Rogers Communications Inc.
Third Quarter 2024 Results
Conference Call Transcript

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Speakers:

Paul Carpino
Vice President, Investor Relations

Tony Staffieri
President and Chief Executive Officer

Glenn Brandt
Chief Financial Officer

Operator:
Welcome to the Rogers Communications Inc. Third Quarter 2024 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. Following the presentation, we'll conduct a question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

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:
Thank you, Gaylene, and good morning, everyone, and thank you for joining us today. I'm here with our President and Chief Executive Officer, Tony Staffieri; and our Chief Financial Officer, Glenn Brandt.

During our Q&A, I'd ask you to limit yourself to one question and a quick follow-up if needed. 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, MD&A, and in our 2023 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 Tony to begin.

Tony Staffieri:
Thank you, Paul, and good morning, everyone.

I'm very pleased to report that Rogers delivered another strong quarter of results. For 11 consecutive quarters, we have delivered industry-leading results driven by disciplined execution in a healthy and competitive market. We once again reported industry-leading market share in Wireless, industry-leading margins in Wireless and Cable, and strong profitability in Media, and we continue to invest in the future growth of our three core businesses, and we made significant progress in strengthening our balance sheet.

As you saw this morning, we announced a transaction with a leading global financial investor to provide an innovative $7 billion structured equity financing. The proceeds will be used to pay down debt, and as a result, we now expect our debt leverage ratio to reach 3.7 times by year end. This is well ahead of our 4.2 times target we previously communicated, and it will accelerate our Shaw de-leveraging plans by a full 12 months. This structured financing transaction is the first of its kind in Canada, and demonstrates our innovative approach to maintaining an investment-grade balance sheet while investing in growth. Closing is subject to the finalization of definitive agreements and is expected to happen in the fourth quarter.

Let me now turn to our third quarter results.

This quarter, we added a record 227,000 mobile phone and Internet net additions, and over the past 11 quarters, we have added 1.9 million mobile phone and Internet net additions. It's clear our strategy is working, and our team is executing with discipline. More Canadians continue to choose Rogers more than any other provider in Canada. I'm proud of our team and their efforts to compete in a healthy and competitive marketplace.

Wireless postpaid mobile phone net additions were 101,000 and prepaid net adds were 93,000. The market was competitive during the seasonally busy back-to-school period, and we effectively used our Chatr brand to gain customers in the new to Canada market. We remain focused on ensuring a clear delineation between our premium 5G brand and our successful prepaid Chatr brand. We have been executing on our brand differentiation strategy for almost two years now, and it's been highly effective in delivering strong results.

Cable loading was also strong in the third quarter. We delivered retail Internet net additions of 33,000, up 15,000 or 83% from last year. This brings our year-to-date retail Internet net additions to 85,000, a 50% increase from one year ago. Our expanded footprint and diversified Internet product offering are driving this growth. By choosing Rogers, customers can select the products and plans that best meet their needs delivered seamlessly through our network capabilities whether it's direct fibre, fibre coax, 5G, wireless home Internet, or wholesale PPIA.

Our strong wireless and cable loading is underpinned by our networks. In the third quarter, two global leaders in network benchmarking reaffirmed our network leadership position. Umlaut once again awarded Rogers Canada's most reliable 5G network. In a separate benchmarking study, Opensignal recognized Rogers for delivering the most reliable wireless services in Canada. Opensignal also awarded Rogers as Canada's fastest and most reliable Internet. The report found we consistently delivered the most reliable experience, the fastest overall download speeds, and the best streaming experience in Canada. Our customers have told us reliability is what matters most to them, and we're outperforming our competitors on this key metric.

We're also advancing our DOCSIS roadmap. This quarter, we successfully trialed DOCSIS 4 modem technology with four gigabit download and one gigabit upload speeds. This is a global first, and we just hit another milestone. We have started trialing the Comcast XER modem, the most advanced Wi-Fi seven and 10G capable router in Canada. Rogers' satellite to mobile partner SpaceX just completed a global first; a successful, real-world test with T-Mobile of their Starlink lower orbit direct-to-cell constellation during Hurricanes Helene and Milton. SpaceX also enabled and tested emergency alerts via satellite to mobile phones in affected areas. With over 300 LEO satellites in service, the technology was able to support thousands of residents with messaging service. As we previously announced, we are bringing the same industry-leading technology to Canadians.

From a financial perspective, our growth, strong execution, and continued efficiency gains are delivering industry-leading financial performance and industry best margins. In fact, we've set a new benchmark at Rogers with our best ever Cable and Wireless margins.

Wireless service revenue was up 2% and Adjusted EBITDA was up 5%. We delivered Wireless margins of 66%, and blended ARPU remains stable.

