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RCI.B - Q2 2015 Rogers Communications Inc. Earnings Call

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OVERVIEW:

Co. reported 2Q15 YoY consolidated revenue growth of 6% and adjusted operating profit of $1.34b.

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PRESENTATION

Operator

Good morning ladies and gentlemen. Thank you for standing by. Welcome to the Rogers Communications Q2 2015 results analyst teleconference. (Operator Instructions). I would like to remind everyone that this conference is being recorded on Thursday, July 23 at 7:30 AM Eastern time.

I will now turn the conference over to Bruce Mann with the Rogers Communications management team. Please go ahead, sir.

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

Thank you, Ron. Good morning, everyone. I appreciate you joining us bright and early here in Toronto with our President and Chief Executive Officer, Guy Laurence, and Chief Financial Officer, Tony Staffieri. What we will do is crisply provide you with a bit of additional color and detail on the results up front and then we will spend the majority of the time we have got this morning answering as many of your questions as time permits.

The discussion will undoubtedly touch on estimates and other forward-looking types of things and from that our actual results could ultimately differ so please review the cautionary language in the earnings release today and in our 2014 annual report. The various factors, assumptions, risk, etc. that could cause the results to differ apply equally to our dialogue this morning.

So with that I will turn it over to Guy and then to Tony and then we would be pleased to take your questions.

Guy Laurence - *Rogers Communications - President and CEO*

Thanks, Bruce, and good morning, everyone. So last quarter I talked about early traction in the execution of our Rogers 3.0 plan. I am pleased to report that the quarterly results released this morning demonstrate both a continuation of positive financial trends and improvement in subscriber metrics. Our revenue and free cash flow growth is continuing and we are delivering a steady flow of strong new commercial initiatives.

Before I comment on what we have been doing from a product and customer experience perspective, let me highlight a couple of key financial points before turning to the detail.

As you saw on a year-over-year basis, consolidated revenue growth was 6%, consolidated adjusted operating profit increased to 2% and free cash flow growth was up by 9%. In Wireless, network revenue grew by 2% with adjusted operating profit flat year-over-year. Importantly however, this represents a 3 percentage point improvement in the growth rate sequentially from Q1 despite the fact we are managing the double cohort.

Also notable is the postpaid wireless subscriber net additions which turned positive after two quarters of decline as we gained traction across multiple segments. At the same time, average revenue per wireless account, or ARPA, was up about 4%. And while postpaid wireless churn was up very marginally year-over-year, it was down from Q1 and importantly there wasn't a significant spike after the start of the double cohort.

In Cable, the reported revenue was basically flat as the 5% growth in Internet revenue was offset by declines in TV and Home Phone. However we saw sequential improvements from Q1 in subscribers with positive Internet net additions and TV sub losses improving somewhat. This part of the business is obviously operating in a highly competitive marketplace but starting next week, we will introduce a newly enhanced guide for the Rogers NextBox and this is the first of several new upgrades to our customers' TV experience in the coming quarters.

Going forward with a market leading 250 Mbps offering to almost all of our cable customers today and a clear path to a 1 gig offering as the cable industry implements DOCSIS 3.1 in the not-too-distant future, our broadband offering is well-positioned vis-a-vis our telco competitors especially given our fiber coaxial network platform where we have inherent advantages in terms of widely deploying 1 Gb speeds without the need for expensive and time-consuming rebuilds to replace the last mile of plant.

In terms of the evolution of our consumer offering, we also announced that following a successful beta trial, our Shomi streaming video service will be available to Canadians right across the country later this summer. It is interesting to know that the leadership we and Shaw are showing in this area is now being copied by a competitor who clearly craves for the success we have been having although they won't be launching until next year.

In Media, both the revenue and adjusted profit were up substantially as the first season of our exclusive national NHL rights deal came to a successful and profitable conclusion with a 10% profit margin for the season almost bang-on with our plans. These seasonal trends from Q1 to Q2 were exactly as we told you it would be last quarter.

Closely associated with that, Sportsnet was rated the number one most watched televised sports brand in Canada. While subscriber and ratings momentum have been building for some time, there is no doubt that the addition of the national NHL rights this season pushed us solidly to the number one spot. With the first season now concluded, I think it is clear that the NHL has been a success.

Separately, I'm sure that you saw that the Mobilicity and Shaw spectrum acquisitions we successfully executed on late in the quarter both of which we have now closed with Shaw concluded by the end of the quarter and Mobilicity on July 2. These were a complicated set of deals almost akin to solving a Rubik's cube involving multiple stakeholders with differing interests and objectives. At the end of the day, we were able to procure a significant amount of prime spectrum that is contiguous with our existing holdings across three of the largest population regions in the country Ontario, BC and Alberta and importantly we did so at very favorable prices especially compared to recent AWS auctions, both in Canada and the US, which saw prices paid by carriers up to three times higher in metropolitan areas like these.

