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Q3 2015 Rogers Communications Inc. Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, thank you for standing by. Welcome to the Rogers Communications Q3 2015 results analyst teleconference. (Operator Instructions). I would like to remind everyone that this conference call is being recorded today on Thursday, October 22, 2015 at 8 AM Eastern Time. I will now turn the conference over to Miss Amy Schwalm with the Rogers Communications management team. Please go ahead.

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

Thank you, Ron. Good morning, everyone. I'm here with our President and Chief Executive Officer, Guy Laurence, and our Chief Financial Officer, Tony Staffieri. Today's discussion will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's earnings report and our 2014 annual report regarding the various factors, assumptions and risks that could cause our actual results to differ. With that let me turn it over to Guy to begin.

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

Thanks, Amy, and good morning, everyone. This morning we released our Q3 results and I'm pleased to report that we continue to make solid progress on the fundamentals. We delivered growth in revenue, adjusted operating profit and free cash flow whilst delivering a steady stream of new commercial initiatives. These figures show a disciplined approach to our plan and continue to drive positive financials along with a steady improvement in subscriber metrics.

Diving into the figures, revenue growth was up 4% year over year whilst adjusted operating profit increased 3%. At the same time free cash flow was up almost $300 million. In wireless network revenue grew by 3%, adjusted operating profit was marginally down as a consequence of new customer additions up 19% and hardware upgrades up 14% from the same quarter last year.

We successfully acquired and retained customers at a lower average cost thanks to strong channel and pricing discipline. We added 77,000 postpaid Wireless subscribers and I'm also pleased to report postpaid churn was flat year-over-year for the first time in four quarters despite a highly competitive market and the double cohort.

During the quarter we made a number of moves to strengthen our Wireless proposition. In September we expanded Roam like Home to another 40 countries in Latin America. This industry leading program is now available in 75 countries around the world with 97% of our customers' roaming activity now covered by these plans.

We now have 2.1 million customers enrolled in Roam like Home and customers are now using their devices like they do at home. In the US customers are using 800% more data and in Europe they are using 1,000% more data. A year ago I said we would solve the roaming problem for our customers and we have.

We also expanded Share Everything with the launch of Share Everything Plus. Customers subscribing to these plans can now choose from one of three content experiences in their packages: Texture by Next Issue, Shomi or up to three Spotify premium accounts. We now have 2.7 million customers on Share Everything plans.

We also launched Wi-Fi Calling which lets our customers make calls and text over a Wi-Fi connection. So if a customer enters an area like a basement where there is no cellular coverage, they can make a call over the Wi-Fi network. We were first to launch this in Canada on the iPhone and as more devices come to market with this capability we will continue to roll it out.

Continuing on the network front, our LTE network is now over three times larger than at the beginning of 2015. We offer unsurpassed LTE coverage in Canada through our new extended LTE coverage arrangements. We also activated AWS-1 spectrum just one month after acquiring it, increasing LTE network capacity and the speed millions of customers can get on our LTE network in key cities in BC and Alberta.

Turning to residential, Cable revenue was up 1% thanks to strong growth in Internet and the significant uptake of Rogers IGNITE. Interestingly the majority of our new customers are now asking for speeds of 100 megabytes, so it is clear the need for speed is now becoming the norm.

As the customer need for speed increases we are readying our network for the rollout of IGNITE Gigabit. We will start in downtown Toronto and the GTA this year and complete our entire cable footprint of 4.1 million homes by the end of 2016. In case you missed it that is well ahead of the competition for a fraction of the cost. Even today over 3.4 million homes in Ontario can access Internet speeds that are up to five times faster than the competition.

For 2016 we recently announced the world's largest commitment to broadcasting live sports in 4K with HDR. This is the next big evolution in television viewing. This announcement is a great example of how we are bringing together our assets to strengthen our residential business and bring more innovation to customers. The delivery of 4K content requires considerably more bandwidth that will allow us to exploit our fiber coax technology advantage and also further differentiate Sportsnet.

Beginning next year customers will have access to over 500 hours of live sports, movies and shows in 4K including every Blue Jays home game, over 20 marquee NHL games and 4K movies, TV series and shows on Shomi and Netflix. This comes as we approach the holiday season when it is expected that 40% of all TVs sold will be 4K.

