



Rogers Communications Inc. Third Quarter 2021 Results Conference Call Transcript

Date: October 21, 2021

Time: 8:00 AM ET

Speakers: **Paul Carpino**
Vice President, Investor Relations

Joseph Natale
President, Chief Executive Officer & Director

Paulina Molnar
Interim Chief Financial Officer

David Fuller
President, Wireless

**Operator:**

Welcome to the Rogers Communications Inc. Third Quarter 2021 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.

I would now like to turn the conference over to Paul Carpino, Vice President of Investor Relations with Rogers Communications. Please go ahead.

Paul Carpino:

Thank you, Ariel. Good morning, everyone, and thank you for joining us.

Today, I am here with our President and Chief Executive Officer, Joe Natale; our Interim Chief Financial Officer, Paulina Molnar; and our President of Wireless, Dave Fuller.

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 2020 Annual Report regarding the various factors, assumptions, and risks that could cause our actual results to differ.

With that, let me turn it over to Joe to begin.

Joseph Natale:

Thank you, Paul, and good morning, everyone.

Today, I'll take you through the highlights of our third quarter, then I'll provide more details on our priorities and how we are meeting the needs of our customers. I'll also talk about how we are well positioned to drive long-term growth, before turning to Paulina Molnar, our Interim CFO, for a more detailed commentary on our financials.

As many of you are aware, Paulina assumed the Interim CFO role with us late last month. She has been with Rogers for 16 years, most recently serving as Senior Vice President, Controller, and Risk

Management Lead. Paulina brings 26 years of industry experience to the role and we're very fortunate to have her leadership at our table. I'm very grateful for Paulina's contribution.

Before we begin, I want to briefly touch on the recent reports in the media. As you know, Board discussions are and should remain confidential, so we will not be providing commentary on Board meetings, and we'll focus our discussion on our strong Q3 results and the improvements we are seeing across our business.

As we move through the final few months of 2021, the economy is opening up, travel restrictions are easing with the planned reopening of the land border with the U.S., and we are all encouraged to see more of life return to pre-pandemic routines and experiences. As we recover from the pandemic, the improvements across our business are clear and my leadership team and I remain fully focused on continuing to build on this momentum and growth over the coming months and quarters.

We delivered strong results in Q3 with continued improvements across all of our businesses, led by a very strong recovery in wireless. Our wireless postpaid net loading service revenue growth, blended ARPU, and impressive wireless postpaid churn rates all improved during the quarter. Notably, our 175,000 wireless postpaid net additions were well above the levels seen prior to the pandemic in 2019. In fact, Q3 reflects our strongest quarterly wireless postpaid net loading since 2008.

Multiple factors drove these improvements. First, as the economy continues to open up and people become more mobile, we are seeing pent up demand for new phones and our services.

Secondly, to meet this increased demand, we have been able to leverage our strong national distribution network as customers return for the in-store shopping experience.

Additionally, the investments that we have made in our digital capabilities continue to pay strong dividends, enabling us to support the needs of our customers through convenient digital purchasing options, which have never been stronger for the Rogers organization.

Finally, our ongoing efforts to lower churn and better manage our base continue to pay off. This is reflected in our 0.95% wireless postpaid churn rate, which was a record low for the third quarter, despite the highly competitive back to school selling period.

Importantly, these improvements are flowing to the bottom line. Wireless service revenues continue to recover and was up 3% year-over-year. Blended ARPU of \$51.31 is also improving and was ahead of our previous expectation for the third quarter of \$50.

This was aided in part by some modest improvements in roaming revenue as people have begun traveling more. While our roaming revenues remain substantially below pre-pandemic levels during the quarter, this increase in travel extends to the land border with the U.S., which will reopen early next month to non-essential vaccinated travelers. Coupled with improving international travel, we expect to see sustained roaming revenue improvements in the coming quarters.

Turning to our cable business, we delivered year-over-year revenue growth of a solid 3% and Adjusted EBITDA was up 2%, both of which were in line with our expectations. This was achieved despite our decision to postpone price increases as we continue with our capital spending to connect more communities and businesses and bridge the digital divide that effects underserved Canadians.

On a product basis, our Internet net subscriber additions include 17,000 net new broadband subscribers and our Ignite TV platform growth remains very strong, attracting an additional 64,000 subscribers in Q3. This now brings our total Ignite TV base to more than 730,000 subscribers, an impressive 55% increase compared to just a year ago. Our Ignite TV platform, combined with our Ignite Internet Gigabit 1.5 service, continues to be well received by our customers.

Finally, in our sports and media business, revenue was slightly below the prior year and Adjusted EBITDA was positive. Both of these were in line with our expectations.

While we remain focused on delivering improvements as we move past the impacts of the pandemic, we also remain committed to making the right investments to deliver long-term value to our customers, to our shareholders, and for Canada. Our consistent focus on investments in our networks delivers incredible value to our customers.

A recent PWC report assessing the relative quality and relative cost to build telecommunication networks across the G20 nations found that while Canada faces the highest cost to build networks, we also continue to lead the group in the quality and capability of our networks.