In Cable, we remain on track to return to growth in the fourth quarter. In Q3, Cable revenue improved sequentially to a decline of 1%, so we're seeing steady progress here towards our return to growth in the fourth quarter. With the improvements in Cable revenue, Adjusted EBITDA was strong, up 5%, and our team delivered industry-leading margins of 58%.

Our Sports and Media business also had a strong quarter. We showed strong growth and profitability, with revenue growth of 11%, and Adjusted EBITDA was up a healthy 25%.

As Canada’s communications and entertainment company, live sports and entertainment are core to our business strategy. In the third quarter, we signed a strategic agreement to buy Bell’s 37.5% ownership stake in Maple Leaf Sports & Entertainment. It’s a significant step in our long-term plan to surface value—more value for our shareholders.

Overall, all three businesses are executing very well, and we have clearly and significantly advanced our balance sheet, de-levering well ahead of plan.

Before I hand over things to Glenn, I want to thank our team for delivering strong results and disciplined execution in a competitive and healthy market. We’ve delivered 11 straight quarters of growth, invested in new innovations, and made big, bold bets. We have momentum, and I’m proud of our team for their relentless hard work.

Let me now turn over the call to Glenn.

Glenn Brandt:
Thank you, Tony, and good morning, everyone. Thank you for joining us.

As Tony has said, this is now our eleventh straight quarter for posting sector-leading operating and financial performance and we are proud of those results. We remain focused on delivering consistent, disciplined execution with strong performance and growth. We are following through on what we have said we would do with urgency and without distraction, including on our accelerated de-levering plans.

This morning, we announced an innovative $7 billion structured equity financing with a leading global financial investor to acquire a minority stake in a portion of our Wireless backhaul transport infrastructure. This is a transformative transaction and the first of its kind in Canada, and it will further strengthen our investment-grade balance sheet. This transaction is subject to completion of definitive agreements, which we expect we will complete and close on in the fourth quarter. The $7 billion in proceeds will be used to pay down a corresponding amount of debt. As a result, we now expect to end the year with leverage in the range of 3.7 times. More on this shortly, but let me now turn to an overview of our strong third quarter results.

Wireless service revenue grew 2% year-over-year, reflecting the continued growth in our mobile subscriber base and continued emphasis to add subscribers on our Rogers Premium 5G brand. The postpaid mobile phone customer net additions were a strong—a very strong 101,000, and prepaid net additions were 93,000 in the quarter.

As expected, the back-to-school period was competitive this year, particularly in the seasonally strong prepaid market, which tends to be more active for back-to-school. Rogers remained disciplined in the market and delivered an effective balance across strong subscriber loading and disciplined fundamentals reflected in stable ARPU. As a result, our aggregate net phone additions were 194,000 in Q3, which we expect will once again lead the sector on market share for subscriber growth for the eleventh consecutive quarter. In a competitive environment, we are leading in net adds while maintaining stable ARPU and driving service revenue growth.

Postpaid mobile phone churn was 1.12% for the quarter, which is roughly unchanged from the prior year and from the first half of 2024.

Wireless Adjusted EBITDA was up a strong 5% year-over-year, reflecting enhanced economies of scale and improved efficiency. This was reflected in our Adjusted EBITDA margin, which was up by 220 basis points over the prior year to 66%, a Company all-time high and sequentially up from the second quarter, our prior all-time high.

Moving to our Cable business, we continue to deliver strong profitability as we focus on returning to revenue growth. Cable revenue was down negative 1% year-over-year, a further sequential improvement from the negative 2% decline in the second quarter and on its path to turning positive as we exit 2024. That remains our intent and focus.

Cable Adjusted EBITDA is up a healthy 5% year-over-year, and Cable margins are a very strong 58%, up 330 basis points from last year and an all-time high. Our employees have worked very hard to leverage our scale efficiencies and cost synergies to deliver enhanced services to our customers while delivering stronger operating performance.

Internet net additions are up significantly year-over-year, reaching 33,000 in the third quarter, which is up almost double from the prior year.

Finally, our Sports and Media revenue is up 11%, and Adjusted EBITDA is up 25% for the quarter. The third and fourth quarters are seasonally our strongest of the year for our Sports and Media business, driven primarily by revenue growth at the Toronto Blue Jays and the NHL on Rogers Sportsnet. We expect this performance will continue through the fourth quarter as well.

At a consolidated level, total service revenue increased 1% and Adjusted EBITDA was up 6% year-over-year. This drove our consolidated EBITDA margin up by 230 basis points to a strong 50%.

Free cash flow for the quarter was $915 million, up 23% from the prior year, primarily reflecting the higher Adjusted EBITDA and lower interest expense on long-term capital—long-term debt.

Capital expenditures were $977 million in the quarter, down $40 million or 4% from last year, largely as a result of minor timing shifts.

