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RCI.B.TO - Q2 2012 Rogers Communications Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Rogers Communications Inc. Q2 2012 results analyst conference call.

At this time all participants are in a listen-only mode. Following the presentation we will conduct a question-and-answer session. (Operator Instructions) I would like to remind everyone that today's conference is being recorded.

I will now turn the call over to Bruce Mann of the Rogers management team. Please go ahead, sir.

Bruce Mann - *Rogers Communications Inc. - VP, IR*

Thanks very much, operator. Good morning, everybody. Thanks for investing some of your time with us from the Rogers management team this morning for our second-quarter 2012 investment community teleconference.

Joining me on the line here in Toronto are our President and Chief Executive Officer, Nadir Mohamed; Tony Staffieri, our Chief Financial Officer; Rob Bruce, the President of our Communications division; Keith Pelley, the President of our Media division; and then also Bob Berner, our Chief Technology Officer; and Ken Engelhart from our Regulatory team.

We released our second-quarter 2012 results earlier this morning. The purpose of this call is to crisply provide you with a bit of additional background up front and then we will answer as many of your questions as time permits.

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As today's remarks and discussion will undoubtedly touch on estimates and other forward-looking information from which our actual results could be different, please review the cautionary language in our earnings release of this morning and our 2011 annual report. There are factors, assumptions, and risks there as to why our results could differ materially and all of those cautions apply equally to our dialogue on today's call.

If you don't already have copies of our release of this morning and/or our 2011 annual report to accompany the call, they are both available on the Investor Relations section of Rogers.com. They are also on the EDGAR and SEDAR websites.

So with that I'm going to turn it over to the Nadir Mohamed and then Tony Staffieri, both for some brief introductory remarks, and the management team here will take your questions. So over to you, Nadir.

Nadir Mohamed - *Rogers Communications Inc. – President & CEO*

Thanks, Bruce. Welcome, everyone, and thank you for joining us. As you can see from this morning's earnings release, we delivered a relatively balanced set of financial and subscriber results, which includes several positive inflections from the first quarter of this year.

The results overall clearly reflect the strength of our asset mix which positions us uniquely as Canada's largest wireless provider, complemented by healthy and growing broadband and media businesses. While the competitive challenges and the ad market softness has not abated, through the second quarter we had strong execution which resulted in growth in both revenue and adjusted operating profit in our Wireless and Cable division as well as on a consolidated basis.

Margins, earnings per share, free cash flow, and cash returns to shareholders were all up both sequentially and against the prior year. In fact, our adjusted operating profit in Q2 is the highest ever reported by Rogers. We had good postpaid subscribers results at Wireless on both the sales and retention fronts, and it was one of our stronger quarters in terms of the number of new higher value smartphone customers that joined Rogers as new customers.

We again this quarter made solid improvement in the important postpaid churn metric we which we were successful in stabilizing earlier in the year. This quarter we actually reduced postpaid churn on a year-over-year basis for the first time in over two years and a sequential improvement from Q1 of this year as well. It was also the fourth straight quarter in which we have been able to slow the year-over-year rate of decline of postpaid voice ARPU, which is another key metric, as you know, on the wireless side.

It is still clearly under pressure given the competitive dynamics in the market and the migration to use of SMS and e-mail, but we have continued to manage this decline as much as possible given the environment. While the strength of wireless data offset much of this pressure, we still saw a 2% overall decline in postpaid ARPU which compares favorably to the 4% decline you would have seen in the first quarter.

We continue to drive our wireless data strategy, activating approximately 630,000 smartphones putting the percentage of postpaid base now on these high value devices at 63%, up from 48% this time last year. Our smartphone metrics -- ARPU, churn and upgrade rate -- remain healthy given the competitive backdrop, and at the same time we are attracting and retaining our highest lifetime value customers which is squarely on strategy. As a result, we continue to drive double-digit revenue growth in our Wireless data business which is the most significant driver of our top line.

Also on the Wireless data front we furthered our machine-to-machine, or M2M, opportunities with a significant announcement which will enable us to drive even faster in that space where, frankly, we are in the forefront here in Canada. During the quarter we joined with six other large international wireless carriers forming a global alliance to cooperate on global M2M business initiatives.

With this we will jointly support a single global platform that multinational customers can leverage to enable connected devices in multiple countries to better manage operations and reduce costs. And this includes a single SIM that works simultaneously, seamlessly across borders of member countries.

As some of you may have seen, we also announced, together with CIBC, the launch of Canada's first mobile payment solution that allows Rogers subscribers to pay wirelessly by credit card at the checkout counters of businesses across Canada using Rogers smartphones. While wireless data growth overall did slow modestly from the first quarter, we put in place a number of changes during the second quarter that should help to improve the trajectory of wireless data revenue growth in the second half of the year.

At the same time, we are driving very meaningful cost efficiencies, not just at Wireless but across all of our businesses as Wireless has helped drive EBITDA margin expansion both year over year and sequentially to 48.2%. Our wireless EBITDA this quarter grew by 5%.

