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RCI.B.TO - Q2 2016 Rogers Communications Inc Earnings Call

EVENT DATE/TIME: JULY 21, 2016 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q16 YoverY revenue growth of 2%.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Rogers Communications Q2 2016 results analyst teleconference. At this time, all participants are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session and instructions will be provided at that time for you to queue up for questions. (Operator Instructions). I would like to remind everyone that this conference call is being recorded on Thursday, July 21, 2016 at 8:30 AM Eastern time. I will now turn the conference over to Ms. Amy Schwalm with the Rogers Communications management team. Please go ahead.

Amy Schwalm *- Rogers Communications Inc. - VP, IR*

Good morning, everyone and thanks for joining us. I'm here with the President and Chief Executive Officer, Guy Laurence and our Chief Financial Officer, Tony Staffieri.

Starting this quarter, Guy and Tony's formal remarks are being synchronized with presentation slides, which you can view on a live webcast. The link is available on our website at www.rogers.com/webcast.

As always, today's discussion will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's earnings report and in our 2015 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 Guy to begin.

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Guy Laurence - *Rogers Communications Inc. - President & CEO*

Thanks, Amy and good morning, everyone. So this morning, we released our second-quarter results, which show our 3.0 strategy continues to gain traction in the market. We delivered steady revenue growth of 2%, improved subscriber metrics across all of our segments and grew adjusted operating profit. In particular, our Wireless and Internet businesses posted strong performances building on recent trends. In the last 12 months, we have shown steady revenue growth trajectories in both Wireless and Internet.

Turning to Wireless, service revenue grew 5% and for the fourth quarter in a row, we significantly increased postpaid net additions year-over-year reporting 65,000 net adds this quarter. We also grew adjusted operating profit by 1%, an improvement over the flat AOP we posted in the first quarter.

Postpaid churn continues to decrease. In fact, it was our best quarterly churn performance in the past two years. Our compelling value propositions, improving customer experience and best-in-class networks continue to drive strong results in our Wireless segment.

In our Cable business, total service unit nets were significantly better than we've seen in the past couple of years. Internet continues to be the highlight. We grew Internet revenue by 15%, maintaining our double-digit growth rate once again this quarter. We also delivered the best Q2 net additions in the past eight years. The competitive landscape remains intense in Cable as evidenced by aggressive bundle pricing. Rogers' advantage lies in our ability to meet the customer's need for speed, which is driven by the increasing consumption of data in the home.

Our high-speed IGNITE packages are proving very popular. Nearly 40% of our residential Internet base is now on 100 megabits or higher, up from 15% in the same quarter last year with more migrating every month. We have lots of opportunities to capitalize on the data opportunity whilst delivering a more robust service to our customers. Our gigabyte Internet service now covers about 2 million homes and we are well on track to offer this service to our entire residential footprint by the end of this year.

Our TV subscriber trends continue to move in the right direction. We expect to introduce IPTV at the very end of this year and this will give us the service we need to start winning back video customers. A significantly enhanced video product is an important element in our strategy to own the home. We are leveraging the clear competitive advantage our superior network affords us. We are delivering 1 gigabit speeds years ahead of our competitors at a fraction of the cost. We are leaders in providing 4K TV content, and we are uniquely capable of distributing it across our footprint without compromising the user's Internet bandwidth. And with IPTV, we will introduce a differentiated product, positioning us well to reverse the trend of TV subscriber losses. We are confident we can start to make a turnaround in cable in 2017.

Turning to customer experience, we continue to make good progress, as you can see from our churn metrics. We extended our roaming offering to Fido. Roam Like Home has proved to be hugely successful for the Rogers brand and we expect Fido Roam to be just as popular.

A major focus for us at the moment is self-serve, so customers can manage their experience through apps like MyRogers at the time and place of their choosing. Many people prefer this over having to pick up the phone or to send an email. The latest example of self-serve technology we've added is data top-ups, which allow our wireless customers to manage their data consumption on a month-by-month basis and purchase extra data if needed. This tool strikes a good balance between improving customer experience and allowing us to monetize the increasing consumption of data.

Rogers brands' self-service transactions were up by 56% since last year and we are seeing a steady decrease in the number of times customers are contacting us, down 8% this quarter from a year ago. We are happy to have our contact center agents focus on higher value activities whilst making sure customers have the best plans for their needs.

In the media segment, we also reported stronger results. Our diverse portfolio of sports assets drove revenue growth with sports making up almost two-thirds of media revenue this quarter and nearly three-quarters of operating profit. All of our sports assets have been growing. We completed year two of our NHL agreement and generated another year of revenue growth and positive margin contribution.

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In Q2, the success of the Blue Jays and Raptors led to increased advertising revenues for Sportsnet, as well as higher subscriber fees. The Jays have now reached new levels of support this season with the first 81 games averaging 825,000 viewers on Sportsnet. That's up over 50% from last year and sets a record for us for the first half of a season. Sports is becoming increasingly important in the media sector. Last month, the CRTC announced for the first time sports channels made up half of Canada's top-10 grossing specialty TV channels in 2015.