Turning to the balance sheet, at September 30, we had $4.8 billion of available liquidity, including $800 million in cash and short-term deposits on hand and $4 billion available under our bank credit facilities. Our weighted average cost of all borrowings was 4.7%, and our weighted average term to maturity was 10 years. We ended the quarter with a debt leverage ratio of 4.6 times, down 0.1 time from the prior quarter, driven by stronger earnings combined with debt repayments.

This morning's announced $7 billion structured equity financing, signed with a leading global financial investor, reflects our commitment to de-lever and further strengthen our investment-grade balance sheet. The Shaw transaction has broadened our national reach and expanded the scale of our world-class assets. This $7 billion structured equity financing represents another transformative opportunity for us. It is a first of its kind in Canada with one of the world's leading financial investors. Succinctly, the companies have agreed to terms for Rogers to sell a minority interest in certain parts of our Wireless backhaul transport infrastructure. To be very clear, our cell towers and related spectrum holdings are not included in this transaction and remain 100% owned and controlled, and we will continue to retain full operational control and consolidation for our entire national wireless network. Closing is subject to finalizing definitive agreements, all of which are expected to be completed and closed in the fourth quarter.

We will use the proceeds to repay debt, and with this transaction, we expect that we will have reduced year-end leverage to around 3.7 times, a full turn improved from prior quarters and well ahead of our previously communicated target of 4.2 times. We remain committed to de-levering and will remain opportunistic for further strengthening of our balance sheet, including in regard to our purchase of an additional 37.5% interest in MLSE, which we expect to close in 2025.

As we de-lever, it is also important to highlight that we are still investing in growth in our core businesses in Canada for long-term value creation. Our Wireless, Cable, and Sports and Media operations are built on disciplined investing, targeting sustainable, long-term growth.

Finally, we are reaffirming all of our 2024 guidance range targets. We consistently lead in a competitive environment, and we continue to deliver on our near-term and longer-term goals.

Let me conclude by thanking the entire Rogers team. Thank you. Your perseverance, dedication, and resourcefulness has consistently outperformed our peers on growth and financial performance quarter in and quarter out. This is a strong team, working with world-class assets, attracting global investors, and we remain optimistic with the opportunities ahead for us.

Thank you for your time this morning, and with that, Gaylene, may we please commence with the questions and answers? Thank you.

Operator:
Certainly. We'll now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You'll hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

Our first question is from Batya Levi with UBS. Please go ahead.

Batya Levi:
Great. Thank you. I'd like to start with the structured equity financing. If you could provide a little bit more detail in terms of if there will be any shares issued with this, how it would impact maybe your operational—your operations as you lease back some of that network element for your own support.

Any colour on that, that would be great. Then second question was more on the wireless side, if we could talk about a bit more on the competitive environment as we go—head into the holiday season and if you think that the stable ARPU can be sustained. Thank you.

Glenn Brandt:

Thank you, Batya. On the first question, to be clear, we are not leasing assets. This is not a sale and lease back transaction. We are selling a minority equity interest in a portion—a regional portion of our Wireless backhaul transport infrastructure, and that's the extent of the transaction. It is an equity transaction with that minority interest and the subsidiary company. We will maintain full operating control of our entire network, including these assets that are involved in selling the minority equity stake. There are no RCI shares involved, RCI-A or B; no dilution to our RCI shareholders. This is a minority interest being acquired and a portion of our Wireless backhaul, and there is no lease.

Tony Staffieri:

Batya, on the second part of your question relating to wireless competitive intensity getting into the fourth quarter, it's always difficult to predict competitive market dynamics amongst the various brands that are in the market. If we look to the third quarter in the back-to-school season, we were very focused on being disciplined with our promotions. We lead with a bundled offer of Internet and wireless and stuck to that, and it executed well and resonated throughout the back-to-school period. You saw that we continue to focus on our primary brand strategy, Rogers 5G Premium.

When you look at the 101,000 postpaid nets, the vast, vast majority of those are on the Rogers brand. The team is doing an excellent job of focusing on that segment and migrating customers from Fido and Chatr to the Premium brand, and you saw us execute really well with the Chatr brand in the new to Canada and back-to-school category. There, what we saw was, as a result of a number of system changes we made, we've got a platform now on Chatr that is very good in terms of self-serve and has dramatically lowered our cost to serve in the prepaid segment. We've consolidated all our prepaid into Chatr and we discontinued prepaid on Rogers and Fido, and that's working extremely well in the fourth quarter also.

We like what we see in terms of the prepaid customers. They're prominently on auto pay, and so the behaviour is very similar to a postpaid customer, and they're coming in at very healthy ARPUs. The strategy's working well and we'll continue that into the fourth quarter, although you should expect prepaid to come down in the fourth quarter. There's seasonality related to it in the third quarter, and we expect the focus in the fourth to be on to postpaid.

