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## RCI.B.TO - Q3 2013 Rogers Communications Inc. Earnings Conference Call

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**OVERVIEW:**

RCI.B.TO reported 3Q13 consolidated revenue growth of 2%.

## CORPORATE PARTICIPANTS

**Bruce Mann** *Rogers Communications Inc. - VP of 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*

**Ken Engelhart** *Rogers Communications Inc. - SVP, Regulatory*

**Bob Berner** *Rogers Communications Inc. - Chief Technology Officer*

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

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

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

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

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

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

**Rob Goff** *Euro Pacific - Analyst*

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

## PRESENTATION

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**Operator**

Welcome to the Rogers Communications third-quarter 2013 results analyst conference call. At this time all participants are in a listen-only mode. Following the presentation we will conduct a question-and-answer session. (Operator Instructions).

I would like to remind everyone that this conference call is being recorded today, Thursday, October 24, 2013 at 8 AM Eastern. And I will now turn the conference over to Bruce Mann with the Rogers Communications management team. Please go ahead.

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

Good morning, everyone. Thanks for investing a bit of your time with us this morning for Rogers' third-quarter investment community teleconference. Joining me on the line here in Toronto this morning are our Chief Executive Officer, Nadir Mohamed; Our CFO, Tony Staffieri; Rob Bruce is President of our Communications Division; and Keith Pelley who is President of our Media Division. And we also have Bob Berner, our Chief Technology Officer, and Ken Engelhart from our Regulatory team.

So we released our third-quarter results earlier this morning. Hopefully you've all seen them. The purpose of the call is to, just as crisply as possible, provide you with a bit of additional background upfront and then answer as many of your questions as time permits.

Administratively today's remarks and discussion will undoubtedly touch on estimates and other forward-looking types of information, which our actual results could be different from. So as such, when you review the cautionary language in today's earnings report and also in our 2012 annual report, it includes the various factors, assumptions, risks, etc., that could cause our results to differ, as well as an explanation of the non-GAAP measures that we discuss. And all of these cautions apply to our dialogue on the call.

If you don't already have copies of today's third-quarter earnings release or the annual report from 2012 to accompany the call, they are both available on the Investor Relations section of Rogers.com, our website, as well as on the EDGAR and SEDAR websites.

If I may, before we dive into the remarks, I just want to mention as an aside that over the last number of years, Nadir Mohamed and I have done more than a few of these quarterly investment community conference calls together. And on all of them, as many of you who have followed us over time can appreciate, the guy has never missed a beat, has never been anything but completely composed, candid and transparent.

And today will be Nadir's last one of these quarterly calls before retirement later this year when Guy Laurence will succeed him as CEO of Rogers. And I am confident that I echo the feelings of most of you in the investment community when I say that, Nadir, you have added significant value here at Rogers. You have created significant value and you have done so with considerable class and poise. So congrats and over to you.

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

Thanks, Bruce, and so much for scripting this. Appreciate it. I didn't know that was coming. Anyway, welcome, everyone, and thank you for joining us. As you can see from this morning's earnings release, we delivered another balanced set of financial and subscriber results with continued growth in consolidated revenue and adjusted operating profit.

We leveraged our superior networks to deliver double-digit data growth across both our Wireless and broadband Cable platforms. And we accelerated the growth in both revenue and adjusted operating profit at both Rogers Business Solutions and at Rogers Media. At the same time, we further expanded our strong operating margins year over year at Wireless, Cable and Business Solutions as well as on a consolidated basis.

The balanced growth in Q3 across revenue, margins and earnings clearly reflects our innovative product offerings and the strength of our asset mix which positions us uniquely as Canada's largest Wireless provider complemented by healthy broadband and media businesses.

So beginning with Wireless, on the subscriber front we delivered healthy net postpaid gross additions at 64,000. Now while it is too early in the reporting cycle to know how much was market size versus share, my sense is that all of the changes in the industry associated with the transition, as you know, from three to two-year contracts, along with the timing and impact of device launches during the quarter, combined to moderate the market growth somewhat in the period.

It's important to highlight that we brought postpaid churn down by 11 basis points versus last year to 1.23%, and we did so at the same time that we brought down retention spending as a percentage of network revenue both year-over-year and sequentially to 11.1%. The combination of those two important value drivers both moving in the right direction at the same time was one of the primary drivers behind the 240 basis point increase in Wireless margins this quarter to what are record levels.

Partially offsetting this impact was pressure on Wireless ARPU during the quarter that has been impacted by recent changes to our cross-border roaming plans. Now as you know, we've been making changes to our roaming plans for over a year, providing for transparent price constructs, greater value and text alerts, all aimed at helping consumers get comfortable using their Wireless devices while roaming and obviously avoiding billing surprises.