Rogers' network leadership has been recognized consistently throughout the year. We were named the Best in Test for the third year in a row by Umlaut. Additionally, Opensignal ranked Rogers number one for 5G reach, for 5G availability, for the 5G voice app experience, and for the 5G gaming experience, and 5G upload speeds. Finally, Ookla, the global leader in fixed broadband and mobile network testing applications, recognized Rogers as Canada's most consistent, national, wireless, and broadband provider for the fifth quarter in a row.

These awards aren't just awards. They reinforce that our investments in our world-class networks not only keeps Canadians connected to what matters most today but will also help bring them the very best service in the future and for years to come. An example of this network leadership is our accelerated rollout of Canada's largest and most reliable 5G network. We now connect more than 850 communities and by the end of the year we will extend our 5G network to more than 1,000 communities, reaching 70% of the Canadian population with 5G.

The strong performance of our networks is underpinned by the strategic investments we have made in spectrum. This includes our success at the most recent 3,500 MHz option where we secured enough spectrum to cover 99.4% of the Canadian population. This spectrum builds on our foundational investments in low band 600 MHz and makes Rogers the largest single investor in 5G spectrum in the country, across rural, suburban, and urban markets. As we continue to lead in 5G deployment, we also remain committed to expanding fast and reliable Internet connectivity to communities across Canada.

In July, we announced \$140 million investment to deliver fibre technology to more than 20,000 homes and businesses in Quinte West, Belleville, and Prince Edward County. Last week we announced that we will invest over \$188 million to extend our fibre network to connect more than 24,000 homes and businesses in Ottawa, Clarence-Rockland, North Grenville, and Carleton Place. By the end of 2021, we will reach more than 500,000 households in rural and underserved communities. This not only helps rural and underserved communities, but it will also help drive future growth. We continue to work hard to expand coverage and high-speed capability to rural Canadians.

While I'm proud of our ongoing efforts to connect rural and underserved communities, we know more must be done. Fast and reliable connectivity not only enables people to learn and participate in the digital economy, it's also a critical lifeline, providing vital access to healthcare, social services, and

emergency services. The scale of the generational investments needed to address our country's ongoing connectivity needs is significant, which is why our agreement to come together with Shaw is so important. Together, our two companies will deliver world-class connectivity to communities across Western Canada faster than either company could ever do alone. Not only will this give rural, remote, and indigenous communities better and more comprehensive service, it will also create jobs. It will attract investment and drive greater competition for consumers and businesses. We continue our constructive engagement with the regulators as they review the transaction, and we expect the deal to close in the first half of next year.

Before I hand over to Paulina to give a more detailed overview of our financials, I'd like to thank the entire Rogers team; 24,000 team members across the country. I am incredibly proud to lead the team of people whose dedication and determination continues to deliver outstanding service to Canadians, and Canadian businesses, while continuing to improve our operations, manage costs, and deliver improving performance from quarter to quarter to quarter.

With that, let me now turn the call over to Paulina to share more details about the quarter. Paulina, over to you.

Paulina Molnar:

Thank you, Joe, and good morning, everyone.

Our Q3 results reflect solid improvements across our businesses, led by our strong performance from our wireless operations. In wireless, we delivered postpaid net additions of 175,000 or a 27% increase from one year ago. Impressively, these net additions were all smartphones. This healthy recovery in loading reflects the impacts of our continued reopening of the economy, the effectiveness of our extensive physical distribution channels and digital capabilities, and a record low churn rate for Q3 of 0.95%.

The strength of the wireless recovery can also be seen in our year-to-date performance where wireless postpaid net additions of 318,000 were 57% higher than the 203,000 in the pre-pandemic first nine months of 2019.

Service revenue improved 3% from last year and ARPU was \$51.31, up 4% sequentially from Q2. The sequential service revenue and ARPU improvement reflect the better loading environment, as well as some additional roaming revenue. However, roaming revenue still remains at about 50% pre-pandemic levels given lower travel.

Finally, wireless Adjusted EBITDA was up 2% and Adjusted EBITDA service margin was strong at 65% in Q3.

Our cable business continued to deliver solid financial results. Total revenue grew 3% and Adjusted EBITDA was up 2% year-over-year. Cable margin was a strong 51% and capital intensity was 23%. Cash margins remained at a healthy 27% in Q3.

We continue to see growth in our Internet and Ignite TV subscriber base. We added 17,000 broadband additions within our overall net Internet additions and Ignite TV subscribers grew by 64,000, 68% more than Q3 last year. Impressively, our Ignite TV subscriber base now stands at 732,000, a 55% increase from one year ago. Overall, with these additions we grew our net households by 8,000.

Moving to our media business, we continue to see the volatility of the pandemic on broadcasting, advertising, and Blue Jay game day revenue but underlying operational trends are improving as the economy opens up. Media revenue was \$473 million, down 3% from a year ago. This was driven by lower advertising and broadcasting revenue associated with the NHL and NBA completing their seasons late in the third quarter last year. This decline was partially offset by the higher Toronto Blue Jay game day revenue that resumed this year but still well below typical pre-pandemic levels. While year-over-year comparisons of Adjusted EBITDA are skewed by the pandemic impact to sports broadcasting schedules, Adjusted EBITDA returned to a positive \$33 million in Q3.