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We also continue to invest in the further expansion of our LTE network access across a number of our additional cities. Rogers today has Canada's first and largest LTE network and today we already cover approximately 35% of Canada's population, heading to 60% by the end of the year. We also have the biggest selection of LTE devices available in Canada.

In the Cable Operations portion of the business we also delivered not only solid, but increased, margins and continued top-line growth. While Q2 is always the seasonally slowest quarter in cable, this is because of the start of university summer breaks during May and June time frame and the related seasonal disconnects, we also face continued IPTV competition in our territory during the quarter.

In Q2 you saw more of the same from Q1 where we were clearly in a period of stepped up competition in which our primary telco competitor, who already has a broadly deployed satellite TV offering, is now pushing with extremely deep discounts on its more widely available IPTV product. You see the effect of this again in the quarter in the basic cable subscriber nets and also the impact of retention and promotional offers that we have needed to utilize in the dampened rate of growth on the revenue line.

Now as in Wireless we continue to have good cost management in Cable, even with some additional costs associated with supporting the analog-to-digital tier migration. That is something we started during Q1. We were able to deliver a healthy 47.8% margin in Cable Operations, up both year over year and sequentially from Q1.

At the Rogers business solutions division, which is focused on the Wireline enterprise segment, we continue to successfully focus on driving the on-net and next-gen portions of the business at strong double-digit rates. These gains were offset on the top line by continued planned exit of the lower margin legacy services and off-net business. You can see the effect of this shift to on-net IP in the operating margin, which has improved 340 basis points year over year. This reflects our focus on growing our presence in the small and medium enterprise segments of the business market in areas where we have our cable and fiber network facilities.

Now turning to Rogers Media we achieved continued top-line growth, an impressive performance versus several of our media brethren who have reported in Canada over the past couple of weeks. Clearly, the advertising markets have been very tough, tougher in fact than what we saw during Q1, I believe reflecting the global macroeconomic challenges and constraints.

Offsetting the effects of general ad market softness, however, was strong growth at Rogers Sports Entertainment and increased subscription revenue and advertising sales at our Sportsnet properties.

On the strategic front, Keith and his team were successful this past quarter in orchestrating a significant expansion of Rogers Media's Citytv platform. We have effectively taken this strong platform from a largely regional base to an increasing national broadcast TV footprint. With the additions of Montreal, Saskatchewan, and large swaths of British Columbia and Alberta, Citytv's reach will increase by more than 20% to over 80% of Canadian households.

On the adjusted operating profit line at Media, what you are seeing is good cost management being offset by continued investments in new programming at Citytv, new properties that have been launched to generate additional growth going forward, as well as increased player salaries at the Blue Jays. Much of the new programming is coincidental with the national expansion of Citytv's footprint, which going forward will enable us to monetize this programming over a much larger audience base in future periods.

So stepping back to a consolidated view, as we said on the call last quarter, we could see the revenue trajectory was lower than what we had anticipated and we took immediate action. We accelerated a number of cost management initiatives aimed at offsetting the top-line pressures and have worked on changes that will address the top line in the coming quarters.

The decisive actions we took late in Q1 and throughout Q2 on the cost side are reflected on the solid early successes you can see in the results this quarter. To be clear, our definition of winning longer term is from top-line growth. Whereas we saw stable or modest growth in Wireless and Cable in Q2, we are committed to improving this trajectory.

Our focus on smartphone activation, our solid postpaid churn performance, along with the growth initiatives we have underway are designed to strengthen revenue growth. And while I expect it to continue to be a tough market, I have no doubt whatsoever that the strength of our franchise and our superior asset mix will remain a great platform for continued success.

To sum up, it was a quarter of growth on both the top and bottom line with the improvement of further stabilization in many of our key operating metrics and expansion of our margins. And while we continued to invest at a healthy rate to deliver new and innovative products and services and to maintain our leading network positions, we also increased free cash flow and cash returns to shareholders.

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With that I will turn it over to Tony for a few remarks on the numbers and then we will take your questions.

Tony Staffieri - ***Rogers Communications Inc. - EVP, Finance & CFO***

Thank you, Nadir, and good morning, everyone. It is great to be here. Let me provide a little bit of additional color on the financial results and metrics for the quarter; then we can dig into the specific questions you may have.

On the top line our consolidated revenue was up modestly for the quarter, which compares favorably to a 1% decline last quarter. As you can see, wireless network revenue was up 1% this quarter and we continued growth at both Cable Operations and Media, each also up 1% year on year. In the second quarter we saw significant improvement in the consolidated EBITDA growth trajectory to 3% year on year, compared to a decline of 6% last quarter.

In our Wireless business EBITDA was up 5% and we have done this in the face of very solid subscriber gross adds and near record number of new smartphone additions. 63% of our postpaid customer base now has a smartphone and during the second quarter almost 70% of our gross adds came in on smartphones, so we are continuing to have success concentrated in the higher end of the market.

Our Cable and Business Solutions segments also posted adjusted operating profit improvements versus the first quarter of this year, growing at 2% and 5%, respectively. So, overall, very healthy margins across Wireless and Cable Operations with both posting margins of approximately 48%.

