeling good about it. It's actually made us stronger in terms of our ability to support customer activity and demand through this cycle. At the same time, going after structural costs in our business so we can drive margin improvement while we adapt to both the bricks and mortar and digital modes of transacting with our customers, both of which are very strong right now. And I'll pause there and give Tony a chance to jump in. Tony, you want to talk about Q3 and what we're seeing versus Q2?

TONY STAFFIERI: Going to put some color around the concepts that Joe just outlined. If we look in the wireless space, as we look at core ratios, I would say just coming out of Q2, big ramp up. Some of it was promoted through aggressive offers that we saw come out of the gate from various competitors, and so that stimulated some of the-- what we would call transactions between the carriers.

One of things we haven't seen come back are the items that traditionally have grown the industry. Around this time, it's always been immigration and, in particular, foreign students that have been a pretty big part of go back to school growth that we see. And so we don't see that this year.

And so overall, if we were to look at the market, in Q2, we saw a market of total net adds for the industry that was down about 80% to 85% year on year, depending on what you include or exclude. Our expectation is for Q3 we're probably seeing something that is still down, but by much less.

If we had to put a number on it, probably in the 10% to 20% range would be a rough estimate. But again, a very good comeback from where we were. And then on the cable side, what we do see are customers-- as they get comfortable with self install, we



do see them taking the initiative to upgrade to internet. And so we like what we're seeing on the internet side.

Back to school-- while it is much more muted, there are still some campuses that are having students either come in, or students are coalescing around the campus and working online within a campus environment. And so that's driving some volume, but again, we'd describe that as overall down year on year. Not as much as Q2, but a bit of a comeback similar to what we saw in wireless.

DAVID BARDEN: My daughter is one of those that's coalescing around a campus and trying to live a normal college life. That's super helpful color. Verizon said something similar earlier today that they saw activity level measured as kind of gross adds and upgrades down 35%, 40% in Q2. And it was down between 10% and 15% currently in 3Q. So another kind of confirming data point there.

So I keep forgetting to do this because I'm not very good at these virtual conference things apparently, but below my head there should be a little box. If you want to ask a question, please do so. I actually did get another question on the COVID situation, which is related, I guess, Tony. More of a longer term question, which is how has COVID impacted views on long term margin opportunities in wireless and cable? Is there opportunity to accelerate some opex for new opportunities to become more efficient?

TONY STAFFIERI: The short answer is absolutely. We've talked about some specific examples, but what it has done is from two fronts-- one, required us to be much more agile and get ready with new operating models. And two, the customer is much more willing to accept some of the different models.

If we were to look at on the wireless side the number of customers that are upgrading, or entering into a new contract, or getting a new phone-- we typically call them hubs-- the volume that's gone digital is tremendous. Typically in the past we would have seen customers wanting to go into the store. They may do some initial browsing online, but what we're seeing is that the customer is willing to complete the transaction and have the phone delivered to their house, or opting in for our pro on the go alternative, which has someone coming to the house, and, from a safe distance, helping you transfer all your data, et cetera.

So those types of solutions are really picking up in popularity. What it does mean for-- frankly for us and as an industry, especially in Canada, that we need to make sure we have the digital capabilities to keep up and/or stay ahead of where the customer is going on the digital front. On the cable side, we've talked about tremendous success with self-install, largely owing to the type of platform we had moving to the Comcast platform, IP based TV product.



Together with an internet router and extending pods, we overlaid that with a self install feature that they can either do it through an app on their own-- they can call in on a call center, and someone will walk them through it. And that could include, if the customer wishes, video interaction, as well. So all of a sudden, the use of video interactions become a lot more popular-- or with the techs just waiting outside and using a blitz app that we have. Again, much along the lines of video. So those are the two headline ones that I would speak to, but there are other ones, as well, that fall under the theme of customer saying help me do this myself or help me do it online-- are kind of the two big things we see in both wireless and cable.

DAVID BARDEN: Got it.

JOE NATALE: I think historically, David, the industry has looked sort of we have a physical distribution model, and ours is very strong, one of our most important assets, with 2,500 places across Canada where you can buy our products and services. And then there was a digital distribution model that were almost two solitudes.