At a consolidated level, total revenue for the third quarter was flat on a year-over-year basis and Adjusted EBITDA was down 2%. However, service revenue was up nicely, growing 2% year-over-year. COVID-19 impact from Q3 was still notable with estimated impacts of \$112 million in revenue and \$117 million in Adjusted EBITDA.

Capital expenditures in Q3 were \$739 million, or 47% higher than last year. Year-to-date CapEx is just under \$2 billion, or 17% higher than 2020, reflecting capital intensity of 18%. As we have highlighted

throughout the year, increased capital spending is aligned with our continued commitment to investing across Canada. These investments are critical to building our 5G network and improving the digital divide to connect more Canadians.

Cash income taxes of \$175 million were up \$100 million from Q3 last year but consistent with levels reported in Q2 of this year. This represents a cash tax of 11% as a percentage of Adjusted EBITDA, higher this year given our transition to device financing.

Free cash flow was \$507 million, down 42% as a result of increases in cash income taxes and capital expenditures.

As of September 30, we had over \$6.4 billion of available liquidity. This includes \$1.6 billion in cash and cash equivalents and a combined \$4.9 billion available under our bank credit facilities and our receivable securitization program. Our weighted average cost of borrowings was 3.8% and our weighted average term to maturity was 12.4 years. Leverage was three times Adjusted EBITDA at the end of third quarter. Industry payments for the 3,500 MHz spectrum have been pushed further into the fourth quarter as the government works on clearing certain spectrum for wireless use in Canada. We anticipate that this will be completed in the fourth quarter, at which time we will pay for our spectrum and leverage will be approximately 3.5 times Adjusted EBITDA.

Let me now turn to our Q4 outlook, which continues to reflect positive momentum in our business. In our wireless business, our traditional retail distributions are fully open. Our digital capabilities are strong, and the economy continues to improve. Against this backdrop, we anticipate the healthy loading environment to continue in Q4, particularly given the holiday selling period. We believe service revenue will show solid growth on a year-over-year basis of approximately 5%. Despite typical seasonality in Q4, ARPU should grow 2% year-over-year. We anticipate our strong wireless Adjusted EBITDA service margin performance to continue at the 63% level and we expect CapEx intensity for wireless to be approximately 16%.

In our cable business, the Company has not implemented any price increase in 2021. However, we still anticipate revenue to be consistent with Q4 last year, or a 1% increase sequentially from Q3. Cable Adjusted EBITDA margins are expected to remain in the 51% range, and we expect CapEx intensity to remain at 23% as we continue to enhance our cable infrastructure and provide connectivity to more

communities. In our sports and media business, we expect revenue to grow on a year-over-year basis to just over \$500 million as more professional sports programming ramps in Q4. With this resumption of normal NHL and NBA schedules, we will also incur some additional programming rights and broadcast costs, so Adjusted EBITDA is expected to be negative by approximately \$35 million.

Finally, on cash, taxes, and free cash flow, we expect our cash taxes to be in the \$25 million range in Q4 and as we have paid the majority of our taxes in the first three quarters of 2021. We anticipate free cash flow to be similar to Q3 with somewhat similar CapEx spending.

Overall, we're very pleased with the improvements in our business as the economy continues to recover. Our team is executing well and as we move past the pandemic, we expect our results should more fully reflect the quality and potential of our wireless, cable, and sports and media assets. Let me now turn this back to the Operator to commence with Q&A.

Operator:

Our first question comes from Drew McReynolds of RBC. Please go ahead.

Drew McReynolds:

Yes, thanks very much. Good morning, everyone.

For you, Joe, just to be clear for shareholders, we see this morning the Board formed an executive overnight committee and is conducting a governance review, obviously at the support of the Board. Just three sub questions here. Have any strategic or operational priorities of the Company changed in any way? Do you see any impact on the Company's ability to close the transaction with Shaw? Then lastly, from your perspective, just any change in your ability or commitment to execute on what you intend to do looking forward?

Joseph Natale:

Thanks, Drew, for the question. Let me be unequivocal in my commentary. I've got strong, unequivocal support from the Board to direct the strategy of the Company that has been approved over the last many strategic sessions with the Board, to keep driving the operational initiatives that we have been talking about over the last many quarters that continue to drive the improvements and momentum that

you're seeing and to support the approach around the Shaw transaction. I'm feeling as comfortable as I have been in the past with the Shaw transaction, both in terms of our ability to get it approved and the synergies that stand behind it.

I feel supported and rest assured that the team, the entire executive team, is focused on two things. One, running the business to keep driving performance. Two, landing the Shaw transaction and the synergies and integration efforts that stand behind it. I hope that answers your question, Drew.