Most recently in May we launched our flat rate data plan for customers traveling to the US, that is a flat rate of $7.99 per day, a plan that we believe will get customers more comfortable with using their smartphones for Wireless data while traveling. We also lowered certain of our international roaming rates in the same Q2 timeframe.

Over time we are confident that this type of approach will stimulate usage. We're seeing encouraging trends in terms of these usage patterns, but frankly would like to see more and we'll continue to adopt our roaming pricing constructs to give our customers the comfort they require.

Notwithstanding the impact of the roaming changes which we believe are the right approach for the long-term, other Wireless data ARPU fundamentals continue to be on a solid growth track with continuous trends in data upsell and the cumulative effect of the growing subscriber base, deeper penetration of smartphones and the increased usage of Wireless data generally all contributing to the growth.

Now excluding the impact of roaming plan changes, Wireless network revenue would have been up 1.3% instead of the decline usage of 1%; data revenue would have grown 22% instead of the 15% reported; and blended ARPU indeed would have been up 0.4% instead of down 1.8%.

Secondarily, and as we said last quarter, the year-over-year ARPU comp was also somewhat pressured as in January, in response to competition, we began including voice features such as voicemail and caller ID into our simplified all-in data sharing plans that were introduced late last year. So this had, and will continue to have, an impact on the voice component of ARPU as a larger portion for the base moves onto the simplified sharing terms.

In the quarter we activated 574,000 smartphones, 38% of which were new subscribers to Rogers, so demand clearly continues to be significant. 73% of our postpaid customer base now has a smartphone, and Wireless data now accounts 48% of our network revenues, growing at 15% year over year.

So we continue to have success concentrated in the high-end of the market and our smartphone metrics, by the way, ARPU, churn and upgrade rate, remain as healthy as we continue to track and retain our higher value customers in this segment.

Turning now to the Cable segment of the business, we again delivered continue top-line and adjusted operating profit growth along with increased margins as well. On the subscriber front we continue to drive growth in our high-speed Internet and Cable telephony products and both of these products had strong rates of revenue growth as well.

The television product reflects the impact again this quarter of the challenging competitive environment where, in addition to the continued aggressive pricing activity by our primary telco IPTV competitor, we saw an extension of the IPTV footprint across our footprint in Ontario and in Atlantic Canada which we estimate by the way has increased nearly 50% year over year to just over 70% of our Cable footprint.

This along with some ongoing TV cord cutting contributed to the accelerated subscriber impact. However, our focus on driving Internet as our anchor Cable product more than offset this and led to solid top-line growth.

As I have said in each of these past couple of quarters, we continue to balance Cable subscriber loads, pricing and margins on a day-to-day basis in the face of these extremely deep competitive discounts and as we work through this intensely competitive period.

We are very much focused on our ongoing cost management initiatives at Cable and across the business generally. And as you can see, this has helped to drive continued adjusted operating profit growth and healthy margins.

Rogers Business Solutions again successfully focused on driving the on-net and next-gen portion of the business where we put up a healthy double-digit revenue increase. Organic on-net growth in Business Solutions was strong and was reinforced by the acquisition of Canadian data center hosting operations of Primus, formerly known as Blackiron Data back in April.

To complement this already significant expansion of Business Solutions' suite of next gen services, at the end of Q3, as many of you will have seen, we announced the acquisition of Pivot Data Centres and Granite Networks. These are well-established pure play Canadian data center and hosting assets, combined with our already enhanced capabilities to further position Business Solutions to compete in the Canadian hosting and managed services space.

Turning now to Rogers Media, I characterized the quarter as a healthy acceleration in both revenue and adjusted operating profit on an organic basis. And this is further enhanced by the integration of sports broadcast assets which we acquired during the first half of this year.

Particularly good traction at Sportsnet both in terms of advertising, subscription revenues, combined with good growth on shopping channel and stronger attendance of the Blue Jays games which taken together drove most of this growth. And at the same time radio, TV and publishing all held relatively steady through the quarter.

We've also continued to innovate and lead with new growth initiatives and let me just take a minute to cite some of the important ones in the quarter. We introduced a high-grade Wireless phone solution for homes and small businesses. We have announced an M2M agreement to bring the first comprehensive in-car infotainment solution to the Canadian market.

We are the first Canadian carrier to launch LTE Wireless roaming in the US. We also introduced the NextBox 3.0 set-top box platform which even further enhances the in-home Cable viewing experience. And we brought the innovative all you can read Next Issue online magazine suite to Canada, expanding the readership of our own publications significantly, both north and south of the border.

