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RCI.B.TO - Q4 2013 Rogers Communications Inc. Earnings Conference Call

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OVERVIEW:

RCI.B.TO reported full-year 2013 year over year revenue growth of 2% and 4Q13 YoverY consolidated revenue decline of bit under 1%.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Rogers Communications fourth-quarter 2013 results analyst conference call. (Operator Instructions). At this 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 of IR***

Thank you very much, Luke. Good morning everyone. Thanks for investing a bit of your time with us this morning for Rogers Q4 investment community teleconference. It is Bruce Mann here. Joining me on the line in Toronto are Rogers President and CEO, Guy Laurence; our Chief Financial Officer, Tony Staffieri; Rob Bruce, President of our Communications Division; and Keith Pelley, President of our Media Division. Bob Berner, our Chief Technology Officer, and Ken Engelhart from the regulatory team are here as well.

We released our Q4 results earlier this morning. The purpose of the call is to crisply provide you with a bit of additional background up front and then to take as many of your questions as possible as time permits and answer them.

Today's remarks and discussion will undoubtedly touch on estimates and other forward-looking information for which our actual results could be different and as such please review the cautionary language in today's earnings report and in our 2012 annual report. They include the different types of factors and assumptions and risks that could cause our results to be different and they also explain many of the non-GAAP measures that we discuss as we talk about our results. All of those cautions and explanations apply to our dialogue this morning on the call.

If you don't already have copies of the earnings release or our 2012 annual report, they are both available on the investor relations section of Rogers.com.

Lastly and before we dive in, I want to just very quickly make sure that everyone appreciates that under Industry Canada's relatively strict rules surrounding the 700 MHz spectrum auction which is currently under way that none of the auction participants including Rogers are allowed to make any comments with respect to the auctions whether it is about progress, potential outcomes, implications, etc. Not only that but once the auction concludes and the preliminary results are announced by Industry Canada, the participants will continue to be relatively limited in the types of comments that we are allowed to make for an additional 30-day period at the end of which the final payments are made by the winners.

Please just be aware of those restrictions that we will be dealing with this morning and then over the coming days and weeks.

With that, I will turn it over to our CFO, Tony Staffieri, for some brief remarks on the quarter and then Guy Laurence, who joined Rogers a few weeks ago as our new CEO, will make a few comments as well. Then I know importantly for everybody, the management team here will be pleased to take your questions. So over to you, Tony.

Tony Staffieri - *Rogers Communications Inc. - CFO*

Thanks, Bruce, and good morning everyone. As you can see from this morning's earnings release with our Q4 results we delivered solidly on all of our financial guidance commitments on a consolidated basis for the full-year 2013. During the fourth quarter, we further expanded our strong operating margins at both Wireless and Cable on a year-over-year basis. We also continue to leverage our superior networks to deliver double-digit data revenue growth across both our Wireless and Broadband Cable platforms.

In addition, we further reduced the rate of churn in our Wireless business and the rate of video subscriber losses in our Cable business. And we put up some good revenue growth numbers at Rogers Business Solutions and at Rogers Media as well.

From a strategic and innovation perspective, we also made good progress in the quarter. Rogers was named both the fastest broadband Internet service provider and the fastest wireless network in Canada by PC Magazine, an important acknowledgment by a respected third-party source and key to our data monetization strategy.

And as I'm sure you are all aware, we announced our exclusive broadcast agreement with the NHL giving us the ability to broadcast national NHL games across Canada for 12 years including all of the related online, wireless and other digital rights to all NHL content including both Canadian and US games, current and past.

Rogers Business Solutions further expanded its datacenter hosting business through the acquisition of both a newly expanded datacenter in Edmonton and a new Western Canada flagship datacenter in Calgary. We officially launched Rogers First Rewards an innovative new loyalty program allowing customers to earn points on their Rogers purchases and redeem them online for products and services. Customers can then further leverage these loyalty credits by utilizing our new Rogers branded credit card to accumulate additional points on all of their purchases as well.

We announced SureTap, the first mobile wallet from a carrier in Canada which is a significant and innovative step in the drive towards adoption of mobile payments technology in Canada. We launched Next Issue Canada, an innovative all you can read subscription digital magazine service that provides consumers with exclusive and unlimited access to a catalog of more than 100 premium Canadian and US magazine titles.

Rogers Sportsnet announced an eight-year extension of our Canadian broadcast rights for Major League Baseball and expanded the agreement to include all multiplatform broadcast rights for online and wireless as well. These are just a few examples of strategic achievements we made in the quarter.

In terms of financial results, our consolidated revenue was down modestly year on year as you can see, a bit under 1% for the quarter. This was driven by our decline in Wireless network revenue of 2% offset with growth in all of our other segments, 11% growth at Business Solutions, 4% at Media, and 2% growth at Cable.