As an example, one of our competitors just four months ago spent over $6 per megahertz pop at auction for the AWS 3 spectrum in Toronto and Southern Ontario, nearly three times as much as we paid for the prime spectrum we acquired across the three very large population centers with this deal.

The key to the AWS spectrum we acquired besides the fact it is contiguous to our existing spectrum in these areas, is that unlike AWS-3, it is immediately deployable on our current LTE network without additional equipment investments and without waiting for new devices that can operate on it. Indeed the spectrum out West is now live for our customers to enjoy even faster speeds and this comes just four weeks after its purchase from Shaw. The tax loss carryforwards we acquired at the same time from Mobilicity are also of significant value and as you can see in today's release, enabled us to increase our free cash flow guidance for 2015.

We also participated in a 2500 MHz spectrum auction during the quarter which saw us top of our spectrum holdings in that frequency range with an additional 41 20 MHz blocks of licenses across Canada for a modest $27 million all in. This means we now have 40 MHz of contiguous 2500 MHz spectrum essentially right across the country. Both of these spectrum acquisitions clearly fit with the Rogers 3.0 strategic pillar of maintaining our network leadership.

In terms of another key pillar of the plan, customer experience, we continued to make important investments and strides there as well. A couple of examples include introducing a simplified new customer bill for Rogers services that makes it easier for our customers to understand their spending which is the number one reason for calling us. Not only is the new bill less complicated, it is available across multiple platforms including mobile. Over 3 million customers are now receiving the new bill and we have had 2.5 million downloads of our MyRogers app allowing those customers to view their bill on their mobile device.

At the same time, we have expanded our online self-service offerings to make interacting with Rogers easier for the 0.5 million customers who go online to pay their bill. Not only did we measurably speed up the website response times, we also enhanced the look and feel whilst greatly improving search and navigation capabilities and the customers' self-service portal as well. All in, we have already reduced the incidence of customers contacting us by 12% year-over-year in just the first six months of 2015.

This quarter we also expanded our leadership in international wireless roaming by extending Roam Like Home to 35 countries across the EU. We now have 1.6 million customers enrolled in Roam Like Home and we are seeing an 800% increase in US data roaming volume. So far competitive reaction has been muted although one competitor launched an imitation product recently that is 40% more expensive which customers tell us is not very attractive.

We also launched Fido Pulse wireless plans that target the millennial cohort with attractive value add services including a music streaming subscription to Spotify and VICE Canada that is gaining considerable traction with this target segment.

Turning to the regulatory front, the government of Canada has now met their regulatory objective of having a fourth carrier operating in all regions across Canada. The wholesale roaming cost proceeding is still outstanding and so there is nothing to report on that file, with submissions due later this year. But importantly we now know that MVNOs aren't the future of the Canadian wireless market or certainly not anytime soon.

On the wholesale broadband decisions that came out late yesterday, our initial read is that it appears to create a more level playing field between cableco and telco providers of high-speed Internet offerings in that it won't exempt telco fiber to the home from wholesale requirements. Assuming the CRTC gets the cost models right, we see little risk that the overall regime will hinder continued network investment by incumbent providers. Over time it also seems that the decision will require resellers to invest more in infrastructure which is a fairer sharing of the required costs as more consistent with a facilities-based competition model.

In summary, this quarter has some clear positives and shows we are making steady progress against our Rogers 3.0 plan. I expect that to continue as we move through the second half of the year.

With that I will turn it over to Tony to provide a bit of additional detail and perspective on the second quarter's financials.

Tony Staffieri - *Rogers Communications - CFO*

Thanks, Guy, and good morning everyone. I will provide a bit more detail around certain aspects of the second quarter financial results and then we can get to your specific questions.

During the second quarter, we continued to generate solid cash flow and strong operating margins while at the same time as Guy mentioned, we continue to gain traction driving topline revenue growth which grew 6% year-over-year. Excluding the incremental NHL portion of Media's revenues, consolidated growth was 2%. A year ago it was flat and adjusted operating profit this quarter of $1.34 billion was up 2%. Last quarter it was down 3%. So we are clearly making solid progress.

At Wireless, the network revenue growth of 2% was driven by our ongoing strategic shift to lifetime value over volume as we continue to see higher ARPU-IN verses ARPU-OUT. This trend is very much supported by the growing penetration of our Share Everything plans that now represent 42% of our Rogers postpaid base, up from 38% last quarter, so ramping well and with plenty of room for continued growth. And importantly, we put up the third consecutive quarter of year-over-year positive postpaid ARPU growth.

