THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RCI.B.TO - Q4 2012 Rogers Communications Inc. Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 15, 2013 / 8:30AM EST

OVERVIEW:

RCI.B.TO reported 4Q12 YoY consolidated revenue growth of 3.4% and YoY consolidated adjusted EPS growth of 33%.

CORPORATE PARTICIPANTS

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Maher Yaghi *Desjardins Securities - Analyst*

Glen Campbell *BofA Merrill Lynch - Analyst*

Bob Bek *CIBC World Markets - Analyst*

Simon Flannery *Morgan Stanley - Analyst*

Drew McReynolds *RBC Capital Markets - Analyst*

Dvai Ghose *Canaccord Genuity - Analyst*

Vince Valentini *TD Securities - Analyst*

Rob Goff *Byron Capital Markets - Analyst*

Adam Shine *National Bank Financial - Analyst*

Jeff Fan *Scotiabank - Analyst*

Blair Abernathy *Stifel Nicolaus - Analyst*

Greg MacDonald *Macquarie Capital Markets - Analyst*

David McFadgen *Cormark Securities - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Rogers Communications fourth-quarter 2012 results analyst conference call.

At this time all participants are in a listen-only mode. During today's presentation there will be a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded today, Friday, February 15, 2013, at 8.30 a.m. Eastern time.

I would now like to turn the conference over to Bruce Mann with the Rogers Communications management team. Please go ahead.

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

Thank you very much and good morning, everybody. We appreciate you investing some of your time with us this morning to join Rogers fourth-quarter 2012 investment community teleconference.

It is Bruce Mann here. Joining me in Toronto this morning are Rogers' President and CEO, Nadir Mohamed; our Chief Financial Officer, Tony Staffieri; Rob Bruce, who is the President of our Communications division; Keith Pelley, who is President of our Media division. Also Bob Berner, our Chief Technology Officer; Ken Engelhart, from our Regulatory team; and then a couple of members of their respective teams as well.

So we released our fourth-quarter results this morning. The purpose of the call is to crisply provide you with a bit of additional background up front and then to answer as many of your questions as time permits. Today's remarks and discussion will undoubtedly touch on estimates or other forward-looking types of information from which our actual results could be different. So, accordingly, would you please review the cautionary language in today's earnings report and in our 2011 annual report. All the factors, assumptions, risks, etc., in those documents apply equally to today's call.

With that, lastly, if you don't already have copies of our fourth-quarter release that we put out this morning or our 2011 annual report to accompany, they are both on the investor relations section of Rogers.com. They are also on EDGAR and SEDAR regulatory websites.

So with that I will turn it over to our CEO, Nadir Mohamed, and then our CFO, Tony Staffieri, for some brief introductory remarks. And then the management team here will look forward to taking your questions. So over to you, Nadir.

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

Thanks, Bruce. Welcome, everyone, and thank you for joining us.

Before we get into the specifics of our results on what I would characterize as a solid quarter let me spend a minute addressing the announcement we made earlier today about my plan to retire next year. After more than 30 years in the industry and more than a decade with the Company, I have made the decision to retire as CEO in January of 2014. The Company is in great shape and I believe it is the right time to start the transition to the next generation of leadership.

As we said in the release earlier this morning, the Rogers Board will start a search process and I will work with the Board to ensure a seamless and orderly transition. We will provide an update on this later in the year. Right now my focus is absolutely clear -- working with the senior team to deliver on our priorities and drive results.

As you can see from this morning's earnings release, we delivered another balanced set of financial and subscriber results which further build on a number of positive trends which you have seen emerge over the 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 broadband and media businesses.

In particular, our top-line growth rate further accelerated for the third straight quarter with revenue growth rates up in all three of our major segments. In fact, our consolidated revenue this quarter is the highest ever reported by Rogers. At the same time, consolidated margins, adjusted operating profit, earnings per share, and pretax free cash flow were all up versus Q4 of last year.

We again had very good postpaid subscriber gross additions at Wireless, the highest quarter in a couple of years I might add. And, importantly, it was the strongest quarter ever of new, higher-value smartphones that joined Rogers as customers.

We also, once again, brought postpaid churn down from the prior year, which is significant in what is generally the most competitive quarter of the year. And, importantly, we delivered postpaid ARPU growth for the first time in two-and-a-half years. This was driven by both the continued acceleration of Wireless data revenue growth and the continued slowing of the erosion of Voice ARPU.

Frankly, we are staying in lockstep with our customers as their communications needs evolve, managing and monetizing a shift from voice to data. We made another very positive step forward in this regard when in early November we successfully launched new, simplified, data-centric wireless pricing plans, the first carrier in Canada to do so.

We continue to build on our success, growing wireless data revenues again this quarter with a 21% increase over Q4 last year. The wireless data growth reflects strong growth across all of the data categories with continued spend, particularly in wireless data roaming and data upsell and the cumulative effect of the growing subscriber base, deeper penetration of smartphones, and the increase in use of wireless data generally. Importantly, the growth rate reflects the very strong results we have continued to drive in the smartphone category, a key component of our wireless data strategy.