The results of the Mountain Cable, theScore, and the datacenter acquisitions we made during 2013 are included in the growth rates I just quoted. Excluding the impact of these acquisitions, consolidated revenue on an organic basis declined 2%.

Relative to Q3, much of the sequential slowing of revenue growth we saw overall was driven by a combination of several items. At Wireless, the 2% decline in network revenue reflects the impact of pricing changes associated with the introduction and evolution of our new simplified wireless plans and as well reflects the lower-priced higher-value roaming packages we put in place earlier in 2013.

As we said last quarter in the first quarter of 2013, we began including voice features such as voicemail and caller ID into our simplified all-in data sharing plans which was required to remain competitive in the postpaid voice space. So this and other in-market pricing changes over the past three quarters such as the inclusion of domestic LD, continue to impact our ARPU this quarter as larger portions of our customer base moved on to the simplified sharing plans.

However at the same time at wireless, we were able to drive adjusted operating profit growth of 1% year on year with solid margin expansion of 150 basis points to 41.7% and importantly, we drove a 6 basis point improvement in postpaid churn which was down to 1.34% while concurrently spending 9% less on retention costs.

On the subscriber front, we delivered net postpaid growth of 34,000. In the quarter, we activated 790,000 smartphones, 29% of which were new subscribers to Rogers. So demand continues to be healthy although there has been a bit of continued slowing on the gross add front as we saw across the industry last quarter following the transition from three- to two-year contracts.

75% of our postpaid customer base now has a smartphone and wireless data now accounts for 49% of our network revenues. So we are continuing to have success concentrated in the higher end of the market as we continue to attract and retain our highest lifetime value customers in this segment.

At the same time, we continue to be successful around our cost management and efficiency initiatives. Our operating costs at Wireless actually decreased year on year by 1% excluding equipment margins.

We executed well in terms of operating efficiency at Cable as well where margins expanded 30 basis points to 49.7% and adjusted operating profit grew 3%. Margin expansion at Cable was helped not only by continued successful cost management but significantly by the favorable mix shift in revenue growth from the higher cost of goods sold TV product to higher-margin Internet services.

Overall, revenue growth at Cable of 2% was led by Internet which grew at 14% together with cable telephony growth at 2% both of which more than offset the revenue decline for the TV product stemming from subscriber losses in previous quarters. Significantly though I will note that TV subscriber losses improved sequentially from Q3 by 28% or 11,000 subscribers, an important improvement in the trajectory of that product.

At our Business Solutions segment, the shift to and growth of on net next gen revenues continue to drive improvements in the financial profile of this business. Next gen revenue now represents 65% of total services revenue and grew 47% year-over-year helped by both organic growth and our datacenter acquisitions. These were in turn partially offset by planned ongoing declines in the legacy off net lines of business.

Turning to our Media segment, the largest contributors to revenue growth of 4% were our Sportsnet properties and the Shopping Channel. Excluding the acquisition of theScore made earlier in 2013 on an organic basis Media's revenue growth was 3% in the fourth quarter.

We have seen a modest continued deterioration in the advertising markets particularly on the broadcast TV and print sides underscoring the importance of our growing subscription revenues and continued investments in our digital platforms.

Looking at Media's adjusted operating profit line, we reported a decline of $26 million year on year. However, the significant difference in the number of NHL games broadcast in the fourth quarter of this year versus Q4 of last year masked Media's underlying margin expansion. Specifically you may recall that we benefited from approximately $30 million in one-time savings in the fourth quarter of last year associated with the hockey lockout and the non-airing of NHL games.

And then in the fourth quarter of this year, we aired considerably more NHL games with a hockey schedule condensed in order to accommodate the two-week Olympic break in February. This reduced adjusted operating profit by $7 million in the fourth quarter of 2013. If we normalize for these two unusual items, Media delivered adjusted operating profit growth of 22% reflecting solid efficiency gains in this segment as well.

Turning to consolidated results below the operating profit line, you will see that net income and earnings per share were down year on year. Adjusting for a number of one-time factors including the $233 million Inukshuk gain in the fourth quarter of last year, lower stock-based compensation expense and the absence of an asset impairment charge this year, the adjusted net income and adjusted diluted earnings per share declined by 20% year on year.

This was driven primarily by three factors. Firstly, higher depreciation and amortization expense accounted for 65% of the adjusted earnings per share decline. Similar to last quarter this was a result of delivered increased penetration of our new NextBox 3.0 set-top boxes which are now amortized over three years. As well, we reduced the cycle time to implementation of our asset construction projects which accelerated the commencement of depreciation but also assisted in reducing cash taxes payable. Finally, there was the amortization impact of increased intangible assets resulting from the acquisitions over the past year.