We've now largely completed the previously announced restructuring of our traditional businesses within media. With these changes, we are moving to a more optimal cost structure better aligned with revenue opportunities.

And before I close out, let me touch on our enterprise business. We continue to make good headway and introduced two more leapfrog solutions this month. Rogers Unison is a business collaboration solution that allows small businesses to eliminate their land line by offering the features of a traditional desk phone on a mobile phone. This is a disruptive technology that will save businesses money, allow them to be more responsive to customers and make them forget why they ever needed land lines. We believe that typical small business could save at least 40% of the cost of their fixed wireline bill.

We also introduced the first of a new portfolio of cloud solutions. Rogers Public Cloud enables businesses to manage their IT infrastructure in the cloud securely and cost effectively. These are the latest in our ongoing rollout of services for business customers.

In summary, we are delivering on our Rogers 3.0 strategy and it continues to yield results, particularly in wireless, our largest segment and Internet, which is a significant driver of our cable business. I will now turn it over to Tony to provide further details on our results.

Tony Staffieri - *Rogers Communications Inc. - CFO*

Thanks, Guy and good morning, everyone. I will provide additional context around our second-quarter performance and then we can get to your specific questions. We continued to improve key fundamentals again this quarter, reporting year-over-year growth and in many cases demonstrating improved trends from the previous quarter.

Since service revenue increased 3%, adjusted operating profit of CAD1.35 billion was up 1% over last year's second quarter despite 41,000 more net customer additions in our wireless postpaid base. We expect to maintain positive growth in AOP through the second half of the year driven by top-line momentum and ongoing traction from productivity and cost efficiency initiatives.

Below the operating profit line, adjusted net income and adjusted earnings per share were up 4% primarily due to growth in AOP and better contribution from our joint ventures partially offset by higher depreciation and amortization expense.

Turning to the segment results, wireless service revenue was up 5% to CAD1.79 billion. Wireless revenue benefited from growth of our subscriber base over the last year, as well as shifts towards higher-value subscribers. We increased postpaid gross additions by 36,000 or 12% from the prior year and postpaid net additions also increased significantly, as Guy mentioned.

The popularity of our Share Everything plans also contributed to growth and led to a 5% increase in ARPA. Blended ARPU grew 1% when adjusted for the Mobilicity transaction completed in July of 2015. Beginning in the third quarter, our prior-year results will include the new subscribers acquired in the Mobilicity transaction, which amounted to about a 1% positive contribution to revenue growth in Q2.

We also recently introduced Fido Roam and earlier this year, we extended Roam Like Home to a number of additional countries. We know these programs are extremely popular with our customers and we expect volume increases to offset rate declines over time. In the interim, we anticipate these factors will have a moderating impact on wireless revenue growth in the second half of this year. Wireless AOP margin was impacted by higher acquisition and retention costs associated with strong subscriber additions as we continue to take back share in a competitive marketplace.

Turning to Cable, overall revenue was flat. This is an approved year-on-year trend from last quarter as growth in Internet revenue is now fully offsetting the decline in TV and phone revenue. Internet revenue grew 15% year-on-year. We continue to see an ongoing shift in product mix to higher-margin Internet services.

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Internet net additions tripled from the same quarter last year, while video subscriber figures continue to trend in the right direction. Total service unit net losses improved by 33,000, which represents notable progress compared to recent trends.

Our Cable network continues to give us a tremendous advantage over telcos when it comes to delivering higher-speed broadband to our customers in a timely and capital-efficient manner. The bandwidth capacity of our hybrid fiber co-ax network is enabling us to offer 1 gigabit service to our entire cable footprint this year at a cost of less than CAD50 per home.

Our CapEx is success-based. Network segmentation will continue to be completed as local demand warrants and within our annual capital planning envelope. This highly capital efficient model positions us well to deliver timely and attractive returns on invested capital.

In Media, revenue increased 6% while AOP was flat, again a substantial improvement in year-over-year metrics from last quarter. We expect to see margin expansion in the coming quarters.

I will now turn to our financial flexibility. Our leverage ratio improved to 3.1 times at quarter-end from 3.2 in the first quarter. We expect the ratio to decline in subsequent quarters on higher AOP and free cash flow. We generated strong operating cash flow of CAD1.12 billion and free cash flow of CAD495 million in the quarter. We continue to maintain solid investment-grade credit ratings and attractive terms on our outstanding debt. Substantially all of our expected US dollar expenditures for the rest of this year are hedged at favorable rates.

We are reaffirming our guidance for full-year 2016. We are on track for revenue growth and AOP growth of 1% to 3%. We are confident that CapEx will be lower than 2015 in the range of CAD2.3 billion to CAD2.4 billion, which is expected to help drive free cash flow growth of 1% to 3%.