In Media adjusted operating profit was down year-on-year. Notwithstanding focused cost efficiency improvements in that business, we continue to make investments for growth as Nadir referred to earlier.

On a consolidated basis our EBITDA margin of 41% was up year over year by 90 basis points and up almost 400 basis points sequentially from the first quarter. In addition to the improvement and stabilization of some of the important operating metrics to which Nadir referred earlier and the inflection in revenue, the solid operational efficiency improvements clearly stands out this quarter. As Nadir said, we have taken some very decisive actions in the first half of the year on our cost structure which allowed us to protect our margins, our cash flow, and manage our profitability.

In the second quarter our costs overall declined by 1% year on year despite continued revenue growth at all three of our segments and subscriber bases larger than they were this time last year, as well as increased investments in our media business.

While a portion of this can be attributed to modestly lower gross adds, the cost management initiatives that have helped to shift the Opex trajectory so far have been driven squarely through focused execution. We are enhancing our processes to be more productive and efficient, not only to realize cost savings but to improve the customer experience. We continue to invest in the customer-facing parts of our business.

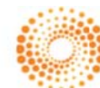
Also key has been the narrowing of the scope and number of initiatives we have on the go so that we can execute more sharply on those initiatives that have the most impact. We are also addressing the underlying costs associated with why customers call. All of these efforts have allowed us to reduce our labor cost trajectory, but we also spent quite a bit of time and focus around reviewing and more tightly managing the entire supply chain to drive savings through our spend with our suppliers. We have significantly reduced discretionary spending in our general and admin categories, such as T&E.

Going forward we will continue to seek further operating efficiencies while continuing to invest in growth and our customer experience.

Looking on a consolidated basis below the operating profit line, there really weren't any unusual recurring items that I need to highlight this quarter. You see the strong financial results for the quarter reflected in adjusted diluted earnings per share, which was up year over year by 6 cents or 7%. Growth driven by our step up in EBITDA, which more than offset the slight increases in depreciation and amortization and recurring income tax expense.

There were a couple of nonrecurring items in the quarter worthy of mention. The first being a $54 million one-time tax charge resulting from the revaluation of our deferred tax balances. This was caused by the recent enactment of the 2012 Ontario budget where previously announced tax rate reductions were deferred and caused our effective tax rate used to evaluate our deferred tax balances to increase by approximately 1%.

The second item was a $33 million charge for integration and restructuring costs incurred during the quarter, the majority of which relates to organizational changes and cost management initiatives that we implemented in the quarter.



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One item that you no longer see in our operating results starting this quarter is the previous video sub segment of our Cable business. As many of you will recall, we began winding down the remaining portions of that business in the first quarter of this year. We have now completely exited that business and as a result it is now accounted for and reported as discontinued operations in our financial disclosures.

On our capital spending program the $465 million incurred in the quarter was down 12% year on year, but the decline is in large part due to the timing of spend during the year. At this point we remain comfortable with the consolidated Capex guidance range set out at the beginning of the year.

We are also not making any changes to our consolidated adjusted operating profit and pre-tax free cash flow guidance ranges that we set out at the start of the year. We are focused on executing to our roadmap that we believe will achieve our financial targets.

There are obviously continued pressures facing our businesses, but we are making meaningful progress around a number of cost management initiatives that we believe at this point can offset the top-line pressure we have seen to date. And at the same time, we have a number of initiatives underway to continue to improve our top-line growth rate as well.

From a cash perspective, during the second quarter we generated $656 million of pre-tax free cash flow. Excluding one-time items, that is up 16% year over year. On a per-share pre-tax free cash flow was up 22%, in part reflecting the accretion from our share buyback program.

With this free cash flow, amongst other things, we have paid out $207 million in dividends and bought back 9.6 million shares for $350 million. So north of $550 million of cash was returned to shareholders in the quarter.

Year over year the cash returned to shareholders was up 186% with a significant swing partially owing to the time of our buyback activity in the first half of both last year and this year. If you take the timing noise out and just look on a year-to-date basis, cash return to shareholders is up 13% year over year.

We are also very successful in the capital markets during the quarter, during which we issued 1.1 billion of investment grade 5 and 10 year notes in Canada. The date of the pricing of these notes corresponded with the day the US 10-year bond yields hit a 60-year low and the rates we secured were some of the lowest rates ever attained in the Canadian fixed income market for similar terms. This issuance alone took the weighted average cost of our long-term borrowings down by more than 25 basis points to 6.06%.

Amongst other things, we plan to use a portion of the proceeds to close on the MLSE investment transaction, which is pending CRTC approval and which we expect to close during the third quarter.

Shortly after our quarter end we also completed the renewal of our fully-committed bank credit facility for $2 million, extending it to the end of 2017.

I will finish by saying that we continue to be in a very strong position financially with an exceptionally solid balance sheet. We have investment-grade ratings and relatively low balance sheet leverage with no significant near-term debt maturities and very significant liquidity available under our multiyear bank facility. So in terms of the balance sheet from the perspectives of leverage, liquidity, and maturity, we continue to be in a very solid financial position.