Higher interest costs accounted for 12% of the adjusted earnings per share decline and reflects an increase in the amount of outstanding borrowings partially offset by a decrease in the weighted average interest rate. As a result of various refinancing activities over the past year, we reduced our average cost of debt by 60 basis points. Higher income tax expense accounted for 18% of the adjusted earnings per share decline and primarily reflects lower tax expense in the fourth quarter of last year that benefited from realizing a large capital gain in the prior year which was only partially taxable.

Looking at the balance sheet, we ended the quarter with $2.3 billion of cash and $2 billion available capacity under our credit lines. With a combination of our strong cash flow and liquidity, we ended the year with a leverage ratio of approximately 2.3 times within our target of 2 to 2.5.

During the fourth quarter, we returned $224 million in cash to our shareholders, up 10% year on year and reflective of the Company's ongoing dividend growth.

To quickly touch on our full-year results, 2013 revenue was up 2% and adjusted operating profit up 3%. Productivity initiatives that lowered non-hardware related costs by 1.5% led to strong margin expansion of 60 basis points to 39.3% overall led by Wireless margins at 46.8% and Cable at 49.4%, up 120 basis points and 160 basis points respectively.

We also had considerable success on our data monetization strategy with Wireless data revenue growth of 17% and Broadband revenues up 16%. As a result, adjusted operating profit and pretax cash flow were above the midpoint of the 2013 guidance ranges we set out with Capex at the high end and cash taxes right on the improved guidance provided with our Q3 results.

So as I said at the start, we delivered across the board on the consolidated guidance targets we set out at the beginning of the year.

Today we also set out 2014 guidance ranges for several of our primary consolidated financial metrics along with several underlying assumptions. As you can see, we expect continued growth in adjusted operating profit and for cash income taxes to remain flat to our new lower amount of 2013. However as a result of modestly increased capital investments targeted for 2014, we expect after-tax free cash flows to decline between 3% and 8% year on year.

I am pleased to highlight that we also this morning announced a 5% increase to our dividend rate effective immediately with a quarterly dividend which was declared by our Board today and will be paid on April 4, 2014.

To sum up, overall it was a quarter of continued solid free cash flow generation and returns to shareholders with strong operating margins and the successful execution of a number of strategic initiatives. Clearly restoring sustainable topline revenue growth will continue to be a key focus for us moving forward.

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

With that, I will pass it over to Guy.

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

Thanks, Tony. Welcome everyone. We appreciate you joining us this morning and I look forward to meeting and interacting with you over the coming quarters.

I think Tony did a good job of capturing the essence of the fourth quarter and how the Company closed out 2013. As I was only here for the last few days of the year, I will focus my comments more looking forward. However, I will say that with respect to the results of Q4 and certain of the trends, that whilst there are areas of strength overall they are not satisfactory to me and over time I expect to do better.

Looking forward let me start by saying with genuine enthusiasm that it is great to be here at Rogers. I took this post because Rogers is a remarkable company with a rich history and unrivaled mix of assets and I thought it was a good match with my background and experience.

During the recruiting and on-boarding process I spent considerable time with the Rogers family, the Board of Directors, and the leadership team. I have to say I'm struck by their energy and passion and drive to win which I know we can harness to do even greater things. I also value the support and the longer-term focus of the founding Rogers family who owns significant equity in the Company.

Since joining, I have crisscrossed Canada meeting my team, external stakeholders and customers. I've also conducted numerous business reviews, been involved with the 700 MHz spectrum auction and reviewed the regulatory agenda. I am now about halfway through that process and obviously this is with a view of developing a detailed set of priorities and plans for the Company going forward. Once I have completed the exercise, I will outline a detailed strategy and business plan roadmap and agree to that with the Board in May. After that we will start to operationalize it with my management team and we will articulate that more broadly to you with the specific priorities and focuses on what we are going to be doing going forward.

Rogers has many strengths and I intend to capitalize on them. This is a financially strong Company and we have highly advanced wireless and cable networks and a robust portfolio of media assets. And, yes, I do believe there is value in our wireless and cable businesses from owning a high quality content division.

We also have a strong pipeline of new products and services to offer our customers and some of the most passionate and committed employees I can say I have ever worked with.

While it is early days from what I can see -- what I have seen so far, I believe we can evolve the business in a winning way that will be even more rewarding for our customers, our shareholders and our employees. Whilst the industry faces the challenge of moderating growth and regulatory uncertainty, few industries are more dynamic and better at leveraging new technologies than ours.

Our margins, cash flow and return on assets are strong but we slipped in terms of our growth rate relative to our peers and we need to execute in an even more methodical and disciplined manner as we go forward and look at ways to closing that gap.

We have opportunities to put our customers' needs more front and center in everything we do to deliver a better, more consistent experience. I think we can strengthen our value proposition and differentiation and have opportunity to better align and focus our investment in key areas to help re-accelerate our growth.