To sum up, overall it was a quarter of continued growth on both the top and bottom-lines with strong margins and the successful execution of a number of strategic initiatives, including the transition from three- to two-year wireless contracts in Canada.

While I expect it will continue to be a highly competitive market and there's clearly no shortage of regulatory work to be done, I have no doubt whatsoever that the strength of our franchise and Rogers' superior asset mix will remain a great platform for continued success.

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

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**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 metrics for the quarter, then we can get into the specific questions you may have.

On the top-line our consolidated revenue was up 2% for the quarter driven by revenue growth of 12% at Media, 8% at Business Solutions and 4% at Cable offset by a decline of 1% in Wireless network revenue. The results of the acquisitions of Mountain Cable, theScore and Blackiron completed earlier in the year are included in the growth rates I just quoted. Excluding the impact of these acquisitions consolidated revenue growth would have been closer to 1%.

Relative to Q2, much of the sequential slowing of revenue growth overall was driven by a combination of a lower amount of equipment sales and by the lower priced roaming plans we put in place earlier in the year which Nadir spoke to a moment ago.

At Wireless, equipment revenue declined 17% while we experienced a 1% decline in network revenue due primarily to the launch of lower-priced higher value roaming plans. Excluding the decline in roaming revenue this quarter, Wireless network revenue would have been up year on year by 1%. And the lower year over year equipment sales number reflects the level and timing of gross additions and hardware upgrades that Nadir touched on as well.

Wireless adjusted operating profit was up 4% year on year with strong margin expansion of 240 basis points to 50.7%. We brought down retention spending again this quarter to 11% of network revenue from 13% during the second quarter while concurrently driving an 11 basis point improvement in postpaid churn of 1.23%. At the same time we continue to make the right investments in our customers, this speaks a lot to our continued execution around cost management and efficiency initiatives.

Our operating cost at Wireless decreased nearly 3% year on year, excluding equipment margins. Solid execution in terms of operating efficiencies at Cable as well, where margins expanded 60 basis points to 48.7% and adjusted operating profit was up 5%. Margin expansion at Cable was helped not only by continued cost management, but significantly by the favorable mix shift in revenue growth from the TV product to the higher-margin Internet services.

Today Internet represents more than one-third of Cable revenues and contributes more gross margin to our profitability than TV, underscoring the importance of our data monetization strategy.

Overall revenue growth at Cable of 4% was led by Internet, which grew at 18% year on year together with Cable telephony growth of 5%, both of which more than offset the revenue decline for the TV product reflective of the ongoing competitive activity occurring in that segment. Excluding the Mountain Cable acquisition earlier in the year overall revenue growth at Cable in the third quarter was 2% and growth in adjusted operating profit growth was 3%.

At our 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. Next-gen revenue now represents 59% of total service revenues and grew at 32% in the third quarter, offset by planned declines in the legacy lines of business. The improving revenue mix at Business Solutions together with focused cost management delivered 32% growth in adjusted operating profit and a 560 basis point increase in margins over the third quarter of last year.

Excluding the acquisition of Blackiron Data, revenue would have been 3% lower year on year, reflecting the remaining legacy services and adjusted operating profit growth would have been 25%.

Turning to our Media segment, as Nadir mentioned, the largest contributors to revenue growth were our Sportsnet properties, The Shopping Channel and higher attendance at Blue Jays games. Even if you exclude the acquisition earlier in the year of theScore, on an organic basis Media's revenue growth would still be a very solid 10% in the third quarter and adjusted operating profit growth would have been 6%.

We have seen a slight overall improvement in the advertising markets and are cautiously optimistic. However, there is no doubt that there has been a systemic shift in how advertising dollars are allocated, underscoring the importance of our growing subscription revenues and continued investments in our digital platforms.

Stepping back from an operations perspective overall I would say we delivered a combination of continued growth and healthy margins across the Company. We continue to make healthy levels of investments in our customers, networks and acquisitions, and have been able to do so while growing both margins and cash flow as a result of simplification and cost efficiency initiatives we are successfully executing. And you can expect us to continually seek to realize incremental efficiency gains going forward.

Looking on a consolidated basis below the operating profit line, you will see that both our adjusted net income and adjusted diluted earnings per share grew by 1% year on year. This was below the rate of growth of adjusted operating profit and pretax free cash flow principally as a result of an increase in depreciation and amortization that impacted earnings per share by approximately $0.08.