In the quarter we activated 940,000 smartphones, the highest number ever for Rogers, both for new subscribers and upgrades. That is up a full of 19% from Q4 of last year and, importantly, this puts our postpaid subscriber smartphone penetration -- at the highest in Canada and at the top in North America. Our smartphone metrics -- ARPU, churn, and upgrade rate remain healthy given the competitive backdrop, and we are continuing to attract and retain our highest lifetime value customers, which is squarely on strategy and the most significant driver of our top line.

Another component of wireless data, we drove strong growth in our machine-to-machine business where we now have over 800,000 connected end-to-end devices, which is up 27% year over year.

Now on the cost side we continue to drive very meaningful efficiency, not just at Wireless but across the business. At Wireless this helped us to hold adjusted operating profit margins relatively steady year over year while growing the number of gross adds and also absorbing the costs of upgrading the significantly higher number of smartphone customers.

We, at the same time, continued to invest in the further expansion on Canada's first and fastest LTE network to cover a whole host of additional markets, reaching approximately 60% of the Canadian population. To complement this leading-edge, world-class network Rogers also continues to offer the biggest selection of LTE devices in Canada and we now have close to 1 million subscribers on our LTE network.

In the Cable segment of the business we again delivered not only solid, but increased margins and continued top-line growth. As you can see in the net subscriber activity, we held our own on the Cable high-speed Internet product, both in subscriber numbers and in monetizing the growth in data usage, while we also continued to deepen penetration of our Cable telephony products. We now offer broadband speeds of 150 megabits per second to over 90% of our cable territory.

It is interesting, by the way, to note that with the continued growth in both the cable broadband and wireless data categories that data revenues overall now account for approximately 39% of all of the revenues of our combined Cable and Wireless businesses.

For television that product reflects the impact again this quarter of the challenging competitive environment led by, frankly, aggressive pricing activity by our primary telco IPTV competitor. We are continuing to intently balance subscriber loads, pricing, and margins on a day-to-day basis in the face of these extremely deep discounts as we work through this period. You can see the net effect of the current competitive environment in the basic cable subscriber net, as well as the impact of retention and promotional offers that we have needed to utilize in the dampened rate of growth on the TV revenue line.

Having said that, you can also see the continued growth on the Internet and Cable telephony revenue lines more than offsetting the pressure on TV revenues and enabling us to continue to grow the top line in this segment of the business. As you saw at Wireless, we benefited from ongoing solid cost management in our Cable segment, where we recorded margins which are up both year over year and sequentially.

At the Rogers Business Solutions division, or RBS, we again successfully focused on driving the on-net and next-gen portions of the business where we put up a healthy 26% revenue increase. This reflects our strategy of growing our presence in the enterprise segment of the business market in areas where we have our cable and fiber network facilities. Significantly, for the first time, the next-gen on-net revenues are now a full 50% of RBS revenues and are tracking to form a majority of this business into 2013.

These gains were offset at the top line by the continued planned exit of lower margin legacy services in off-net business. You can see the effect of this shift to on-net in the operating margin, which has improved by more than 900 basis points year over year, enabling the strong double-digit adjusted operating profit growth at RBS.

Now turning to Rogers Media, there are a couple of items of note in Q4. First, while the advertising markets continue to be tough, reflecting the global macroeconomic challenges as well as some of the ad dollars' shift into digital platforms, we did for the first time in the past few quarters begin to see an uptick in the last part of the quarter. Offsetting this softness once again was continued strong growth at Media's Sportsnet and sports entertainment properties.

Now to further reinforce Media's highly successful Sportsnet brand, during Q4 we closed on the acquisition of theScore Television Network that we announced in August. TheScore is a national specialty TV service that provides sports news, information, highlights, and live event programming across Canada. It is the country's third-largest specialty channel with 6.6 million subscribers at theScore channel.

We have closed this acquisition into a trust in mid-October and upon receipt of final regulatory approvals, which we expect in early Q2, we will take control of the network which we will rebrand under the Sportsnet umbrella. This clearly will build on Rogers' momentum of delivering world-class sports content to Canadians anywhere on any platform.

So stepping back to a consolidated view, as you may recall, early in 2012 we said we would accelerate a number of cost management initiatives. We took decisive actions and you are continuing to see the benefits of that work in what are amongst best-in-class margin levels. And, importantly, we also said that our definition of winning longer-term is from top-line growth and you can now see that trend firmly in place.

While I expect it will continue to be highly competitive in the 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 accelerated growth on both the top and bottom lines with continued improvement in a number of key operating metrics, expansion of our margins, and strong double-digit growth in earnings per share. And lastly, but importantly, for the full year we met or exceeded all of the consolidated guidance metrics which we set out at the start of Q1. And we did so with top- and bottom-line growth that both accelerated as the year progressed.