In summary, we are making good progress in a number of priority areas. We have re-accelerated revenue growth in a sustainable manner and are focused on translating this growth into strong margins, profit, free cash flow and return on investment. With that, we will open the call to any questions you may have.

QUESTIONS AND ANSWERS

Operator

Thank you. One moment please. (Operator Instructions). Tim Casey, BMO.

Tim Casey - *BMO Capital Markets - Analyst*

The loading numbers on Wireless were quite strong. Could you provide a little more color on what you saw in the market during the quarter in terms of competitive activity, and also your own go-to-market strategy, were you a little more aggressive on promotion, or can you just give us a little more color as to what contributed to those numbers? Thanks.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

So first of all, it's interesting, somebody, I can't member who, wrote a couple of days ago that they thought the quarter had not been very competitive and then thereafter everybody wrote that the quarter hadn't been very competitive. So just to set that straight, guys, it was hugely competitive. We just happened to have a good quarter. And to your question, Tim, it came from, I would say, a more methodical approach to how we were tackling the market in our different channels and just being very versatile and agile.

It's also helped by the continuing appeal of the value-added propositions that we get, the fact that our customer experience is improving and that our networks are so solid. So it's a cumulative thing with good quality execution. But don't kid yourself, this was a very competitive quarter.

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Tim Casey - *BMO Capital Markets - Analyst*

Thank you.

Operator

Jeff Fan, Scotia Capital.

Jeff Fan - *Scotia Capital - Analyst*

Good morning and good quarter. Just continuing onto that theme, Guy, wondering if you can talk a little bit about how you think the wireless competitive market is going to shape out for the rest of the year, or even just looking out the next couple of years. Is it a market where these value-added propositions are going to continue or expand? Is that really the way to get customers? Wondering if you could just elaborate a little bit on your thinking there.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

I think it's always dangerous to forecast what the public will find attractive in a few years time. I didn't think that this summer, in amongst terrorist incidents, the Trump election potentially, that we'd see Pokemon Go coming out and people walking into the middle of freeways to play on their mobile phones. So I'm not going to forecast consumer trends.

But what I would say is that we use value-added propositions as part of our portfolio and we adjust what they are, how long they go in terms of is it 6 months, 12 months length of contract, and as their appeal climbs and wanes, we will adapt them. So I can't be a market seer. I can just say what our strategy is. It's different from the others and it's produced good results this quarter.

Jeff Fan - *Scotia Capital - Analyst*

Great. And maybe just a very quick follow-up. On the Cable side of the business, I know you don't disclose the number of customer relationships that you have, but that's a number that I think would be interesting to hear some color about on the number of customer relationships you have on the Cable side and whether you are starting to see a bit of a turn on that household figure based on what you are doing on the cable Internet front.

Tony Staffieri - *Rogers Communications Inc. - CFO*

Jeff, good question on the Cable front. A couple of things. We've talked about it on previous calls. We will continue to look at the right time to start disclosing households and ARPA and it certainly has been part of our internal reporting metrics and the way we think about that business. I think as a proxy for now, if you were to look at total TSU trends, I think that will give you a good indicator of what household trends are looking like.

I think we certainly feel like if you were to look at it in terms of a U-curve, we feel like we are probably at the bottom and maybe a little bit past the bottom of that U-curve. So we like the trend on that and in terms of disclosure of it, we will look to it for future quarters.

Jeff Fan - *Scotia Capital - Analyst*

Okay. Thanks very much.

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Operator

Phil Huang, Barclays Capital.

Phil Huang - *Barclays Capital - Analyst*

I have a question on the wireless service margins. Obviously with the stronger net adds and churn, I'd imagine there is a corresponding increase in acquisition, cost of acquisition and retention, but was wondering if you could elaborate a little bit on the higher wireless OpEx this quarter. Were there any incremental drivers of the lower service margin?

Tony Staffieri - *Rogers Communications Inc. - CFO*

A couple of things, Phil. As you said, if you exclude the cost of handsets, we've been doing a couple of things within our operations where we've been investing in areas. One of them are the value-add propositions and so while they come with a higher cost, they are also a big contributor to both revenue and ARPU increases and so that's part of the cost structure.

And the second is the investment we are making in not only channel, but also the broader customer experience. And then we look to offset that with productivity improvements everywhere else.

So I think on balance, given the amount of investment we've been doing, we are pretty pleased with where the margin is trending on wireless when you look at it both with and without hardware costs.

Phil Huang - *Barclays Capital - Analyst*

Great. That's very helpful. Follow up on the ARPU front. Just to clarify, just based on your opening remarks, did I hear you correctly that you mentioned roaming to have a bigger impact on ARPU in the back half of this year, or -- I just wanted to get a sense of -- usually, as you mentioned, when you expand a roaming program that's this popular, it tends to have initially a dilutive impact, but are we seeing a bigger -- or do you expect to see a bigger impact in the second half versus this quarter?