Winning in my experience always comes down to disciplined execution, rigorous prioritization and operational excellence and to get there you will see a lot of focus around us clarifying accountabilities and strengthening our teams at all levels of the Company.

So stay tuned. More to come. I look forward to leading Rogers through the next phase of its growth. Thank you and with that I will turn back to Bruce.

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

Thank you very much, Guy and Tony. Operator, quickly before we begin taking questions, we will request as we do on each of these calls that for those participating that want to ask questions to please limit the questions to one topic and one part so that as many people as possible have a chance to participate. And then to the extent we have time we will circle back and take additional questions or we will get them answered for you separately after the call.

With that, Luke, if you would quickly explain to participants how you want to organize the Q&A polling process. We are ready to go.

QUESTION AND ANSWER

Operator

(Operator Instructions). Drew McReynolds, RBC Capital Markets.

Drew McReynolds - *RBC Capital Markets - Analyst*

Thanks very much and good morning. My question is obviously around wireless and just on the ARPU pressure, we know you are facing tough comps and obviously are fully aware of the competitive environment out there. Just wondering on the roaming side whether, Rob, you are seeing any kind of improving traction with respect to increased volumes and just how that kind of demand curve is responding to the lower rate? Thanks.

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

It is a fair point and as most of you on the call know, our efforts on customer friendly roaming policies have been central in terms of trying to build that up as a future revenue stream but at the same time the short-term pain has been significant. I think without some of the things we did on roaming last year, our minus 2.5% decline would have been about a minus 1.3% decline. So the impacts remain significant.

We are starting to see a bit of a turnaround albeit slow and it is early to declare success but we are starting to see some growth in unique users particularly on our hallmark 799 US plan. We are looking at more ways that we can continue to stimulate that and get that growing through. So it is definitely an area we are very focused on and we intend to continue to work the revenue plans until we get them to turn around but I expect it will take a couple of quarters.

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

Okay. Thank you very much.

Operator

Simon Flannery, Morgan Stanley.

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

Thank you. Guy, good morning and good luck with the new position. Could you talk a little bit about metrics? You talked about accountability, execution, prioritization, maybe you can just talk about how you really measured success at Vodafone. Are you focused on free cash flow, return on investment, churn, ARPU? There's a lot of different ways you can measure that. What are your go-to metrics for measuring success? Thanks.

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

I'm proud to say all of the above to be quite frank. I mean the difference between my ex company and this company is obviously that we have the media arm which is important to this Company and therefore they've got different metrics but to be honest, it is the standard metrics that you mentioned. I don't have a special set.

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

Okay. Financially is it more to EBITDA, to free cash, is there one that you would prioritize over the other in terms of compensating employees, etc.?

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

I don't think it is probably relevant to talk about compensation plans here but free cash flow is a hobby of mine I would say. EBITDA, I think as well used by the business particularly since it is less relevant to the media arm.

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

Great, thank you.

Operator

Dvai Ghose, Genuity Capital Markets.

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

Thank you very much. Welcome to Canada, Guy. I'm glad you are not satisfied with the results because I don't think they were great but look forward to seeing how you change things.

As far as my question, it is to do with the core cable asset. On the positive side if you can give us some idea as to why there was a sequential improvement in terms of net basic cable subscriber loss. Was it promotional, was it something else, was it something to do with competitive activity?

Going forward, our view from management has been that you are going to trial IPTV as an overlay over cable this year, 2014 with a potential introduction next year, 2015. But talking to some of your key vendors they suggest that IPTV overlays for cable companies a much more problematic than they initially thought, much more expensive, require a lot more bandwidth and probably aren't going to happen. I wonder if you can respond to that and whether you see some sort of a hybrid solution rather than a full IPTV overlay or whether you are still committed to IPTV?

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

Why don't I take the first part around the improvement and thank you for noting the improvements we have made in the decline of our basic TV subscribers Dvai.

We have worked -- I think it is fair to say that we talked about the game plan on calls before. We continue to be very focused on where we are on our game plan. We won by focusing on our superior Internet offering and continue to hammer away on that and I think most of you have seen the ads, know the statistics we have highlighted, the recognition that we continue to earn from companies like PC Magazine who recognize the excellence that we deliver every day.

In the quarter, we didn't chase some of the crazy competitive pricing out there but we I think, successfully gap managed on some of the key areas which I think slowed down the success others were having. We invested and we promoted the advantages of our platform versus IPTV, streaming to the tablet, tablet remote control, our superiority on VOD which is also almost twice what our competitors is. And probably most importantly and most promoted Dvai, you would've seen it out there, is our push on NextBox 3.0 which again brings a superior experience for our customers.