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

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

Thank you, Nadir, and good morning, everyone. I will provide a little bit of additional context around the financial results and the metrics for the quarter, and then we can get into the specific questions you may have.

On the top line our consolidated revenue was up 3.4% for the quarter, representing the third straight quarter of sequential improvement. At Wireless, network revenue grew at 4.3%, which is almost double the rate of last quarter, and we had continued growth in Cable service revenue, which was up 2.2%. Again, up sequentially from the 1.7% rate in Q3.

Media's growth trajectory improved as well, although it was dampened somewhat in the fourth quarter as a result of the NHL lockout. RBS also this quarter put up its best revenue performance of the year with IP, next-generation, and on-net revenue now surpassing the declining legacy business.

In the fourth quarter we also saw continued improvement in the trajectory of consolidated adjusted operating profit which grew at 6.8%, compared to 5% in the third quarter and less than half that rate in the second quarter. We accomplished this while absorbing into our results the extremely significant year-on-year increase in the volumes of smartphone sales and upgrades which Nadir touched on a moment ago.

So the top line and adjusted operating profit lines both grew year over year as well as sequentially and, significantly, both grew at accelerating rates.

In our Wireless business, total revenue growth of 5% and postpaid ARPU growth of 2% was driven largely by strong data increases with data now accounting for 42% of our network revenues. Adjusted operating profit in Wireless was up 2.5%, notwithstanding, as we have mentioned, having to absorb the costs associated with year-over-year increases in both postpaid subscriber gross and net additions as well as record numbers of new smartphone sales and upgrades. In fact, there were 19% more smartphone activations in the fourth quarter this year than last year, including 27% more smartphone upgrades than last year. And a significantly greater number of iPhones were included in those volumes.

During Q4 70% of our Wireless gross adds came in on smartphones and, as a result, 69% of our postpaid customer base is now on one. So we are continuing to have success concentrated in the higher end of the market. I am pleased that we again demonstrated the ability to fund greater volume while expanding margins at the same time, clearly reflecting our ability to drive cost productivity improvements in other areas.

For the quarter, our non-hardware operating costs in Wireless actually decreased year over year by 2% despite the increased revenue and volumes. It is a good execution on balance with continued strong investments in our customers.

Solid execution in terms of operating efficiencies at Cable as well, where even with the modestly faster rate of revenue growth in last quarter margins were up to 49.4% and adjusted operating profit grew at 4.5%. Revenue growth in this segment was fueled by Internet growth at 11% year on year, together with home phone growth at 3%.

At our Rogers Business Solutions segment the shift to and growth of on-net next-generation revenues continues to drive improvements in the financial profile of this business. Here you will also see the results of strong cost management, where we were able to reduce costs primarily associated with our declining legacy revenues by 16% year over year. A combination of improving the revenue mix profile together with cost management delivered a strong 35% growth in adjusted operating profit and a 920 basis point increase in margins versus Q4 of last year.

In terms of the results at Media, in addition to the color Nadir provided a moment ago I would add that the NHL lockout had a measurable impact on Media's results. First, it dampened the rate of revenue growth because of missed ad sales from games that weren't aired. But more than offsetting that was a reduction in costs that would've been associated with the airing all of the games, which served to boost Media's operating profit in the quarter on a one-time basis.

Most importantly, though, is that the NHL lockout was settled shortly after the quarter ended, which is vital for the franchise and in turn for Rogers sports broadcast properties and for our investment in MLSE.

So overall a combination of continued growth and healthy margins across the Company, despite record levels of investments in customers. This clearly speaks to the success, the simplification, and cost efficiency initiatives we accelerated earlier this year which continue to be a core focus for us in terms of continuous cost productivity improvements.

You see this improvement in our financials. If you put aside the equipment costs associated with the significantly increased smartphone volumes is quarter and exclude the one-time cost savings from the NHL lockout, our consolidated Opex actually declined by 1% in the quarter from a year earlier. While a small portion of this can be attributed to modestly lower Cable TSU volumes, it overwhelmingly is a reflection of focused execution and disciplined cost management.

As I look across the operating results overall I see good performances in terms of both gross sales and retention, with continued stabilization of key metrics with solid success in terms of monetization of the strong data services growth both at Wireless and at Cable. And that continued momentum has clearly been the key driver behind the solid financial results this quarter.

Looking on a consolidated basis below the operating profit line you will see that our adjusted net income grew by 30% year on year, reflecting our growth in operating profit but also as a result of the reduction in our tax expense. Our effective income tax rate in the fourth quarter was about 500 basis points lower than Q4 of last year. This decline primarily reflects the utilization of previously unrecognized tax losses and, to a lesser extent, the capital gains were included in our income, half of which is non-taxable.

On an adjusted basis our net income growth translated to an increase in adjusted earnings per share of $0.22, or 33% year over year.