As I have described in previous quarters, our new roaming offerings including our popular US and European Roam Like Home plans have had and continue to have an impact on our Wireless revenue and ARPU profiles. The plans are working and we are seeing unique users on the uptick and the increased volumes are beginning to offset the pricing changes. The rate of decline in roaming revenues is decelerating. If you exclude the impacts from roaming changes, postpaid network revenue and ARPU would have been up over 3%.

Another important data point is that after two quarters of postpaid subscriber losses, postpaid net additions turned positive in Q2. While there was a slight uptick in Wireless postpaid churn of 6 basis points year-over-year, new customer additions were strong and in line with the same period last year. So continuing improvements in gross and net addition trends all of which is evidenced in our new product differentiators and that customer service improvements are starting to gain traction in the market.

Smartphone demand has remained strong as we activated 682,000 in the second quarter, one-third of which were new subscribers. Not only were smartphone activations up by 16% overall year-over-year, in particular we saw a 24% increase in higher value iPhone customer activations during the quarter versus Q2 of last year.

This quarter we upgraded 14% more devices for existing subscribers than the same quarter last year due to our selective early hardware upgrades in advance of the double cohort resulting in a 6% upgrade. This drove retention costs up 11% or $21 million year-over-year so we executed our upgrades more cost-effectively this quarter than last year. You may recall that in that quarter we upgraded 18% more devices for existing subscribers but retention costs were up 32% year-over-year.

So another good trend for our second quarter and despite the higher spending on retention this quarter, we were able to hold Wireless operating profit flat year-over-year as the higher retention spending was offset by flowthrough of the accelerating topline growth together with ongoing cost efficiency improvements.

Turning to Cable, revenue was flat with Internet growth of 5% offset by declines on Home Phone, television and the impact of the CRTC mandated 30-day cancellation notification policy change. Importantly, without this regulatory driven change, Cable revenue growth would have actually been modestly positive versus what you see reported.

While TSUs were down year-over-year, TV and Internet ARPU were up 4% which was the proof point of our successful focus on value over volume in this segment as well. We are also seeing improved churn on these two products. This is obviously being supported by the recent launch of our reinvigorated consumer bundles under the Rogers IGNITE banner which are gaining good traction in the market.

Cable adjusted operating profit was down year-over-year in the quarter on the impact of the cancellation policy change and a 1% increase in operating expenses that resulted from higher programming and customer facing investments which we partially offset by productivity initiatives.

At our Media segment, the 23% topline growth largely reflects the success of our NHL rights which continue to deliver as expected with strong audiences during the playoffs across all platforms. Excluding the incremental NHL impacts, the underlying Media segment revenue would have been down 2%.

While we are experiencing strong growth at Sportsnet and positive contributions at the Toronto Blue Jays and Next Issue, these were partially offset by continued softness and structural shifts in conventional TV and print advertising. Overall, Media's $36 million or 67% increase in adjusted operating profit year-on-year was for the most part the result of the contribution from NHL and Sportsnet combined with the realization of significant cost savings particularly in the television and publishing divisions.

On a consolidated level, free cash flow for Q2 was up 9% to $476 million, the result of higher adjusted operating profit, lower cash income taxes and lower interest which more than offset increased Capex in the quarter as we continue to focus on more efficiently deploying our investments across the full year. This allowed us to return $248 million in cash dividends to our shareholders with the additional free cash flow helping to fund the Glentel investment and Shaw acquisition we completed in the quarter.

On the balance sheet, we ended the quarter with $1.9 billion in available liquidity. While there was a small pickup in leverage to just over 3 times at the end of a quarter on the close of the Glentel and Shaw spectrum transactions, we continue to focus on managing leverage toward our targeted range to below 2.5 times debt to adjusted operating profit.

Turning to 2015 guidance, we expect to be able to utilize all of the tax loss carryforwards associated with the Mobilicity acquisition in the current year. These losses will reduce our cash taxes for the year by $175 million as they offset cash taxes otherwise payable. Accordingly, we are increasing our full-year 2015 free cash flow guidance by $175 million to a range of between $1.525 billion and $1.675 billion.

To sum up, I would say that Q2 delivered solid margins and cash flow while continuing to demonstrate a positive financial trajectory on both the topline and adjusted operating profit lines and did so at the same time showing some positive inflections in our subscriber metrics.

With that, let's get into the questions you have.

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

Thanks Guy and Tony. Ron, quickly before we take questions from the people on the call, I would like to request on behalf of the team here that as we do on each of these calls that those participants who would like to ask questions please limit them to one topic. That way 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, why don't you please explain how you want to organize the Q&A polling and then we will go into it.

QUESTION AND ANSWER

Operator

(Operator Instructions). Simon Flannery, Morgan Stanley.

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

Thanks very much. Good morning. I didn't hear any reference to the macro environment. Perhaps you could just touch on the impact of the weaker macro trends and in particular the weak currency and what that means for handset prices, upgrade rates, Capex, etc.? Thanks.