We spent and invested energy on revamping RAP TV, which is highly important to a sub-segment of our total base. We improved the online experience and got a lot of accolades about it and we also launched a Kid's zone.

We have improved our retention. Sequentially churn improved by 23 basis points so we felt some real positives there. And lastly and as a continuing theme, I think the success around our guerrilla tactics both in the IPTV footprints and satellite areas yielded some success that contributed to the improvement in the numbers.

With that I will turn it over to Bob to talk just a little bit about the move to our new IPTV platform in the future.

Bob Berner - ***Rogers Communications Inc. - EVP of Network and CTO***

Thanks, Rob. I'm trying to think back about all of these sections of the question you asked. But I don't know which vendors you are talking to but you are correct in what you indicated that we will be in market in 2015 with IPTV services. Rogers has always led the TV market and we are confident that we will be in market with standards-based TV over IP services in 2015 with vendors that can actually do it.

Operator

Glen Campbell, Bank of America Merrill. Lynch.

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

Yes, thanks very much. My question is on wireless pricing. It seems that low flanker pricing has been a problem for the industry we are seeing the repricing pressure in your numbers and it seems that your competitors have concluded that what they need to do is up the data overage rates to sort of firm up that $39 price point. You are still in there with the markets. I'm wondering if you plan to stay there or if you think this is an appropriate price point?

And then on the corporate side, our sense is that roaming rates are moving down separately from I guess it has been announced on the consumer side. I wonder if you could talk about any changes there during the quarter and what sort of traction you are getting and any impacts? Thanks.

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

I'm going to come back and just ask you to just clarify the second part in a second, Glen. On the first part, it is not really appropriate for me to comment on our plans on pricing on a call. So I'm going to actually, if you don't mind, I will just sidestep that question. Can you repeat the second part of the question, Glen. I couldn't hear part of it?

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

Sure. So we have seen your moves on data roaming pricing in the US which we think make a ton of sense. And on the corporate side, it seems there have also been some recent moves to reduce the voice roaming to the US as well. Have you been participating there? Is this part of the impact we are seeing in your results? Are there further impacts we should expect?

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

So when you say the corporate side, Glen, I mean large accounts most of the pricing that we do for large accounts is customized. And selectively depending on the needs of customers, we adjust various aspects of the offerings that we lay out for customers. Is that what you are referring to?

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

Yes, and sort of standard roaming packages.

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

I would say we do have I would call a standardized flavor of roaming packages that are inserted in our customized large account pricing and then we have occasional customers who spend a lot of time doing roaming and roaming is of high import to them in which case we will modify those and make the plans more friendly for their needs.

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

But not a significant factor in this?

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

No, not at all. Not at all. No lock, stock and barrel changes to our standard roaming processes on large account contracts.

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

Okay. Thanks very much.

Operator

Vince Valentini, TD Newcrest.

Vince Valentini - ***TD Newcrest - Analyst***

Hopefully I can sneak in a clarification and a question. The guidance for EBITDA and free cash flow, Tony, are there any restructuring or severance costs embedded in that?

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

Vince, it is Tony. In response to your question on the cash flow numbers that you see, we put in a modest amount for restructuring and we are not going to disclose the absolute number of it but there is some there and as following Guy's comments as we look to changes that we may make going forward, we will firm up that number and provide the guidance on that going forward at that time.

Vince Valentini - ***TD Newcrest - Analyst***

Thanks, Tony. But that is just in the free cash flow guidance, not in the EBITDA, is that right?

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

That is correct, Vince. Consistent with how we reported it in the past, restructuring costs would be below adjusted operating profit but would be included in our after-tax free cash flow.

Vince Valentini - ***TD Newcrest - Analyst***

Okay, thanks. That was the clarification -- the question quickly is -- you have been doing this $99 bundled offer for cable in New Brunswick. I'm wondering if you are seeing much traction from that and good retention versus obviously a pretty aggressive phone company with their fiber out there. Do you think that pricing plan is working and do you see enough evidence to suggest you might bring something like that to Ontario?

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

Ontario and the Atlantic very, very different markets for sure. So I wouldn't assume anything that runs in the Atlantic. We are in quite a different competitive situation in both of those markets. For sure we have had some luck with the $99 plan and it has worked well. The last time I took a really hard look at it we were moving pricing up in the Atlantic and I think it has already kicked in.

Operator

Richard Choe, JPMorgan.

Richard Chow - ***JPMorgan - Analyst***

Thank you. Just one quick question or clarification for Guy. After you talk to the Board in May, should we expect kind of a big announcement or a call or is it something that is going to be rolled out over time, the new strategies?

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

I don't know whether you will view it as a big announcement or not because I haven't decided what it is yet. But what I would say is once we've got clarity with the Board we will announce it internally and at that time I think it is appropriate to also inform you at a kind of high level what my priority is going to be so watch the space.