In arriving at net income on an unadjusted basis, two items I would like to touch on. First, we realized in the quarter a non-cash gain of $233 million as a result of withdrawing the 25 megahertz spectrum from the Inukshuk joint venture. Partially offsetting this gain was an $80 million non-cash asset impairment charge we recorded at Media related to the revaluation of certain goodwill balances, broadcast licenses, and program rights, primarily from overlaying the softened advertising environment on the carrying values in certain of our media assets.

In terms of cash, during the fourth quarter we generated $296 million pretax free cash flow, up 2% year over year or 6% on a per share basis. This growth was primarily driven by the increase in adjusted operating profit offset in part due to the timing of our Capex spend, which as you can see was up 8% year on year in the quarter but on a full-year basis was relatively flat and was in line with our annual guidance.

After-tax free cash flow was impacted by the timing of cash tax payments, which saw about 70% of the full-year 2012 cash tax payments concentrated in the fourth quarter. However, it is notable that the $380 million of full-year cash tax payments was $70 million below the midpoint of our guidance range and is well below the bottom end of our guidance range.

As we turn to the balance sheet, we ended the year with $3.1 billion of available liquidity. In addition to our $2 billion unused credit facility and our cash on hand, towards the end of the fourth quarter we entered into an accounts receivable securitization program which will provide us up to $900 million of additional liquidity at a very attractive interest rate. We will continue to manage these receivables in normal course and they will continue to be recorded as current assets. This further reduces our cost of debt capital and improves our liquidity position at the same time.

Today we also set out 2013 guidance ranges for several of our primary consolidated financial metrics. As you can see, we expect continued growth in adjusted operating profit and in pretax free cash flow in 2013.

You will also note that we provided guidance on our expected cash income taxes for 2013, and I would highlight that this includes approximately $140 million of temporary incremental tax payments relating to the changes announced early in 2012 in respect of partnership income. This additional $140 million portion is not reflective of our long-term cash tax rate.

I am pleased to highlight that we also announced this morning a 10% increase to our dividend effective immediately with the quarterly dividend which was declared by our Board yesterday.

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.

With that I will pass it back to Bruce and the operator so we can take your questions.

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

Thanks, Tony. Operator, if you could give us just a couple of seconds before we jump into the questions from the participants.

Quickly, before we begin, we will request, as we do on each of these calls, that those of the participants that are asking questions be considerate to the other participants and limit those 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 additional questions or we will definitely get them answered for you separately after the call.

So if you could quickly explain how you would like the participants to queue up and organize the Q&A polling process, we are ready to go here.

QUESTION AND ANSWER

Operator

(Operator Instructions) Maher Yaghi, Desjardins Securities.

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

Yes, thank you for taking my question. And, Nadir, I wanted just to congratulate you on your tenure at Rogers. I am sure the investment community will miss you starting next year.

Just I wanted to ask you on Wireless, when you look at your Wireless portfolio and you compare the postpaid net additions you had in the quarter versus Telus and BCE now that all the results are out -- you know it has been a few quarters that we are seeing your market share below your potential. Is there structurally anything that you can do to manage to improve that market share?

Because in terms of offering, in terms of pricing, in terms of presence on the ground there is not a lot of difference between you and Telus and BCE. Why are we seeing that kind of spread continuing here and do you expect it to close in 2013?

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

Thanks and thank you for your comments on a personal note. On Wireless, I think the first thing to make sure that everybody understands, as you know, the net share in any given quarter is a function of what happens at gross and then the effect of churn. You should know that at the till, where the customer makes a decision, on gross acquisitions we continue to be very strong and have been that way for some time.

Really what you're seeing is the impact of churn, and as you know, our churn improved from 1.49 in the quarter last year to 1.40. So that is sequentially improving and it improved for the year.

But, frankly, our churn needs to get even better because the reality is our base of customers is much larger. And if you work the math, even if there is the same churn applied on the higher number, you would end up with a lower net share. So our focus very much is on improving churn.

The last year or two, to be fair to your question, if you look at where the competition in terms of new entrants and some of the activity in the market has been strongest, it would be in the markets in Ontario where we have the biggest presence. So that has been a contributing factor, but I think you should know that we are absolutely focused on improving our churn and that to me is the best way to get to an improved net share.

The last thing I would say is, Maher, as you know, all of these metrics are interconnected. And what I would point out is that the balancing act would be we continue to have the best margins in the wireless industry; we continue to have best ARPU in the Wireless business. So point taken, though, where we see improvement going forward, which we will focus on, is churn.

Operator

Glen Campbell, Bank of America Merrill Lynch.

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

Thanks very much. The ARPU in Wireless Service results were just terrific and, Nadir, I have to say I chuckled at you calling the results solid. We will miss that.

But can you maybe talk a little bit about the drivers of the strong performance in data? Clearly, we have seen the upward march in smartphone penetration, but are you seeing higher levels of spending as people trade up their phones? Are you seeing a lot of people take plans at more than 1 gig? Are there some unusual factors or trends you are seeing that would help to explain that strength?

