



Rogers Communications Inc. Fourth Quarter 2022 Results Conference Call Transcript

Date: February 2, 2023

Time: 8:00 AM ET

Speakers: **Tony Staffieri**
President and Chief Executive Officer

Glenn Brandt
Chief Financial Officer

Paul Carpino
VP Investor Relations

Operator:

Welcome to the Rogers Communications Inc. Fourth Quarter 2022 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded.

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

Paul Carpino:

Great, thank you Ariel, and good morning to everyone, and thank you for joining us. Today I am here with our President and Chief Executive Officer, Tony Staffieri, and our Chief Financial Officer, Glenn Brandt.

Our call today 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 2021 annual report regarding the various factors, assumptions and risks that could cause our actual results to differ.

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

Tony Staffieri:

Thank you Paul, and good morning everyone. Thank you for joining us on this busy morning.

When I stepped into the CEO role one year ago, our performance had been lagging our peers and we had lost our leadership footing. Last year, we set a clear plan to re-establish our leadership position and to deliver sustained, strong results. This included a renewed focus on the fundamentals and a significant improvement in execution. In short, we set a plan to turnaround our performance.

In 12 short months, I'm pleased to share we have made significant progress, and we did it with a backdrop of a lingering pandemic, a new executive team, and one of the largest proposed mergers in Canadian history. Despite these challenges, we did not get distracted and we remain focused on driving better execution across our entire business. As a team, we made tremendous strides, but we have much more opportunity in front of us.



I have to say I am pleased with the speed and magnitude of our turnaround. Across critical valuation metrics such as financial growth and customer share gains, we went from consistently ranking second or third against our competitors over the past few years to now ranking first on the vast majority of these important metrics throughout the year.

Our turnaround wasn't about coming out of a pandemic, it was about instilling a performance-based culture focused on our customers, returning to growth, and outperforming the market. In 2022, the whole market grew slightly more than prior years, but we grew even more. In wireless, we went from losing market share just a few years ago to now industry-leading share of mobile phone net additions.

The momentum you saw you in the first three quarters carried through into the fourth quarter and continues to power forward into 2023. Importantly, we met our upgraded guidance for the year and set a strong foundation for growth in 2023.

For the full year, we delivered strong total service revenue growth of 6% and Adjusted EBITDA growth of 9%, the highest growth in over a decade, and the improvements we delivered in 2022 were reflected in our total shareholder return, which was up 9%. By comparison, our two national competitors had negative returns of minus-4% and minus-8%, and the TSX and Dow Jones were down as well 5% and 7% respectively.

In wireless, postpaid mobile phone net additions were 193,000 in the fourth quarter, up 37% from last year. The team executed exceptionally well in Q4 and we delivered the best Black Friday in our Company's history. For the full year, we added 634,000 mobile phone net adds postpaid plus prepaid, our strongest result in 15 years and the best performance in our industry. In cable, we continue to see very aggressive in-market promotional activity from our main competitor, and although revenue was flat, we delivered positive Adjusted EBITDA despite investments in key areas, including customer service. Here we see opportunity to improve our customer share performance and we have confidence that our product set and, in particular, internet and TV have a competitive advantage across our entire footprint, and our recent heightened investments in cable will begin to yield market share growth this year.

In media, we delivered a strong fourth quarter and full year. In 2022, we grew revenue by 15% and turned \$127 million of losses into \$69 million of profit. Our media

performance clearly stands out in the industry, reflecting the quality of our assets and the team's execution capability. Importantly, these results did not come at the expense of investment. In 2022, our team invested a record \$3.1 billion in capital, the vast majority of which is now in networks, in fact a doubling of where we were several years ago in network investment.

Looking ahead to 2023, we continue to see healthy growth catalysts supporting our businesses from factors such as healthy population growth, penetration headroom, and the benefits our transition to 5G technologies will bring. Against this backdrop of healthy growth, we expect to continue leveraging our execution momentum to drive leading share of customer growth, which will fuel robust organic growth in both total service revenue and Adjusted EBITDA, as you saw this morning in our full year guidance release.

You will also see that free cash flow will continue to grow as well as we deliver another year of record investment in our customers and our networks. In fact, in 2023 we have allocated an incremental \$700 million of our CapEx envelope towards ensuring we continue to have the best wireless and wire line networks.

As I reflect on the year, I am proud of our entire team for their relentless focus, disciplined execution, and firm commitment to our customers and shareholders. While there is clearly more work to do, we have re-established momentum.

Before I turn it over to Glenn, let me provide a brief update on Shaw. As you heard last week, the Federal Court of Appeal reaffirmed the decision of the Competition Tribunal. Two federal courts have now unanimously and decisively ruled in favour of these pro-competitive transactions, namely the sale of Freedom to Quebecor and the sale of Shaw to Rogers. To quote the tribunal decision, there will continue to be four strong wireless competitors in Alberta and British Columbia, and the decision goes further, concluding that Quebecor will be a more disruptive wireless carrier and Rogers will inject a new and substantial source of competition.

Given the matter is before the federal government for final approval, we will not provide any further comment at this time.

Let me now turn the call over to Glenn.

Glenn Brandt:

Thank you Tony, and good morning everyone. Thank you for joining us this morning. I know it's a busy morning.

Rogers industry-leading fourth quarter and full year results reflect the Company's commitment to better execution combined with continued investment in our networks. In wireless, fourth quarter service revenue was up a very healthy 7%. This reflected higher roaming revenue as global travel continued to recover, as well as a postpaid phone subscriber base which has consistently led on market share and growth throughout 2022. The wireless market in Canada is healthy and competitive, and our better execution is allowing us to grow share once again.