Tony Staffieri - *Rogers Communications Inc. - CFO*

The comment, Phil, was really meant to help moderate some of the thinking around our wireless revenue growth, as well as ARPU. Q2, strong revenue growth overall at 5%. As we look to the second half of the year, we are only highlighting that there will be some things that will temper that rate of growth in the short term. Roaming will be one impact as we continue to extend it within our base and continue to extend the number of countries.

When we look at roaming overall, I will say for Q2 it's at the point where it now has a very small impact. It's sort of single digit millions in terms of impact to our revenue and ARPU profiles. As we introduce new parts of the plan or extend it, within a quarter, it creates some short-term impacts and so that's what we are calling out at this stage. I wouldn't overplay it in terms of our trajectory, but it's just the highlight of the realities of what happens to the revenue curve as we launch those.

Phil Huang - *Barclays Capital - Analyst*

Right. You mentioned ARPU. Roaming is one of those impacts, but would you be able to maybe elaborate a little bit on what the other potential items might be for the back half of the year?

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Tony Staffieri - *Rogers Communications Inc. - CFO*

Well, the two biggest ones, as I said, were roaming and the other is Mobilicity. So as we lap the acquisition of Mobilicity that happened in Q3 of last year, that will come off and, as I said, that was worth 1 percentage point in the quarter. So I think those are the two main ones that will help give you a view of what those could be. I don't want to take away from the fact that we continue to see very healthy trends on ARPU and in particular ARPU in.

So to follow on Guy's comment about the value-add proposition, it's putting forth a very healthy ARPU trend for us and so we expect that piece of it to continue into the back half of the year.

Phil Huang - *Barclays Capital - Analyst*

That's very helpful. Thanks very much.

Operator

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Maybe some questions on the Cable side. Guy, could you talk a little bit about the eclipse, or the IPTV rollout, I guess, in the fourth quarter. Does that get rolled out across the service footprint all at once? Will all new customers get the product at that point, and maybe talk about how it will be priced?

And then I guess a little bit longer term, do you expect it to change some of the sub-metric trends we've been seeing for the last few years? And then I guess for Tony, you said that the cable margins, you expected to see some improvement. Is there any margin impact from the rollout that we should expect to offset some of those margin improvements you were talking about? Thanks.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

So, John, you may have missed some of the other presentations we've done on this, so I will tell you what we told everybody else. We basically -- we are rolling this out at the very end of this year, so in the dying days of this year. We will put it out there with the public to check that everything works and then we will scale it through 2017, so it will have zero impact this year and a very moderate impact in the early part of 2017 as we scale the platform. Obviously, it's a new platform; you need to make sure it works.

Currently got it underway testing with several thousand of our employees or [relevants] I guess I should say, and so I can't really give any forward guidance on how it's going to impact exactly other than we are extremely pleased with how it looks, and I think the consensus was absolutely 100% of the people who saw us at the demonstration the other day that this is a stunning product. And therefore, it is going to have a positive impact on our video business combined with our advantage on speed over the competition. But we are going to bring it to market at the pace that we think is appropriate. I'm not going to be rushed on it.

John Hodulik - *UBS - Analyst*

Got you.

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Tony Staffieri - *Rogers Communications Inc. - CFO*

To answer your question, John, on Cable margins, a couple things I'd say. Long term, this is a big enabler to cost reductions in the Cable side as we move our network to all IP, and all those things -- all that means for cost reductions on the Cable side. In the interim though, we do expect as we go through, just as you would expect with a launch of any significant product, that there's going to be learning curves, etc., install times and things like that. So in the short term, we do expect it will have an impact on cable margins.

In some respects, it's a nice problem to have. To the extent the volumes are high, the more of an impact it will have. Having said that, we do expect two headwinds going the other way will help stabilize and offset that. By how much, don't know. And those two factors are the natural mix that we are seeing in the cable business from video to Internet, Internet obviously coming at a much higher margin. And the second is the continued productivity improvements that we make in Cable.

And so it's those three factors that are probably the big ones on Cable margins. Long term, it ought to mean an improvement in the short term as we launch. It may have an impact. To what extent, we don't know.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

Yes, and I'm sure you are familiar with the fact that on top of everything Tony has just said, we've got the industry change of moving to a la carte at the end of the year as well, which has a question mark in terms of what different people's views are of how much that will affect things. All I would say, I'm broadly optimistic on that one rather than pessimistic.

John Hodulik - *UBS - Analyst*

Got you. Okay. Thanks, guys.

Operator

Drew McReynolds, RBC Capital Markets.

Drew McReynolds - *RBC Capital Markets - Analyst*

Tony, just a follow-up on wireless network margins. You talk about an improving flow-through from the revenue growth down to EBITDA. Is there a point just with all the moving parts underneath as you gain greater traction in wireless where you get a faster pickup on that EBITDA flowthrough in wireless?

Tony Staffieri - *Rogers Communications Inc. - CFO*

Drew, I think it's going to be highly dependent -- the single biggest factor is going to be the volumes of gross adds and nets within a particular quarter, which as we approach the second half of the year is going to depend on the popularity of devices that are issued. And so it's tough to predict that.