Batya Levi:
Got it. Thank you.

Operator:
The next question is from—sorry, the next caller is Vince Valentini with TD Cowen. Please go ahead.

Vince Valentini:
Thanks very much. I will sneak in two as well. One, just if you can flesh out that prepaid a bit more. A healthy ARPU means close to $30, close to what you were getting on low-end flanker before, Tony, and I also note churn on prepaid way lower this year than it was last year, and this quarter even better at 2.8%. In your mind, is there really any difference between a low end flanker and a prepaid customer anymore? That's question one. Sorry Glenn, but something sounds just too good to be true here. Who's going to give you $7 million for no equity and no lease payments? What is the buyer getting here? Are they getting some sort of option to resell these assets back to you in the future, or what's the angle here? There has to be something for somebody to want to pay for the minority interest in the infrastructure.

Glenn Brandt:
We can turn to that. Do you want me to turn to that first, Tony? Okay. The arrangement is, obviously, the Wireless backhaul transports data, the towers to our core. The transport going from the edge of our towers to the edge of our core is a business of transporting data, and currently, that business is 100% owned and controlled nationally from coast-to-coast by Rogers. This is a transaction that takes a portion, a regional portion of that national transport and creates a subsidiary that, using wholesale rates, will pay for the transport, and so it creates revenues. There are expenses and capital for maintaining that regional portion of the backhaul, and that ultimately will drive net income within the subsidiary.

It's a consolidated subsidiary, won't affect EBITDA, but the minority interest holders will earn a portion of the net income within that subsidiary. There will be distributions paid from that net income and from the cash that settles between our operating company at Rogers and the subsidiary carrying the backhaul in these regions, or in this region, and that's the business model, so there's no lease. There will be periodic distributions of available cash. They'll settle up, and that's the business model.

Vince Valentini:
That makes more sense, so Rogers pays an operating expense as opposed to a lease to use the...

Glenn Brandt:
It's a supply agreement, yes.

Vince Valentini:
Okay, so on that...

Glenn Brandt:
A portion of it, a controlling portion of that, we'll attribute to RCI and a minority portion of that, we'll attribute to the minority investor.

Vince Valentini:
Sorry again, just to follow up on that, is this data transport backhaul significantly underutilized today so that there's excess capacity to grow those revenues? Is that the catch?

Glenn Brandt:
Okay, so just to be very clear and to make sure there's no confusion, this is not a business that will sell backhaul to other carriers. This is a business that will continue to serve Rogers exclusively and will continue to consolidate up into Rogers. There is data traffic growth going on today annually. Our data traffic grows by 40% to 50% as a result of increased data loading to each subscriber and as a result of subscriber growth from quarter-to-quarter. We will maintain the network as we always have. We'll continue to maintain it, invest in it. We control that investment. We control that operation of the infrastructure. This is simply setting up a supply agreement between a subsidiary and the operating company.

The returns to the investor, the minority investor coming in are based on that traffic, and we have the forecast worked out based on historic and expected growth rates to set up that business and the volumes that it'll drive, the revenue it'll drive, the expenses that are expected for operating it, and the distributions out to the minority investor and back up to RCI as the controlling shareholder. Those distributions are forecast to be—anticipated to be relatively stable within a known range based on our forecast.

Vince Valentini:
I guess you don't want to tell us that known rage at this point?

Glenn Brandt:
I'm not looking to disclose the financial terms, no, Vince. Thank you.

Vince Valentini:
Thank you, Glenn. That was much better.

Glenn Brandt:
Thank you.

Tony Staffieri:
Vince, on the first part of your question, we have been driving and we are seeing a blurring of the lines between prepaid and postpaid, and it's been a very deliberate strategy for us, and it's been very competitive, beneficially competitive for us in that segment of the market where Chatr is participating. Customers are coming in, as I said earlier, largely on auto pay, and so the behaviour is very much like postpaid, and we're seeing very little difference, and the ARPU's very strong. Our prepaid ARPU is not that different than Québec or ARPU, just to put it in perspective. We're not going to quote specific ARPU numbers by brand, but that'll give you a sense of the value proposition and the strength of the pricing on the Chatr brand.

Vince Valentini:
Thank you.

Paul Carpino:
Next question, Gaylene.

Operator:

The next question is from Maher Yaghi with Scotiabank. Please go ahead.

Maher Yaghi:

Great. Thank you for taking my question. Just to follow up on this interesting transaction that you guys announced today. I'm trying to figure out what kind of effective rate the minority interest is getting on this deal, trying to triangulate a little bit more the impact of this transaction on your future free cash flows, and what percent of your backhaul is included in this deal? You say that it's original part of your network, but if you can just ballpark a little bit how much of your current backhauling this represents, and are there minimum commitments that you need to provide your equity minority shareholder on this deal in the future that is set in advance or it's just paid for use. I'll have a follow-up after that.

