

RBC Global Technology, Internet, Media and Telecommunications Conference

Company Participants

- Joe Natale, President and Chief Executive Officer
- Tony Staffieri, Chief Financial Officer

Other Participants

- Drew McReynolds, Analyst

Presentation

Drew McReynolds {BIO 5468971 <GO>}

Well, good morning everyone and welcome to today's session with Rogers Communications. My name is Drew McReynolds, on the RBC Capital Markets analyst, that covers Canadian Telecom and Media. Very happy this morning to have the Rogers CEO, Joe Natale with us; as well as CFO, Tony Staffieri. Joe and Tony, welcome.

Joe Natale {BIO 6407853 <GO>}

Good morning. Drew. Thanks for having us. Nice to see you again.

Drew McReynolds {BIO 5468971 <GO>}

Nice to see both of you. I'll start off just putting Tony, a little bit on the hot seat here although not really a hot seat. Tony on the conference call a couple of weeks ago, you provided some good directional color on what investors should expect in terms of the business playing out for the rest of the year. Maybe you can recap your thoughts there and then we'll go back to you, Joe, and then jump into wireless.

So Tony, over to you.

Tony Staffieri {BIO 6566699 <GO>}

Sure. Thanks, Drew; and good morning, everyone. What you heard on the call was, and you saw in our results in the third quarter was a very good bounce back in our financial and operational metrics as the markets picked up in wireless and to a lesser extent in our cable business.

And what we highlighted then as we look to the fourth quarter, you should expect to see continued sequential improvements across all our businesses on the wireless side, what

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you saw in the third quarter was good sequential improvements in the year-on-year declines, and you'll see that in Q4 as well in terms of the revenue impacts, we've been trying to be as transparent as possible.

In Q3, we had \$90 million of roaming impact and \$50 million of overage impact. In Q4 we expect those numbers to be \$70 million and \$40 million respectively. That, combined with some good improvements in the underlying ARPU, other continues to happen, we'll see a good sequential decline in both service revenue as well as ARPU, blended ARPU for the fourth quarter.

Notably as well, in wireless, what you saw was strong margin expansion in the third quarter notwithstanding the revenue declines. And so, you should expect that to continue into the fourth quarter, so really pleased with the financials and on the metrics side, we continue to execute well in the market on the subscriber front. And on the cable business what you will see come through some of the price increases, as well as other improvements we've made to our ARPA. And so you'll see good ARPA and revenue increase in the fourth quarter. So again, good sequential improvement there, accompanied by a strong margin expansion as well. You saw that in the third quarter and you'll continue to see that in the fourth quarter.

And then finally in our Media business, it will be a bit of a quiet (inaudible) because there isn't much sports broadcasting. So we won't see the revenue, but we won't see the cost either. And so from an EBITDA perspective, think about it as roughly flat to what you saw in Q3, maybe a touch better, but still an improvement from what we saw in Q2 of this year.

So in a nutshell, if you put all that together, cash flow will continue to be strong and we're not going to be materially off of, if not in line with the guidance we provided at the beginning of the year on cash flow. There is a few things on 5G we're trying to push ahead strongly on. And so, we may put some money into 5G in the fourth quarter now that we're in the final six weeks and that might reduce cash flow a touch, but generally in line with what you would expect it. Thanks, Drew.

Drew McReynolds {BIO 5468971 <GO>}

Fantastic recap and it sounds like directionally all heading in the right direction. Thank you, Tony. But you mentioned 5G, so nice kind of segue, over to you, Joe. I think what is notable from my perspective in and around 5G as it pertains to Rogers right now is fairly good alignment, I believe, you will say by design between where you are on migrating to unlimited plans, new IPs, you obviously have a very big iPhone base here in Canada against the backdrop of a nice upgrade cycle. And your 5G coverage impressive to see how fast it's expanded frankly this year. Maybe comment on how things are going on the 5G front and with this alignment that's all come together, what you see in terms of monetization, not just here in Q4, but obviously kind of more broadly speaking into 2021?