Our loading was very strong as we added 193,000 postpaid net additions, reflecting a 37% increase from one year ago. Loading was particularly robust during the Black Friday and Boxing Week promotional periods, and we achieved record Black Friday loading with strength continuing through to the end of the quarter. As we have seen all year, our results have been driven by better execution, growth in our unlimited plans, increases in immigration, and the continuation of customers embracing the diversified value plans that Rogers provides across Canada.

Through the very active Q4 promotional period, postpaid mobile phone churn was also higher, again reflecting a very competitive Canadian wireless industry with consumers very aware of the peak promotional periods and the available pricing and value alternatives. As a result of this increased activity, churn for the fourth quarter came in at 1.24% compared to 1.06% one year ago.

ARPU for the quarter was \$58.69, up 1% benefiting from consumers continuing to travel. We exited Q4 with roaming revenues at 140% of pre-pandemic levels and were just over 84% of pre-pandemic roaming traffic volume.

Wireless Adjusted EBITDA was up a solid 8%, reflecting excellent flow-through from our service revenue growth with Adjusted EBITDA service margins coming in at over 63%.

Moving to our cable business, total revenue was stable and unchanged from one year ago while Adjusted EBITDA was up 1%, reflecting tighter cost performance. Cable Adjusted EBITDA margin was 51%, which is up 60 basis points from a year ago.

As Tony has noted, the fourth quarter continued to be a very aggressive and promotionally intense period in the wire line market, led by our national peer. We were largely measured and balanced in our competitive response, matching competitive offers where appropriate while seeking to maintain underlying profitability wherever possible versus driving loading. Gross adds remain strong while customer churn remains elevated, reflecting that promotional activity.

The market is competitive. On a product basis, we delivered 7,000 retail internet net customer additions in the fourth quarter, down from one year ago, again reflecting the highly promotional environment. Additionally, we continued to make significant investments in our cable network, spending \$235 million in cable network infrastructure alone in Q4.

In our media business, our results continued to reflect the quality of our sports and media assets with strong top line and bottom line results in Q4. Revenue was up 17% driven by better content rates, a revenue distribution benefit from Major League Baseball, and higher advertising revenue in the quarter. This drove strong profitability with Adjusted EBITDA of \$57 million, an \$83 million turnaround from the \$26 million loss in the same quarter last year, which as you'll recall was affected by COVID on live sports.

At a consolidated level, Q4 service revenue grew by 6% and Adjusted EBITDA grew by 10%. Capital expenditures were \$776 million and free cash flow excluding Shaw financing costs were \$644 million. I should add our deposit interest income is roughly covering our 4.2% weighted average coupon on our \$13 billion cash held on reserve for the Shaw bond financing.

We achieved our 2022 guidance range despite the \$150 million credits paid to customers in the third quarter.

On a consolidated basis for the full year, total service revenue grew over 6% and Adjusted EBITDA increased by almost 9%. Capital expenditures came in at approximately \$3.1 billion and free cash flow for the year excluding Shaw financing was \$2.0 billion, all meeting guidance. This performance is a clear demonstration that we are growing top line and bottom line and reinvesting these profits aggressively and increasingly back into our networks for Canadians. Importantly, these results also show we are in a strong position operationally and financially as we prepare to integrate with Shaw. Succinctly, we are ready for when we receive the final regulatory approval.



Turning to the balance sheet, at December 31 we had \$4.9 billion of available liquidity, including \$460 million of cash on hand and cash equivalents and a combined \$4.4 billion available under our revolving bank credit facilities. We also held \$12.8 billion in restricted cash and cash equivalents that will be used to partially fund the cash consideration of the Shaw transaction when that closes.

Our weighted average cost of all borrowings was 4.5% as at December 31, 2022, and our weighted average term to maturity was 11.8 years.

Our debt leverage ratio at quarter end excluding the Shaw financing was 3.1 times compared to 3.4 times at December 31, 2021. As previously discussed, until we close the Shaw transaction, we use adjusted net debt which excludes the Shaw financing and related cash held in reserve to analyze our debt and calculate leverage. The Shaw-related senior notes, derivatives and restricted cash and cash equivalents associated with the transaction financing have been issued for the specific purpose of funding the acquisition, which of course has not yet closed.

In terms of our outlook for the coming year, we continue to see strong momentum in our business and we have provided a robust outlook for 2023. Our 2023 outlook includes strong top line, bottom line and free cash flow growth, along with continued emphasis on investing in our networks focused in particular on network reliability and customer service.

Twenty-twenty-two has been a year of remarkable turnaround which will continue into 2023. We are executing well and our outlook reflects this. We anticipate total service revenue growth in the range of 4% to 7% and Adjusted EBITDA growth in the range of 5% to 8%. These growth metrics continue to build on the industry-leading organic growth we delivered in 2022.

We are also continuing with our commitment to invest in our networks in 2023. Our anticipated 2023 capital expenditures excluding Shaw integration costs will be in the \$3.1 billion to \$3.3 billion range. We anticipate free cash flow excluding Shaw integration will grow in 2023, ranging from \$2.0 billion to \$2.2 billion.

As we head into 2023, we are monitoring the economic environment for signs of economic pressures, but we believe our execution is sound and we are managing effectively through the overall economic and business climate. Once we receive approval for the Shaw transaction,

we will provide an update to our guidance which will reflect the combination of these two strong and healthy organizations, but in the meantime, you can see that our underlying business is performing well and that we have not nor will become distracted.

In summary, we are very pleased with our results in Q4 and for 2022. These results reflect the Rogers team's ability to make the necessary changes in the business and deliver better execution, and our teams did both of these very well without distraction. Twenty-twenty-two was not perfect and we know we have more work to do, but we have the right team in place and have established a much improved cadence for delivering more consistent and leading results.