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

Yes, Glen, it is Rob Bruce. How are you this morning? The improvement in data growth was right across the board. It was driven by higher rates of data attachment on smartphones.

Some of this was driven by our new plans, both on Fido and Rogers, which by the way are actually going very well. Also from an uptick in SMS and also an outbound roaming. And most of you will recall that we made some changes to roaming and those changes are proving to be positive as we go forward.

I think the one thing that I would say is we have more work to do as an industry in the long run on roaming and making roaming rates friendlier for our customers. As you probably saw recently, Glen, we released some information about some new plans to do exactly that on roaming. So while the roaming numbers are terrific and have bounced back a lot this quarter, we expect that putting new roaming plans in place in the short term will moderate slightly some of the uptick that we are seeing in roaming.

And that will be necessary, because initially what will happen is the people who use roaming a lot will migrate to these new plans. But, ultimately, success will be pushing the penetration of our base into using roaming on a very consistent basis over all and that will take slightly longer.

So happy with the results in the quarter. Roaming particularly strong. I think the other thing that I would highlight is we are seeing that LTE is creating a much better experience for all of our customers. As a consequence, we see our users using more data individually and that is another component that I probably should touch on before I wrap up.

Operator

Bob Bek, CIBC.

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

Thanks, good morning. I also have a data question but from the Cable side. Obviously, a very strong quarter, another strong quarter for data on the Cable side, both usage and pricing no doubt, as my personal experience would show. Caps are starting to be a bigger issue now.

Can you talk, perhaps Rob or Nadir, about your strategy on the caps and as usage grows on households and how pricing can kind of go with that? I know you have got a telco competitor who is getting pretty aggressive on the Internet component even with an unlimited offering. I am sure that is just transitory, but your thoughts on the impact of that on pricing and pricing in general and your ability to control pricing on what is obviously a very key component to the story. Thanks.

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

Listen, thanks, Bob, for your question. I appreciate it. Clearly, I am not going to comment on our competitors' plans and the approaches that we are taking.

We have got a winning Internet offering and I think you can see it in our numbers. We have been leveraging our known superiority over DSL, delivering faster speeds, up to 150 megs now, with better consistency of those speeds. I think our customers are seeing and feeling that.

It is supported by the in-market claims. I think customers have come to recognize that Rogers has a vastly superior Internet offering. It is supported by our investments that we are making in DOCSIS network capacity.

And we have worked hard to improve the customer experience with things like the launch of TechXpert, our premium technical support. We have removed a lot of our traffic management processes. In fact, all of our traffic management processes. And the up-speeding that we have done in our network, I think, has created some of the positive momentum that we have from an Internet perspective.

So we are going to continue to play that Internet superiority card and play it aggressively. We think that is the anchor to our portfolio. There has been a massive shift in how consumers make decisions in that Cable portfolio of products. It is now very much driven by Internet versus television. And I will leave it there.

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

Okay, thanks.

Operator

Simon Flannery, Morgan Stanley.

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

Thank you very much. Good morning. This is probably for Bob. I wanted to talk about the capital spending priorities for 2013.

Obviously, you have got a bit more to go on LTE, but clearly without the 700 megahertz you are getting to some pretty good coverage already. So if you can give us the buckets of Capex. And when do you think that we can start to see some sort of dividends as you sort of put that in your rearview mirror and you can start to see the capital intensity moderate a little bit? Thanks.

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

Simon, it's Nadir. Why don't I take the Capex and then Bob can address any kind of technical question? I think it really is a follow-on to the question we just had, we are absolutely committed to the strategy to drive growth in monetizing of data. And the backbone of that is IP-based networks that are conducive to data.

So we are first with the LTE; we are the fastest and in 2013 we will continue to rollout LTE to I will call it a broader footprint. We have a couple of regions in the country, Simon, that for competitive reasons we won't get into specifics that we will be targeting to shore up. And I think that will create more opportunities for penetration gain for ourselves. I am sure some of you will figure out where that is, but that shakes up the Wireless side.

A lot of the requirements from Wireless now are, frankly, related to capacity and rolling out the backhaul and requirements for data.

On the Wireline side we continue to move forward in terms of what we would call setting up for IP networks and that means our analog migration, that means faster speeds as we go forward, densifying our network. And to a certain extent we are also looking to expand a bit more into the business market where we are seeing great success. In fact, a limitation right now in terms of growing our market share has been very much where we have reached right to the business. So that has got some investment in there.

And finally speed, speed for Internet. We are the fastest. We firmly believe in remaining the fastest and all of that is contained in our guidance.

The one last thing I would say is that we feel we are very well-positioned in Ontario, and we have got some shoring up that we will be doing in the Atlantic to make sure that we are consistently fastest across our business. So really if you sit back, it is nothing; that's a step change. All of this is contained in guidance and all of that is framed around this view that we will always invest to make sure we are number one.