Glenn Brandt:

It's based on tiered wholesale rates, volume tiered. As the data traffic grows, the tiering adjusts. There is no specific term on the investment. There is no guaranteed minimum for the distributions. There is a theoretical maximum that we would reach or approach as you get into higher and higher tiers. Keep in mind, we've got a business that's growing data rates at 40% to 50%, and so if this were to run indefinitely, that 40% to 50% annual growth would get quite high, and so the rates are adjusted accordingly in the tiering. The cost and the maintenance will all be factored in in the distributions. The order of magnitude, Maher, I'm not going to quantify the annual distributions. What I would say, on a business of—approaching $10 billion of annual EBITDA, if you were to factor in the interest savings on $7 billion of debt repayment at our annual cost of just over 4.5%, that's roughly $300 million a year.

The distributions of the net income that apportion to the minority investor will be a little bit higher than those net after-tax interest savings, but not materially higher. I expect well inside, well inside $1 billion of distributions coming out from the minority interest investment. Let me give you that range, and that is a very wide range, deliberately so, so that I'm not steering to exact returns on the call. That's not fair to the investor, and we're still working on completing the final documents, but this is an excellent opportunity for the Company to de-lever. It's a structured equity transaction. We maintain control. We de-lever, and the impact on our free cash flow and ability to continue to invest in our business carries on unrestricted by this transaction.

Maher Yaghi:

Great. It sounds like it's basically a bond on the backhauling. It's like selling a bond on your backhauling business.

Glenn Brandt:

I'm going to resist that description in that this is an equity transaction, and so it'll be considered as such, and so we're selling, though, a distribution stream.

Maher Yaghi:

Yes, okay, and do you have any option to repurchase that ownership over time?

Glenn Brandt:

We will have full control over how long this investment remains in place, and we'll determine that in the fullness of time with the needs of our balance sheet. Yes.

Maher Yaghi:

One last one, are the distributions to the equity partners of that entity tax-deductible?

Glenn Brandt:

No, they would be equity distributions, and so they would be treated as such, and so that's the—we will be repaying debt that has tax-deductible interest. We will be paying distributions that are not tax-deductible, but even with the effect of that, if I factor in the difference between what I expect will be the annual distribution amounts and the annual interest savings, in the context of our free cash flow, it's not a significant increment to our obligations.

Paul Carpino:

Great. Thanks. Thank you, Maher. Gaylene, can we have the next question, please?

Glenn Brandt:

Thank you, Maher.

Operator:

Certainly. The next question is from Drew McReynolds with RBC. Please go ahead.

Drew McReynolds:

Yes. Thanks very much. Good morning. Sorry, I had trouble kind of climbing on. I'm sure the financing is being hashed to death here, but one follow-up there for you, Glenn. Just in terms of valuing that minority stake, obviously, you're not going to get into the details there specifically, but just what was the approach to how that came about? Then just switching gears here, on the Wireless network revenue growth, you're tracking at 2%. You're going to be ahead of your large-cap peers. As you look into Q4 and 2025, we're seeing some incremental ARPU pressure, and obviously, today's announcement on what could be even more modest market expansion next year just with some immigration tweaks. Just wondering how you are looking at network revenue growth in Q4 and are we at the trough? Can we climb back up to maybe not historical mid-single digit, but where do you aspire to get to as you look through the medium term? Thank you.

Glenn Brandt:

Sure. Thank you, Drew. On the question on valuation and how the valuation's arrived at, Drew, you know the investors would look at this as a stream of cash flows that they would work in their modelling and run as a valuation. We've done the same here. It's a fairly straightforward business. We've got growing data loading across infrastructure that we own and control. We've done so for decades, and so from our standpoint, we're pretty confident in our ability to determine over the near, mid-term, long-term horizon what it takes to operate a wireless network and the backhaul transport related to that. This is a transaction that when you own and control the entire national network, you can look at it, not have to worry about the arrangements with partners, not have to worry about the intricacies of that. We control it. We control the operating costs, and so we're able to forecast with a pretty good degree of confidence where the data loading traffic is going to go.

We have a tiered rate structure that reflects that traffic today and the loading going out into the future. That generates the revenues with a good degree of confidence. We know the operating costs, the capital costs of maintaining that transport with a good degree of confidence, and then those forecasts, I'm sure the investors look at and run their own analysis and assessment based on their experience. Then it's just a financial valuation of what their hurdle rate returns are, how they value it, how they risk adjust it, and we have determined the value of their minority stake as being $7 billion Canadian. It's a significant valuation, but let's keep in mind, we carry a very significant volume of traffic on that network, and so that's the simplicity of it.