Thank you for your interest and attention this morning, and with that, Ariel, can you please commence with the Q&A.

Operator:

Certainly. We will now begin the question and answer session.

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

Vince Valentini:

Yes, thanks very much. The guidance you've given looks impressive, by the way, and good fourth quarter, I should add. Can you just clarify what you're doing with your wireless ARPU assumptions in there? There seems to be a lot of moving pieces with roaming and potentially new competition. Would you be assuming positive wireless ARPU growth within the service revenue and EBITDA guidance you've provided?

Glenn Brandt:

You will see continued, though slowing growth in ARPU coming from roaming. You will see a continued emphasis on our customers upgrading to unlimited plans and premium plans, and so that will have a positive impact on ARPU, Vince; so yes, you'll see that revenue growth will also be flowing through ARPU.

Vince Valentini:

Cool, and just to clarify, Glenn, the new guidance, assuming you get the deal done, will we have to sort of wait until your next scheduled call in April with Q1 results, or are you planning some sort of interim investor event to showcase what the pro forma looks like?

Glenn Brandt:

I think Vince, in fairness, let me not presume timing of when that will come and get ahead of our skis. We will be ready when we get clearance, but let me not guess when that will come relative to our next earnings release or prior. I don't want to be presumptuous and I don't want to speak on behalf of others, that the file is on their desk.

Vince Valentini:

Fair enough, thank you.

Operator:

Our next question comes from Maher Yaghi of Scotiabank. Please go ahead.

Maher Yaghi:

Thank you for taking my questions. Good morning and congratulations on the good results, especially for the guidance which within the current environment is impressive, but I did want to ask you a question related to the overall wireless market.

We're starting to see deceleration of wireless service revenues and subscriber loading in the U.S., and some of that is coming from a reduction in enterprise and the business segment. Now, Canada is a different beast for sure - we're seeing a lot of immigration, but can you talk a little bit about your expectation for wireless in '23, and are you seeing any deceleration of your business segment which could put some cap on how much further growth we can see in subscriber loading?

Tony Staffieri:

Thanks for the question, Maher. As you stated in your comments, Canada is slightly different than the U.S. macro environment, owing to a couple of things that have helped us on the wireless side from a market perspective in '22 which we expect to continue into '23. We've talked about them before, but notably the level and pacing of immigration continues to be strong.

When we look at foreign students and temporary workers, that pacing continues to be strong as well, and importantly, the penetration levels in Canada continue to have headroom, and so as we head into '23, we're not foreseeing downward pressure on those. With respect to the business, what we have seen is proportionately the business segment and in particular small business has continued to grow in line with the consumer and those trends that I just talked about, and so as we look to '23, we continue to see a fairly healthy backdrop.

If we look at the overall wireless market, total number of subscribers for the market seems to have grown in '22 by just over 5%, and one of the healthiest growth rates we've seen in a long time, and so our expectation is that we'll continue to see healthy growth in '23. It may not be as high as '22 because there is a bit of the post-pandemic catch-up, we believe that happened earlier in the year, but as we look for the rest of the year, we continue to see opportunity for that growth.

Maher Yaghi:

Thank you, and just a—sorry?

Glenn Brandt:

Sorry Maher. On the guidance that you see, it reflects that population growth, U.S. specifically about the business market. I think in the business market, we have an opportunity to continue to increase our share in that market, but I think if you look at our service revenue guidance of 4% to 7%, it's reflective of those general trends of population growth, so we're not out of line.

Sorry to cut you off.

Maher Yaghi:

No, no. Thank you for that increased information.

But I wanted to ask you, in terms of the operational performance, and Tony, since you came in, you implemented changes, we're seeing the benefit on the bottom line. Can you talk a little bit—you know, what's the next step in your overall view of how to keep improving operations even further from here? What should we be looking for in terms of changes that we could see at Rogers beyond what's happening with the Shaw dossier?

Tony Staffieri:

That's a good question, Maher, and what you saw this year—when I say this year, in 2022, was a rebalancing back to the fundamentals of our business, which has been, quite frankly, let's ensure we have the best network and ramp up investment in our wireless and wire line network combined with improvements in the customer experience. As we head into '23 and we look at the industry, what you'll continue to see is improvements in our network that are tangibly visible to our consumers and business customers. That's important to us. Secondly, when we think about customer service, we think about the customer experience. As industry, as technology continues to evolve, we see the opportunity to continue to make things simpler for our customers and continue on the agenda of resiliency and redundancy of our network.

They need connections they can trust, that are always on, and those are the themes that you'll continue to hear us focus on, and we believe that's going to be the fundamental catalyst to continue to have leading market share as we head into '23 that will convert to the financials that you see. It's as simple as that in our mind, Maher.

Maher Yaghi:

Thank you.

Paul Carpino:

Thanks Maher. Next question, Ariel.

Operator:

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

Drew McReynolds:

Yes, thanks very much. Good morning.

Just expanding on the previous question, maybe starting with you, Tony, specifically on the cable side, I think everyone's kind of well aware of the strategy there and getting that segment back on its feet post outage, but also in anticipation of a broader transaction, that it could be in a transition. Just wondering what your expectations are on the cable side for Rogers standalone as we at least start the beginning of the year here.

Then secondly for you, Glenn, just an update on my end on the balance sheet, assuming the deal closes. Obviously there's been with the passage of time some de-levering, evolving market conditions, etc. Just would love to hear how you're seeing de-levering post deal close over the next two to three years, just relative to what you've previously indicated, if there's any change there. Thank you.