Drew McReynolds:

Thank you. Yes, that does, Joe, thank you. Just a follow up on wireless, clearly Q3 just hit the mark on almost every KPI, and it sounds like that momentum will continue into Q4. Maybe a question for Dave, just on the lower churn in the quarter, still not necessarily a fully normalized Q3 but impressive to see the churn reduction. Just, could you comment on whether that's a function of better base management? Is it a structural decline in churn? Are there other dynamics there on that drop? Thank you.

David Fuller:

Yes. Sure, Drew. Happy to cover that.

Yes, I think it's a number things and certainly we are pleased with what is really a record low churn number for us in what is normally a higher churn quarter, given the promotional activities that are usually underway in Q3 with back to school. I think I'd point to four things.

The first would be base management, as you said. I think the team has done a great job of effective base management that has helped with a number of structural improvements in how we manage our base and how we manage our customers.

The other ones I'd point to though would be Unlimited. As was said by Paulina and Joe, we're now at 2.9 million subscribers on Rogers wireless that are on unlimited plans. Therefore, not being impacted by significant overage revenues.

Secondly, the other key point too is if you look at the Fido base, which is a material component of our consumer base, roughly 85% of the Fido base are on data overage protection plans, which is the Fido's version of Rogers unlimited plans. Again, they aren't subject to overage unless a customer chooses to

buy a top up. With both of those two numbers you can see that the vast majority of our consumer base is on unlimited plans and what we've seen is you get somewhere in the range of a 25-beep improvement on churn, on Rogers wireless. If you look on the Fido base, we actually get almost twice that, in the range of about 45 basis improvement from customers on data overage protection. I think that's actually a very significant factor in this in the overall churn reduction.

The other two I'd point to is we've made a lot of service improvements to try to enhance our likelihood to recommend and our promoter scores and the team have done a great job of removing friction for our customers and servicing and supporting our customers, both in retail and in our call centres. That for sure has significant and material long-term benefits on churn for I think obvious reasons.

The final one I'd point to are the material and significant network investments that we have made in improving the quality and capability and coverage of our 5G network. We now have the largest 5G network, the most reliable 4G network and 5G network, and all of that is a significant material player in the service and experience value proposition that we deliver to our customers. I really think it's all four of those things coming together to create the record low churn numbers that you're seeing. Hopefully will continue as we go on to Q4 and next year.

Drew McReynolds:

Great, appreciate the detail. I'll pass it. Thank you.

David Fuller:

No problem, Drew. Thanks.

Paul Carpino:

Thanks, Drew. Next question, Ariel?

Operator:

Our next question comes from Vince Valentini of TD Securities. Please go ahead.

Vince Valentini:

Yes, thanks very much and my congratulations as well on those strong wireless KPIs.

One, I had a different question but I'm going to start with this just to follow up on something you just said, Dave. Any chance you can give us anything more granular on the net promoter scores, the likelihood to recommend in terms of how much has improved versus where it was before or how Rogers might now stack up with industry peers?

David Fuller:

Yes, in my view on likelihood to recommend, Vince, is you're never really done, right. It's an ongoing journey and good enough for me is when 100% of our customer base is willing to recommend our services to others. We're not going to disclose the exact numbers. I would say we've had pretty material and significant improvements in that metric over the last three to four years but it's nowhere near where it needs to be, and I think we've still got a lot of opportunity and room to improve. The team is focused on doing that to do right by our customers.

Vince Valentini:

Fair enough, thanks. The main question I was going to ask is, the churn is great but obviously your gross adds were up pretty meaningfully year-over-year as well. Is there any concern in Joe or Dave, whoever wants to take this, is there any concern you may be doing too well? We haven't seen numbers from Bell or Telus yet, but I suspect that 175,000 is going to easily win the quarter for the industry. Do you think if you have too much success it could engage a bit of price response that is not something you want from them? Maybe as part of that, is there anything you can tell us about the mix of—you said there's no tablets in that number but the mix of flanker brand versus name brand that comprise that 175,000?

Joseph Natale:

I'll take the first part, Vince and then I'll ask Dave to comment on the mix side of it.

I'll say first of all, what you saw from the Rogers team this quarter was the strength of our distribution come into full focus and that's with retail traffic still not really at where it was pre-pandemic. Retail traffic is roughly 75% of where it was pre-pandemic. But the other thing you saw is that when we started in the pandemic, we had a very limited, very minimal digital capability to transact outside of our stores and the team has worked day and night since the beginning of the pandemic to shore up that capability, where we think it's at competitive strength and at very least parity with the competition. Now, we can fight with both hands and we're going to keep these muscles growing and going.

I can't predict the competitive reaction in any particular season or quarter or any particular set of results. I would say to you we're very pleased with the results. These are high quality subscriber nets that will have a very strong EBITDA flowthrough associated with them. When you have the other channel capabilities we've built like Pro On-the-Go and other things that you're going to hear from us in the coming few quarters, you'll see that we continue to build distribution strength. Distribution strength, along with service friction reduction and improvement, underpinned by likelihood to recommend, to your first question, Vince, that's the secret sauce of this business overall.