Then in terms of your question around ARPU and revenue growth going into the fourth quarter, I would anticipate that the fourth quarter will be competitive just as the third quarter was. We will continue to emphasize disciplined approach to going after our net adds, emphasizing our Premium brand, and you've seen us for, well, many quarters now, leading on net adds while being disciplined around the impact on ARPU and sustaining revenue growth. I expect what you've seen in the third quarter in a competitive quarter will carry into the fourth.

Tony Staffieri:
Drew, if I could add to that, just to bring it back to the macro revenue outlook, besides ARPU, I think it's important to look at the size of the market. The Canadian landscape continues to have healthy growth. We expect the industry, once everyone's reported, continues to grow somewhere between 4% to 4.5%. We certainly saw lower volumes and size of market in the third quarter as a result of government limitations on foreign students, temporary workers, and most recently, have some impact in the fourth quarter's limit our curbing of immigration. Notwithstanding that, we continue to see good growth in terms of penetration gains as well as population growth. Against that backdrop of healthy growth in the marketplace, the team's been doing an excellent job of base management, upselling customers from Chatr and Fido into the Rogers Premium brand and focusing on a value proposition that is beyond just price, and that seems to be resonating as well. We've said we're committed to ARPU growth, and the strategy we have seems to be resonating. Right now, we reported in Q3 stable ARPUs, but we continue to see the opportunity through the various execution tactics we have to grow ARPU into next year.

Drew McReynolds:
Thank you both.

Paul Carpino:
Great. Thank you, Drew. Next question, Gaylene.

Operator:
The next question is from Sebastiano Petti with J.P. Morgan. Please go ahead.

Sebastiano Petti:
Hi. Thank you for taking the question. Just wanted to maybe touch on the MLSE announcement earlier last month, just to see if you could provide additional colour about the structure and how we should be

thinking about that? Particularly the language about, I think in the press release today that Rogers will be the largest owner of MLSE with a controlling interest in the 75%. When can we perhaps expect to see additional details of what that structure might look like given commentary previously that there will not be a leveraging transaction. That's my first question?

Glenn Brandt:
Thanks, Sebastiano. We stand by the statement that we will manage this. That we will continue to emphasize our de-levering. We'll continue to manage our balance sheet with the closing of that MLSE investment, and particularly this structured equity transaction gives us some optionality and some leeway on how we structure that to continue to hold the gains from this transaction and look to how we fund MLSE between now and when we close, which I expect will be out in 2025. There's a number of different ways we could do that. I expect on closing, we will own and control a majority stake in MLSE. Could be as high as 75% if we bring in outside partners over time whether it's at closing or subsequent or whatever, we'll determine all that in the fullness of time. This structured equity transaction, though, provides us with a substantial de-levering. We will close 2024 in the range of 3.7 times. I anticipate with the MLSE transaction we will close 2025 in a similar range. Maybe I'll just leave the comments at that, Sebastiano.

Sebastiano Petti:
A similar range to the 3.7 times that you anticipate exiting 2024 with, Glenn? Is that what you're...

Glenn Brandt:
Yes. Yes, sorry, yes. Yes

Sebastiano Petti:
Okay, and then just zooming back, as we think about the de-levering overall, I think the strategy, or the stated plan was to de-lever by half a turn before asset sales entering the year. We now have on an organic basis to think that we'll probably not be coming in even with—there's no asset sales that are coming through, so we're not necessarily de-levering half a turn on an organic basis. If we look at the pressures across the ecosystem and implied guidance, and I understand the improvements on an operational basis that Rogers is currently executing against. But as we think about the path for de-levering over the next several years, the question we're getting from investors, what is the strategic equity transaction announced today? What does that imply about the cash generation of the business?

Is the Company still looking—does Management still look at Rogers' ability to de-lever over the next several years, and has that materially changed as we think about the backdrop of the ecosystem? Thank you.

Glenn Brandt:

We remain extremely confident in our ability to generate cash from operations, so to the extent it's changed, I'm more confident. We announced we would hit $1 billion of cost synergies in 24 months, and we hit it within 12 months. We will realize $1 billion of cost synergy savings realized in year in 2024. I'm confident in our ability to drive earnings growth, cost synergies, cost efficiencies, improve margins. That helps lift our EBITDA, helps lift our free cash flow. We will generate $3 billion of free cash flow in 2024, and we hold a very substantial portion of that free cash flow after dividends to pay down debt. To the extent it's changed, I'm more confident at the end of '24 than I was going into '24 in our ability to hold cash from operations and pay down debt. We are doing that. I remain confident and very satisfied.