Tony Staffieri:

Thanks for the question, Drew. In terms of the cable side of the business, think about it in two points. One is the backdrop will accelerate growth. We saw very good growth in the market size in wireless, and there's a bit of a lag as that translates to new home construction and homes passed in our cable business. We see that fueling a growth in homes passed and that will be combined with additional investments we'll put into homes passed. We see the opportunity and high likelihood for the size of the market for us to continue to grow, and as we retool some of the fundamentals in that business, our expectation is you will see largely in the back half of '23 but starting to see early signs in Q1 and more so in Q2, improvements in subscriber market share.

You see in the fundamentals a retooling of the business in terms of bringing in simplicity in our operations. We've actually invested more in customer experience than we have in any previous year, yet our overall cost structure has come down for cable, and that's really a reflection of that transformation to the fundamentals in that business.

We've also at the same time, and we've talked about this on previous calls, are re-indexing from our flanker, Fido internet back to the Rogers main brand. It's a much better customer experience in terms of a better modem and a whole bunch of things related to that, and you see that when we look at the churn in the flanker product versus our main brand. Rogers internet has substantially, by a wide margin, lower churn than Fido internet, so what you see is us trying to move to the more value-add brand for us of Rogers, and we've been making that change.

In the short term, our main competitor has launched, I would describe aggressive competitive promotional pricing especially in the higher tiers of one gig and above, which is fine - we'll compete with that. But as Glenn said in his opening remarks, our response to that will be very measured, at the right time in terms of competing on that basis. But right now, there are a few things we want to focus on in the fundamentals in that business, so that's what you're seeing play out in how we think about our outlook for this year.

Glenn Brandt:

Then Drew, in terms of the Shaw transaction and our balance sheet, when we receive the regulatory approval and close on Shaw, I'll start with we have all of the permanent funding in place to close. We have \$13 billion in cash held in reserve from the proceeds from our \$13 billion in bond issues from last March 2022. Those bonds, as you'll all recall, are in place and extended out through to being available through to year end '23, so we have plenty of runway there. We also have \$6 billion in committed bank term loans with terms ranging from three to five years, split evenly across three, four and five years, so that takes our cash funding up to \$19 billion available, and then there is a portion of the purchase price, of course, that's done in shares for the Shaw family.

Then finally, there will be proceeds that come in from the transaction into Shaw Communications before we close from Shaw's sale of Freedom to Quebecor, and so all of that netted together, we have all of the funding in place to close the transaction and meet all of our liquidity needs through the year without touching the \$4.9 billion of liquidity I mentioned we had on hand at year end, so the balance sheet is strong in terms of corporate funding. We'll meet all of our maturities and Rogers specific commitments, as well as being able to close on Shaw without needing to come back to the capital markets.

In terms of where we will be on leverage when we close, we'll be right around five times, maybe a tick over five times when we close, depending upon timing. We've taken advantage of the time that we've had to have strong organic growth within the Rogers standalone business. We have had some expenses come in along the way which we now have to cover on our balance sheet, not the least of which was the cost of extending those bonds because we did not close in '22. Even with those added expenses coming in, we will still be closing right around five times, low five times when we close on the transaction, I anticipate.

Then going forward, we haven't given a forecast as to schedule around de-levering, but if you look at where our EBITDA rolls up with Shaw's EBITDA and then you look at where our path is on synergies, I think you'll see through earnings growth alone, we generate some significant de-levering on an annual basis. I don't know, if you're looking for a rough rule of thumb, think of it in the range of probably 0.4 to 0.6 times, depending upon the year, depending upon how much of the year we have left in '23 once we close. But if you were to try and model it along those lines, Drew, I think you'd probably be in the ballpark.

Then free cash flow in the outer years, maybe not in the first 12 months, but we will have available free cash flow to nominally pay down debt as well. That's about as fulsome as I want to get right now, but that will give you an idea how to model it.

Drew McReynolds:

That's great, very thorough answers. Thank you both.

Paul Carpino:

Thank you Drew. Next question, Ariel.

Operator:

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

Sebastiano Petti:

Hi, good morning. Thanks for taking the question. Just sticking with the cable network investments and competition theme, you did mention in your prepared remarks that fourth quarter was aggressive in promotional intensity from your national peer, but at the same time, I think Tony, you mentioned that you expect perhaps market share trends to improve in 1Q and 2Q. On a near term basis, if you can maybe unpack some of the drivers there that you expect within the first and second quarter to lead to the better subscriber market share, that would be great.

Then maybe a longer term question - in the U.S., you're seeing your larger peers, Charter, Comcast talk about DOCSIS 4.0 upgrade path. Obviously you are largely going to follow the Comcast path, but they've outlined a goal to get to DOCSIS 4.0 by 2025, pretty much ubiquitously across their footprint. What does that mean for Rogers? While market share trends may improve over the next couple quarters here relative to Bell, they are continuing on their fibre path assuming the transaction with Shaw closes here shortly. Obviously Telus is pretty formidable in terms of fiber overlap as well, so maybe just give us a view on how Rogers is thinking about these long term HFC DOCSIS 4.0 upgrade path and maintaining competitiveness relative to your fibre peers. Thank you.

Tony Staffieri:

Thanks for the question, Sebastiano. Two parts to your question. The first is as we look to '23, and I just want to clarify as we talk about market share improvements, I just want

to reiterate and level-set expectations that it will be a progressive ramp in '23, a little bit in the first quarter, ramping to the second quarter and then into the back half, and so I just want to just make sure we're not getting too far ahead of ourselves.