Tony Staffieri - ***Rogers Communications - CFO***

Simon, I will take that one. Let me start with the latter part of your question. In terms of foreign exchange as you point out, a certain portion of our costs and in particular handsets are tied to the US dollars. We for the most part hedge our foreign currency exposures many years out and so as we look to the near-term, we've positioned ourselves to be well covered from much of the foreign exchange fluctuations that you see.

Longer-term, we will keep an eye on what the foreign exchange looks like but our intent is to continue to manage our lifetime value and so to the extent that our net handset costs go up, then we will continue to follow an approach where we adjust our prices accordingly, the market allowing, so that our economics remain whole.

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

And on the overall economy, bad debt, all of that kind of thing?

Tony Staffieri - ***Rogers Communications - CFO***

Today we haven't seen any negative impacts from any of that. I think as you look to some of the broader trends in terms of economic factors for Canada, they are somewhat mixed and from our perspective we don't see any adverse implications. As we look to our bad debts both in the consumer as well as the enterprise space, we continue to see that in line with our expectations and in-line with previous trends.

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

Thank you.

Operator

Jeff Fan, Scotiabank.

Jeff Fan - *Scotiabank - Analyst*

Thanks. Good morning and a couple of questions around ARPU and ARPA. It looks like the postpaid ARPU growth slowed a little bit in the quarter but on the other hand, you mentioned the ARPA growth accelerated. So wondering if you can talk a little bit about that, should we start to see the focus on ARPA and maybe multi-device accounts to see that ARPA growth continue to accelerate as we see more connections per account? And maybe you can just talk about the opportunity there in the market. Thanks.

Tony Staffieri - *Rogers Communications - CFO*

Thanks for the question, Jeff. A couple of things. In the near-term, we see both ARPA and ARPU being relevant certainly the proliferation of Share Everything and the movement of customers to that, ARPA is an important metric and so we are pleased with the way that is moving. As we look to the number of connections per device, that continues to move in a positive direction. We told you last quarter it was just under two and it is still trending towards two devices on average per account so that is moving well.

On ARPU, the slight downtick that you saw in this quarter is really a couple of things there. I should say when we round the numbers, this quarter was the 1% increase, last quarter was 2%. If you added a digit to that, the difference is really less than 0.5%.

But the second thing is in the second quarter we put in place some promotional offers that gave customers some larger data buckets and that was on a very short term basis so what that caused was a slight decline in what we typically saw as data overage revenues but isn't something that we expect to be a trend longer-term.

Jeff Fan - *Scotiabank - Analyst*

Thank you.

Operator

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Okay, thanks. Now that you guys have successfully navigated the double cohort and as you look forward, should we see the inverse of some of the factors that affected the results heading into it? More specifically, some lower retention spending that could help drive margins and maybe continued improvements in churn? Thanks.

Guy Laurence - *Rogers Communications - President and CEO*

So to be clear, you say we have successfully navigated the double cohort. I think we have successfully navigated the start of the double cohort. Of course double cohort is not a one quarter wonder so we have got a number of quarters to go on it and we are ready and prepared in terms of our plans and we have executed extremely well this quarter. But we will have to see what the market does in the coming quarters.

John Hodulik - *UBS - Analyst*

Okay, if I could just quickly one more question on the spectrum, you guys have said you've deployed the new spectrum you got from Shaw in the West. Can you talk a little bit about some of the benefits you may be seeing from a network performance or speed standpoint and when can we see the extra 10 MHz you guys picked up in Toronto deployed? Thanks.

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

We have only had it live a couple of days so I'm not sure I've got any results to share with you to be quite frank. In terms of when we deploy it in Toronto, it is going to be a little while yet. We've got some more work to do but we are also not short of speed in the area anyway. So it was more future proofing than immediate need and it will come on stream later this year.

Operator

Maher Yaghi, Desjardins.

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

Thank you for taking my question. I wanted to ask you as it relates to Wireless, you have launched over the last couple of quarters some interesting new product offering with some attractive deals, some additions like music, etc. Can you talk a little bit if those new product innovations that you discussed initially and on the call were the main drivers behind the improvement in the subscriber trends OR it is more related to the promotional activities that you undertook in the quarter?

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

No, the improvement in subscribers is related to the propositions where we are using content. The use of promotions is somewhat muted, has been since I joined the company so it is very much related around content.

Operator

Phillip Huang, Barclays.

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

Thanks, good morning. First just wanted to clarify on the double cohort, our sense is that consumer awareness of June 3 has been relatively low so far. But was wondering -- and you guys have made significant progress on the volume to value strategy. I was wondering as we are heading into the more competitive back half, do you expect to see the improvement we saw this quarter on the wireless trends to sustain?