We announced when we went into this transaction with Shaw that within 36 months, we would de-lever back down to—in the range of where we were pre-Shaw. Pre-Shaw, we were a little bit over three times. With this transaction, we are approaching the mid-three times range, and we're not yet at the second anniversary of the Shaw transaction. I appreciate we haven't sold the targeted $1 billion of non-core assets, and that's the gist of your question. I acknowledge that, but we're not desperate; wasn't ever going to be a fire sale. In the interest rate environment, we've had to take a pause on that. I think what we've shown is strong flexibility around adjusting our strategy. We were going to sell non-core assets and then get to our Cogeco shares last year. We realized the non-core assets would be delayed, and so we flipped, and we sold our Cogeco stake, de-levered at the end of '23 from that substantially.

This year, we found an opportunity. I appreciate you said we haven't sold assets. We've sold $7 billion in an equity interest in assets that, if you were to look to our balance sheet and find the net book value for those assets, $7 billion far outstrips the net book value of those assets, and this is a portion of our Wireless backhaul. This is not even the majority of our Wireless backhaul infrastructure on our balance sheet, and we sold it for $7 billion of equity interest. We control the operations. You're right to acknowledge these assets aren't non-core. They're core, and that's why we will maintain control, but I think we're showing a very dedicated, driven intent to de-lever and continue to invest and grow. Maybe I'll pause there.

Paul Carpino:
Thanks, Sebastiano. Next question, Gaylene.

Operator:
The next question is from David Barden with Bank of America. Please go ahead.

David Barden:
Hey, guys. Thanks so much for taking the question. I'm going to have to ask one more on the securitization thing and then I'll ask one about the business. Glenn, I think that the word that we want to use—I would use is securitization, right? That you've taken—you've created this subsidiary, this intercompany payment system. There's a forward stream of these payments. Your front-end loading the receipt of these payments into your balance sheet and $7 billion. My question a little bit is the original plan was we would de-lever and our cash outflows would go down. But here with this setup where the payments out to the minority holder are greater than the interest savings from paying down $7 billion of debt, you're de-levering, but your payments are going up. I guess the question is what's the point of that? Why is it so important to have a lower numerator divided by denominator if your cash outflows are actually going up instead of down? Then, Tony, I guess one of the big conversations we've been having has been how the impact of the government's new immigration policies or posture are going to impact industry growth, and how if that does impact industry growth, how the industry will react. You guys have been probably the biggest beneficiary of new Canadian market net additions. I'd love to get your perspective on that. Thank you, guys.

Glenn Brandt:
Let me answer the first question first. Your reference to securitization, I'll just highlight a securitization transaction would be debt, and this isn't debt. The second part of your question around how does this make sense because you're saving on interest, but you're paying out more on distributions, I've been careful not to enumerate what we are paying out in distributions. I would just suggest to you that this is an excellent opportunity for the Company because on the balance, we are very pleased with where we anticipate that balance to go over the future, and I'll just leave it at that.

Tony Staffieri:

The second part of your question, David, relating to—really relating to the size of the market, I think a couple of things I would say. The government curbing of the new to Canada category, look at the foreign students, our estimate, and it's corroborated by some other reports that have been prepared externally, that category is down in the third quarter 40% year-on-year. Foreign temporary workers is down 20% to 25%. In the new to Canada category, that has impacted it, and as you say, we've traditionally done extremely well in that category, but what you see in our results for the third quarter is that we execute across all segments of the market and perform extremely well. Our estimate is that we once again have leading market share in the third quarter in both postpaid and total mobile phones. That's really attributed to, again, our focus on the Rogers Premium brand. As I said, the vast, vast majority of our net adds is on the Rogers Premium brand, and now increasingly good share on Chatr.

In terms of the size of the market outside of the new to Canada category, we've traditionally seen over the last year and a bit, if we look at that trend line, excluding new to Canada, we're seeing organic growth in the 2.5% to 3% as a result of penetration growth, which is now at 88% and going up to 90% very soon and still lagging other countries on that key metric. Good opportunity for growth in terms of size of market.

Paul Carpino:

Great. Thanks, David. Next question, Gaylene.

Operator:

The next question is from Jerome Dubreuil with Desjardins. Please go ahead.

Jerome Dubreuil:

Hi. Good morning. Thanks for taking my question. The first one is on the equity sale and the backhaul there. Just trying to bridge the gap with the leverage guidance that you have provided. If you can maybe clarify the tax impact on the sale of those shares, what's the net value of the $7 billion? That is question number one. Question number two is on the CapEx longer term for Rogers. Appreciate there's no real change from the deal you announced this morning, but I'm wondering if 2024 is a year with high CapEx, normal CapEx, or low CapEx. I appreciate you have been seeing mid and high split and have been deployment, microwave backhaul replacement. Just looking if this year is a high CapEx year in general? Thank you.