Simon Flannery *- Morgan Stanley - Analyst*

Great. Thank you.

Operator

Drew McReynolds, RBC Capital Markets.

Drew McReynolds *- RBC Capital Markets - Analyst*

Yes, thanks very much. Maybe a question for you, Tony. Obviously we are seeing continued margin gains across the business and you have instituted probably about a year ago kind of the beginning of that process. Just wondering if you can speak to 2013, what are the major projects that you see impacting the cost structure.

And if I can squeeze in just a second one, just on RBS. Obviously you have turned the corner there in terms of the inflection point. Just wondering is that business of sufficient scale for you or do you think you need to make further acquisitions? Thank you.

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

Thanks, Drew. In terms of the cost program, as we have talked about on previous calls, cost productivity continues to be part of our DNA both in 2012 and on a go-forward basis. As we move into 2013 the focus is going to be in the same primary categories. Certainly if you look across labor efficiencies in all our segments, we will continue to focus on that and redirect resources in the areas that matter most to the customer.

Also looking at our supplier base, and we will continue to comb through that to look for opportunities there. Then the third part of it is our general and admin expenditures.

So those will continue to be the three main areas. It is all going to be driven by the umbrella of what I would call simplification. We continue to look for ways to simplify processes, make the experience easier, simpler for the customer, and that continues to be the primary driver of cost efficiency improvements.

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

Drew, it's Nadir. On your question of RBS, if you think back to where we started, we have been pretty firm on what our strategy is. Very simply put, it's to drive on-net traffic, that means on our network, drive IT, and be focused on I will call it the smaller midmarket.

So one of the challenges, as you know, with our business has been to work off the legacy that we acquired, a legacy business of circuit switch that we acquired from Call-Net. Now what is fantastic about the fourth quarter is symbolically we have crossed the 50% line. So if you think of acquisitions, like Atria and Blink, they support the idea that we want to be more on-net, more in our footprint, and that has been our priority.

Drew McReynolds *- RBC Capital Markets - Analyst*

Thank you.

Operator

Dvai Ghose, Canaccord Genuity.

Dvai Ghose - ***Canaccord Genuity - Analyst***

Yes, thanks very much. If I can go back to this seeming dichotomy between the basic cable subs down 25,000 in the quarter and the cable modem subs up 22,000. I mean the mantra historically has been bundling and, therefore, what is good for one is good for the other.

If you look at Western Canada, obviously Telus' IPTV gains have also led to very strong Internet gains as reported again today, and at Shaw you have seen both Internet as well as TV lost share to Telus. In the case of the East that certainly hasn't been the case. Bell's IPTV numbers has been pretty good but their DSL numbers have been very disappointing.

So why is there this dichotomy in your mind in the East versus the West? And I assume an increasing number of your Internet customers are there for stand-alone and not taking cable services. Could you give us some sort of the idea as to what that number looks like now versus in the past?

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

Dvai, it's Rob. You are right; there is definitely an emergence of people taking Internet alone. It is attributable to having a superior product and I went through some of the reasons why I thought that product was superior. Much better speeds; we worked hard on re-speeding our base and making sure that there is value there for our customers.

We have been very aggressive at marketing to the DSL base out there and reminding them of the superiority that we have on Internet. That has brought us great success.

And we don't talk about it as much as we should, but very focused on business as well. Nadir made reference to investments in businesses past, but we can continue to drive hard on business.

The other thing that is different from the West is accelerated wholesale activity. That is not seen as much in the west of Canada, but it is more unique to Ontario. So a combination of those factors, the emergence of signal Internet customers all contribute to the success that we are seeing on Internet.

Operator

Vince Valentini, TD Securities.

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

Yes, thanks very much. Rob, you mentioned earlier the reaction to the new pricing plans has been very favorable. So that may not be the answer to my question.

But I am just wondering, you have shown some very good improvement in your ARPU trends, in your churn trends, and you have incurred significant smartphone loading costs in 2012. I can’t really quite figure out why the low-end of the guidance for Wireless EBITDA in 2013 only shows 0.6% growth. Can you tell us what could happen to cause you to have growth that low off of the good momentum you have right now?

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

Well, before Rob answers I think you have to look -- it's a range, so that is where we expect to be. Rob

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

So the important thing to say, Vince, is remember some of the changes in some of the lift that we have seen in data roaming we initiated in the back half of the year. We are going to be lapping some of those as we look at this on a full-year basis. So it is important to keep that in mind.

As I said, we also expect to make some investment to get to where we think is the right place in roaming. And the right place in roaming is to get all our customers feeling comfortable being able to roam. They do most of that roaming in the US.

So we think there will be some investment to go from getting the early adopters on roaming to getting everybody on roaming. And we think that that will have a slight dampening effect as well on revenue.

Then, lastly, I think we have got to recognize we are at 72% or -- depends on how you calculate it, 69% to 72% penetration on smartphones. It is hard not to think that that next tranche of people that we are going to acquire are going to be less willing to spend $70 to $80 on smartphones. We are going to have to get them on data, but they are probably going to come on with lower ARPUs, and that is clearly also reflected in the numbers.