With that I will pass it back to Bruce and the operators so we can take any questions you have.

Bruce Mann - ***Rogers Communications Inc. - VP, IR***

Thanks, Tony. Operator, we will be ready to take questions from the participants in just a couple seconds, but quickly before we begin we will just request, as we do on each of these calls, that those participants asking questions be courteous to the other participants on the call and limit the questions to one topic and one part. That way as many people as possible have a chance to participate.

Then to the extent we have time we will circle back and take more questions. If we don't have time to do that we will get them answered offline after the call.

With that, would you please explain to the participants how you would like to organize polling for questions? And then we will go from there.

QUESTION AND ANSWER

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Operator

(Operator Instructions)

Maher Yaghi - ***Desjardins Securities - Analyst***

Thank you for taking my question. On Wireless we saw a very strong quarter on the margin side, like you mentioned. Can we maybe -- if we look at the upgrade cycle, in the first quarter we had a lot of smartphone upgrades which impacted margins. Can you talk a little bit about what you saw in the second quarter?

And looking at the second half of 2012, aside from the fourth quarter which we usually see some heavy promotional activities, can you talk a little bit about what you expect in the third quarter in relation to potential promotional activities or smartphone upgrade cycle that could impact your margins?

Rob Bruce - ***Rogers Communications Inc. - President, Communications***

Hi, Maher; Rob Bruce. How are you this morning?

Maher Yaghi - ***Desjardins Securities - Analyst***

Thank you. Very good.

Rob Bruce - ***Rogers Communications Inc. - President, Communications***

Good. Just to get directly to your question, the upgrades -- we upgraded about 5.5% of our base in Q2 which compares favorably to past quarters. And I think you probably saw the Verizon results recently. They are typically more in the 7% range, so we are happy with where we landed on the quarter.

I would say on the balance of year for sure we know that Q3 has historically given the launch of some devices, some high-end devices; typically is a higher quarter for handset upgrades. We would expect that to continue through the balance of the year this year and have the effects on the P&L that are typical in that quarter.

Maher Yaghi - ***Desjardins Securities - Analyst***

Okay. So just a follow up this. When you are looking at it from a larger point to view, a bigger picture we have seen in the recent years many upgrade cycle happen.

When you're looking at it from long-term planning -- do we still expect heavy smartphone upgrade cycles to pass in every year or when you are looking at the handsets that are coming is it going to be manageable in terms of the impact on a quarterly basis? Are we going to see the swing that we saw last year going into next year or it will be less visible?

Rob Bruce - ***Rogers Communications Inc. - President, Communications***

So our handset upgrade cycle has been relatively stable. We have hovered in the range most quarters of, call it, 5.5% to 6% range. Where it typically pops up, again, depends on where iPhone launches new devices; it typically blips up. In 2011 that hit mostly in Q4 where we bumped up to about 7.7%.

Again, we would expect this year if there is an iPhone launch on the balance of the year or any banner device like the iPhone that will actually drive more upgrades in that quarter. And if I was a betting man I would say that is more likely to land in Q4 of this year than Q3.

Nadir Mohamed - ***Rogers Communications Inc. - President & CEO***

Maher, it is Nadir. I'm just going to add something; it is not directly related to your question.

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There is a couple of things that we have done in the last little while, Rob and his team. One would be, when you look at our upgrade cycles, we have actually moved from 30 months to 36 months and I think that has been helpful.

The other thing is in the FLEXtab initiative, which really is very consumer friendly because it actually allows a customer to upgrade at any time and pays the difference on his balance. So in some ways it takes some of the pressure away. I think those are very positive from a customer point of view, but, frankly, for us as a company from a cost management point of view.

Operator

Matthew Niknam, Goldman Sachs.

Matthew Niknam - ***Goldman Sachs - Analyst***

Thanks for taking the question. My question is more on top-line growth. I am wondering if improvement in the top-line trajectory that you are talking about, whether that is achievable near term when there is such a focus on cost containment. And, if so, is the top-line improvement more a function of pricing power you feel you may have in either Wireless or Cable at this point? Thanks.

Nadir Mohamed - ***Rogers Communications Inc. - President & CEO***

Why don't I start off? It is Nadir. I think your point is a great one, because on the one hand you have got the issue of making sure in a very competitive environment that you have got the right marketing. The pricing has to be sensitive to what is happening in the market. So, if you will, the core business, as you can see, it is being I would call it very modest growth in both Cable and Wireless.

But I think the important thing and being around in this space for a long time is to always be looking for opportunities for growth and picking your spots. I see a few very key areas for us where we are zeroing in terms of driving growth. Our first one pulls us to what you would see in kind of the big numbers; would be at focus on Wireless data and on the Wireline side on the data side as well.

We talked smartphones and we have talked about the rate of growth. Wireless data continues to grow at double digit, and on the Wireline side our focused has been squarely on the Internet, which I believe is the platform of the future. So in many cases you're looking at the strength in those two areas to offset some of the declines that we expect in legacy services like voice.