Depreciation and amortization expense was higher year over year mainly due to the rollout of new customer premise equipment at Cable that is now amortized over three years. Also as a result of improvement in cycle time of assets under construction and new intangible assets being amortized resulting from acquisitions over the past year.

On an unadjusted basis net income was flat and was impacted by a $31 million increase in the integration and restructuring costs partially offset by a $19 million reduction in stock-based compensation expense.

In terms of cash, during the third quarter we generated $620 million dollars pretax free cash flow up 5% year on year. After-tax free cash flow was lower due to the expected increase in cash tax levels compared to 2012. At the end of the day during the third quarter we returned $224 million in cash to our shareholders in dividends, up nearly 10% year on year.

In terms of the balance sheet, we ended the quarter with $3.1 billion of available liquidity. This comprised of $844 million of cash, $2 billion of available capacity under our main credit facility, and $250 million of available room under our accounts receivable securitization program.

Also immediately subsequent to the end of the third quarter we issued $1.5 billion of US dollar denominated debt consisting of $850 million of 10-year notes at 4.1% and $650 million 30-year notes at 5.45%, both of which have been fully hedged against fluctuations in foreign-exchange rates. And we were able to do so at favorable rates relative to both our current average cost of debt and to what Canadian dollar rates were at the time.

Lastly, as you hopefully have seen in this morning's press release, have maintained our 2013 adjusted operating profit, capex and pretax cash flow guidance. We have improved the guidance range for cash income taxes for the year. Cash taxes for the year are expected to be $150 million to $200 million, better than previous guidance to approximately $500 million. This improvement increases our free cash flow expectations for the year by up to $200 million and reflects the results of a number of tax planning initiatives.

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 and very significant liquidity available.

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

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

Thank you, Tony. Operator, before we begin the questions, very quickly we will request that participants asking questions limit the question to one topic and one topic only so as many people as possible have a chance to participate. And then to the extent we have time, and hopefully we will, we will circle back and take additional questions during the call.

And if it's not possible, we will get them answered for you after the call. With that, operator, could you please explain how you would like the participants to conduct Q&A polling?

## QUESTION AND ANSWER

**Operator**

(Operator Instructions). Jeff Fan, Scotia Capital.

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

Thank you and good morning. And congratulations again one last time to Nadir on your retirement. My question is on the ARPU and the roaming impact. I understand the causes. Wanted to just get your take on the demand elasticity for roaming. Wondering, based on the price changes that you pushed through, are you starting to see any such increase by those that currently roam or even an increase in penetration of roamers.

If you haven't seen it, maybe you can just give us some insights on where you think that relationship is between usage and volume versus (technical difficulty), that would be helpful, thanks.

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

Yes, Jeff, it is Rob Bruce, good morning. In answer to your question, Jeff, I think I would like to start by echoing Nadir's comments, that as an industry and at Rogers we think cracking the code on roaming in the long run is a critical part of our job. And we have been innovating fairly significantly to try to do that.

As we look specifically at the $7.99 US plan that we launched some time ago, we are actually starting to see a creep up, albeit slow, in unique roamers. So it is early to declare victory. The other positive thing that we are seeing is people are actually using the $7.99 plan -- the amount of roaming that they're doing is actually increasing as well.

So the early signs, I think there are definitely going to need to be a number of different alternatives out there like travel packs and packs that include both voice, text and data to ensure that we really meet the needs of the customers and to give them the confidence and the comfort that they can roam. And I think at that point we will start to see more of an upturn and even better results on roaming.

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

And maybe just as a quick follow-up, how long do you expect the -- I guess the lead pricing impact adjustment to last on results?

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

Well, Jeff, we will sail through the $7.99 specifics and I think you know the timing of when we launch that, so a year after. But I think what I would say is this will be for all of the carriers, I believe, an area of pressure as we seek to work even harder to find the formula that actually works for customers and unleash some of the elasticity that you referred to in your opening remarks.

So, I think we have got -- we've all got work to do and we will have the $7.99 plan, as I said, on a predictable timeframe. But no doubt we're all going to be doing things to try to find the right formula for our customers here.

**Operator**

Glen Campbell, Bank of America-Merrill Lynch.

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

Terrific margin performance at Wireless and, Nadir, you talked us through some of the drivers there. But I wonder if we could get a little bit of color. We've got lower gross adds, we've got lower retention spend. Could you maybe give us a sense of whether you are seeing lower per unit costs on subsidies, whether you are seeing strong take-up on the new BYOD option, or what some of the progress might be on that strong performance? Thanks.