I think as we've talked about, we continue to see the opportunity for this year to land with margins that are roughly on par with last year in the wireless business and then longer term we continue to see margins sitting in and around where they have been, again, as increased costs in handset investments get offset by productivity improvements elsewhere. So that's sort of the longer-term view. But within any quarter, that will be the biggest dependency and driver.

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Drew McReynolds - *RBC Capital Markets - Analyst*

Okay, that's great. Just two others from me. Just on -- can you just comment on the competitive dynamics, where you are seeing fiber being rolled out in the urban markets? We are obviously seeing some pretty heavy promotional activity now both in Eastern Canada, Western Canada. So if you can comment on that, that would be great.

And then lastly just on the business side, Guy, you just commented on your cloud solution and Unison being rolled out. Can you just remind us what we currently see in the numbers from those products and just also remind us what gets captured in RBS versus the core Cable business? Thanks.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

That was about five questions there. What was the first part again?

Drew McReynolds - *RBC Capital Markets - Analyst*

Yes, the first one was fiber to the home markets.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

So on that one, I think we and our competitors have been consistent that we are battling house by house in areas where we are investing and they are investing, and that is resulting in some surprising promotional pricing, which my philosophy is I am going to match. If I see it, I will match it. I won't initiate it, but I will match it. And that continues. So the dog fight continues and I expect it to continue for some time. I can't comment on the West because I have less knowledge of what's happening out there.

On the two enterprise products, in terms of our strategy -- so first of all, let's take Rogers Unison because I think it's a very interesting product. One of the things that staggers me is the cost of a fixed line telephone for small business. It just seems punitive pricing to me. I can't believe that the companies have got away with it for all these years.

The technology now exists where you can take all the functionality of what you can do on a fixed phone and put it onto a mobile phone. And let's face it, for small businesses, they actually don't want to be tethered to an office. They went to be out and about in front of their customers. These are entrepreneurs who are trying to build their business, trying to do their best to earn a crust, and they need to be out in front of their customers.

So the fact that they can be in front of customers and have all of their wireline calls coming through to their mobile makes them more productive. It's good for their business. It's good for Canada. So this is a product that I really believe in. We spent a long time building it, and it's fascinating -- I listened to the sales calls coming in yesterday and it clearly resonates with small businesses because they can see the advantage.

Rogers Public Cloud is different. We've done a partnership there. Again, we see a growing need for businesses -- I would say more medium-size businesses, some small, but mainly medium businesses -- to move some of their IP infrastructure into the cloud where it is secure. And I think we all worry about cyber security these days. And it allows them to have flexibility in terms of how much capacity they need to phase that up and down. And therefore that's a service we also see developing over time.

If I had to contrast between the two, I would say Unison is probably more material for us than the Cloud, but nevertheless they are part of a suite of leapfrog solutions that we have deployed.

In terms of where they go into the P&L, and I will let Tony handle that in a second. In terms of how are they selling, well, we only launched them a couple of weeks ago, so forgive me if I haven't got figures to hand right now, but what I would say is listening to the enthusiasm of the sales calls yesterday, I would say Unison for sure is going to be a big hit with small businesses.

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Tony Staffieri - *Rogers Communications Inc. - CFO*

Yes. And in terms of where you'll see it -- you'll largely see it within the wireless revenue side of things.

Drew McReynolds - *RBC Capital Markets - Analyst*

Okay. Thank you.

Operator

Aravinda Galappatthige, Canaccord Genuity.

Aravinda Galappatthige - *Canaccord Genuity - Analyst*

A question on the CapEx side with respect to Cable. Obviously with the IPTV project getting to its latter stages and the investments around legacy TV obviously starting to (inaudible), I was wondering if you were expecting a material stepdown in CapEx on the cable side in 2017. You are in the high 20%s as of now. I was wondering if you expect a drop to the 20%s straightaway, or if we expect a more gradual decline?

Tony Staffieri - *Rogers Communications Inc. - CFO*

On the CapEx side for Cable, we are sitting at a CI index of just over 30%. We've consistently said that longer term as we move to IP, the lower CapEx that that requires combined with lower CPE costs over time is going to drive that CE index down significantly for that business.

In the short term, we will continue to make investments in the platform and so you may not, to answer your question specifically, you may not necessarily see it right away, but rather it's something that we will measure over the course of the next several years. Again, we are building that platform for the long term and so we will make the necessary investments we need to make. But, at the same time, we will be very clear and transparent with you on how we expect to get the proper payback on the investment.

Aravinda Galappatthige - *Canaccord Genuity - Analyst*

Okay. Thanks, Tony. And just to follow up on the question about the competitiveness in Ontario on the Cable side, Guy, do you expect this battle to continue to spill over into 2017? And if it does, does that impact your Cable margin expectations that Tony was referring to earlier? Thanks.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

Is it going to continue? I have no idea. You probably have to ask my competitor that. In terms of how it affects margins, it depends on whether we are dealing with skirmishes, minor fights, battles or nuclear war. And that little bit again depends on the actions of the competitor. So I think you are best directing it to their call in a couple of weeks' time.