The network quality is there now. We're best-in-class and we understand that network quality is a parity discussion in Canada, given the quality of networks across Canada. You win by distribution capability, and you win by customer service and likelihood to recommend and both of those have a very strong momentum. We're just not going to relent on them. Dave, over to you.

David Fuller:

Yes, so I think, Vince, that first of all on your question around the mix of that loading first of all was, as Paulina said, all on smartphones so that's great news. In terms of the brand mix, I'd say we were exceptionally pleased in that we really had strength in all three areas of our postpaid business. As you looked at the numbers as we went through the quarter, Fido had an outstanding quarter and was well ahead of its projected number, but we also had strength and beats on Rogers' consumer wireless and on our (inaudible 32:45) business, our B2P business. I think in all three areas we showed strength and so that's good news. Again, I'm not going to get into the exact splits between them. Certainly, the biggest number of those three would have been on Fido, which is I think typical for what's happened in this business across the board on the flanker side of the business for many quarters. But we're in a positive position across all three of those brand segments.

To your first question, I guess the only top up on what Joe said is, listen, I am very comfortable that we did not get the net additions and the gross adds in the quarter through excessive and aggressive promotional activity. Certainly, we were matched up well against our competition as we went through this, but it wasn't through undue promotional aggression as you went through the quarter. In fact, when you look at the split between additions and gross adds that ported their number into us, versus gross adds that did not. In other words, we're net new numbers. Most of our benefit on the port side actually didn't come from—it came from the fact that our churn was much better. In other words, we were losing less port outs, as opposed to a huge win on port ins. What we had a lot of strength on was in those

non-port growth in our businesses. We grew accounts and families within our existing account structure.

Vince Valentini:

Thanks very much.

Joseph Natale:

Vince, I've taken note, written down too good. I've known you for about a decade. We have had many calls together with investors and earnings calls and I've never heard you say the words too good, so I've marked this moment in time, 8:34 on this particular date.

Vince Valentini:

Good stuff.

David Fuller:

So have I, Vince, because we're in the midst of budget discussions for 2022, so I'll also make sure I remember that.

Joseph Natale:

Yes, thanks a lot. Thanks a lot, Vince.

Paul Carpino:

Thanks, Vince. Next question, Ariel.

Operator:

Our next question comes from Jeff Fan of Scotiabank. Please go ahead.

Jeff Fan:

Thanks, and good morning. Just a quick clarification to start. I think I've heard the 174,000 loading were all smartphones. Did I hear that correctly? Maybe I'll start there and then a couple of very quick follow ups.

David Fuller:

Yes, all of them were smartphones. In fact, our smartphone loading in the quarter was closer to 180,000 as we were slightly negative on tablet loading.

Jeff Fan:

Okay, great. That's great to hear. My next two questions are related to governance and the Shaw deal. Just on the governance side, to follow up on Drew's question about the executive oversight committee that was just formed. Can you give us a bit more detail on the mandate of this committee because there's no disclosure on your site? Is there any overlap or how does it overlap with the executive committee, so that's the question on governance?

The other question is related to the Shaw transaction and particularly on the financing. You talk about new debt that you have to raise for that transaction. Can you update us on any discussions with lenders, rating agencies, related to that financing, especially in light of with the recent spectrum spend and can you just update us on what your plans are related to the financing for that transaction? Thanks a lot.

Joseph Natale:

Sure, thanks, Jeff. I'll take the first comment on the governance question and then ask Paulina to frame up the financing and some of our recent discussions with debt rating agencies, etc.

Let me say this, as disclosed in our MD&A, the executive oversight committee was created to advise and assist the chair and me, the CEO, in carrying out our respective duties and to establish clear protocols for interactions between the chair and members of management. That's essentially what it is. The board has also resolved to undertake a comprehensive corporate governance review, which boards do from time to time, take a corporate governance review. I think these initiatives will serve to continue to strengthen our governance practices, which have always been excellent in terms of the Company. Rest assured, that I continue to work very collaboratively with every member of the board. We just had a board meeting yesterday. It was a very good discussion on the future of the business, on the Shaw deal, on what's driving the momentum, what are the biggest challenges ahead of us. It was a very strong, collaborative, and thoughtful discussion with all board members.

That will persist, Jeff. Paulina, do you want to talk about the financing?

Paulina Molnar:

Yes, thank you, Jeff. In terms of the financing, I guess for the spectrum that we need to pay for with our leverage that I talked about of over \$6 billion. We're covered there. We've got the financing to pay off that spectrum that will be coming up in the fourth quarter.

In terms of the Shaw acquisition, yes. We're going to be looking at the debt levels there and what we need to do, \$20 billion. We've started planning for that. You'll see that we've put some hedging in place for interest rate during the quarter. We've got the term loan that we put in place the prior quarter. We are going to be looking for those synergies of \$1 billion and we're feeling very comfortable around that over the first two years, that will help us bring down some of that debt level as well. Our debt leverage will be 3.5 as I said, once we pay for the spectrum. We think it will go to over five times after the Shaw transaction but will come down within 36 months back to about 3.5 times.