So those are the three things that I think are instrumental in kind of shaping some of the questions you had on guidance.

Operator

Rob Goff, Byron Capital Markets.

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

Thank you very much and good morning. My question would be on the M2M. We are hearing more about it and we had some numbers come out today. Could you give us a bit more on the ARPU profile and what Rogers' competitive position may be there?

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

Rob, it's Nadir. So obviously it is an area that we feel very good about our leadership. As I mentioned in my remarks, about 800,000 connections now.

If you think of it from an opportunity for growth, literally our view would be that in terms of the Canadian market, the addressable market is in the $350 million range. So lots of opportunity to grow. It is everything from field force automation, point-of-sale, think of the smart metering kinds of applications. Really it, to me, is going to be the next driver of growth in terms of how business and B2C applications drive the market.

In terms of the ARPU question, a very different profile. So the ARPUs are somewhere in the mid-$5 range per month, but think of it as very good margin. And by the way, when you make the transaction they are in the thousands because they are sticky, they are enterprise which deal with either their points of presence, their employee base, or in many cases the interactions with their customers. So it is an area that, frankly, we feel very good about and we see the opportunity to really drive growth as we go forward.

Operator

Adam Shine, National Bank Financial.

Adam Shine - ***National Bank Financial - Analyst***

Thanks a lot, good morning. Most of my questions on Cable and Wireless have been asked, so I will revert to Media. The guidance reflects for EBITDA I guess sort of flat to down, some of the pressure obviously comes from the benefit of the NHL lockout in the Q4. Anything else worth talking about in terms of sort of profit/margin trends going into 2013?

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

Thanks, Adam. It is Tony here. In terms of as we look to 2013 on the Media side, as you said, we benefited from the NHL lockout in 2012. That helped our EBITDA or adjusted operating profit by about $30 million.

So when you back that out and you look at our guidance range going into 2013, I think what you see is pretty healthy year-on-year growth in EBITDA. It will continue to revolve around on the revenue side our key strategies, so around the sports properties and the content related to that as well as continued strength in each of the other segments within that business.

Adam Shine - ***National Bank Financial - Analyst***

Anything -- sorry, Tony. Anything to highlight and/or for Keith in regards to ongoing progress with Citytv, as well as anything related to price increases or subscriber price increases that is related to Sportsnet?

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

Well, in terms of City Television, obviously we have had a significant increase in terms of our distribution where we are now in 80% of Canadian homes, which is up 20% from where we were last year. So we are now actually playing in the national advertising game. Our ratings this fall are up 21%, more than any other network, and for the first time ever we have two shows in the top 20, which is Two Broke Girls and How I Met Your Mother.

In terms of Sportsnet, we have some distribution deals that will expire this year. We solidified ourselves in the West with the Vancouver Canucks in a 10-year announcement earlier this year. We have also added the Indy, the Tour de France, and we have purchased the Grand Slam of Curling. So from a sports perspective we continue to grow and get closer and closer to our overall goal of being Canada's number one sports media brand.

And without getting into any financial details, there is significant synergies with theScore. Obviously both of us own newsrooms and run newsrooms, so pending CRTC regulatory approval. And we believe that it is a wonderful complementary service to our Sportsnet and Sportsnet ONE, so we don't foresee that being a problem with a key focus on information and news and commentary.

I think that we are really well-positioned to grow the Sportsnet brand from both a top-line revenue growth and an EBITDA perspective in 2013.

Operator

Jeff Fan, Scotiabank.

Jeff Fan - ***Scotiabank - Analyst***

Thanks and good morning. My question is on Wireless. Looking at the smartphone penetration figure, you ended the year I think just under 70%. If we kind of do the math on the percentage of gross adds coming in on smartphones, it is roughly I think 70%.

So given that smartphone penetration seems to be a pretty big driver of data revenue growth and ARPU growth, just wondering whether there is room for that penetration number to continue to go up. I know the industry always talks about very high numbers, so I am just wondering what your thoughts are going forward on that number.

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

Yes, Jeff, it's a great question and you know part of it will become a little bit definitional. I do believe as we get deeper and deeper into the penetration of smartphones at some point the willingness of customers, the readiness, the financial capability of customers to step up to the higher dollar amounts for those, both the devices and for the plans, will become more challenged.

And I believe that over time every phone will be a smartphone. Nobody will be able to do without data. But the ones that are coming, the next 30% call it, will definitely be at least in the latter stages at lower ARPU levels.

So I think there is still lots of growth. I think people obviously want to have their Internet with them wherever they go, their e-mail where ever they go, and we only need to look around us to see that. I just think that the last couple of tranches will be willing to pay just a little bit less for it and we will have to cleverly as an industry figure out how to accommodate them.