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

Glen, let me start by just emphasizing the two that I at least referred to I think warrant some more discussion. Clearly we look at churn as probably the primary Wireless value driver along with ARPU. And you saw that this quarter we came down by 11 basis points. So, just to give you context for that, that is probably the largest decline in churn -- the largest positive event in a few years.

So we are definitely making progress on that front. And what was I think really important is we did that at the same time -- as you know, retention spending sometimes reflects in the churn number. And in this case retention spending is down to 11%. That has gone down three quarters now in a row. So it is a very positive value driver. The combination is really important as we go forward.

We have also had, and hopefully you have seen this consistently over the last couple years, a very strong focus on the cost side of the equation. If you look at operating costs, they are down actually year over year about 3%. So that obviously contributed to the margin as well.

But I do believe, generally speaking -- and, as I said, it is hard to call these when the others haven't reported, but we have a pretty good sense of what is going on in the market. That you will see that the impact of going from three to two years, some of the devices like the Apple iPhone coming late in the quarter, somewhat on the 5S, probably led to less activity in the market, which would be less activations; which as you know from an accounting perspective actually has the effect of us increasing our margins and earnings. So I think those probably are the key factors that have driven the high over 50% margin this quarter.

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

Great trajectory, thanks.

**Operator**

Drew McReynolds, RBC Capital Markets.

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

Nadir, can you flesh out a little bit more on the postpaid churn decline and the prepaid churn decline, just obviously subtracting just the magnitude of it? And if I could just have a quick follow-up. Maybe, Rob, you can just comment, we have seen Rogers pretty aggressive in Atlantic Canada with respect to the triple play offering.

Just could you update us on what -- obviously know what your forward strategy will be, but is this something that you are gaining traction in the marketplace with and that you are happy with as the current promotion up there? Thank you.

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

Yes, Drew, let me tackle the churn piece first. As Nadir said, we are delighted the 11 basis point decline in churn is a real important lever in the business. That decrease in churn continues to reflect our more disciplined approach on retention hardware and discounts and credits on how we are applying and dealing with our customers across the board.

There is also no question that the Customer Code of Conduct industry pricing probably has somewhat reduced consumers' propensity to switch. I think our reinforcement of our value proposition, our network leadership and the improvements that we have made to all aspects of the customer experience are all kind of key contributing factors. Making it easy at the time of launch of iconic devices with national reservations service that actually makes it easy for customers to know they are going to get the device of their choice.

This has typically been a period of relatively high churn. And I think with the NRS we have mitigated a significant amount of that churn.

In terms of prepaid, the story is a story we are proud of. A 44 basis point improvement in churn prepaid. We continue to refine the product and we continue to go after kind of value prepaid customers, and, as you know, we don't chase the bottom end of that market. We are very pleased with the results that we saw this quarter. We saw an increase in gross as well.

I would also credit the change to COC three to two-year and the associated packaging and pricing with driving that slight shift in the mix between pre and post-paid as I think people get a little bit more interested in the prepaid as we went through that cycle.

Moving into the last part of your question we are quite happy with what is going on in the Atlantic, the new approach to the market, the aggressive packaging that we are doing, although quite different than our approach in Ontario, has brought us good success there and we plan to refine things as always but kind of continue down that path.

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

And just for the interest of those that may not know, we refer to COC through the code of conduct changes there that came out of that call.

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**Operator**

Simon Flannery, Morgan Stanley.

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

Continuing on the Wireless theme. The upgrade performance was very good as well. Can you just talk about whether you think this is something that is likely to be more permanent? Obviously there is seasonality around it. Just some of the drivers there. Do you think we are getting to where an upgrade is attractive maybe not as compelling, differences so that people may be slower and hold onto their handsets longer? Thanks.

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

Great question, Simon, it is Rob. Listen, for sure, we were pleased with the upgrade rate of about 4.5%. I think the norm is more in the 6% range. I would say that my expectation is that over time we will probably creep back more towards the norm and a little bit higher. It is important for customers to have the facility to be able to upgrade when they want to and you know that flex tabs in programs that allow that kind of upgrade are an important part of the fabric.

I think one of the things that actually changed the dynamic slightly is as we went to some of the changes from three to two years along with that some of the handset prices were higher. I think some of that may have caused a bit of slowing just like we believe we've seen some slowing as well on activation. And that to the extent that the device prices stay a little bit higher I think we will probably see a little bit slower cycle of handset upgrades.

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

And the iPhone supply was similar this year/last year?

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

No, Simon, actually the iPhone supply and the supply in general of more iconic devices has been much shorter this year than in past years. That has too probably created a bit of a pull.

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

Thank you, Rob.

**Operator**

Adam Shine, National Bank Financial.