Tony Staffieri {BIO 6566699 <GO>}

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Yeah. Thanks, Drew. We're really proud of the advancements we've made on 5G both in terms of network, but also in terms of our customer base and pricing structure, et cetera. We've been working this file now for a long time and it was our goal to really lean into the 5G opportunity as we've watched it mature, evolve all across the world. And it started with the desire to pick the network partner Ericsson, that could help us advance our efforts as we implemented LTE Advanced, and we're ready if you will to light up from a software point of view, 5G and you saw us do that very quickly this year as we went from zero to 130 cities and towns across Canada with a 5G footprint, that's about 10x our competitors.

At the same time, we launched unlimited just over a year, almost a year-and-a-half ago. And the idea there is that it would be a shame to have a 5G network in Canada, but have 3G and 4G rate plans in effect for customers that would really want to avail themselves of 5G. And so, we needed to change the overage regime in Canada and take a very different approach. An approach that would enable customers to have peace of mind as they became more and more predisposed to utilizing their mobile devices and living the mobile lives.

And as of now, we have about 2.3 million customers on those rate plans. The only way to get 5G service is on those rate plans. And we are going to keep marching down that path. We think the natural settling point is somewhere around 3 million subscribers on those rate plans as a whole, somewhere in that zone. So we're pretty much through the bulk of the migration that we had anticipated. And also the overage melt that kind of went with it along the way, but we're seeing a really good profile on those customers in terms of increased ARPU, better churn profile. As a result, much better lifetime value, lower cost to serve in terms of propensity to call us et cetera, et cetera.

The other thing we did is we led the way on EIP, and that has proven to be an economically sound strategy that is continuing to offer capability as we march in the 5G. Two of the few other points on 5G, we've got a great spectrum portfolio, the low frequency spectrum for 5G of the gate is 600 megahertz and we've got a sizable 80% of the available spectrum frankly across Canada. That's really helped in lighting up 5G and we already have a sizable portion of 3.5 gigahertz spectrum available to us and in advance of the auction next year. You've heard me say before that part of owning a coast-to-coast network and managing our destiny on that front allows us to kind of lean into 5G even more heavily on our terms on our schedule, our approach as a whole. And I think that's a big part of the advantage that we have here.

In terms of where 5G will take us in monetization strategies, I've always looked at it as kind of a sequence of four particular capabilities or monetization opportunities. The first one, is really for ourselves. And I would call that carrier return on investment or unit cost improvement, because the technologies within 5G our ability to deliver bandwidth with different spectrum aggregation capabilities, the different sort of massive MIMO capabilities, et cetera, the delivering a unit of bandwidth at a lower cost gives us far more CapEx bang for the buck. And that is a very substantial monetization opportunity. It's not directly consumer related one, other than the fact that it allows us to deliver things on a lower unit cost and therefore compete more effectively in the marketplace.

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The second area is around retail consumers, who are seeking faster speeds, higher data consumption. Our Infinite customers are consuming about twice as much data as those other Rogers customers who are not an Infinite, and that will continue. If you look at data consumption across the globe, from Korea at 30 gig per month, the U.S. at an order of magnitude greater than Canada and everyone in between that is developing 5G, that data consumption will continue, will continue to grow. And what you'll see us do is evolve our rate plans into more service tiers. If you take a look at some of the carriers have done that, they've distinguished service capability whether it's video quality or other services at different tiers in the 5G stack. And you'll see us evolve in that direction. That's the second place where 5G comes to life, especially as 5G iPhones are out 5G high-end Samsung devices are out like the handset ecosystem is all about 5G right now, so that is very timely and it's a pole position item for us.

The third area is fixed wireless access. And we think there's an opportunity there to serve certain parts of Canada, where fixed wireless is the right answer, where bearing fiber is economically hard to do and therefore fixed wireless provides a capability that conserve businesses and homes very well. And again, we've got the opportunity to do that at our pace and as we see fit across the country as a complement to our business both wireless and cable and fiber for that matter as a whole. And we think that is beginning to evolve very quickly and we already have work underway on that front.