Richard Chow - ***JPMorgan - Analyst***

And then a question on the cable side, I guess you reached 84% digital penetration. Can you talk a little bit about where you expect this to grow over time and how fast you want to get there and how that is impacting what you are seeing in the new digital markets versus the nondigital?

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

For sure. In fact, I would say we are actually further along than that on digital penetration, depending on whether you are looking at the Maritimes or whether you are looking at Ontario, I think the numbers are 90% and 94% penetrated. By the middle -- in fact by the end of this year, we will be pretty much finished our digital migration and again that will continue to be incredibly helpful as we repurpose that bandwidth to improve VOD and to improve our Internet offering so that is the scoop on that front.

Operator

Greg MacDonald, Macquarie.

Greg MacDonald - ***Macquarie Capital Securities - Analyst***

Good morning, guys. Question is for Tony. Tony, the 5% dividend bump I think surprised some people. I was looking for 10%, I think the market was and it ends four years of that plus 10% growth profile. You still have some reasonable room here with a 60%-ish payout ratio. What should we conclude from that? Is there any messaging that we should draw from that? Is this sort of a special target that the Company has always had or is kind of given the Capex increase that we saw in the guidance, are we to draw a conclusion that this is just a higher Capex business now or at least for the next couple of years? Thanks.

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

Greg, I would summarize that our dividend increase is reflective and commensurate with what you have seen in our after-tax free cash flows over the last couple of years and commensurate with the guidance that we have provided for 2014. We don't have a payout ratio guidance per se. This year based on guidance our payout ratio will be in the low 60s in terms of percent. For 2013, our payout ratio was 57% and what you would have seen over the last several years is that payout ratio slowly increasing. Conservative relative to some of our peers, but we continue to want to have a dividend payout ratio that gives us the flexibility to do the things that we need to do with our business and the investments we need to make.

And so I would say the 5% is something we are comfortable with given where we are at and a reflection of our approach to being responsible stewards of cash.

Greg MacDonald - ***Macquarie Capital Securities - Analyst***

Thanks, Tony. The quick follow-on is Capex kind of a new reality now or are there special items in 2014 that might not recur?

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

Greg, I would say that Capex is really reflective of a couple of things that we wanted to heighten our focus on in the near term. So I wouldn't necessarily infer from that that is the new long-term view of Capex. It will continue to change depending on technology roadmaps as well as the competitive environments and so for 2014, the 5% increase that you see in Capex in terms of the range is specific to 2014.

Operator

Phillip Huang, Barclays.

Phillip Huang - ***Barclays Capital - Analyst***

Yes, good morning. A question on wireless. Aside from the ongoing repricing impact on roaming as you look to the year ahead, do you expect any other specific pressures on postpaid ARPU to prevent it from going back to growth as the year-over-year comps get easier in the second half?

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

Thank you, Phillip. Just before I answer your question just to Richard, just a follow-up on your question about the timing of the digital conversion. I think I said the end of 2014. It is actually in 2015.

Phillip, back to other things that are pressures from an ARPU perspective that are affecting us and will affect us going forward. And Glen Campbell alluded to this in his question but larger bucket sized plans at lower prices continue to put pressure on ARPU in and also set up a base migration to lower rate plans. So they continue to be very focused on things that minimize the impacts and the availability of those larger sized plans will continue to be important.

I think the other thing that is important to recognize that go on in the background is I think we have all talked about the positive impact of some of the changes that we made as we moved from three year to two year for mean COC perspective and they are a positive.

However and Tony alluded to this in his remarks, in the background as we migrate to simplified pricing, that simplified pricing has embedded in it from some of the competitive moves the inclusion of voicemail and calling line ID which continues to have a negative effect on ARPU as many customers in our base would have been giving us $7 to $10 for these services. So those net migrations from old plans to new plans still are having a negative impact in spite of the positives that we are getting other some of the COC changes.

Phillip Huang - ***Barclays Capital - Analyst***

Got it. So is it just a 2014 thing that we kind of see ARPU being sort of relatively stable in the second half of the year or is ARPU even the metric that we should be looking at for your business going forward as you sort of look for different avenues of growth from here?

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

That is a great question. Let me take two seconds and talk to you because I think there are some very important things we're going to do to continue to drive ARPU. I alluded to them in one of the earlier questions. Very strong focus on growing unique roamers. We believe that by building reasonable pricing and an experience customers can trust we can get back some of that roaming revenue and turn the corner.

We further believe there is an opportunity in our base for more data. We have a number of people north of 1 million with either a very small bucket or no bucket that actually have smartphones. We think that is a key opportunity. Price plan change management improvements, lots of people change price every quarter. How we manage those are critical and we continue to sharpen our focus on that.