What we've seen happen through COVID out of necessity-- and it's accelerating this integration of the two. So Tony just talked about a couple of examples, and there are many different customer journeys where they may start online or start in a call center, and they end up in a store or end up on your doorstep with virtual assistant or digital assist. So we've taken all these tool sets, put them on the table, and re-architected what are the right journeys and approaches to serve different types of customers.

And then we're finding it's working really well, and we're getting some great response. We're getting a great customer satisfaction feedback, and we're leveraging the power of-- I call the power of and. Historically we talked about digital as an or, an alternative to the physical channel. And now we're really kind of creating this integrated approach, which is a bit of each depending on the customer.

Some people want someone coming to their home, the pro on the go model, taking them through everything they need to do. Others want to complete self-directed installation. And some may want something in the middle, where there is video support on their terms, on their schedule to help them with whatever they might be doing. And I think it's good for the industry. I think this is good for our margin profile, and we're going to continue to see dividends from this not just now during COVID, but in the quarters ahead as we continue to kind of push on this new operating model.

DAVID BARDEN: I mean, it makes a lot of sense to hear you say that you want to follow the customer and give them the journey that they prefer. And increasingly it has a digital component to it, but for a really long time, Rogers articulated a view that the physical distribution dominance of the company was part of a big moat around market share and subscriber acquisition. And so can you really have it both ways? If



the cluster is migrating to a more digital marketplace, are we starting to fill in that moat a little bit and give competitors more equal footing?

JOE NATALE: I don't think so. I think that-- the question I ask in a way is-- is mall shopping done? Is it over?

And I don't believe it is. I think mall shopping has changed in its dynamic. Even with COVID, there are lineups outside of stores right now. Even with COVID, there are people that want to come in, and transact, and see a human face, and be walked through, and talked through the options. And these are all sort of age and demographic groups.

I think the key is to have the agility and flexibility to offer both and do so in a meaningful way. So if I send someone to your home-- maybe you'll want to come to the store, but I send the store to your home. Essentially what pro on the go is for us is bringing the store to you. The person has capabilities, accessories to do exactly what would happen in the store, but from the car.

If I send the store to you through a video chat or video app, it is still that personal touch. So we're not-- we're not abandoning any of those constructs. We're just virtualizing them. No different than this conference today. It has been done through the power of virtual technology, both video and audio, that creates the intimacy and the insight. Otherwise we could just write about what we're doing. People could read it. So I think that will continue, and I think that mall shopping is a social construct that will not go away. And as we come out of COVID-- and we will-- I think it'll be back in full force.

DAVID BARDEN: Got it. So I have a provocative question from an investor. And it is why do Rogers's peers always point to them as the price aggressor? Is it true? Why or why not?

JOE NATALE: It's not true. It's something we watch very carefully. It's something we look at. I get a competitive intelligence report on what's happening every day, and we meet with the various business units every Monday morning to figure out what happened on the weekend and who did what.

It is a competitively intensive industry, period. Always has been and always will be. I would tell you that, yes, there have been times throughout history where we have led in particular areas, but we are not-- we are not the price aggressor this quarter, nor have we been for the last many quarters.

And our view is focus on value, be agile in the marketplace, be there with distribution strength as a whole, but balance the acquisition of customers with the desire to keep the economics in check is sort of our mindset. And in a market that has full players in





each region, there's bound to be someone in a particular quarter that is not happy with the way things are going and will address. And that's just the nature of competition. But you can rely on us to kind of be there and meet that aggression with the right reaction along the way, and that's sort of our mindset and philosophy around it.

DAVID BARDEN: Got it. So let's talk about the actual kind of price aggressor in the market. Shaw Mobile launched their new price plan. It's particularly attractive in the west when bundled with their broadband proposition. Have you seen any impact on your business from that? How do you think that that unfolds?

JOE NATALE: I'll start, then ask Tony to comment. We have a number of competitors in western Canada-- all of them in our wireless business. We've got three brands that we fight with in the marketplace. There is the largest premium brand. There is our Fido shopper brand, if you want, as we call it. And then there is the Chatr brand as a whole.