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

Jeff, it's Nadir. Just to add just one or two small points, I think the other thing that we shouldn't lose sight of is the 70% penetration that we have, or close to 70%, will also be using a lot more data and consuming applications and content over the Internet. And that is going to continue to drive.

So I think penetration is obviously a proxy for how much consumption, but usage is going to be a bigger factor. And the notion of multiple devices by people needs to also be factored in. So I think over time penetration will be replaced by some other metric.

If you think of something that Rob mentioned just a while back, the LTE network it sort of goes hand in hand. More people are using it aided by a network that is clearly built for data in turn will drive consumption. So we see lots of room for growth in this area.

Jeff Fan - ***Scotiabank - Analyst***

Okay, thanks.

Operator

Blair Abernathy, Stifel Nicolaus Canada.

Blair Abernathy - ***Stifel Nicolaus - Analyst***

Thanks very much and congratulations, Nadir. I look forward to working with you at least one more year here.

Two quick ones for me. Tony, could you just update us on the Mountain Cable, the overall Shaw transaction but particularly the Mountain Cable, and just clarify any change on timing there? And I assume it is not in your guidance today.

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

Thanks, Blair. That is correct; the Mountain acquisition is not factored into our guidance numbers.

In terms of the transaction that was announced shortly after our year-end, the expectation is that we ought to receive regulatory approval for that in the second quarter. If we are lucky, towards the end of the first quarter. And on that front it continues to proceed.

Blair Abernathy - ***Stifel Nicolaus - Analyst***

Okay, great. My other question is just around home automation; it hasn't been discussed on the call. How is that business line proceeding?

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

Hi, Blair; it's Rob. Listen, to give you a brief summary, as you know we had our first full year on Roger Smart Home Monitoring so it is still early days. Making great progress.

It is a different business. There are lots of synergies with our existing business, but we spent the year continuing to build out the channels, the lead generation mechanisms, and other things. It was a successful year as we benchmarked ourselves against our cable peers south of the border. As a percentage of penetration of our base, we outgunned most of the U.S. players.

So we are pleased with the progress that we are making. We think it is going to be a significant contributor in the long run to helping us grow revenue, reduce churn amongst our users, and offer another opportunity for us to bundle our customers. So it is early days. We are thrilled with the progress that we are making and watch for us to do more and more and make the product more sophisticated and move it even further into the home automation space.

Operator

Greg MacDonald, Macquarie Capital Markets.

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

Thanks, thanks for squeezing me in. Let me ask the question on Cable guidance; 0% to 3% on revenue, just put up a quarter of 1.7%. I think most people would conclude that the PSU outlook is probably kind of current trends at best.

So I am wondering if you can give us some insight on what the ARPU outlook is and in particular are the price increase plans. Is that kind of what is going into it? Generally speaking, can you answer what does it take to get to the high end of that range?

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

Yes, Greg, thanks; it's Nadir. I think if you look at our Cable business it is becoming, to be honest, a bit of a misnomer. Frankly, our lead and anchor service is Internet. You have seen the ARPU lift that we have had on Internet and we continue to expect that to grow.

In terms of overall revenues, this assumption of obviously the pricing changes, the consumption that we have, frankly, in this environment, the competitive environment we are in, we have got lots of discounts and promotions. We have got an IPTV competitor who has invested obviously a lot of money and is looking to invest with a lot of aggressive discounting.

And so our response has been we have got a great product. We will manage the discounting and balance out what we do on share versus margin. Literally, on a day-to-day basis the team with Rob is focused on getting that balance right.

We have a sense of what their IPTV footprint looks like now and what it will expand to. I remind people that the further they expand there is more risk of cannibalization of their part which works in our favor and, frankly, I feel very good about our position on the Internet.

So to answer your question, the range is what it is. There is a different set of drivers if you look at video versus Internet versus home phone. And to be clear, our focus is on growing the overall by growing Internet.

Operator

David McFadgen, Cormark Securities.

David McFadgen - ***Cormark Securities - Analyst***

Yes, a question on wireless churn. So first of all, when you look at the churn number given smartphones almost 70% of your base, would the smartphone churn really be that much different than the overall postpaid churn?

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

David, it's Rob. Yes, absolutely. We still see the churn amongst smartphones being lower than the average, but, of course, as it gets to be a greater and greater percent the gap closes between the churn of the average and the churn of smartphones. But there are some specific smartphone models that are down as low as 0.8% churn, so again it depends on the device, as you would expect.

Operator

And this does conclude the question-and-answer session for today. Mr. Mann, please continue.

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

I just wanted to take a moment to thank everybody on behalf of the management team here at Rogers for investing your time with us this morning. We know it is a very busy period for everybody. We appreciate your interest and support.

If there were people that had questions that either didn't get through the queue or after the questions that were answered still out there, if you just call either myself or my colleague, Dan Coombes, both of our contact information is on this morning's release, we will get you fixed up as soon as we can.

This concludes today's teleconference. Thank you very much.

Operator

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