Our discussions with the rating agencies are ongoing and we're committed to working with them to stay investment grade. Thanks for the question.

Jeff Fan:

Thank you.

Paul Carpino:

Thanks, Jeff. Next question, Ariel?

Operator:

Our next question comes from Aravinda Galappathige of Canaccord. Please go ahead.

Aravinda Galappathige:

Good morning. Thanks for taking my questions. Two from me. First of all, with respect to the—on the wireless side, the cost of equipment. Obviously, we see it's down 10%. I know there has been a trend towards BYOD a little bit in Q3. I was wondering if you can comment on that and whether you see that as sort of more of a temporary movement. Obviously, if that does continue there are positive implications for COATOR (phonetic 40:24). Wanted to get your thoughts on that.

Then secondly, on the cable front, you're faced with on one hand I know the pandemic has affected the movement in terms of Internet net adds. On the other hand, you're faced with more aggressive fibre roll outs from the telcos. Wanted to get your thoughts on your own fibre initiatives. Can we expect that the CI on the cable front would remain where it is? Or would you need to step that up a little bit? Thank you.

Joseph Natale:

Thank you, Aravinda. I'm going to ask Dave to talk about what was driving the cost of equipment and whether it is temporal versus structural overall. Then I'll take the cable question. Dave, over to you.

David Fuller:

Yes, thanks for the question, Aravinda. Yes, I would say most of it is probably temporal, right. As you said, a modest decline in cost of equipment. I think as a lot of people on the call will be aware, the OEM and smartphone OEMs were constrained on inventory, both Samsung and Apple, which would be the two largest in our mix and our base. Struggled with chipset availability, as is happening across the industry. I'd say we did a—the team did an excellent job of managing that in and making sure that we had the right phone available for our customers when they wanted it and needed it. But I think that did dampen some upgrade activity and renewal activity within our base, and probably caused the mix to skew a little more heavily towards bring your own device, as people were basically decided to stick with the device that they had while they waited for availability on the phone that they really wanted to get, right.

To the next question, probably will be do we see that continuing as we get into Q4? Likely, I think the chipset constraints are going to continue to challenge the supply chain within the industry throughout Q4 and probably as we get into Q1, and we'll have to do a very good job of working with our partners at Samsung and Apple to manage inventory and make sure we get it out to our—out of various different retail locations immediately and quickly to make sure we continue doing a good job of matching up our customer with the device that they want. Joe?

Joseph Natale:

Thanks, Dave. On the cable question, Aravinda, or questions, a couple of thoughts overall. Let me just first talk to our network technology roadmap. First of all, bear in mind that Bell's fibre to the home overlap is just under 50% of our cable footprint. Also bear in mind that we offer speeds of 1 Gig across

our entire footprint, or roughly 4.5 million homes past the entire footprint. That we're also in the midst of upgrading to 1.5 Gig profile in specific areas and with more to come. We're going to run that, of course, across our footprint.

At the same time, in areas where we believe that it makes sense, as we split nodes and we've done a lot of work splitting nodes, our homes per node is half of what it was four or five years ago, and we continued on that path to get to a passive network and all the things we've talked about in the past around that. But in some areas, it just makes sense to go to GPON and we're doing that. Land in Canada where it's largely aerial infrastructure, we looked at node splitting and we said you know what, let's not spend the money on node splitting a coax network. Let's just go with GPON and we've done that.

We've done that in other parts of brownfield and for about eight years now, our greenfield locations have all been fibre fed right to the home. We continue to have a combination of fibre and DOCSIS. We're very pleased with the DOCSIS roadmap. There has been a lot of discussion around DOCSIS 4.0 over a hybrid fibre coax network and DOCSIS 4.0 is set to deliver symmetrical multigig speeds, 10 down, six up as sort of limits on the current thinking around the DOCSIS protocol and specification. That will be stepped towards that level and it's a highly reliable, highly secured low latency network. It's in the early stages of development but we've got a lot of runway with our current infrastructure, a lot of runway. Our average of our base is sitting at about 300 Mb of service, right. The road from 300 to 1.5 and then DOCSIS 4 on the back end of that, supported by GPON where it makes sense. We think we've got a really good, winning formula from that perspective.

What's it going to cost? It's going to cost somewhere around 20% CapEx intensity, 20%-22%. What we're driving to 22%-23% is the amount of service expansion that we have in front of us. As I've said to you in the past, we're committed to driving service expansion, not just by leveraging some of the funds and the UBF and other programs but also by driving our fixed wireless capability. In fixed wireless, we're probably about eight to 12 months behind our peer, in terms of deploying fixed wireless. The capability is all there. We worked very hard to put it to the test. In this quarter, it's a very de minimis number, call it less than 1,000 or about 1,000 of our net adds are fixed wireless. We think that can grow dramatically and so when you take the—let me stack it up for you.