In terms of segments that we think we have got opportunities, the small- and medium-sized markets. Particularly in the Wireline where RBS and our Cable business have a focus, we have been growing at over 20% in the last year or so and we continue to see that kind of growth going forward. So that is a pocket that we can exploit.

Then three areas that -- on the mobile side reflecting what I would consider new growth areas, so they are all small, but remember Wireless data was small 10 years ago.

Machine-to-machine we have been leaders in this space. I made reference to a couple of the announcements. We have been running I would say somewhere in the order of close to 800,000 connected devices. Now obviously the ARPU of these are in the mid-single digits, but it is a great growth area for us.

Mobile commerce I see as a great opportunity going forward. You have seen some of the announcements and I think the stage is set with standards now being embraced in the Canadian market. Then mobile video is an area that you have seen us go in front of markets with services like Sportsnet being available on your mobile devices for a fee on a monthly basis. Very user-friendly. So those are the areas in Wireless.

Then, finally, on the media side we are really zeroing on digital media and focusing on new applications to go forward. So obviously this quarter you saw the performance really reflecting the success of the constant initiatives, but it is not lost on me. We are investing in the areas that I believe will create revenue growth going forward.

Thank you for asking that.

Operator

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Jeff Fan, Scotia Capital.

Jeff Fan - ***Scotia Capital - Analyst***

Good morning, everybody. I wanted to ask a question regarding your Wireless network revenue. The Voice revenue decline seems to have shown a really good improvement. I know it is still negative but it is showing a good year-over-year trajectory. Wondering if there is anything specific that is going on there or are we just lapping some of the tough Voice corrections that we have seen from a year ago?

Then just a second part to that. I think, Nadir, you mentioned some of the initiatives that you are taking on the data side to try to change the trajectory on the data revenue growth on wireless. Wondering if you can just elaborate a little bit on that, thanks.

Rob Bruce - ***Rogers Communications Inc. - President, Communications***

Jeff, I think you get the prize today for packing the most into one question.

Jeff Fan - ***Scotia Capital - Analyst***

That was two; two related.

Rob Bruce - ***Rogers Communications Inc. - President, Communications***

Two for the price of one. Let me start off with voice and the things that we are doing on voice.

We are not sitting around waiting to lap numbers. We are very active in how we are managing our voice revenue declines. Obviously it focuses on making sure that we are retaining the most valuable customers, managing any right-sizing processes that occur, managing the value-added services and the selling process that goes on to upsell those customers as we go forward and that is a very, very active file that we spend a lot of time on.

So we are pleased with the progress that we are making, but not nearly satisfied, and we will continue to kind of double-down our efforts in that area.

Data continues to be a key growth area for us, so carefully managing that data growth, as Nadir highlighted, will be critical to our success going forward. When we talked last quarter we talked a little bit about some of the things that we were doing to maximize the impact that we get out of our data growth, and we talked about data roaming.

Data roaming hasn't yet recovered. It has been declining slightly, as we indicated last quarter. What we have done since then, and I referenced it last quarter, is we were going to make changes to plans and notifications to customers.

Well, in fact, we implemented that in June. At this point it is early to project the impact, Jeff, that we will get from that, but we are optimistic that there is going to be some goodness there for sure.

I also highlighted that the SMS growth rate, while it is still robust at 12% it has also declined from 15% in Q1, so we are seeing a downtick of about $4 million there. And that is fairly structural to what is going on in the Canadian market. Significant portions of our customer base now have SMS included in their plan so we are ultimately seeing the impact of a pay-per-use revenues and some impact on premium SMS continuing to slow, and I think that will continue over time.

The most important piece of the data revenue equation is data plan attach. It continues to grow robustly at 21% year over year, and that reflects our focus on high-value customers and smartphones and the data attach. It is up $3 million quarter over quarter.

We made three key changes and are really pushing on using subsidy to really incent data attach on a smartphone. If you are not going to take data attach, don't count on getting any kind of significant subsidy from Rogers. We are also doing significant data attach performance management in all the channels where we sell.

And lastly and importantly, we are going back into our base of customers that have smartphones without data attach and aggressively upselling those customers. So our focus on managing data revenue carefully will continue, but those are the things that are in place right now Jeff.

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Operator

Vince Valentini, TD Securities.

Vince Valentini - ***TD Securities - Analyst***

Thanks very much. Let me try to package two cash flow questions in one.

First, on cash taxes, you only did $95 million in the first half so trending well below the $450 million guidance for the year. Is that just timing issue and expect to catch up most of that in the second half?

If you do, does that drain some of your resources for buybacks? You bought $350 million in the second quarter so if you kept on that pace you would get up to the full $1 billion program. But obviously over the first half if you annualize that you will be well below, so maybe some context on how aggressive you will be on buybacks in the next half would be great.

Tony Staffieri - ***Rogers Communications Inc. - EVP, Finance & CFO***

Thanks for your question, Vince. It is Tony. Two things.

In terms of cash taxes, we continue to feel comfortable with the guidance we provided for the full year on cash taxes, and so what you saw in the first half of the year is really related to the timing. And so, again, you should look to the full-year guidance number for that.