And we're doing well in western Canada. We have not seen any remarkable shift or a change from that perspective. And bear in mind that we've got some really strong presence in places like Vancouver with the Fido brand, et cetera. And we feel we're in a good place, and we've got the ability to compete. So I'm going to pause there and give Tony a chance to chime in.

TONY STAFFIERI: When we look at the those types of aggressions in the market, we always sort of debate to what extent do we follow or not? And closer inspection of that specific plan, there was the Shaw wireless brand, it really was intended to, as they would say, really focus on the bundling with home internet. And when you looked at the combined price, it really was the equivalent of the combined price on the freedom plan and internet.

And so it was just a different way of putting in the price. And so I think what we saw was it was pretty much contained. However, it did cause a bit of what I would call price aggression to spark up from other players on the flanker brands. And you saw a little bit of that play out in the early days and continue well up until now, frankly. So some of the-- so we aren't seeing, as Joe said, any tremendous or significant impact from it directly in terms of volumes for us, but rather what we do notice are those types of plays having an impact on some of the competitive price dynamics that they caused, especially on the flankers.

DAVID BARDEN: Got it. And obviously there's two sides to price competition. One that you've been focused on since you could move to EIP last year has been handset subsidies. Can you kind of share how that process is unfolding. Is the market moving in the right direction? And then kind of related to that, how big a dogfight do you anticipate the iPhone 5G launch might prove to be in the Canadian market?





JOE NATALE: Sure, Tony, you want to take the first one, and then I'll talk about the iPhone dynamic.

TONY STAFFIERI: When we launched the EIP program just over a year ago back in late June and into early July of last year, we had quoted them on a number that the amount of equipment subsidy or promotional pricing off the cost of the handset that we were absorbing for us on an annual basis was between \$800 and \$900 million. And so given we're all competitively priced, it's a similar impact adjusted for volume for the rest of the players in the industry. And clearly it was an opportunity to not only look to that, but also present plans in market that were just simpler for customers.

And we've seen it play out well in the US, and that's really what we were after. If you were to fast forward where we are at a year and a bit after that, I think we're pleased in that the amount of subsidy per handset has come down, and it's varied on month and quarter, depending on the promotional items there. So directionally, it's gone in the right space.

However, the quantum is probably less than we were anticipating or aspirationally hoping the market would go to, and that's just part of being in a competitive landscape. Especially around quarter end at the end of Q2, and sort of bubbling up in back to school we saw some aggressive offers on handsets. Again, not to the level we would've seen in prior years, but somewhat close. And so a good direction for us and the industry. But still opportunity for more.

JOE NATALE: But David, with respect to the iPhone, it's important to bear in mind a couple things. One is we have the largest iPhone base in Canada and typically do about half the volume, more or less, in terms of iPhone in Canada. And it's a very important part of our premium base as a whole. It is much anticipated around the arrival of a 5G iPhone. And as we learn more, of course, we'll lean into it as Apple is more clear around announcement timing, features, et cetera.

But I would say we've been getting ready for that for a long time. It's not just about the device, but we launched unlimited a year ago, and now we have over 2 million unlimited customers. We launched 5G early this year, and now we have 50 5G cities in Canada with 60 by year end. And we just finished talking about our agility and flexibility around channels, both bricks and mortar and digital channels.

So we believe that we're well equipped to take advantage of this big move. The move is 5G, and new 5G devices, especially an iconic iPhone device. And it's important to have all the pieces to have the capability and quality of our network. And we have seen recently the Umlaut results in terms of the best performing, most reliable network in Canada.



We've seen our foot on the gas with respect to unlimited at roughly 2.1 million now unlimited customers. And we've seen the largest footprint of 5G hands down in the country all coming together towards the crescendo of iconic devices coming to the market as Canada enters the 5G world. Next year it'll be a very important spectrum auction with 3,500 megahertz spectrum, which will be the next installment in the 5G plan and strategy for the Rogers organization.

DAVID BARDEN: And just with respect to the unlimited plan, there's kind of two forces. There's the overage going away, customers kind of migrating from existing plans to unlimited plans. And then there's metered plan customers migrating up to unlimited plan. On a net basis, is that generating positive or negative pressure for Rogers?