And the last one is the one that people talk about the most and that is on the B2B side. And this is the one that's just starting to emerge on the B2B side and steeped in Edge computing and software-defined networks slices in mobile. There is a big opportunity there. And our vertical focus really very much mimics Canada. We're going to -- we're focusing very much on the resource energy sector, mining, transportation, smart cities, manufacturing, et cetera. And hard to create solutions established partnerships that matter on that front.

So there is kind of once a round on 5G in terms of our thinking. We think it's a secular change. We think we're making all the right investments and we feel comfortable with the pace in driving forward on 5G.

Drew McReynolds {BIO 5468971 <GO>}

Very thorough answer there, Joe. On those before I see in wireless competitive intensity question and a little bit more near time term dynamics, is there one of those four factors that do you think given all the internal examination of the 5G opportunity, is there one of those four factors that investors are perhaps underestimating or overlooking, is there kind of one or two that are the bigger growth opportunity here looking out over the next decade?

Joe Natale {BIO 6407853 <GO>}

I think, I would encourage investors to look more deeply at the CapEx bang for the buck argument around just the ability to deliver bandwidth lower unit cost, because that has a very direct and real impact in the short to medium term. And the retail side of this is really about keeping pace with customers appetite for data and then will evolve into service tier

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is not encourage investors to look at Verizon, how they've structured their 5G plans or their wireless plans on the Verizon brand that have service tiers, I think that will naturally drive ARPU lift as we get 5G adoption going.

And then, in the other areas, I think, it's more of a medium to longer term situation with respect to the B2B opportunities. There is good opportunity there, but the adoption will really vary a lot by industry. And there I would encourage investors to look industry by industry to see what is the trajectory and what is the impact that it can have. And some of the areas may be less obvious, because we all hear about connected cars and things of that nature, but network slicing down the road, we think there is a big opportunity.

We're already seeing some of that happening in the resource sector and that is dedicating or devoting a piece of our network to a business. So rather than running wires through their operations and building a sophisticated bulletproof Wi-Fi network, they can buy a virtual software-defined slice of our network on a per fee basis and we get to extract the return on capital from that network slice that wouldn't have been there otherwise. And that displaces investment in hardware and cabling, all the other things that go on in manufacturing facilities and all kinds of business operations.

I really have a lot of excitement around that opportunity. It's a little further down the road, it requires a 5G core, which we're working on. And it require some of the other Edge computing capability that we've been talking about, but it's not like it's in the horizon in the next decade, it's squarely in the middle of that time period.

Drew McReynolds {BIO 5468971 <GO>}

Super. Shifting gears a little bit here, but staying within wireless, if you kind of lift off into this 5G environment, are you still on track to largely complete your migration to unlimited plans we've -- at Q3 call you said by Q2 of next year. Also provide an update if you can, on what you're seeing in terms of upward versus downward migration. And overall I think all the operators as they're making this migration are still complaining a little bit that there's too much handset subsidy or discount out there in the market. Maybe provide an update on that state of affairs and promotionally what you've seen so far in October and November?

Joe Natale {BIO 6407853 <GO>}

Okay. I'll take the first part, then I'll ask Tony to comment on the handset subsidy piece both in general on what we're seeing since we launched the IP and more recently in the November timeframe, et cetera.

We are on track to your question through to work our way through the migration to Infinite. Let's say, we have 2.3 million customers on Infinite right now. The overage revenue melt that we anticipate in Q4 will be down to about \$30 million, down from the \$50 million in Q3. So think of it kind of flattening out to the long tail through around the middle of next year. We just kind of already started our analysis. If you recall, we said it will take six to eight quarters from launch and then we had this incredible acceleration and we

said, maybe it's four to six quarters and then COVID came along and we kind of elongated again six to eight quarters, and that's kind of where we're at.