And then my follow-up on the roaming side is it looks like the decline while it is still dilutive to ARPU, the decline seems to be really improving. Was wondering if you could give us an update on the penetration of your Roam Like Home plan and the resulting usage growth and whether we have better visibility to it becoming accretive to ARPU? Thanks.

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

Can I just clarify the first part of your question; did you say that you thought the awareness of the double cohort was low amongst consumers?

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

Right, yes, our sense is that while we certainly are watching closely, consumers don't really appear to be very aware that June 3 was the date where all of your contracts have ended and so there wasn't a whole lot of -- there was certainly no mad dash to the retail stores for upgrade that we were concerned about months before. I was wondering what you are seeing in the market?

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

So just to clarify that point, actually awareness of the double cohort is quite high amongst consumers primarily thanks to national press writing very large articles encouraging customers to look at their contracts. So I don't think it is a safe assumption that awareness is low. Behavior is certainly different to what it could have been in that you haven't got queues forming out of the stores. But awareness continues to grow and is at a relatively high base. I will let Tony answer the question about the roaming.

Tony Staffieri - ***Rogers Communications - CFO***

I believe your question was on data usage and just to clarify, were you talking about roaming?

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

My question relates to the penetration of your Roam Like Home plans both in the US and I guess early signs in Europe if any at all. And also whether the usage volume growth is increasingly starting to offset the repricing impact and whether we have better visibility to when roaming might actually become accretive to ARPU rather than dilutive currently?

Tony Staffieri - ***Rogers Communications - CFO***

Okay. So there are two dynamics there. In terms of the US Roam Like Home which has been in market a little longer than the international side of it, we are seeing good traction there. So when you look at both data usage as well as number of unique roamers that is up significantly. When you translate that to roaming revenues from the US, what we are seeing is we are pretty much at the inflection point where we are starting to see actual revenues flat to slightly positive. And so as we continue through the summer months, it will be something we keep our eye on but the trajectory seems good in terms of what we expected.

On the international side, that was introduced subsequent to the US one so it is still early days for that one. What we are seeing is very good traction again in terms of number of subscribers using it as well as actual data usage per subscribers. So we are getting the right behavior and so we expect the trend to follow what we have seen in the US.

In terms of impact on our ARPU and revenue profiles for Wireless, still several quarters we expect to have an impact and as I said, Q3 will be an important one in terms of heavy travel season so it probably won't be until early 2016 that we start to see a change in impact on ARPU and revenue.

Operator

Vince Valentini, TD Securities.

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

Thanks very much. Congrats on the better sub adds this quarter. Just wondering if you are getting some traction on the better customer experience and you certainly have identified several programs there, do you have any expectation of when you think postpaid churn will flatten out or even decrease year-over-year?

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

That is a good question, Vince. I think the short answer is no because there is lots of moving parts. So you have got customer expectations which are not static, they move over time. You have got competitors who are actually doing stuff in addition and then you have got the work that we are doing. So it is difficult in my experience over the last 15 years, it is very difficult to forecast at what point you achieve what you are describing. So I wouldn't like having to guess on that except that we are committed to the program of improving customer experience and always will be. As long as I am doing these calls, we will be talking about our plans to continue to improve it.

Operator

Richard Choe, JPMorgan.

Richard Choe - ***JPMorgan - Analyst***

Great, thank you. Just to follow-up on the double cohort a little bit, we have talked about it a lot but just kind of going forward, are you expecting things to get worse, have you seen any evidence of that or is this going to be less of a negative issue than everyone else thought? Also in terms of the prepaid business, it seems like a nice rebound there, should we expect that to continue to be positive going forward?

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

On the first one, I don't know because it depends on what happens in the marketplace and I only dictate what we do, I don't dictate what the market does. So it is not that it is not competitive out there, I don't think you should take away from this call that it is not competitive or that consumers are not aware of the double cohort. It is just that we have managed to navigate this quarter very well. And as we go into the next few quarters with new handset models and so on and so forth, the situation may change, it may get even better, it may get slightly worse. I don't know. But I don't think we can -- I think the point is that we have managed this quarter very well in terms of our retention spend, where we have invested in customers despite the fact that awareness is high and there has been a lot of noise in the marketplace and the press.

The second part of your question I didn't catch actually. Could you repeat it please?

Richard Choe - ***JPMorgan - Analyst***

The prepaid business, we saw growth there. Should we expect that to kind of grow going forward? You mentioned it a little bit of with your new plans.

Tony Staffieri - ***Rogers Communications - CFO***

Yes, Richard, the prepaid piece we are quite pleased with the way that is trending. As you all know, we have relaunched the Chatr brand with a new identity and it is still very early days but there is a renewed focus on that segment of the marketplace. And so we are pleased with the way it is going but it is very early days and tough to extrapolate a trend at this point. It will depend on a number of different dynamics.