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

Nadir obviously the best to you. Switching over to Cable a little bit; Nadir touched on some cord cutting dynamic. Maybe, Rob, you can speak a little bit to sort of any incremental traction on Internet only subscribers.

And obviously we continue to see some very strong growth, some double digits in the context of Internet ARPU. Maybe you can speak a little bit to that as well as maybe even business content. And then maybe if I could have one follow-up after.

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

Sure, listen, we are happy and we continue to drive hard with our success on the Internet. We said before and I think Nadir and Tony both echoed it today. Internet is the key product and we are in a great position. Customers recognize that, customers tell us that, and we simply have a vastly superior product to our competitor. We have faster speeds to 150 megabytes per second and we were excited and delighted when recently PC Magazine recognized us as the best in North America.

We have better speed consistency and you will know that we made investments with SamKnows to validate the individual customers we are getting, that all-important consistency of those terrific speeds. And we have got a better customer experience built around things like TechXpert, which deliver premium technical support. You will know that we have no traffic management practices that impede our customers' ability to use the service. And we have been actively up speeding our base to give them even faster speeds and great value.

So our success really is a reflection of winning more Internet only subs, winning more multi-products subs. We continue to win more wholesale subs and we continue to win with SMB customers and our Internet revenue growth on small business is up almost 22% this quarter. So it is -- it's really an important facet of our Cable portfolio and in the face of all things that are going on in television, we continue to put a sharp focus on Internet, that is where we think the future is. And thank you for asking. You said you were going to ask a follow-up question.

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

Yes, just one last thought. You're competitive in the market obviously having telegraphed price increases across the board in coming months. Earlier this year in January you did your last increases. Are we sort of sticking to that sort of -- or maybe there are some other timing issues with price increases to come.

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

Yes, price increases and the timing of price increases or the magnitude is really something that we don't ever discuss on calls. So maybe I would just leave that one for today, Adam.

**Operator**

Greg MacDonald, Macquarie.

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

Not to turn this into a love fest for Nadir, but congrats, Nadir, on the retirement. Listen, it is always been great with you, so good luck in your future.

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

Appreciate it.

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

The question I wanted to ask is on use of free cash flow. One might expect now with the spectrum auction, the cost of buying 700 megahertz spectrum may not be as much as what one would have previously thought, certainly if a large foreign telco had been in the mix.

Where is your head at as a management team, I guess weighs into this as well, buybacks on the potential to actually get more active on the buyback. Is that something that you would consider now given kind of a sigh of relief on what the spectrum auction may cost? Or is there still a question mark on that spectrum auction that would hold you off on being more active until after the auction?

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

Greg, let me lead off with kind of the general framework and then get Tony to specifically address buybacks in the program for this year. I think if you go back a few years we have pretty much laid out our perspective on how we deal with the balance sheet and how we deal with cash flow in particular as the outflows that come from the strong cash position that we have had for some time both operating and balance sheet.

And as you know, I think going back almost four or five years ago and my view has been that we wanted to establish a track record both of consistent albeit conservative dividend growth. And you have seen that over the last few years of double-digit dividend growth. We still would say that we are fairly conservative in terms of dividend payout ratios vis-a-vis our peers.

So our ability to grow dividends is something really important for us. Obviously the specific decisions are always the Board's call, but I think it is an important factor. We have always said that we will never compromise on something we hold dearly, which is having the best networks wired and wireless in this platform. So for us that is paramount. You will see that continue, you will not see that change from our Company.

And then we recognize that have put out a leverage ratio of 2 to 2.50, but just kind of with an acquisition that made sense for the Company we would always see that as taking precedence on any of these vis-a-vis share buybacks or the leverage ratio in particular.

And we have used share buybacks. We had an aggressive program up until a while back for a couple years. We see it as an opportunistic thing and maybe on specific share buyback for this year, Tony, if you can comment.

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

Sure. So, against that backdrop of consistently returning cash to shareholders, what we have been we've been fairly consistent about is that we would pause on share buybacks until we had greater certainty around two things. One was cash taxes and the other was the upcoming spectrum auction.

On cash taxes, as you have seen this quarter, us getting comfort around our ability to reduce the amount of cash taxes, so we are pleased with the progress from that. And then the second piece of it is the auction. So notwithstanding all of the variables that go into it, we are just kind of in the position where we don't want to speculate about the cost and the outcome of that. So we continue to be prudent and conservative with our cash until we get certainty on that second piece.

**Operator**

Tim Casey, BMO Capital Markets.