In terms of the fundamentals that get us there, we're very focused on the customer experience and are they getting reliable internet at speeds that they want. We're less focused on a price battle. What we do know is you can sign on a customer at a very low ARPU, but in the end if they're getting experience they're not happy with, then that is the primary reason for change. We continually look at the market, reasons for customers coming onboard, reasons for customers leaving, and across the industry, and that's true of both Canada and the U.S., while price is always important, a more important factor is the internet reliability, and that's because we just—even in the consumer space with a lot of work-from-home, it's become so critical, so those fundamentals around customer experience is what we believe will, in the long term, continue to drive the right gross add and the right churn fundamentals, so that's point one.

The second point relates to DOCSIS 4.0. Let me be clear - we do not have a competitive disadvantage in our internet business; in fact, we see it as a competitive advantage. In our footprint, we've been deploying fibre all the way to the home, all the way to the business premise for over a decade, and so we have robust complete fibre to the prem throughout our footprint. Where it isn't and we still have coax in the last mile, we're in the fortunate position that coax in the last mile continues to deliver speeds that are well beyond customer demand at this stage. We're offering at least 1 to 1.5 gigs across our entire footprint. Ninety-nine percent of our footprint is capable of those speeds, and in many areas that's now 2.5 gigs and growing rapidly.

The migration to DOCSIS 4.0 will only enhance the top end of those speeds, and we expect that to come as a fast follow, if not in line with where you see our U.S. peers going on DOCSIS 4.0. The biggest limiting factor, and you've heard that from them, I suspect, are the chipsets that support the DOCSIS 4.0, but we're extremely comfortable that as we look to '24 and '25 deployment for DOCSIS 4.0, that will still be well ahead of where the market demand is.

We have plenty of capacity, plenty of headroom to meet the customer expectations as we move to DOCSIS 4.0, but again that's for that portion of our network where the cost effectiveness of coax in the last mile continues to be very compelling.

Sebastiano Petti:

Great, thank you.

Paul Carpino:

Thanks Sebastiano. Next question, Ariel.

Operator:

Our next question comes from Dave Barton of Bank of America Merrill Lynch. Please go ahead.

Dave Barden:

Hey guys, thanks so much for taking the questions. I guess my—I wanted to talk a little bit about the merger, and congrats on getting this far in the process and your success there. The first question would be given that it's been probably a year longer than we thought and given what we've watched happen with—at least down here in Charter and Altice and their response to fibre over-builds, are the synergies of this merger that you articulated two years ago at a billion dollars still real, and how do you think about the CapEx requirements of maybe absorbing Shaw in the future? That'd be one.

Then the second one would be, not to put you in a tough spot but really to put you in a tough spot, which is really, you're making the argument that Quebecor and whatever you've done in your agreements with them is going to make them a more effective competitor in the Canadian wireless market, which sounds like a terrible thing if you're an equity investor in Rogers. Can you square that for me and the market, like why is the net of these two things that you've given up to create a better competitor in Quebecor less than the benefits that I'm going to get from being an investor and the benefits of the Shaw Cable merger synergies? I just need a refresher on how this all makes me excited about the Rogers transaction.

Tony Staffieri:

Dave, I'll start and Glenn will fill in on some additional points. As we look to and we've continually assessed throughout how our investment thesis on the Shaw transaction compares to what we thought, and I think there's two things that I would describe at a macro level. Firstly on the cost synergies, the additional time has allowed us to, as I mentioned earlier, make progress on retooling our own shop, and

so we will be entering that transaction from a position of greater clarity on our cost structure and our cost road map, and so at a very macro level, we have heightened confidence on the synergy benefits.

The second piece, and we haven't talked about it much, if at all, are the revenue synergies on this. In the time we did the deal, we look at the Canadian population in particular where Shaw has its primary cable markets, and that growth is more than we had expected when we looked at it two years ago, owing to those factors that are driving our own cable market growth that I mentioned earlier.

A number of other factors as well, but if we step back and look at those two primary factors, the investment thesis not only continue to hold but, in our view, continues to improve with the passing of time.

The second part of your question relates to having a fourth wireless competitor. We have thrived in a competitive landscape in the past, including in 2022. We've entered into transactions that will allow the buyer of Freedom to enhance their competitive ability, and it's over to us, and we're confident we have what we need to be able to compete in a four-player market, just as we've done in the past. It's all going to be about relative share. In a four-player market there are a number of dynamics, so when you talk about the impact, it isn't necessarily anything that a fourth player picks up is at the expense of Rogers. There are dynamics in market share and we're comfortable, as I said, that we have what we need to be able to compete for share in that space.

Glenn Brandt:

Then Dave, maybe if I could just add in a little bit more on synergies and capital expenditures, as Tony's mentioned, we've had more time to look at the synergies, we remain committed to that, so Tony's touched on that. The capital expenditure piece, we've—the plan, the model, the forecast hasn't changed from our initial evaluation of the transaction. I think fundamentally if you look at Shaw Communications and how it operated its wire line and its wireless business over the last few years, a significant portion of its capital spend has gone into the wireless side of that balance sheet and investing in the build-out of their wireless infrastructure.

We have a strong national wireless network that we already have well in hand in terms of investing. Our acquisition of Shaw is an acquisition of the wire line side of their business. We will take Shaw Communications' annual capital spend and devote it to wire line assets in

the west, succinctly, and so if you work on that premise, you can, I think, ladder up to what that business plan looks like and how it forecasts out. But in a nutshell, that's how we prepare for taking in Shaw and the capital spend related to Shaw. It will be focused on wire line investing in the west to go along with what we're already doing in our core business today.

I think Tony's answered the rest of it.

Dave Barden:

All right, thank you both. Appreciate it.

Glenn Brandt:

Thanks Dave.

Paul Carpino:

Thanks David. Next question, Ariel.

Operator:

The next question is from Tim Casey with BMO Capital Markets. Please go ahead.