Aravinda Galappatthige - *Canaccord Genuity - Analyst*

Okay. Thank you.

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Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

So nice to hear the take-up of the 100 meg, plus 38%. Can you just talk us through your plans to take advantage of these new gigabit speeds, and what are we seeing? Is this new customers coming in? Are you actively going back to existing customers and offering them these new speeds? What sort of ARPU uplift are you seeing? Maybe you could just help us understand how that flows through over the next few quarters.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

So I will talk to the commercial tactics. So the need for speed is there. It is just there. It's a basic need for any family. You need the speed because you've got -- currently, I think there's 11, on average, devices connected to a router. We forecast that will go to 21, and therefore we are attracting new customers who clearly see the need for speed. Why anybody would go with less than 100 meg speed is a puzzle to me.

And the second thing is our existing base are upgrading. So it's a good mix and it does vary from week to week. So I think that's going to continue to be quite frank. It will be -- at some stage, it will start to slow down because there's a certain economic group that probably don't want to stretch as far as 100 megs. But at least for the time being, we see positive momentum and you see that in our [net] best Q2 for eight years. That has to tell you something is going on.

Simon Flannery - *Morgan Stanley - Analyst*

And what sort of ARPU are you getting from some of these higher speeds? The existing base uplift, does it average CAD10 a month or more than that?

Tony Staffieri - *Rogers Communications Inc. - CFO*

Simon, it's a blended. Certainly it will depend on -- if you just take a look at the [rack] rate on the pricing of it, in some areas, we will have -- again, getting back to the competitive intensity -- promotional discounts on that for a period of time, which even with that ends up being accretive for us. And so I think if you just again look to the revenue increase in Internet and I can tell you that that's supported by correspondingly strong ARPU growth as well in Internet and that's where we see it coming through.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

Part of the problem, Simon, with answering the question is the fact that you've got different types of customers and hence different actions, so if it's a triple play with a higher speed then you might have a promotion in that to get that whole package and you've got to allocate that discount somewhere. Whereas, if it's broadband only, it'll be slightly different, so that's why it's difficult to pin down the exact figure. But in the round, it's good for us and we are making it happen.

Simon Flannery - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

Greg MacDonald, Macquarie.

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Greg MacDonald - *Macquarie Research - Analyst*

Just a clarification question and then a larger strategic one. Tony, just on the Cable CapEx, it seems to me what you are suggesting is 30%-ish capital intensity on Cable will remain for some time. Is that the message?

Tony Staffieri - *Rogers Communications Inc. - CFO*

In terms of Cable CI, I think it depends on the period you are measuring it in. Don't expect drastic change in Q3 and Q4 and possibly as we head into Q1 or early next year, I should say -- I'm trying to be careful not to overextend myself and give you guidance in terms of CapEx for next year -- but it's largely -- I think I will leave it at that, Greg, and just say for the short term the next few quarters don't expect any significant right turns on it.

Greg MacDonald - *Macquarie Research - Analyst*

Okay. That's helpful. Larger question would be this. Rogers 3.0 seems to be progressing to plan, good ARPU metrics, churn metrics in the right direction, cable sub pressure stabilizing. I'm cognizant, Tony, of your U-curve comment and room for optimism here with IPTV and customer service metrics improving still to have an impact. The decision to pause the dividend growth in early 2016 was one mostly focused on deleveraging, but success on the operating budget I suspect is also a very key influence on this.

How would you describe your operating performance versus plan year to date all things considered, number one? And then number two, remind us of the process the Board takes about dividend decisions because historically dividends have changed or increased in February of every year. Does the Board just look at everything once a year, or is the dividend considered quarterly? Thanks.

Tony Staffieri - *Rogers Communications Inc. - CFO*

So two parts to your question, Greg. On the first one, in terms of where we are tracking relative to our plans, our plans are tied to the guidance that we put out and we see ourselves on track at just past the mid-year point. So that's tracking well and as you said, in terms of translating that to dividend growth, we look to two things -- progress on the balance sheet and progress in our fundamental operating metrics. And we like the trend that we are seeing on both of those. Although from the last time we talked, it's only been 90 days and I think we'd like to see continued progress on them before we look to translate that to dividend growth.

In terms of process or governance process on dividend, our process isn't different from probably most public companies in that management prepares a recommendation based on our outlook of cash flows and a number of other factors and presents that to the Board for consideration and approval. We meet with the Board on a regular basis and so the opportunity to discuss that is on a regular basis, but we will bring it forward at the right time. So I don't want to be more prescriptive or directive than that.

Greg MacDonald - *Macquarie Research - Analyst*

Okay. All right, that's helpful. Thanks, guys.

Operator

Maher Yaghi, Desjardins Securities.