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

I think it is true to say that as we over the last year, as we have been cycling through revisiting different parts of our business, Chatr was pretty much at the back of the list given its size and now we have applied the same treatment as we are applying to Fido and to Rogers brands in terms of refreshing them, and sharpening their commercial offers you are seeing a reflection of that phenomenon.

I don't think we know how big the market is for prepay yet so we will experiment as we go on. We just hired a new person to run prepaid for us who has got a lot of experience and let's see what happens on that one.

Richard Choe - ***JPMorgan - Analyst***

Great, thank you.

Operator

Aravinda Galappatthige, Canaccord Genuity.

Aravinda Galappatthige - ***Canaccord Genuity - Analyst***

Good morning. Thanks for taking my questions. I just had a question on the enterprise side. Now that you have got the sort of team together and ready to go, maybe if you can just expand on the magnitude of your opportunity there and what sort of initial milestones you are looking for as you kind of roll out there?

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

So Nitin started at the beginning of the year and he had a good team that he inherited but we supplemented that with a number of other people from Canada and beyond. So I think they are still pulling everything together. I don't want to say too much about the milestones because unfortunately our competitors listen to these calls. But what I would say is that I think as we probably get to Q4 we will be ready to start making announcements in terms of product sets and new commercial offers in line with the plans that we have got. Overall the opportunity around enterprise is very large because we are under indexed significantly. I think we are somewhere around the 20% market share which is very low versus our consumer market. So there is lots of upside but we are approaching the entry to that in a methodical way rather than trying to rush out into the marketplace and as I say, he has only been here 25 weeks so far so.

Aravinda Galappatthige - ***Canaccord Genuity - Analyst***

Great, thank you.

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

I would say more to come on that, I'm sorry I can't give you more detail but more to come but not for this quarter and not for next quarter. It will probably be in terms of the first announcements probably Q4.

Operator

Drew McReynolds, RBC.

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

Thanks very much. Just back to the roaming, obviously we are kind of cycling through the $9.99 year-over-year. We got the Roam Like Home in the US and international that is impacting things. Just big picture maybe for you, Tony, just wondering when you look out over the medium term, do you think that the changes that you put through, those three changes are roughly sufficient to what you have to do to recalibrate the business and get the volume growth? Or is it one of those scenarios where you are constantly putting kind of new recalibrations into the roaming equation?

Secondly, just on the double cohort, just wondering if you can update what percentage of contracts are still on the three year? Thank you.

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

I will take the roaming one if I may. I think the fact that uptake on Roam Like Home is so all-encompassing for our Share Everything customers, it is so well-liked tells you that we have got the formula right and we are constantly reviewing the consumer feedback we get on it but it is broadly positive. So I'm not sure how much more we need to do on roaming incentives. There is a stubborn group of customers who still don't sign up for it even though they are eligible believe it or not because they just can't believe it is true. So my challenge is actually winning them over.

But I think we have largely actually achieved what we wanted on roaming and we have covered now the major destinations so that I think is largely a tick in the box other than a small part of the customer base we get to tackle.

Also as I said in my speech, the competitive reaction has been somewhat muted with the one imitation offer out there that is 40% more expensive. The second half of your question, I am going to turn over to Tony. Can you just repeat it again please?

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

Just an update on the percentage of consumer postpaid subscribers that are still on three-year plans.

Tony Staffieri - ***Rogers Communications - CFO***

So, Drew, the short answer is at the end of the quarter it is zero, because what happens at June 30 is all of the customers then become out of contract. So going into June 3, 12% of our consumer postpaid base was still on three-year contracts and so, as you would expect, some of those renewed into new contracts, largely two-year contracts.

If we were to look at the overall for our consumer postpaid base at the end of the quarter, the impact in terms of total that are still on contract, it was roughly a 1%.

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

That is great. Thanks, Tony.

Operator

Greg MacDonald, Macquarie.

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

Thank you. Good morning guys, with the emphasis on morning. Not a negative comment; I love early morning conference calls.

Question for you is on gross adds, postpaid gross adds. After a number of quarters on decline it showed a nice flat number there and, guys, I'm going to make the assumption that there wasn't a major industry spike this quarter. That, in fact, it seems like your gross adds share has improved this quarter.

Guy, you talked a little bit about the decline in inbound customer service calls; that is a good indicator. Was that the single-biggest driver in that gross add improvement number or were there other things that mixed into that? And can you talk about the profile of gross adds this quarter, Fido versus Rogers, in any way: whether Fido was bigger than Rogers, whether there was a trend toward Fido? I know this is somewhat competitively sensitive, but what can you tell us on the profile? Thanks.

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

I am not sure I would link the reduction in calls coming into the call centers with the increase in gross adds, if that is what you had in mind.

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

Well, what I am wondering is overall improvements in customer service can improve customers coming to your brand. And I wonder whether that is the major thing or whether other things like product profile improvement that you are talking about.