On share buybacks our shelf filing was for $1 billion and we have completed $350 million in the first half. We are not going to provide guidance on the full-year share buybacks, that will depend on a number of cash timing items. And so that is all we will say on that at this point.

Operator

Glen Campbell, Merrill Lynch.

Glen Campbell - ***BofA Merrill Lynch - Analyst***

Thanks very much. A question for Tony. A lot of cost savings initiatives here. Could you give us a sense of what the timing of those was in the quarter? In other words, are they fully in the quarter or not, and what you see going into Q3? Thanks.

Tony Staffieri - ***Rogers Communications Inc. - EVP, Finance & CFO***

Thanks for the question, Glen. In terms of timing, the cost efficiency improvements that we have been working on are really a continuation of things that you started to see commencing, quite frankly, at the beginning of the year and progressively continuing on as we executed throughout the quarter. And so there are a number of things that we have our hand on the lever on that we continue to try to manage as we look for improvements.

It is important to note that there are fundamental process improvements that we are focused on. We're trying to focus on the things that matter most, and so that in and of itself is going to drive some cost efficiency improvements.

We are also taking an end-to-end view of our delivery model. As necessary we have consolidated groups, taken out unnecessary steps, and ultimately taken a hard look at the root cause of our cost drivers. In our call centers, for example, we are looking at reducing the fundamental reasons for why customers call and not reducing our customer experience.

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Where it makes sense we have gone back to suppliers, and we continue to do so, to ensure that we have a relationship that gives us not only competitive unit costs, but also a relationship model that gets us to end-of-job with both of us having skin in the game for success. And then, finally, of course, we continue to scrutinize our general and admin expenses and reduce non-essential expenditures so that our dollars remain focused on what matters most.

So that process continues to go on. We will always be looking for cost efficiency improvements and expect to continue to do that throughout the year.

Operator

Drew McReynolds, RBC.

Drew McReynolds - ***RBC Capital Markets - Analyst***

Thanks very much. So my question just want to focus in on postpaid churn, maybe for you, Rob. Obviously nice to see the year-over-year improvement certainly better than what we were expecting.

Just wondering if there is anything in Q2 that was unusual, and how do you hope or expect that trend to continue in the back half of 2012 when we, I guess, typically see a little bit more seasonally stronger promotional activity from competitors? Thanks.

Rob Bruce - ***Rogers Communications Inc. - President, Communications***

Thanks, Drew. Listen, we were pleased with the 1.15% churn rate in the quarter. We saw some significant improvements in renewal rates and we really concentrated on the renewal window.

We saw also a growth in customer's willingness to take longer-term arrangements with Rogers and saw contract rates going up about 2%. Also, the significant improvements in both Fido and Mobile broadband churn were all baked into the numbers that we shared this morning.

On the balance of the year, as you know, Drew, there is seasonality throughout the year, and Q3 and Q4 are both bigger quarters for churn. We will continue to work hard because we think churn is one of the most important levers in the business, but you can expect the usual seasonality, I would think, in the balance of the year.

Nadir Mohamed - ***Rogers Communications Inc. - President & CEO***

Drew, it is Nadir. Just one more thing maybe at the macro level that will be helpful for you just to kind of see what is happening with churn. We have talked about it on calls before; our smartphone churn is significantly better than non-smartphone.

As you see that mix change and we drive our smartphone penetration it has, obviously, an effect on what you see as the churn rate improvement. So that is something that we are hoping to see continue obviously, but I just want to reinforce that you really should understand Q3 and Q4 tend to be much more competitive and that in itself drives some churn.

Drew McReynolds - ***RBC Capital Markets - Analyst***

Thank you very much.

Operator

Blair Abernethy, Stifel Nicolaus.

Blair Abernethy - ***Stifel Nicolaus - Analyst***

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Thanks very much. Perhaps we could just turn the conversation for a moment to the Wireline side. In particular I am just wondering if we can get some more color on the Internet and Home Phone businesses and how they are faring in terms of pricing and churn.

Obviously we see the net adds but below the surface there how is that base behaving? In addition to that the home automation initiative, you haven't talked too much about that on this call. How is the progress there?

Rob Bruce - ***Rogers Communications Inc. - President, Communications***

Sure. It is Rob. Let me start off a little bit with Internet, Blair.

We are leveraging Internet. We have network superiority, significant network superiority over DSL. We deliver faster speeds and better consistency of speeds, and that is supported by our in-market claims and it is supported by our investment in building out DOCSIS network capacity.

We have also made significant investments to improve our customer experience with the recent launch of TechXpert premium technical support to help our customers with all their problems related to their IP products. As you probably know, we have made significant and positive changes to our speed and capacity of our most popular tiers and removed traffic shaping. So I think, in many ways, we are very, very well positioned to continue our great success going forward on our Internet portfolio.

But moving to the second part of your question on Rogers Smart Home monitoring. Of course, it is early days having just launched last fall. We are still in the process of perfecting our sales and service execution, and making sure that the quality of experience with our customers measures up to the high standard that we have for all of our other products.