Tim Casey:

Yes, thanks. A few from me. One, just a clarification, Glenn, just on that CapEx comment. Are you implying that you'll spend the billion dollars a year in Western Canada, or notionally the \$700 million that they've spent on wire line?

Glenn Brandt:

I'm not going to get into the close specifics yet, Tim. We're in 2023, I've given our guidance for '23 standalone. We'll see when we close the transaction before I start telling you what numbers we're going to spend on Shaw in year. But we will invest in the wire line networks to invest in customer service across our entire footprint, and once we take in Shaw, that entire footprint will go from coast to coast. We'll invest as needed and that will be an investment program that's done over years, not over months.

Tim Casey:

Understood, okay. Got it.

Okay, a couple of questions for Tony and one for you, Glenn. Tony, could you talk a little bit about the wireless loading dynamics in the quarter and the outlook? I mean, you had a very successful loading quarter, but ARPU and churn did—were affected. Were you more active on the flanker brands, perhaps in anticipation of Freedom and Quebecor? Can you just talk about the competitive dynamics within the brands in the quarter?

Then just curious if you could comment on some of the media signaling coming out of Chairperson Eatrudes at the CRTC, you know, focused on pricing again. Just wondering if you've had any dialogue or any comment—you know, many of us have heard this kind of signalling before. Just would be interested in your perspective.

Lastly Glenn, just a clarification on the media number. It looks like there's a one-time BAM contribution in the fourth quarter. Could you confirm that and perhaps quantify it? Thank you.

Tony Staffieri:

Thanks Tim for the questions. A couple things, just to give you some context on the fourth quarter. Quite a bit of competitive intensity in terms of promotional activities, not just on the price plans but to some extent on the handsets as well. What you saw play out, and we were largely more reactive in terms of the flanker - in fact, when you look at over the course—much like on home internet, we've been re-indexing back to our premium brand, and if you were to look at the rate of growth in the fourth quarter of Rogers vis-à-vis Fido, what you see is a significantly faster rate of growth on Rogers, so we were pleased with that on balance, so notwithstanding that competitive intensity, we continue to make good traction on re-indexing back to our premium brand, and something we've been on throughout 2022 and will continue to do in '23.

But no doubt, some of the value out there, it's just a reflection of the market. There was good value for consumers in the fourth quarter, and the overall impact on service revenue was offset by share gains, which is important in a market where the rate of growth is accelerating. We're always trying to balance off both of those, and I think we are striking the right balance between market share gains and ARPU growth as well, so that's what really reflected the heightened churn that you saw in Q4 for us and the industry.

In terms of your second question on pricing, there's not a lot I could say with respect to the new CRTC Chair. We look forward to working constructively and proactively at the right time with the mandate of the CRTC, as we would with any other regulatory body; but what I will say is we feel good about the market dynamics and the value-add that the industry and Rogers is bringing to customers. I continue to highlight against the backdrop of increasing inflation in a number of parts of the sector in consumer goods. Our industry and Rogers continues to reduce pricing. If you were to look at it over the last several years and in particular over 2022, one of the few, if not the only sector that actually has price declines in the marketplace, and that's owing to the competitive intensity that's out there and, frankly as I've said in other forums, our intent to continue to figure out ways to bring more value-add to customers.

Glenn Brandt:

Then Tim, just quickly on your question around the MLB proceeds, it's not my transaction to release the details on, so I can't give you a specific amount. It does relate to MLB having sold a minority interest in—the remaining minority interest it held in one of its properties and then the distribution to each of the teams, so that was our—you know, we recorded our share of it in the quarter.

Tim Casey:

Thank you both.

Glenn Brandt:

Thanks Tim.

Tony Staffieri:

Thank you Tim.

Paul Carpino:

Thanks Tim. Next question, Ariel.

Operator:

Our next question comes from Simon Flannery of Morgan Stanley. Please go ahead.

Simon Flannery:

Great, thank you very much. Good morning.



You talked a little bit about revenue synergies, and one of the things we're seeing in the U.S. is the rise of the double play, the internet plus wireless bundle, and the triple play bundle kind of declining over time. Perhaps you could just give us a little bit of a sense of how you see that in Ontario, what sort of performance do you see having—being able to offer that combination to your customers. What percentages of your cable base does have your wireless product, and how do you see the opportunity to bring that playbook to Western Canada? Thanks.

Tony Staffieri:

Thanks for the question, Simon. I'll start and Glenn will pick up.

At a very macro level, we've been watching that trend closely in the U.S. I'd say in Canada, because we've had, I would say more experience at it, having been a cable and wireless operator in significant parts of the country for a long period of time in terms of the bundling, it's largely been a price dynamic in terms of enticing the customer to it. When you look at the actual buy dynamic, in many ways the channel distribution is different in how the customer buys, and a number of other factors in terms of the decision making criteria and how they think about demand. So, other than promotional incentives to bundle them, I would say the fundamentals of the business seem to be, continue to be somewhat separate. We'll continue to capitalize on that coming together at the right time, but price alone isn't the answer long term, and it really gets back to the comments I gave earlier with respect to long term cable churn rates.

We continue to watch that trend and certainly it's an opportunity for us in terms of bundling. We don't disclose the specifics of within our footprint, what that looks like in terms of bundled offering for competitive reasons, but I would say it is growing but perhaps not as much as you might think.

Glenn Brandt:

Then maybe the only thing I would add to that, Simon, is our Ignite offering is particularly attractive as people's viewing habits turn towards streaming to help still provide a base upon which to sell our video service product. It is a very strong offering that allows people to access streaming as well as the traditional channel line-up very conveniently, so that does help as well.

**Simon Flannery:**

Great, and was there anything to call out on the video numbers in the quarter?