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

I think we are too early in the game for that. You are correct, but I think we are too early in the game to claim that. I think the increase in gross adds came down to different propositions out there linked back to the previous question around the inclusion of content. So I think that is what increased the gross adds.

The decrease in the number of calls coming in is because we are increasing our online self-serve number one. And secondly because we've got a higher first call resolution now in fixing customers issues when they do call us without the need for them to call back and a number of other improvements. Customer service is always a cocktail. It is never one or two things. It is a whole series of things.

So I wouldn't link those two right now; probably in the mid- to long-term I would like to get to that point to be quite frank but it is a bit early for that.

Tony Staffieri - ***Rogers Communications - CFO***

In terms of the split, Greg, on gross adds, we don't disclose as you described specific numbers related to Rogers and Fido but what I can tell you is two things. One is the majority of the gross adds come in on the Rogers brand. And two, there hasn't been any significant or material shift between Rogers and Fido over the last several quarters.

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

That is helpful. Thanks, Tony.

Operator

Bob Bek, CIBC.

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

Thanks. Good morning. Guy, you highlighted in your comments the inherent strength of the cable pipe for broadband speed and throughput. Is it fair to say you are going to start pushing these advantages more going forward? I know you have got the IGNITE product in the market for a couple of quarters but you've got a competitor that has spent a few years building a brand about fiber and just looking to see whether you are in a position now where you think you might be more aggressive as far as pushing what is a very strong inherent strength of your network?

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

I think over the last year, being human beings we can only talk to so many things at once and we focused on the Wireless business and we have got traction there. We are certainly turning our attention now to the whole residential area and my view was that we needed to accelerate the development of our legacy TV products, that we needed to reposition broadband and that we needed to make improvements in customer service there.

And so we have repositioned Internet now with IGNITE. We have a new guide coming out on NextBox next week and therefore I would say we are getting ready to put our foot down to execute around our natural advantage being a cableco.

So the short answer to your question is yes. But again, don't expect some set of fireworks to go off tomorrow morning and then that is it. This is about steady methodical improvements over quarters and given that we are coming from somewhere behind is going to take time to get traction on that. But we have a number of natural advantages.

I would say those were enhanced by yesterday's decision by the CRTC in that they have created a more level playing field between cableco and telco and I am encouraged by that. And therefore, yes, we will put our foot down on improving that business steadily as we have with Wireless.

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

That is helpful. Thank you. Just a clarification for Tony while I am on here. The tax loss carryforwards from Mobilicity just to be clear, it is entirely used in 2015 so by 2016 we would return to a more normalized cash tax outlook?

Tony Staffieri - ***Rogers Communications - CFO***

A couple of things, Bob. We are going to use all of the tax losses in 2015. And as we get into 2016, I don't want to extend myself and provide guidance for that year. There are a number of tax planning things that we continue to work on and so stay tuned in terms of cash taxes for 2016.

Operator

Tim Casey, BMO.

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

Guy, you mentioned that you are releasing a new guide this week. Can you just talk a little bit more about what you are doing on the video side to try and arrest some of the declines that you have experienced over the last several quarters? Thanks.

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

So just to take you backwards to something I said a couple of quarters ago and I think you may have heard these comments before, Tim. When they started the program for IPTV which was before I joined, there was a decision to stop development of the current legacy products which in hindsight was probably a mistake and we have to fire that machine back up again which is taking us a bit of time. And therefore, I am continuing to invest in the legacy products in terms of the user experience with the discovery mechanisms, search mechanisms, ease of use on the use cases that consumer uses repeatedly and so on and so forth.

So this first release coming out is largely foundational and it is what the public will actually see and play with is probably only about 25% of the codes that we are actually releasing. The other is preparation for future releases. Nevertheless, they will see some improvements that they have been asking for and we have had the new release out in test with 500 of our own staff for the last month or so while we have been refining it and certainly the feedback has been good.

But I would say the general philosophy and trajectory is that we want to continue to enhance the legacy product and whilst we continue to work on IPTV so that we can get into a better competitive situation. And that combined with my previous comments around Internet and executing a revitalized residential play over a number of quarters, encapsulates the plan.

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

One of the other cable companies has really started to deemphasize the voice bucket and really look at other products. Are you guys changing any of the way you go to market with bundles or are you still pursuing a more wholesome offer?

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

I think we have some basics to fix to be quite frank and I would say I am more focused on that. The fact that the search capability on our service wasn't good enough and will be vastly improved and things like, I would say our direction of travel is more that than what you have described.

Operator

Robert Peters, Credit Suisse.

Robert Peters - ***Credit Suisse - Analyst***

Thank you very much for taking my question. Maybe just circling back onto roaming for a second. What is the deployment of the Roam Like Home plan in Europe? I was just wondering I think in the past you have indicated or at least that the majority of your roaming comes from people traveling in the US. I was wondering is there any kind of way we can think about the proportion of the roaming that is coming from the US versus Europe in terms of the impact of the new European roaming plans?