What I can tell you is that the customers really love to be able to interact with their alarm systems in real time over their wireless phone and that gives us a significant advantage over many others in the market. The other thing that we hear back constantly is that home automation is really resonating and it is something that customers are looking for. We are delivering a timely, dependable solution that is backed up by our two great networks.

So very positive news in my mind, both on Internet and on Smart Home Monitoring.

Operator

Bob Bek, CIBC.

Bob Bek - ***CIBC World Markets - Analyst***

Thanks, good morning. I just want to follow up on that cable question for Rob. Can you just give us more, step back a bit and give us a bit of a view as to the competitive balance in the market? Obviously you have got a telco in there a couple of quarters now with aggressive offers.

Do you think this run rate on the basic side is balanced at this point? Obviously you have seen some moderating ARPU as you compete in this market. Is that something we can expect for some time or do you think we are still waiting for some shoes to drop here on the marketing side?

Built into these numbers do you think there is any -- I suspect there is no cord cutting. Is there any cord shaving in here at all, or is this really just a competitive balance with the telco? Thanks.

Rob Bruce - ***Rogers Communications Inc. - President, Communications***

That is a lot of questions jammed in there, Bob. I will try to go to them all and keep me honest if I missed part of it.

As Nadir said in his opening remarks, it is traditionally a pretty soft quarter. On the flip, for sure our competitor is out there with ultralow bundled offers. The most ultralow bundled offers, frankly, that we have ever seen and I think maybe unprecedented in North America.

What I can tell you is our NextBox 2.0 launch has put us in a position where we are very happy and we are competing well on functionality. I think in the heavy-duty pricing battles we are trying not to chase all those prices down to the bottom.

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Our losses have been mostly on gross. We have seen some very, very minor increases in churn on TV. And we continue to see great success over at our competitor's satellite offering and we continue to chip away there.

In terms of the other TSUs, Internet numbers are solid but they are impacted a little bit as a result of the bundled impacts that we are seeing on the video business. Home phone continues to chug along nicely, recognizing that Toronto is a bit of a different market with heavy MDU penetration and landline displacement is more prominent in MDUs. So I think that is a little bit of a flavor for how the loads come in.

There is a little bit of cord shaving going on in the marketplace and it is reflected in the numbers. Again, very modest and at the very early stages. Hard for us to really connect that to over-the-top as the people just making discretionary decisions about how they spend their dollars. Did I get that all, Bob? Thank you.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - ***Morgan Stanley - Analyst***

Thank you very much. Good morning. You talked a lot about some of the wireless data initiatives. We have seen Verizon and AT&T announce these new share everything type plans with the goal of driving adoption of tablets, MiFi devices, and so forth; adding on to existing smartphone plans.

How do you think about that sort of offer? Is that something that you think may have some relevance in the Canadian market? Thanks.

Nadir Mohamed - ***Rogers Communications Inc. - President & CEO***

Simon, it is Nadir, thanks. I think as we have seen both Verizon and AT&T come out with their plans what I really see is that the plans are trying to respond to a world that is moving to IP, and that is something that we have talked about a fair bit up here.

I think it makes sense to look at voice and text really moving from what I would call specific pricing elements to a pricing environment that prices in access. And I think, frankly, that just supports where the market is going, where the consumer is going in terms of how they use the devices.

Now at Rogers specifically we have had sharing as a concept that we have embraced for some time. We have been leaders here on the family plans, and Rob and his team I remember many years ago driving family plan adoption. So that is something we have had for some time.

We have also had data sharing across -- for a customer across devices. So the idea of sharing I think would be something that we can see evolve. But, Simon, the truth is every market is different; you have to look at penetration rates, you have to look at market dynamics.

So I would just end by saying that I think directionally we see them as very supportive of the world that we see. As far as timing and the specifics that is something, obviously, that will depend on the competitive market.

Operator

Adam Shine, National Bank Financial.

Adam Shine - ***National Bank Finance - Analyst***

Thanks. With all these multipart questions not many to ask left, but maybe one for you, Bruce -- Rob that is. One question on LTE in terms of the early trends, in terms of the uptake that you alluded to a few metrics at the start of the call. But anything there?

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Then just shifting gears over to Keith. We heard from some of the broadcasters a couple of weeks ago when Astral, of course, reported that their Q3 was a seasonally light period but some better traction was being achieved in the summer months. Maybe you can, perhaps, talk to that in regards to any bounce back in add trends in your Q3? Thanks.

Rob Bruce - *Rogers Communications Inc. - President, Communications*

Maybe I'll start off, Keith, with LTE and then turn it over to you for the balance.

Adam, thank you. Again, delighted to have been first delivering LTE to our customers across Canada. Our deployment continues to roll across the country. Just as a reminder, we are heading towards 60% of POPs, a little over 20 million people by year-end, hitting the top 25 markets in the country.

Our LTE offering is being embraced enthusiastically. We have significant adoption from our customers and that launched a whole host of LTE devices, including more than half a dozen smart phones, a number of tablets, rocket sticks, and mobile hotspots to go along with that. It is interesting, as always, with a new network we are seeing the early adopters who move over being higher data consumers than we would have seen previously on average in HSPA.