**Tim Casey** - ***BMO Capital Markets - Analyst***

Could we switch gears a bit onto the regulatory side. And I'm curious what Nadir and Ken's thoughts are on the government's throne speech comments with respect to reducing roaming rates and obviously video unbundling. It seemed to be fairly complex issues involving commercially negotiated contracts. But I'm just curious what your thoughts would be on what levers the government has and how Rogers is positioned for that. Thanks.

**Ken Engelhart** - ***Rogers Communications Inc. - SVP, Regulatory***

Hi, Tim, it is Ken. So starting with the video unbundling, don't know what levers the government will exercise. But I do note that the CRTC heads will be today commencing a consultation on the future of television and that will be followed up likely next year with a proceeding. And I would imagine that unbundling or pick and pay will be part of the CRTC's consultation and proceeding.

Whether the government will issue a direction to them, I don't know. But in any event more packaging flexibility is something that we support at Rogers. You are correct that the contracts that distributors have with content providers and broadcasters makes that very difficult or in some cases impossible. So that is a complicated area that the CRTC will have to wade into as part of their investigation.

As far as the domestic roaming goes, it is not certain from the throne speech whether that refers to retail or wholesale. But the context of the throne speech was all about consumer protection. So it might be referring to retail domestic roaming, which is not a big issue for Rogers because almost no domestic roaming for us, there is a few -- there's a small carrier in the Yukon where we charge retail roaming rates but other than that we don't charge our customers domestic roaming at all.

**Operator**

Imari Love, Morningstar.

**Imari Love** - ***Morningstar - Analyst***

Great job on the Wireless margins. On ARPU, despite the fact that this is the first quarter in five where you had a decline in blended ARPU, this is six straight quarters now where you have had an increase year over year in terms of EBITDA per Wireless user. It seems that we have had an inflection point.

I just want to try to get a cadence how sustainable you think these trends are amidst a backdrop of the governments timeline changing and the roaming cost also coming down. Is it fair to say that while there could be some ARPU pressure going forward that the AMPU trajectory should continue to increase?

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

Imari, it's Rob. The introductions of our new flat rate roaming plans are we believe a key factor in driving down ARPU. And we believe the new roaming pricing structure is exactly the right strategy for our customers and the business in the long run.

The price certainty we think these plans and other plans like them will bring in the long run we think will increase customers using their device while traveling. But it will certainly take a couple more quarters before we start to see some of the uptick that we are expecting in terms of unique user growth and comforts from our customers. But if we excluded roaming the ARPU would have been much more like 4% from last year.

**Imari Love** - ***Morningstar - Analyst***

Great, thanks.

**Operator**

Dvai Ghose, Canaccord Genuity.

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

The acceleration in basic Cable subscriber declines and the deceleration in broadband and telephony subscriber growth, it obviously seems as if the decline that we saw in Cable PSUs for the quarter is going to continue. And I suggest that the driver of revenue growth for the core Cable segment is ARPU and pricing. And yourselves and all your peers, the increased price quite a bit in this year.

Given the regulatory comments made by Tim and Ken and the scrutiny not just on a la carte services, but Minister Flaherty's comments this week that TV should be regulated like a utility because of lack of competition. Do you think that you can raise prices? And if you can't what does that mean for the overall revenue and cash flow trajectory for that segment?

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

Dvai, it is Nadir. I think our view of what is going on in the market is probably somewhat different from yours. I would start with if you look at what is happening in the home referring to Cable and specifically, what you're really seeing is something very straightforward and obvious, which is customers more and more are leading to the Internet as their primary means of getting to information and entertainment.

And so, what we are seeing first and foremost is a great increase in consumption of Internet which is usage -- our usage on an average basis has been going up on by about 45% give or take. And I think that is really the driver of the revenues, the shift towards more and more consumption of bandwidth. And as you know, that is something that we have been pretty much focused on.

I think your comments with respect to IPTV and the impact on Cable, it is really important that we think through what has happened over the last couple years. By the way, it is something we've been calling out every quarter, as you know. And that is that if you look back from a standing start of 0% penetration on IPTV, now what you saw today is probably at the end of Q3 our view would be 70% of our footprint is what our IPTV competitor now covers.

If you think of other markets, and it is not for me to talk about what the strategy is, but I only reflect on what they've said publicly is the saturation point of somewhere in the 80% range or thereabouts. So I think a large percentage of the footprint gains to match where we are, are actually behind us. And I think that you need to factor through in terms of what it means from a revenue perspective and a net subscriber performance as the quarter's gone by.