Tony Staffieri - ***Rogers Communications - CFO***

A couple of points to be helpful. First off, when you look at our total revenue profile, less than 7% of our network revenues are coming from roaming. So just to put in perspective of the size of the total bucket, of that, roughly 2 to 3 points is international with the rest being US. And so as I mentioned before, the US one in terms of the

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product it has a bit more maturity than the international and so the positive trending on that is more pronounced. Still early days for international and as I said, we expect it to closely follow what we saw in the US. Hopefully that helps in terms of putting it into perspective.

Robert Peters - ***Credit Suisse - Analyst***

That is fantastic color. Thank you very much. Maybe talking about some of the inherent advantages in cable and specifically when we look to see the fact that there is DOCSIS 3.1 networking gear that is going to be coming out I believe later this year if not out already that can do higher speeds and frankly comparable speeds that have been seen by some of the fiber offerings. How do you guys think about managing the speeds available to customers going forward in like say the next year or so?

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

We have very clear points of view on that and I am absolutely not going to share them with you. Sorry about that.

Operator

Adam Shine, National Bank Financial.

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

Thanks a lot. A lot of the talk around customer service obviously focuses on the call center. But maybe if we go into the retail stores, are you generally satisfied with where KPIs are trending and is there an opportunity still to perhaps achieve some efficiencies and drive some more throughput through the retail outlets? I say that in the context of -- and I'm not suggesting that the Rogers staff is slower than peers but there is a lot of maintenance work going on particularly on the weekends maybe bogging down some of the sales.

And curious if that is part of some of the backend stuff that is being worked on to maybe drive as I said additional throughput through the system for low hanging fruit in terms of additional subs going forward?

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

So we were lucky enough to recruit Dirk Woessner from Deutsche Telekom who is an expert in retail and managing retail channels. He joined us a number of months ago and it is true to say that he has taken a firm grip of what we are doing in retail but I will never be happy about what we are doing in any channel to be quite frank because I always want to improve whatever we have got. He feels the same way and we are making a number of enhancements on the retail backend IT systems at the moment which will continue over the coming quarters and beyond in fact.

So there is some work to do on the aesthetics because formats get tired and need refreshing and foot traffic also degrades the stores as well. But primarily our focus is actually on the IT and backend process side.

In addition, we just built our first retail training center which we launched in this quarter and now our retail managers are going through much more rigorous and formal training and that will extend down to the front line that they manage as well which brings us more in line with the set of European norms in terms of the amount of training that is done and the rigor with which it is done.

So we've got some very talented people in our retail estate and I get letters from customers on a regular basis telling me that but it is true to say that I think that perhaps the support mechanisms for the stores have not been optimal and the training support as we develop new products and services has also not been there and that is really what Dirk is focused on at the moment and I think you will continue to see improvement in that area as a consequence.

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

Okay, thank you for that. Maybe just one quick one for Tony. Just in the context of the Rogers Home Phone, particularly as we look to see Wireless substitution accelerating and we are obviously seeing the telephony disconnects across the marketplace picking up pace. But for Wireless subscribers you can get the Rogers

Wireless Home Phone for $10 in sharp contrast to what otherwise appears to be a $35 to $40 plus landline proposition. Can you speak to the acceleration and the uptake of that product?

Tony Staffieri - ***Rogers Communications - CFO***

If you look at trending on that, there's a couple of things. One is on the Wireless Home Phone product there is a propensity for it to do better outside of what I would describe as our natural footprint. So that will give you a sense of the mix.

And two, the volumes are low and relatively steady so we don't see a significant increase in what you describe as substitution within the footprint. So I would still describe it as relatively modest. Much of what you see on the revenue front for Home Phone continues to be some of the repricing that you are seeing in the market and us matching that particularly as part of a bundle.

Operator

Rob Goff, Euro Pacific.

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

Thank you very much for taking my question. My question would be on the 1 gigabit service. To what extent do you see that as a niche service or is it a broadband flagship? And could you give us any additional perspective on your ability, timing, cost to introduce that type of service?

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

I would love to but I think that is going to stray into areas which I don't want to share with my competitors right now. I think I would say stay tuned on that. Sorry.

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

Okay.

Operator

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

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

Thanks everybody from the team here at Rogers for investing some of your time with us this morning. I know it is a busy period and I know it is a bit earlier than usual but we very much appreciate your interest and support. If you have questions that weren't answered, please give myself or one of my colleagues, Dan Coombes or Bruce Watson, a call. All of our contacts are on the earnings release this morning and we would be happy to take care of you as quickly as possible. So this concludes today's teleconference.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. You may now disconnect your lines.