And we're seeing the economics we anticipated. Right now, the volume of ups versus downs is still highly positive. The average unlimited customers giving us about \$20 of increased ARPU compared to a similar customer on legacy plans or we're not comparing different types of customers comparing the same types of customers, although the cohort of legacy playing customers is getting smaller and thinner overall. But the real benefit lies in the lifetime value substantially lower churn, significant double-digit basis point improvement in churn, and therefore, as a result, better lifetime value and they're calling materially less than other customers, because there's not really a lot to call about in terms of billing.

If you look at why customers call us, the vast majority of phone calls had to do with billing and payments. So the billing impairments calling profile of these customers is materially stronger than any other customer in our base. So those economics are coming through. You heard me talk about simplicity dividend when we launched. It's coming in pretty much where we expected around the simplicity dividend and it shows up in some of our margin expansion that you would have seen in Q3, as a result and more to come on that front.

Let me pause there and ask Tony to about equipment subsidy. Tony, I think you're on mute.

Tony Staffieri {BIO 6566699 <GO>}

In terms of the instalment plans, as Joe alluded to earlier on the call, if you look at over the last year from when we launched this back in July of last year, what we saw was a gradual but very quick move to discipline in handset pricing, so that by about mid-first quarter of this year in the Canadian context everyone had moved to instalment plans and discounting was very small. And Q2 was low volumes, so hard to read. But if you look at Q3, you can see that amongst all the players and frankly, the equipment margin on the financial statements for the first time in a long time, if ever, was positive.

And so, when you take into account the MSRP, take into account funding from OEMs, I would say the cost of handset has moved substantially from where it used to be. And so, a big plus for the Canadian industry and a big plus for our financials, as we look to Q4 what we're seeing is much of the competitive intensity continues to be around the rate plans rather than around handsets. And we think that's sort of healthy as we look to the overall economics for the customer. The market continues to be balanced in making sure that we are not seeing discounting all around, but in a more balanced way. And as I said, right now, it seems to be focused on the rate plans.

Drew McReynolds {BIO 5468971 <GO>}

That's great color. Just looking at the time here, I'll do one last wireless question, maybe to you, Joe, on the regulatory front. I'd like to get your updated thoughts here. It's been

what appears to be pretty good collaboration with the government, little bit of a different tone even coming from Ian Scott yesterday at the Canadian Telecom Summit very, very thankful for the Canadian industry and stepping up to the plate over the last seven or eight. From your perspective, where do you think the regulatory temperature is here for the industry? And any updated thoughts on your expectations, the outcome of the wireless review?

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Joe Natale {BIO 6407853 <GO>}

Well, first of all, I would say that our relationship with both government and the regulator has never been better. And COVID provided a bit of a litmus test for the quality and capability of Canada's networks. And what became clear to everyone is that our world-class networks delivered in the face of incredible pressure and incredible importance. These are networks that were built on a facilities based competition policy and it's also not lost on anyone observing that it wasn't the case in all parts of the world as demand spiked to 50% to 100% greater almost overnight and peak levels were happening all day long versus just evenings and weekend mornings.

So the lifeline provided by network capability has never been more understood and more appreciated. And at the same time, I would say that the challenge around rural connectivity has never been more emphasized and profound, 10% to 15% of homes in Canada don't have -- either have no Internet or very poor Internet and that's an economic issue for the future of Canada and it's very difficult to close the gap on that's why you're seeing all those funding and support from governments at all levels to help close the gap on the digital divide.

So I think all that comes together to say that more than ever I feel we're sitting on the same side of the table, looking at the opportunities and the challenges and looking at ways of closing the gap and solving it. That can't help but lead to better regulatory outcomes is my view, Drew. I can't predict exactly what's going to happen. There are lot of things to kind of come to light in the months ahead, but the pretext for the level of collaboration I think is a great pretext for what might happen and the nature of the relationships have never been stronger as a whole. And that's sort of the thinking that we have at Rogers, and that's generally viewed by the industry.