So I do think it is a competitive market, there are deep discounts that you would assume are referring to the competitors looking to gain and entering into the new markets. Generally these things have lived long enough to know that they actually stabilize over time. We have a terrific product. There is nothing in what we see that suggests anything other than they like the product that we have. The issue has been footprint and pricing, both of which we would expect in the fullness of time to actually stabilize.

But most importantly, and I can't emphasize it enough, we see the anchor as Internet, that is where in our investments we'll have the fastest in that product, the most reliable is absolutely essential to our view going forward.

**Operator**

Maher Yaghi, Desjardins.

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

Thank you for taking my question. And Nadir, it was a pleasure interacting with you and wish you great success in the future.

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

Thank you.

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

I wanted to ask a question regarding the TV consumption habits as you were talking about here. As more and more customers move to IP and more customers move to OTT, I was wondering about your view about the capacity and the dependability of the infrastructure to support those changes in habits?

What does that mean in your view longer-term capex requirement to keep operating the Cable side to support and be able to deliver a product to customers because of the changes from the broadcast side to more IP based?

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

Thank you and it is a great question because if you look beyond the short term it is very much in sync with our view. Look, ultimately some amount of cord cutting we see is inevitable, but we should start with the recognition that fairly small at this stage. We see Cable TV being a very strong business for quite some time.

Having said that, we feel long-term the platform will be the Internet platform and we have been in the past to go all IP for the last couple of years and a very aggressive timeline. Bob Berner, our CTO if you can just lay out our views of IP and what it means.

**Bob Berner** - ***Rogers Communications Inc. - Chief Technology Officer***

Certainly. Maher, I am sure you are aware that, as Nadir says, we are on the path to building and launching a standards-based -- global standards-based all-IP service. And as such everything gets delivered over an IP connection. So if you think sort of two things, over the top services which are currently being delivered on our existing IP capacity; and then expanding that IP capacity within our plan to handle fully managed services delivered over IP on a special core that is built to handle all those complexities.

And your question was how do we think there is going to be any significant change in capital required to do that. And the answer is we think it is going to be a pretty steady amount of capital in aggregate that we are spending. There will be a shift in how that capital gets spent, but effectively what we are doing is we are converting capacity from analog and digital broadcast to the ability to deliver over IP to homes and transport around network for about the same amount of money that we would be spending to do other things.

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

Great. Thank you very much.

**Operator**

Rob Goff, Euro Pacific.

**Rob Goff** - ***Euro Pacific - Analyst***

And I too would like to join in extending thanks and best wishes to Nadir.

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

Thank you.

**Rob Goff** - ***Euro Pacific - Analyst***

My questions would be on what potential do you see on the Wireless local loop and the security services on a national basis?

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

You know, Rob, I will start with something that I referred to which isn't quite your question around the Wireless local loop, but gives me a chance to plug something that we introduced as a service. Which is a solution that leverages an IP connection and our Wireless technology is essentially a little chip that enables the home into a Wireless offering.

I think the idea of Wireless local loops at this stage is probably a while away because if you think of the bandwidth requirements it is unlikely that we could look at it as a complete replacement of video type consumption that is required.

I think what we see is -- I will call it a complementary situation where we have Wi-Fi in the home which is used to effectively offload traffic and then backhaul to the wireline and/or cellular network over time. But what we see in the home and that portion of the local loop will essentially be Wi-Fi.

**Operator**

David McFadgen, Cormark Securities.

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

I had a question on the roaming impact as well. Did that offset any benefit from higher pricing for customers that go from a three-year plan to a two-year plan?

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

If I understand the question it was around just the impact of roaming offset some of the price changes as a result of the three to two-year.

Just one thing that I would point out is those changes actually happened in the back half of the quarter. So you will see those positive changes in terms of ARPU over time. And obviously to the extent that the roaming impact is negative that change is actually at least partially offset in the quarter and will be a bigger factor going forward.

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

So, can I just follow up? Do you in fact say in the fourth quarter that the -- those positive changes would offset any pressure on roaming?

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

I am not trying to be coy, but it is not a point where we can give specifics in this for the quarter. But directionally clearly we see the roaming changes taking some quarters to work their way through for elasticity to offset. And have the ARPU changes will in fact have the benefit of the full quarter in Q4.

**Operator**

Ladies and gentlemen, that does conclude the Q&A session for today. And I will now turn the conference back to Bruce Mann for any closing.

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

Thank you very much, operator, and to everybody and the management team here at Rogers appreciates your interest and support. Thanks for joining us here today. If you have questions that weren't answered on the call please give myself or my colleague, Dan Coombes, a call. Both of our contact info is on the earnings release of this morning. This concludes our teleconference. Have a nice day.

**Operator**

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