Improvements on ARPU in and ARPU out management driven by some operational improvements and a continued sharp focus on customer experience I think are going to be critical pieces of the puzzle.

And to come back to the last part of your question, I think you are right. Over time the focus will need to shift from ARPU to revenue and to ARPA and you can count on the fact that we will be very focused on looking at those things going forward. Thanks for your question.

Phillip Huang - ***Barclays Capital - Analyst***

Thank you.

Operator

Tim Casey, BMO Capital Markets.

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

Thanks. Guys, wondering if you could offer your perspectives on the ongoing debate that we hear a lot from investors about the outlook for video versus broadband from a Company such as yours. You guys have a unique perspective on it given the footprint you have in both services and in some content that you own outright and have major investments in.

What is your view on the longevity of the current video model with the cable business and how the transition to more over the top services is going to play out for Rogers?

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

If I am honest with you given I'm only eight weeks in, I am not sure I've got a hard view if I am really honest. I have done a number of reviews with the teams and heard their perspective but probably it is best if I let Rob answer that I think.

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

I think the question, the toughest part of this question is like a lot of questions like it that we have faced over the past 10 or 15 years. We know it is going to migrate along the pathway and we know that the consumption will shift from the platforms that we have today even the more sophisticated platforms that we are building to deliver television like services to everything being consumed over the top.

I think it is getting the timing right and the other important thing is trying not to do some very short-term things like driving endless amounts of unlimited data which are going to stand in the way of us monetizing that shift.

So we remain very focused. We believe the timing will be longer rather than shorter which is why we are focused on the evolution of our IP platform which allows us to deliver of course to all devices and meet the customers' needs and we are very focused on not taking some of the aggressive steps to make unlimited pervasive.

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

Thank you.

Operator

Matthew Niknam, Goldman Sachs.

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

Thanks for taking the question. Two if I could. One on topline growth so with growth turning negative again this quarter, can you talk about management's priorities to improve or reaccelerate growth and where you see the greatest opportunities to achieve this? I know you have touched on some but if you can give just more broadly across the business.

Secondly on cable, can you talk about subscriber losses in markets where IPTV competition is a little more mature and specifically have you started seeing any customer win backs in any of these markets? Thanks.

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

Matthew, it is Tony. I will start with an overall comment on your topline growth question and then move it to Rob.

In terms of topline growth, clearly what you are seeing in the near term are the investments we have made in terms of things that we think are right for the customer on the wireless front. As you look across the platform, data is going to continue to drive growth if we look at actual data utilization across our platforms whether it is in the wired portion or the wireless side, it continues at very significant double-digit growth rates.

And then as we extend that to media, clearly our specialized content drives significant improvements in our subscription revenues and you see that also continuing to pull through at double-digit rates. And so from a consolidated standpoint, this is something we are clearly focused on and we continue to look to driving topline growth across all of our businesses.

In RBS, the next gen revenues which is on net and IP-based now accounts together with data centers 65% of our revenues in that business and that continues to grow at substantial growth rates as well.

With that, I will pass it to Rob to talk more specifically on wireless and your cable question.

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

Matthew, I'm not going to regale you with a list of the game plans that I discussed just a second ago on wireless but needless to say, very, very focused on wireless and remaining sharp on the top line whether it be through roaming or ensuring that we've got the appropriate penetration in our base from a data perspective.

On the latter part of your question which was oriented towards cable and customer win backs, we are very active on the customer win back front. We have been quite successful in all of our markets. We find that the most opportune time is when the roll off of the big discounts and typically our competitor is out there with six months of half-price service. A lot of these customers are fairly discontent when that first wave of discounts roll off and we have had good success winning them back and we will continue to remain focused on win back as part of our portfolio of tactical opportunities.

Operator

Jeff Fan, Scotia Capital.

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

Thanks and good morning. One quick follow-up and then a question for Guy. A follow-up is regarding the wireless ARPU. Rob, you mentioned larger buckets at lower prices. I mean one of the things about the wireless industry is that over the long term usage growth is really what is going to drive ARPU and revenue growth.

So is what you guys are doing or what the industry is doing with giving more capacity a signal about the Canadian consumers' ability to spend more? How should we -- what is your takeaway from that in terms of I guess just the ability for consumers to pay more on the wireless side?

Then on the question for Guy, I know it is still early and we are still a couple of months away before you operationalize your plans but wondering if you can share with us some of your early observations about the Canadian consumer. Any behavior or spending habits that you think is kind of unique in Canada that perhaps something you can bring to Rogers and the Canadian market? Thanks a lot.

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

So just leading off on your clarifying question, the success of the wireless business going forward is about monetizing data and I think the challenge we face is we are seeing that healthy growth in daily utilization as people spend more time and more energy streaming video and doing everything that the wireless device enables you to do.