So exciting prospects ahead, a terrific network that is working very well for us, and more to follow on subsequent calls.

Keith Pelley - *Rogers Communications Inc. - President, Media*

I think the advertising revenue, the market is going through a shift, and I think we are in good position to grow over the next couple of years based on what I think is the most diverse portfolio of any of the media companies. If you look at the predictions from the analysts, Internet advertising is to exceed TV advertising by mid-2013. That sets up well for us as we have our robust digital ad network with over 1,000 websites; a strong publishing division with powerful brands that are starting to enjoy a digital shift with e-books and tablet apps becoming a key way customers are experiencing editorial content.

And then, as Nadir spoke about, we are the only media company with a retail component in the shopping channel with a strong, sophisticated e-commerce platform which also sets us up as we are not as reliant on advertising going forward.

Having said that, in terms of Q3 the Jays and the success that they are having is significantly helping Sportsnet. The national footprint that Nadir alluded to have given us a very, very strong upfront for Q4.

And the reason that is significant is this is the very first time that we have been able to compete for national advertising dollars. We have not been able to compete with the likes of CTV and Global before this year, but with our expansion that really sets us up well for Q4. We are having the strongest upfront that we have had in the history of City Television.

Operator

Ric Prentiss, Raymond James.

Ric Prentiss - *Raymond James - Analyst*

Thanks, good morning. My question is on the Wireless and the upgrade cycle. So you mentioned the 5.5% upgrade within the second quarter and yet I found sales were up 30%.

When we look at the US there has been a bit of a pause to the iPhone sales as people expect maybe a refresh coming. Can you talk a little bit about the low upgrade cycle and yet what appears to be a pretty significant uptick in iPhone sales?

Then when you think about when iconic devices might come out, where should we think about that upgrade percent? I think you mentioned 7.7% was last year's fourth quarter. Is it something that could go 8%, 9%, 10%? Just trying to gauge where it might head. Thanks.

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Rob Bruce - ***Rogers Communications Inc. - President, Communications***

Thanks for the question. Interesting to -- again, very hard to speculate. I think last year is probably your best guidepost to what has gone on.

Some might argue, but, again, it is all rumor these days as to what will be contained in the iPhone 5 and what other iconic devices come out at the time of the year. And how they concentrate and which quarter will really shape what is going on. So I probably don't have much more to add than that.

Operator

Rob Goff, Byron.

Rob Goff - ***Byron Capital Markets - Analyst***

Thank you very much. My question would go a little bit further than I think Simon's had previously on Wireless price. Could you give both your provider's perspective on the 6 gig, $60 plan and the consumer perspective, the consumer traction on that plan?

Rob Bruce - ***Rogers Communications Inc. - President, Communications***

Yes, it is Rob. Obviously, Q3 is a competitive quarter; we’re out there with 6 gig plan because we know that it will have significant traction in market. Not really allowed to talk about the specifics of the results in quarter, but it is important for you to take away that it is an in-and-out promotion and not long-term rack rate pricing.

Operator

Greg MacDonald, Macquarie Capital Markets.

Greg MacDonald - ***Macquarie Capital Markets - Analyst***

Thanks. Wow, just skirted in there. Question is on free cash usage and it is Tony or Nadir, whoever wants to answer it.

In the past you have talked about dividend growth, Capex being kind of higher than buybacks when it comes to dividend usage. And, Tony, I was intrigued by the answer to your question that buyback second half more kind of cash availability related. Does that suggest therefore next year with the spectrum option that the Company is not prepared to borrow for the buyback? Are you trying to send a message on that?

And can you talk about also prospect for M&A? I'm not suggesting that you are looking to go to the US market, like one of our competitors, not competitors but other cablecos in the country are doing. But there are some potential tuck-in acquisitions that you might consider. How much does potential for M&A play into balance sheet management and the prospect for buybacks in 2013? Thanks.

Tony Staffieri - ***Rogers Communications Inc. - EVP, Finance & CFO***

Thanks for the question, Greg. I guess a couple of things.

First off, in terms of share buybacks strategy, it will depend on a number of factors, not only in the second half of the year but into next year as well. I will say when you look in our balance sheet there is plenty of headroom in terms of our cash and leverage range, and we will continue to be opportunistic on the way we look at share buybacks.

So I don't want you to take my comments directional one way or the other. It will depend on a number of factors as we head into the second half and into next year. Notwithstanding the spectrum, I think we have the flexibility to continue to make decisions on share buybacks.

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In terms of any potential acquisitions, obviously nothing that I can say. We will always be opportunistic on things that make sense at good value and which we can provide synergistic value. And as those arise we will continue to look at them.

Bruce Mann - ***Rogers Communications Inc. - VP, IR***

We need to actually conclude the call this morning. We know a lot of people are just getting ready to jump onto another one and so we wanted to thank everybody for investing your time with us this morning. We do appreciate your interest and your support.

If you have questions that weren't answered on the call or if you were in the queue and we didn't get through the queue, please give myself or my colleague, Dan Coombes a call. Both of our contact info is on today's earnings release. That concludes today's teleconference, thank you very much.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect your lines.

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