Drew McReynolds {BIO 5468971 <GO>}

Super. Maybe I'll squeeze one cable question in here for you Tony. On the margin expansion story in cable, I think, investors continue to be impressed by cable margins generally in the industry sure, but where you've been able to accomplish given all the moving parts underneath the hood over the past few years, it struck a lot of folks I think in Q3 and as we go forward that there is still some margin expansion to come, maybe comment on that trajectory and what you see?

Tony Staffieri {BIO 6566699 <GO>}

Absolutely. Very pleased with the progress we're making on cash margins. It was not long ago that we were less than 5% cash margins and we had a goal to be 25%-plus range by

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Q4 of 2021 and we're tracking well ahead of that and you saw good margin, cash margins of 29% in Q3. You ought to expect to see good solid cash margin expansion in Q4 and into 2021. Our capital intensity has come way down and it will be in the 20% to 22% range for the next little while, owing to a couple of things: efficiency in our network spend, notwithstanding that we continue to invest heavily in footprint expansion as well as fiber. And the second piece of it is CPE coming way down, and then finally, we've talked about self-install being a huge success for us in terms of cost improvement that is the CapEx line. So that has come down. And when you combine that with the margin expansion at the EBITDA level that we are experienced putting those together, we're feeling pretty good about cash margins in the cable business continuing to be at current levels and possibly higher, blowing [ph] it too far ahead of ourselves into 2021, but the business fundamentals are good from that perspective.

Drew McReynolds {BIO 5468971 <GO>}

Super. Joe, maybe...

Joe Natale {BIO 6407853 <GO>}

Just one quick comment, if I could, Drew. I'll be quick. I think overall -- we are bullish on next year. We see market expansion opportunities in both wireless and cable, especially as immigration ramps up, immigration is meant to be up 25% next year over 2019 levels. And housing starts continue to kind of ramp. And then you add to that ARPU recovery in wireless based on roaming and overage, et cetera, and then what we're seeing in terms of the value and impact of our Ignite platform on cable. And then the third thing I'd say is, it's the strong execution in a strong market. The team has done a great job of really driving execution, driving high-quality sales capability and then expanding margins to boot on top of that. You couple that with our strong balance sheet, and our free cash flow, especially when our dividend payout ratio is below 50%, we have the cash we need to pay the dividend rent, but also the cash to make capital allocation decisions for the future. And I think it's a very powerful sort of free pack for us as a company.

Drew McReynolds {BIO 5468971 <GO>}

Well summarized. As a final question, Joe, and certainly have to ask today is last day before the Cogeco offer expires maybe as a housekeeping note at this point, any update you want to provide investors on that, as well as your Cogeco stage?

Joe Natale {BIO 6407853 <GO>}

Thanks, Drew. We're disappointed that we didn't get the ability to engage with either the Audet family or the Cogeco boards on what is a terrific offer, highly valued offer, but it just wasn't meant to be, it wasn't in the appetite to follow-through or pursue it on their part.

And as I've been discussing today, we're at a once-in-a-generation crossroads in our industry, and we're making capital allocation decisions around 5G or making capital allocation decisions around our footprint expansion in fiber, different parts of the country, et cetera. So we are going to keep looking at our capital allocation. And as I said before,

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we'll go back to our Board and have a discussion around next steps and look at our capital allocation priorities as a business and move forward.

But bear in mind that we were spending -- we're spending the absolute majority of our time, every part of our time focused on driving the business forward and the execution that I talked about a few minutes ago. And in the meantime, we continue to leverage the business we do have in Quebec. We've been there for 35 years and we're going to continue to build on that business. And as we figure out our next steps here, we'll be happy to come back to the investment community on that front.

Drew McReynolds {BIO 5468971 <GO>}

Appreciate those updated thoughts. So with (inaudible) time, Joe, Tony, thank you very much for joining us this morning. I thought that was a great session and lots of good detail provided. So wish both of you all the best and look forward to seeing how things unfold in the remainder of the year and into 2021. Thank you.

Joe Natale {BIO 6407853 <GO>}

Thanks, Drew. All the best to you and be well.

Drew McReynolds {BIO 5468971 <GO>}

Thank you.

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