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Maher Yaghi - *Desjardins Securities - Analyst*

I just would like to talk about the bundle strategy on the Cable side. With the positive net additions on phone, can you describe what's -- it's been a while, we haven't seen positive numbers there -- what is taking place on the bundle? Is that the real driver for positive phone numbers? And if so, is it mainly at the expense of wholesalers or your direct competitor in the market in Ontario?

And just on your strategy for business wireless with the product that you launched, what is the risk of cannibalizing your existing wireless business postpaid numbers, and if there's not a lot of risk of cannibalization, can you talk about the pricing differential between the newly launched product and your existing business, wireless ARPU?

Guy Laurence - *Rogers Communications Inc. - President & CEO*

You lost me a little bit on the first one because you started talking about home phone and then I think you started to talk about Internet. So can you just clarify the first half of the question for me?

Maher Yaghi - *Desjardins Securities - Analyst*

Yes, no, it's the bundle strategy, the positive phone additions. Is it at the expense of wholesalers or your direct competitor in the market in Ontario?

Guy Laurence - *Rogers Communications Inc. - President & CEO*

Okay.

Tony Staffieri - *Rogers Communications Inc. - CFO*

Maher, I will start with the first one. In terms of the home phone piece of it, it's largely coming from the bundling strategy, as you would expect and so where it comes from for competitive reasons I don't want to disclose whether it's wholesale or the competitors retail side of it, but it's really part of the bundle strategy and I think going back to some of the competitive offers that we are matching out there. I think what you see is home phone drag along coming at a very low incremental price for consumers and so it's good for consumers. While it has an impact on ARPU, it probably hurts the other guys more than it hurts us, but that's what's really driving it on the home phone side.

Guy Laurence - *Rogers Communications Inc. - President & CEO*

On the business side, the way that it works is basically you have a mobile phone with us, so we are getting whatever ARPU we get today, or if it's a new customer obviously it's new revenues and the difference for the small business owner is that instead of paying an extortionate amount for a wireline phone, they do away with that and they have all of the functionality on their mobile phone for a modest amount of money. So now instead of paying two bills, one for your wireline phone and one for your wireless phone, you are paying one bill. And that's the key.

Now if you look at our wireline penetration, you will see that it's relatively modest and therefore the amount of cannibalization we would face would be extremely modest. Obviously, if you were a telco who for generations had survived exorbitant ARPUs from wireline phones whilst providing very modest quality service, you are in for a big shock.

Maher Yaghi - *Desjardins Securities - Analyst*

That's a good way of describing it. And could you talk about the ARPU lift that you can deliver by adding these additional services on top of your current wireless bill?

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Guy Laurence - *Rogers Communications Inc. - President & CEO*

I've only been selling it two days. Give me a chance.

Tony Staffieri - *Rogers Communications Inc. - CFO*

Maher, it would be incremental. You see the rack rate on it, and so you can do the math. You have to have a wireless phone with us and then it's an add-on feature to that and so you can get a sense as to what the ARPU lift would be.

Maher Yaghi - *Desjardins Securities - Analyst*

Thank you.

Operator

Rob Goff, Echelon Wealth Partners.

Rob Goff - *Echelon Wealth Partners - Analyst*

The first, I guess, a follow-up on the Unison. Is that product now playing into your historical sweet spot on business where you are stronger in the [SME] marketplace? And then as a second question, if I may, on the Internet, could you perhaps profile a bit more the source of growth there, be it business, be it broadband only, or is this a pull-through addition?

Guy Laurence - *Rogers Communications Inc. - President & CEO*

So on the first one, again, going back to -- so let's go back to our small business owner. So we may well have -- we have a very low marketshare and therefore we have very low risk of cannibalization, but where we do pick up that customer, they are so grateful for the fact they don't have to pay these exorbitant fees anymore, that they are more likely to give us their Internet business, which we may or may not have to begin with. And if we do have it, we also give them the chance to upsell them on higher speeds because small businesses can appreciably benefit from the 100 meg services that some of our competitors can's provide.

So actually when you look at the -- the way that we phrase this to the small business is they need to look at the total cost of ownership, so what is the total cost of ownership of their wireless phones, their wireline phones, their Internet services and in the case that they are slightly bigger, maybe their cloud or their compute storage costs as well. And then you can sit down and say, for once, in a generation, you have the chance to rearrange this mix now, save money, make yourself more productive and give all your services to Rogers and that's where we are focused.

Operator

Rob Peters, Credit Suisse.

Rob Peters - *Credit Suisse - Analyst*

Just on your comments on ARPU growth improving in the back half of the year, when you start to lap the Mobilicity acquisition, maybe looking at it just a different way, you mentioned Pokemon Go in your initial comments. I don't think we've really seen a phenomenon like this in the mobile gaming side with the number of people out there using their wireless devices to play this game.

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I was wondering, it's very early days, but do you see any potential for that to drive upsizing of plans or potential overages as people use up their data walking around the city. And maybe to build on that, what's the biggest driver for you guys currently on the mobile data side?