Take the recovery from the pandemic as our sales teams are out and about driving volume, as the stores open up again, the channels are back to full speed. You add to it the incredible competitive advantage of the Comcast Ignite platform and you've seen that in our TV numbers. We have TV nets are positive for the first time in 10 years in our business, right. Then you add to it our Wi-Fi capability that we've worked hard to create around a whole home Wi-Fi and the smart home automation that's coming in the next few quarters, we have a winning product formula. We have a winning product formula that I think will do very, very well in the marketplace and combined with the fixed wireless capability. We can see continued growth and improvement in our expansion and net additions.

The macro conditions are still there. We still believe that housing starts will be in that 60,000 to 80,000 range in a particular year. Given the investment in 3,500 MHz spectrum, the fixed wireless opportunity is quite large, not just in our current serving territory but we bought a lot of spectrum in Western Canada, in areas that will be great for fixed wireless capability. There's an opportunity there that's part of the Shaw transaction as well. I'll just stop there. That's sort of the colour on the topic of fibre versus DOCSIS, on the topic of where we see nets and fixed wireless going and the CI. Hopefully that answers your question, Aravinda.

Aravinda Galappathige:

Yes, it does. Thank you so much. I'll pass the line.

Paul Carpino:

Great, thank you Aravinda. Next question, Ariel?

Operator:

Our next question comes from Jerome Dubreuil of Desjardins. Please go ahead.

Jerome Dubreuil:

Yes, thanks for taking my questions. The first question is on maybe the drivers of ARPU, which was probably better than expected. How much roaming revenue has returned in the quarter? Also, are we starting to see some fees coming back, like late payment fees? If you can comment on that please.

Joseph Natale:

Dave, will you take that?

David Fuller:

Yes, sure. Happy to, Jerome. I would say the drivers of ARPU in the quarter were first and foremost strong subscription revenue growth from the strong net additions that we enjoyed this quarter and to some extent last quarter as well. More critically, the mix of those as we've already discussed towards being high quality smartphone additions. That would be the biggest driver of that positive return.

I also do think to my comments earlier around the percentages of our base, both in Fido and Rogers that are now on unlimited and data protection plans, data overage protection plans. I think that's also contributed to this in that we are through the lion's share of the headwind that was overage revenue declines that we had been impacted by in previous quarters.

Then the third one is roaming, as you already noted, Jerome. It's up quarter on quarter. Still down pretty and it's up year on year but down pretty materially from 2019. We were in the range of about 50% of our 2019 roaming levels. Certainly, still significant upside and room to grow there as Canadians get back to traveling.

Jerome Dubreuil:

Good, thanks. That's helpful. Just also on the migration, gentlemen, you touched on that a few times. But on the cost front, now that the migration I understand is mostly completed, where are we in terms of achieving, as you were calling, the simplicity dividend? Where are we in terms of cost benefits of this migration to Unlimited?

Joseph Natale:

Sure, why don't I start. I coined the phrase simplicity dividend when we launched unlimited and data protection in June of 2019. Jerome, we actually went back to the business case just in the last couple of months and said where are we versus the business case? I'm happy to report that we're right in the target zone of what we anticipated. We thought we'd be at roughly around 3 million Rogers customers. We're at 2.9 million and Fido, we've actually overachieved where we thought we'd be in terms of the percentage of customers on data protection, as Dave mentioned. It's 85%.

In terms of the churn benefit, you heard Dave talk about 25 beeps on Rogers and 45-47 beeps on Fido. That was pretty much in the zone. We did melt the overage revenue that was part of that strategy and that has now hit bottom. We're at the bottom of the J curve and now it's—we said that would take six to eight quarters and here we are roughly six to eight quarters after that, and we've turned the corner on that overage melt as a whole.

Then if you look at the call drivers in our business. If you look at digital adoption. In terms of call minutes, we have been reducing anywhere from 12% to 18% of call minutes for the last couple of years and there are a number of drivers around the call minute reduction. When we think of call minutes, think of it as the number of calls times the duration of calls, which is really what the cost drivers are. That's gone down because a broad set of actions but the heart of that is the simplicity dividend that we've been describing. It showed up most starkly in terms of reduced cost to serve. Phone call cost is about \$10 and that's a substantial cut in the number of phone calls and duration of phone calls. Then with that as well, we alluded to likelihood to recommend scores. I would tell you that managing an overage and bill shock conversation is a very painful and debilitating exercise for a lot of our call centre reps. Those have essentially gone down to a very, very small number of calls. It has shown up on that front as well, quite broadly.

Then we have the opportunity now that we're continuing to mine around base management in tiering people up to the higher tiers of unlimited, which come with other services and capabilities, like tablet addition or like Disney Plus or things of that nature that you may have noticed in your mystery shopping. We're very pleased with that outcome overall. The simplicity dividend is very much in the bullseye of where we wanted it to be. Now, we've got the overage melt behind us. I think we actually have a structural advantage at this point because I don't know what our peers—where our peers are at, but they've never really disclosed the extent to which their base is on unlimited. We're through the hard part now. We've got the advantage we all talked about. You remember me talking about the fact that we were marching into 5G with an overage rate plan structure that was conceived in 3G, right. That's now behind us.