Glenn Brandt:

I think we've touched on what I think the priorities were. It was a—it is a very competitive market, it remains competitive going into '23, and I don't think there's really anything more to call out than that.

Simon Flannery:

Right, thank you.

Glenn Brandt:

Thank you Simon.

Paul Carpino:

Next question, Ariel.

Operator:

Our next question comes from Stephanie Price of CIBC. Please go ahead.

Stephanie Price:

Morning. On the 5G, can you talk a little bit more about the 5G rollout and the 5G midband coverage targets you have, and what you've seen in terms of an uptick in customers moving to higher tier plans once you're deployed it, and finally, how you think about network costs as you operate both 4G and 5G networks in the near term?

Tony Staffieri:

Thanks for the question, Stephanie. In terms of 5G rollout, as you saw in previous calls, we were very quick out of the gate very early in the year to deploy the midband spectrums, as you referenced, very quickly. As of today, we're sitting at approaching 85%, we're at about 83% today in terms of 5G coverage, and so we continue a very aggressive ramp. You can expect that as we head towards the end of the year, that will approach 90%, so we continue to deploy that spectrum very quickly.

In many markets, you'll see the banner 5G Plus, much like you do in the U.S., and that will continue to be at a very rapid pace as well, so that's all proceeding well.

Glenn Brandt:

I think in terms of the network costs, Stephanie, think of it in the context of the higher band spectrum carries more data, 5G service users consume more data. On a per-gig basis, you need the mid and higher bands, and we'll need those as we move into the years to come to carry the data, but the capital investment in that spectrum and getting it into our towers, you know, think of that as being the network costs associated with 5G. They're fixed costs, largely - they're the capital spend that we put into spectrum, into infrastructure, and those are the fixed costs that you don't see in the margins. You see them below the EBITDA line in terms of our capital spend. Once we get them out there, we deploy them and we can run services out to our customers.

Stephanie Price:

Great, thank you very much.

Paul Carpino:

Next question, Ariel.

Operator:

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

Jerome Dubreuil:

Hey, good morning. Thanks for taking my questions. Two from me.

The first one is on cable. I would like to get an update on the percentage of your cable network that overlaps with the fibre to the premises. Then second question on wireless, great postpaid adds again. Would you agree that now a larger proportion of wireless subscriber growth comes from a bit of a lower end of the market, and if yes, what does that mean in terms of the strategy to adopt to go to market? Thank you.

Tony Staffieri:

Thanks for the question, Jerome. I'll start with the second part and then Glenn will come back to the cable question.

In terms of the wireless as you think about new to Canada, as well as the student migration, certainly that segment would index first to the flanker brands, and we're certainly seeing that, so I would say in the near term, there's a slight indexation to that, but at the same time, what we're finding is a very good and healthy migration to the Rogers brand, especially as a result of, as we've talked about, our focused efforts on that migration within our base. I would say it continues to be balanced, much like it always has been, and so I wouldn't overstate that the market is moving to—in a big way to the flanker. As I said, I think it's slight but there's more than enough offsetting in the base and the rest of the market to get the right mix to the premium brand.

Glenn Brandt:

And Jerome, in terms of the percentage of our network that we have fibre to the prem, without seeking to frustrate you with my answer, we're opportunistic with it. Atlantic Canada is an over-build or a rebuild of our network facilities because Atlantic Canada is primarily aerial, over-the-air transmission and poles are simply easier to run fibre than burying and replacing plant that way. On a cost-per-home passed basis, we can be opportunistic and run fibre through Atlantic Canada.

New construction build, when the trenches are open, we're putting in fibre to the prem. We're opportunistic with it, but don't think of it in the context of they've done X-percent and still have 100 minus X-percent to go. Our hybrid fibre-coax has a long, long tenure still to run. DOCSIS 4.0 will be entirely competitive with whatever we can deliver over our fibre to the prem plant as well - they will be comparable, and we will be competitive with our peers where they have fibre to the prem over our hybrid DOCSIS—or sorry, hybrid fibre-coax plant, so think of it in that regard.

Jerome Dubreuil:

Thank you.

Glenn Brandt:

Thanks Jerome.

**Paul Carpino:**

Next question, Ariel.

Operator:

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

Aravinda Galappathige:

Morning, thanks for taking my question. Two from me. One, just to go back to wireless churn, obviously we're seeing an uptick, which is obviously natural considering the return of foot traffic and so forth, but maybe Tony, you can talk about your expectations over the medium to longer run. I mean, there has always been a case to suggest that there is—there can be structural decline in churn, which would obviously help margins and assist the broader model for all the reasons that have been cited, from family plans to the life cycle of the device. I wanted to get your thoughts on how you see that thesis in light of what we're seeing right now, where most of the companies are coming in with higher wireless churn.

Then perhaps for Glenn on the free cash flow guide, I did notice that cash taxes were materially lower in 2022. I wanted to get a sense of if there's any colour you can provide on what you're building in for '23 there with respect to cash taxes. Thank you.

Tony Staffieri:

Aravinda, on the first part with respect to our thoughts on wireless churn and the implication of it, certainly as you've said, the industry has traditionally thought of lower churn as a better enabler because you save on the cost of acquisition. I think what we found was, particularly when you look at the fourth quarter and the competitive intensity there, I would say the general principle is still true - lower churn is always better, and we're always focused on making sure we try to keep as many customers, and losing one is always too many, so that fundamental doesn't change. But at the same time, the cost of acquisition, if you looked at the industry overall over the last three to four years has been coming down, and so notwithstanding the slightly heightened churn that you see in the fourth quarter, you continue to look at our margins sitting at—strong performance there, and it's actually up year-on-year despite the increase in churn.