Glenn Brandt:

Thank you for the questions, Jerome. The tax impact, just to put that in the context of $7 billion of debt repayment, our average cost of debt is just over 4.5%. The pre-tax or the available tax expense on interest expense would be around $300 million. Think of the net after-tax or additional tax cost of that takes your net savings down to about a quarter of $1 billion, roughly, and that would give you the order of magnitude on the net savings from the repayment of debt. I'm sorry, your second question on the CapEx. Yes, I think I've been consistent in signaling that if you're modelling—and I'm not going to start guiding for '25 yet, but I think I've been consistent in my comments that if you were to model of continuing our range of capital spend of around $4 billion, if you're going out, assume some inflationary impact, but keep it in the range of $4 billion, we will manage our priorities within that band. As we grow revenues, the intensity will mediate or soften, but we're not looking to step down. We're investing from roughly that $4 billion range. We have a number of priorities to get to. Our businesses are all growing, and that is a sufficient envelope for us to drive the business growth in that order of magnitude.

Paul Carpino:

Sorry, Jerome, just so we can get a couple of your peers in as well please. Okay, thanks. We can follow up later. Gaylene, time for two more quick questions, please.

Operator:

Thank you. The next caller is Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery:

Great. Thank you very much. Good morning. Tony, the CRTC recently put out a strategic plan. I'd just love a general commentary on the regulatory environment and how you see that evolving over time, and in particular, they had a recent comment on the roaming rates. They want some replies from you in the next few days. Perhaps you could just comment on that, and then also just give us a little bit more colour about how big roaming is for you in the wireless business currently. Thanks.

Tony Staffieri:

Thanks, Simon. I'll first start with the roaming side of it. What we have seen is a decline year-on-year on total roaming revenue. I won't disclose the amount of it, but if you're to look at the negative impacts on ARPU, that'd be the single biggest one for us in the third quarter. We've evolved in our—have, and you'll see in the fourth quarter evolve our value proposition on roaming so that we accelerate and increase the number of unique roamers. We've seen the actual number decline. We're adjusting the value proposition as we compete with alternatives that customers have when they're outside of Canada. Early indications are good on that, and so we like what we see.

In terms of the CRTC's commentary in looking at it, it's not a surprise. They'd indicated that earlier in the spring as they were looking at various fees in the industry, and we'll obviously participate and cooperate in providing all the information that they need. But as I said, we've already evolved in terms of our value proposition on roaming.

Simon Flannery:
Thank you.

Paul Carpino:
Thank you. Thanks, Simon, and our last question, Gaylene, please.

Operator:
The next question is from Aravinda Galappatthige with Canaccord Genuity. Please go ahead.

Aravinda Galappatthige:
Good morning. Thanks for fitting me in. Two quick ones, one a follow-up, obviously. First of all, Glenn, you mentioned sort of in the vicinity of 3.7 times leverage even exiting 2025. Just wanted to clarify does that envision the non-core real estate sales, or does that exclude that? The second question is obviously on guidance, when you kind of look at the 12% to 15% guide, that does require an uptick in Q4. Perhaps maybe talk to what could drive that? I know there'd be some pricing action that you've taken. Anything that would kind of change the trajectory that we've seen in Q2 and Q3? Thank you.

Glenn Brandt:
Thank you, Aravinda. On the revenue, we're going into an active quarter. It's a strong quarter for us across our businesses. We remain determined to meet those guidance ranges, as I've indicated, and so I'll leave the answer at that. You've hit on some of the elements of that in terms of some pricing initiatives. The vast portion of our growth is driven on, though, the growth in our subscribers. We've had strong contributions from that through the first three quarters of the year, and that, obviously, helps drive the fourth quarter as well. It's a balance across all those—all of those elements. In terms of your

question on the non-core real estate assets, that remains a work in progress. I've grown weary of explaining each quarter that we're on it and it'll come. Interest rates are high, and so we've pivoted. Keep in mind, a full success on selling all of those targeted non-core assets would be somewhere in the range of $1 billion, and that would be in the range of a 0.1 impact on our leverage. If there is any opportunity to fill those in, we will fill them in at the first opportunity. I'm not desperate to do it and I'm not chasing a market that's disinterested. We'll adjust accordingly, but the 3.7 times range does not specifically say if we sell this or that, if we do this or that.

We've got about a year and a bit to go before I close out 2025. We've got many options on how we grow the business, how we generate free cash flow, how we apply that free cash flow generation to paying down debt, and how we meet the investment in our increased stake in MLSE. To be clear, that is factored into the 3.7 times, and I've got a number of different avenues to fund that acquisition that will help in our de-levering.

Paul Carpino:
Thanks, Aravinda, and thanks, everyone, for joining us on the call today. If there's any follow-ups, please reach out to the IR team. Thank you very much.

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