Guy Laurence - *Rogers Communications Inc. - President & CEO*

So it's not Pokemon Go to be quite frank. The consumption of it is modest, I would say, in reality versus the use of video. So because people have relatively well-sized buckets of data, then I actually think this ought to use up some of the slack in that bucket, but I don't see it as a big driver for ARPU growth.

The real use case, to your second part of your question, is really video. There are three use cases -- video, video and video. And they come through different ways -- YouTube, Facebook. And if you've looked on your Facebook stream, pretty much every other post is now a video and therefore, especially with autoplay, it means that the real data growth is coming through from that kind of service. And whilst it's always interesting to see these things like Pokemon Go erupt into the marketplace, I wouldn't say it should alter your models right now.

Operator

David McFadgen, Cormark Securities.

David McFadgen - *Cormark Securities - Analyst*

I have two questions. Can you give us any color or details on the consumer interest or consumer uptake of the 1 gig Internet product now that it's rolled out to about half your cable footprint? And then secondly, what impact would you expect the Fido Roam product to have on the wireless EBITDA margin?

Guy Laurence - *Rogers Communications Inc. - President & CEO*

So I missed the second half of the question. What impact --?

David McFadgen - *Cormark Securities - Analyst*

Would you expect the Fido Roam, the introduction of Fido Roam to have on your wireless EBITDA margin?

Guy Laurence - *Rogers Communications Inc. - President & CEO*

Okay. I will let Tony carry that one. The first half was about 1 gig. So we don't reveal the actual numbers of customers on 1 gig. It's a high-end product, but I don't think you should think about it this way. I think you need to focus on the need for speed. So the fact that we can offer up to 1 gig allows us to have multiple sales opportunities with the customer. So as I say, my view is any customer that can get to 100 meg, that should be the baseline.

And then depending on their needs, which depends on the number of people in their house, or how much 4K they consume or whatever it is, how much content they are consuming, they can then scale upwards from there towards 1 gig, and if they are of a certain size, they will take the 1 gig product.

So you should see 1 gig as more of a heading under which there are multiple price points, speeds and opportunities to have a conversation with a customer rather than the absolute number of 1 gig customers being important. It's really the opportunity to pull through ARPA as we move customers up the speed curve, which is only reflecting their needs given the amount of devices that they have in their house.

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Tony Staffieri - *Rogers Communications Inc. - CFO*

On your second question with respect to Fido Roam, maybe if we look at it in the short term, so if you are asking specifically in an individual quarter of Q3 or Q4, I'd put it in the context of I'd put a fence around it. It will be under 1%, but as we -- in terms of ARPU impact -- but as we try to measure things at the margin and we are all looking at ARPU in terms of single digit percentages, it could be an impact, but it would be less than 1% in terms of ARPU impact, if that helps, in terms of putting the risk out there. And then as you flow that down, that would have a similar potential impact on margins as well.

David McFadgen - *Cormark Securities - Analyst*

Okay. And if I could just have one follow-up. When you launch your IPTV product, I would assume that you are going to go after Bell's [fiber] territory. Would that be a reasonable assumption?

Guy Laurence - *Rogers Communications Inc. - President & CEO*

Well, given that the number of competitors in Ontario is relatively limited, it would be difficult to expand the product without going after Bell fiber product customers.

David McFadgen - *Cormark Securities - Analyst*

Okay. All right. Thank you.

Operator

Bentley Cross, TD Securities.

Bentley Cross - *TD Securities - Analyst*

I was just curious to know what sort of regional trends you guys have seen in wireless this last quarter.

Tony Staffieri - *Rogers Communications Inc. - CFO*

Yes, so what have we seen on wireless revenue trends across the country?

Bentley Cross - *TD Securities - Analyst*

Whether it be revenue or net adds. Obviously, Alberta weakness has been a consistent theme, so was wondering if that is still playing.

Tony Staffieri - *Rogers Communications Inc. - CFO*

I would say overall we don't disclose the regional side of it, but it's not inconsistent with what you would think. We see good growth across the entire country in a relatively consistent format. Alberta obviously a weakness, but I don't want to overstate the weakness from our perspective, but it is certainly there. But I would say it's generally equally distributed across the different regions.

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Bentley Cross - *TD Securities - Analyst*

Okay. And separately, if you don't mind if I tuck in one last question. Just wondering your thoughts on the Shomi product, especially in light of Shaw's write-off.

Tony Staffieri - *Rogers Communications Inc. - CFO*

I guess there is two parts to that question. In terms of Shaw's write-off, that's up to Shaw to explain. As we heard on their call, it really relates to the [course] transaction and their exit from media. So that was a specific event for them. We continue, like all our investments, continuing to always look at our alternatives and maximizing value and given that Shaw is a partner with us in that, not a lot we can or will say about it until we have something to say together with our partner.

Operator

Ladies and gentlemen, this will conclude the conference call for today. Thank you for your participation. You may now disconnect your lines.

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