When you look at the fundamentals of it, I would say our thinking on this is sort of real time matured so that we get the right balance. Ultimately it's net mobile phone market share that we stay focused on, and the churn aspect is one piece of that formula on a secondary metric basis.

I hope that helps.

Glenn Brandt:

Then Aravinda, on the free cash flow and the cash taxes, there is not a material difference from year to year, really. You'll see some difference going from '22 to '23 as a result of the quarterly timing of some cash taxes that were paid in '22, but it's not—it's not a thematically material number from one year to the next.

Aravinda Galappathige:

Okay, great. Thank you.

Paul Carpino:

Ariel, we have time for two more questions.

Operator:

Certainly. Our next question comes from Batya Levi of UBS. Please go ahead.

Batya Levi:

Great, thank you. Can you provide an update on how we should think about dis-synergies, or maybe merger integration costs after the deal? A second question on what you're seeing in the business market and what could be the opportunity after you close the deal. Thank you.

Tony Staffieri:

Good morning Batya, and thanks for the question. I'll start with the second one and Glenn will come back to the first question.

In terms of the overall business market, as you heard in my opening—or on a previous question, the population growth and the contributors to overall market growth that I talked about is certainly helping the consumer side, and as you would expect, we see a very quick follow-on

lag in the business market, so the size of the business market is improving as well while at the same time our penetration rates in business, and in particular small business, continues to improve. The growth that we're seeing is, I would say, slightly more indexed to small business, and that continues to be an area that we're quite pleased with our performance in that and continue to see more opportunity for high penetration there.

Glenn Brandt:

Then Batya, on the cost to achieve the synergies, I think as a rough rule of thumb, if you think of it as we're driving a billion dollars a year of synergies, think of it as likely a one-time turn on that in terms of our cost to achieve. That will give you a rough rule of thumb to work off of.

Batya Levi:

Okay, thank you.

Glenn Brandt:

Thank you.

Paul Carpino:

Last question, Ariel.

Operator:

Our final question comes from David McFadgen of Cormark Securities Please go ahead.

David McFadgen:

Yes, thanks for squeezing me in. Just looking at the guidance, obviously the guidance looks quite strong, and I was just wondering if you can give us an update on revenue, ancillary roaming revenue volume versus revenue in the fourth quarter, and then sort of what your outlook is for next year.

Then the second question is I know that you say that your speeds are comparable to, say, Bell's fibre offering, but how do you explain the fact that they keep putting up very strong internet net adds, particularly relative to you, and then when you add up all the other cable competitors in the footprint, it seems like they're taking share there. Thanks.

**Tony Staffieri:**

Thanks for the question, Dave. Again, I'll start with the second one and Glenn will come back to the first one.

As I've said, on the subscriber share on the internet side on cable, it's not lost on us in terms of our performance on customer share, and so it's something we've looked at very closely and, as I said, our response will continue to be very disciplined and measured, and what you see there is not a capability discrepancy but all you're seeing play out is pricing. As I said, I think we've got the right approach on this and we're playing the long game, and so I wouldn't confuse short term promotional pricing with the long term health of that business and the fundamentals in that business.

I continue to reiterate that capability speeds on home internet continue to far outpace where customer demand is, and so average speeds would sit in the 300 megs, and so when you compare that to top end speeds that are available in the marketplace, we're well beyond that by a factor approaching 10x. That's why I say network capability is not at all an issue, and in fact, as I said, we think of our network as a competitive advantage when you look at internet and our TV product combined across our footprint.

That's what you see playing out, and in our view, it's as simple as that.

Glenn Brandt:

Then David, on roaming, succinctly we're running about 85% of roaming volume relative to 2019 pre-COVID levels, and we're sitting at—we've ticked up to about 140% revenue comparatively against 2019 pre-COVID revenue volumes, or revenue. You know, we've seen that tick up from Q2 and Q3, travel remains ongoing, and so we're largely through that cycle of getting back to where we were, maybe a little bit more room in terms of volume, but we've ticked up a little bit.

I would anticipate that roaming revenue to temper a little bit - you're not going to see that necessarily grow much more than where we're sitting, other than filling in the rest of that volume.

David McFadgen:

Maybe I could just ask a follow-up on that, because I'm just wondering how you explain your roaming metrics, like 85% of volume, 140% of revenue. When you look at Bell, they



announced today that their volume is flat versus pre-COVID and the revenue is 112%, so your revenue is up substantially more than theirs but then your volume is lower, which implies you have significantly upside on roaming than they do. How do you explain that? I just want to get your comments on that.

Glenn Brandt:

Without getting inside their numbers, I can't—I've got to reserve my response to mine. I'm confident in where we are. These are rough rules of thumb - you know, the 85% from month to month, maybe it's 5 or 10 different here and there. There might be a little bit of rounding. I think generally, you can see it in the airports. The airports are busy, travel is back, business travel is lighter than it had been previously. Consumer travel is probably a little bit heavier, business travel a little bit lighter than where we were going through COVID. If airports are able to get their flows sorted out, I think you'll see continued growth in travel. We're coming up on March Break, it'll be interesting to see what those volumes are.

Let me just respond by saying the roaming growth is relatively mature, relative to where we were two years ago, one year ago, and so we've seen some sequential growth from Q2 and Q3 into Q4, we've ticked up to 140 versus 130 - great. I think if we hold that, grow it a little bit as more business travel comes back, there's still room for a little bit of growth and it will be what it will be. I'll pause there.

David McFadgen:

Okay, all right. Thanks so much.

Glenn Brandt:

Thanks David.

Paul Carpino:

Thanks everyone for joining us today, and if there's any follow-up, please feel free to reach out to us. Thank you.

Glenn Brandt:

Thank you all.

Operator:

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