JOE NATALE: Sure. Tony, do you mind just walking through the up versus down economics? Something we watch very carefully, and that is something we've talked about over the last year, certainly, but absolutely happy with where it's going. And Tony will kind of unpack it for you.

TONY STAFFIERI: Yeah, the migration economics continue to be positive-- very positive. Early on, we saw a majority of upgraders versus downgraders. That's what hit us early with the overage melt. Over time what we're seeing-- much of the downgraders have kind of worked their way through, and so we're really left with the majority now being upgraders, but the volume has slowed just because the use case for it kind of slowed during Q2.

It picked up as folks started to move outside of the home and continue to use some of the data consuming apps, and, in particular, video. That sort of caused a bit of a resurgence of some of the demand for unlimited. And so for that segment of the market, it continues to work well.

But what we are seeing, though, is because of some of these competitive dynamics in the flanker brands, some of the value propositions there we think are dampening some of the upgrade migrations that we would have otherwise seen. And that's probably a temporary phenomenon as we work through some of the-- these competitive periods. So the unlimited construct is still a very good one. It's just the timing of the migrations, I would say, are what we're seeing as the most impacted right now.

DAVID BARDEN: Maybe this is part of an explanation, but another investor question was, Tony, can you put some context around the drivers for the gap in service revenue performance between yourselves and peers in 2Q which are temporary, and which may be persistent?



TONY STAFFIERI: Sure, absolutely. If we were to look at ARPU performance, for us, we've had a year on year decline in ARPU of 13% blended ARPU. If you were to unpack that-- and by the way, the competitors were similarly impacted by just a marginally lower amount. The biggest item-- there's really two items that continue to be the biggest difference. One is roaming. For us, in terms of roaming, we said that that's \$100 million a quarter for us.

International roaming for us is just a terrific franchise. We've led in that-- a number of historic reasons for that-- and we're confident that, as the travel market opens up, the strength of that part of our franchise will come back, as well. But nonetheless, it is an impact in the current period. And so you saw us being impacted more than our competitors. Each of them disclosed their impact on roaming, and so there is a difference between us on that.

We were all impacted by volume related revenues-- things like activation fees. And so that was common across the industry. To the extent, though, that we've always had a bigger acquisition machine and led strong on gross adds, that's typically where you see some of these volume related fees largely come in, often on an upgrade.

You tend to waive those for existing customers, and so just given our propensity to focus more on new customers proportionally, some of those activation type fees or volume related fees had a slight impact on us. And then finally on overage, that was one that we said as we led with overage and continue to make sure that our value proposition for the unlimited plans was going to lead the market, we would see the most dramatic drop in overage revenues. And that is what you've seen play out.

I talked earlier about some of the slowdowns that have happened in terms of number of migrations, but nonetheless slowed down relative to our expectations. We continue to lead by a large number, the number of customers that have moved to unlimited, and we continue to be convinced that, in the long term, more customers are on unlimited, the better lifetime value economics that we'll have for our portfolio. But that is one that we've had more of an impact than the others. And another way to say it is we continue to see it as a short term versus long term trend.

So those are really the key pieces of it come back to what's our underlying ARPU doing when we unpack roaming and some of the COVID related impacts. And we continue to be pleased with where we stand.

We thought Q3 was probably going to be a turning point. Some of the delays that we've talked about, some of the promotional activity on flankers have dampened that. And so the underlying probably won't be net positive in Q3, and if we're putting it relative to competitors, then, at least based on Q2, they're underlying ARPU we know is even further lower than ours on a year on year basis. So while we're behind where



we want to be, and it may take another quarter or two, we're confident that the underlying ARPU profile continues to be better than the competitive landscape.

DAVID BARDEN: So Tony, that was a good answer. Thank you. We kind of ran out of time. So I had lots of other questions on regulation, and media cable, and we're just going to have to do that next time. So I'd like to thank Tony and Joe for doing this, and being a part of our conference.

And for everyone who joined, thank you. If we didn't get to your questions, I apologize. We're happy to follow up after the conference, or you can follow Paul Carpino, who is the head of IR at Rogers.

Thanks, everybody, for your time.