David Fuller:

The only other one I'd add, Joe, as part of that simplicity dividend is because along with the reduction in minutes comes a pretty significant reduction in credits, right. Credits and fee waves because the thing about that overage revenue is a material percentage of it is giving credit back to customers when they

phoned in and complained and we had to mitigate the bill shock as well, right. I think all of those things have helped contribute to our margin improvements that you've seen in the business over the last number of years.

Joseph Natale:

Yes, with them and the customers on data protection and unlimited, when people start traveling again, roaming is a very different context. Yes, they'll buy a roaming pass, right but they're not worried about the minute bucket or the data bucket anymore. That's a bit of an interesting sort of benefit to worry free roaming as well.

Paul Carpino:

Thank you for your question.

Jerome Dubreuil:

That's helpful. Thank you.

Paul Carpino:

Thanks, Jerome. Next question, Ariel.

Operator:

Our next question comes from Sebastiano Petti of J.P. Morgan. Please go ahead.

Sebastiano Petti:

Great, thanks for taking the question. I just wanted to circle back on some of the—one of the comments that David made regarding just the device supply chain. What at all are you seeing in terms of supply chain constraints as it pertains to the 5G network deployment? Obviously, you gave the target for year end coverage but as you're thinking about and planning for the 3,500 MHz and other future 5G spectrum deployments, any issues in the supply chain and beyond wireless, anything that perhaps on the cable side as well that you're seeing?

Joseph Natale:

Yes, thanks for the question, Sebastiano. We feel we're in good shape in terms of the wireless network deployment. Bear in mind that a lot of the heavy lift is already done. I don't know if you recall but when

we did our 4G LTE advanced implementation and the radios we put up on the towers, etc., we did that later in the 4G LTE advanced cycle and therefore, we were able to secure 5G ready radios from Ericsson. A lot of the equipment lift is already there and for other things that we need along the way, we've been stockpiling. As supply chain issues have become a global phenomena, we've been stockpiling things and building up inventory to make sure we don't have a challenge, whether it's in the network uplift on 5G, the coverage and capacity building that we're doing, or whether it's in our cable uplift GPON capabilities. We feel good about that.

In terms of CPE in the cable business, we feel good about where we are in that. We also managed to improve safety stock levels and the supply chain team has done an incredible job of managing in the face of what's been happening in terms of global chip shortage. The nexus of focus has really been on the smartphone side, right, because these are hot devices and in the scheme of the global supply chain for smartphones, Canada collectively amongst all the players is a small part of the base. Therefore, it's always a question of not where they go in terms of companies, it's where they go in terms of country. Now, we're fortunate to have very strong relationships with the major smartphone providers and work very collaboratively with them on that, given we have the largest wireless business and the volume (inaudible 57:56). But that's really where the focus in Dave's world is but we're fine in terms of network and cable CPE. Hope that answers the question, Sebastiano.

Sebastiano Petti:

Great. Yes, that's great. Then circling back, I think, Joe, in your prepared remarks you talked about by the end of '21 reaching about 500,000 households in rural and underserved communities. I guess, two questions related to that. When do you light those up in terms of marketing and trying to target those? When does that become a—when you start to see those numbers, penetration gains, etc. start to come through the Internet and broadband KPI line? Thank you.

Joseph Natale:

Just to be clear, Sebastiano, that's a cumulative number in terms of our rural base. We typically from the time we light them up and we've been adding to it all year. Bear in mind, there are about 2 million underserved homes across Canada. That's the target market set that's available to us to go build to with either fibre, fixed wireless, or any other sort of technology that comes along the way. To that end, there are many different government programs to help subsidize the funding in non-economic areas.

To my comment earlier, I believe fixed wireless is a very important part of that strategy for us, as well as some of the UBF and other opportunities to partner with governments, all orders of government, provincial and federal to close that gap. But in terms of when we finish the construction or installation of a particular neighbourhood or site, to the time when we actually light it up, it's measured in months. It's measured in months. A lot of it has to do with sometimes you build ahead.

If it's a greenfield operation, even in rural there are small communities being built in rural and the trench is open. We put the fibre in and then we have to really wait for people to move in. That's more a function of people moving in. But if it's an area where there are existing rural customers, we're actually building and delivering like right away. In fixed wireless, we light up the tower and then it's a sales effort and the CP doesn't get installed until we have a customer. If we're letting fibre down a farm community or country community, we have already knocked on doors and got, if you will, support for what we're doing and therefore we have a ready-made base of customers in that particular community. The cycle between construction and revenue is well managed and very tight from that perspective.

Sebastiano Petti:

Thanks for taking the questions.

Joseph Natale:

Thank you.

Paul Carpino:

Thanks, Sebastiano. We're at the top of the hour so that will conclude our call but please feel free to reach out to the investor relations team with any follow ups that you have. Thank you.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Carpino for any closing remarks.

Paul Carpino:

Thanks, Ariel. Please feel free to follow up if there's any additional questions.

Operator:



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