What I would say is we are going through an adjustment phase where we are trying to continue to bring on the next wave of subscribers where at the same time not make prices so cheap and bucket sizes so large that it gets in the way of our ability to monetize. And like most processes it is imperfect. We jump ahead, we go too far as an industry and then we retrench and I think somebody on the call earlier made reference to a couple of other companies who have actually done some retrenching on flanker brand pricing and I think we are in that adjustment phase right now.

The critical thing is we have the growth in data that we need. We just need to make intelligent moves as an industry to ensure that we continue to be successful monetizing it. So I will leave it there.

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

In terms of early impressions, I can honestly say I haven't met everybody in Canada yet. If I had to sum up the experience thus far I would say it was warm welcome, cold country is the way I would describe it.

With respect to consumer trends and all of the rest of it, I think that from the superficial analysis I have done I would say that the Generation Y attitude towards technology, embracing technology and using it is pretty much in line with Europe and I would say more the Gen X -- the older generation is not dissimilar but both generations have been affected a little bit by the introduction points of different technologies.

So for instance, LTE came here faster than the UK and you see adoption of it therefore racing ahead versus the UK which will presumably catch up over time. So nothing starting right now but I am still listening and I'm only halfway through.

Operator

David McFadgen, Morgan Stanley.

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

Actually it is with Cormark but anyways, a couple of questions on the guidance. How much cost reductions are you forecasting to make the guidance? Then on the cable EBITDA guidance, are you expecting any large increase in programming cost because it looks to me the EBITDA guidance was a bit light?

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

It is Tony. In answer to the first question on cost efficiencies, we have been on a path and continue to deliver what we described as productivity improvements generally in the 2% to 3% range year on year and so if you look at our operating costs as a percentage of revenue, we look to eke out that type of efficiency improvement quarter on quarter and year on year. And so in our 2014 guidance, we have also targeted that type of productivity improvement overall and to varying degrees in different parts of our business and that would allow us to make investments in certain areas that we wanted to as well. So, yes, cost efficiency improvements are included in there.

Then on the second question of cable programming costs, I will pass that to Rob.

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

We continue to work very hard to keep growth in cost of goods on the table front. I prefer not to be specific and tip off all of the folks that I have to negotiate with over the next 12 months where we would like to land but we continue to be very focused on keeping those costs in check.

Operator

Maher Yaghi, Desjardins Securities.

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

Thanks for taking my question. Just a follow-up on the last question about restructuring. You have had about between $85 million to $90 million of restructuring expenses during the year. Tony, is that about the amount you are targeting in 2014?

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

What I will say is as we continue to work on those efficiency improvements, with that comes restructuring costs. And so generally I would say what you ought to expect in 2014 is that we currently have today in the guidance we have provided is about the same number.

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

Okay, great. Thanks for that clarification. A question to Guy, welcome, Guy to Canada. Very cold I know.

Just when you look at how you would go about improving topline growth which you mentioned you are not satisfied with, you can look at it from an organic point of view and acquisition point of view. Can you give us maybe your initial thoughts or your view with previous experience about how acquisitions could be looked at to improve topline growth and if there are opportunities out there, which area you would think is best suited for you to improve through acquisition on the top line?

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

To be honest, I have to say that it is way too premature for me to tackle that one head on. So I am going to duck the question at this point.

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

We believe for now for sure and we have discussed it today, Tony laid out I think across the business and so did I, we've got lots of topline growth opportunities on the core business and we continue to look at things as they come along and stay tuned.

Operator

Rob Goff, Euro Pacific Canada.

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

Thank you very much for taking my question. It was very good to hear ARPA mentioned on the call. And so to that my question to Rob would be, could you discuss some of the trends and the opportunities that you might be seeing in terms of device per account or the ARPA drivers?

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

Yes, for sure. Listen, I'm glad you emphasized it, Rob. We believe in and you can see through our Share Anything plans which by the way have been enormously successful closing in on 500,000 subscribers in a very, very short time almost 35% of our gross this quarter. I think it really recognizes how important it is going to be to start to look at how much we can sell an account as opposed to what is the amount of money that we are getting for an individual line and we will continue to be focused on that in terms of the way we plan, in terms of the way we focus on our metrics.

So thanks for emphasizing it and appreciate your question.

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

Great, thank you.

Operator

Ladies and gentlemen, this will conclude the Q&A session. 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, Luke, for moderating the call. The management team here at Rogers would like to thank everybody for investing a bit of your time during what we know is a very busy period for you. We appreciate your interest and support.

Importantly 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 today's release and we would be pleased to get whatever you have clarified.

So with that, this concludes today's teleconference. Thank you again.

Operator

Thank you. Ladies and gentlemen, again this does conclude today's conference call and we do thank you for your participation and you may now disconnect your lines.