Moving to Media, both revenue and adjusted operating profit were up substantially with improved financials at the Blue Jays and continued strong growth at Sportsnet. Sportsnet continues to be rated number one most-watched televised sports brand in Canada by a widening margin. And we have seen some impressive viewership stats coming out of Sportsnet thanks to the great performance of the Jays.

It's actually been amazing to see how the city and the country have come together to cheer on Canada's ball team. Congratulations to Paul and Alex, they deserve all the credit for a great season so far with more to come in Kansas City over the next two games.

We also took Shomi out of a successful beta trial and made it commercially available to all Canadians. It is early days but we are pleased with its progress.

On the enterprise side we introduced the first in a series of leapfrog technologies with the launch of a managed Wi-Fi service. This new service will help managers free up time and capital associated with managing legacy IT technologies and infrastructure. These solutions, offered as a service, will remove costly legacy hardware, alleviate their maintenance and security concerns and allow businesses to connect quickly to their people, sites and customers.

Finally, we continue to make steady progress on customer experience. We continued to reduce calls into the call center again this quarter. Year to date we have reduced the number of calls by 12.4% as we continue to invest in self-serve. In the next six weeks the annual CCTS report will come out and we expect to see a continued decline in the number of customer complaints.

In summary, it was a busy and productive quarter. Our results show we've got the right plan, we're executing with discipline and we are delivering steady improvement. I expect this progress to continue. I will now turn it over to Tony to provide further details on the financials.

Tony Staffieri - *Rogers Communications Inc. - CFO*

Thanks, Guy, and good morning, everyone. I'll provide a bit more detail around certain aspects of the Q3 financial results and then we can get to your specific questions.

We are pleased with our progress in the third quarter. We continue to generate solid operating margins leading to strong cash flow, notwithstanding the continued investments we are making in our customers. While at the same time, as Guy mentioned, we continue to gain traction driving top-line revenue growth which grew 4% year over year with good pull through from our value added offerings. And adjusted operating profit this quarter of $1.35 billion was up 3%, so we are clearly making steady progress.

Wireless network revenue growth of 3% was driven by our ongoing strategic focus on lifetime value and this is supported by the growing penetration of our Share Everything plans which now represent 33% of our total postpaid base, up from 17% last year, helping to drive another quarter of ARPA growth of 4%. So ramping up well and with plenty of room for continued growth. And Q3 represented the fifth consecutive quarter of year-over-year growth in blended ARPU.

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, so that sequentially the increased volumes are beginning to offset the pricing changes, and on a year-on-year basis the rate of decline in roaming revenues is decelerating.

When adjusted for roaming, Wireless home phone and the addition of the lower ARPU Mobilicity customers, blended ARPU growth was 3% in the quarter. New postpaid gross customer additions were up 19% in the quarter as new product differentiators gain traction with solid channel execution while we continue to maintain pricing discipline.

Our cost of acquisition for new customer adds was down 9% year on year and, importantly, as Guy mentioned, churn was flat year-over-year despite heightened competitive activity associated with the double cohort which helped boost postpaid net additions to 77,000, so continuing improvements in gross and net addition trends.

Smartphone demand has remained strong as we activated 737,000 in the quarter, one-third of which were new subscribers. Not only were smartphone activations up 20% overall year over year, in particular we saw a 28% increase in higher value iPhone customer activations during the quarter versus Q3 of last year.

Smartphone penetration of our postpaid phone base now sits at 88% and we are ramping on LTE enabled smartphone activations. These devices continue to drive significant growth in data consumption as customers consume roughly twice the data on LTE versus 3G.

This quarter we upgraded 14% more devices for existing subscribers than the same quarter last year with a corresponding increase of 13% in retention costs. Wireless adjusted operating profit was down slightly at 1% year over year as top-line growth was offset by higher customer acquisition and retention spending.

Turning to Cable, revenue was up 1%. We had strong growth in Internet revenue offset by declines on home phone and television, reflecting the household mix shift that is occurring in the market and the importance of Internet in driving household ARPA and margin growth.

We continue to incur losses in the quarter on video subscribers and continue to evolve our offering on this front to serve the changing ways consumers are viewing content. They want more on demand and greater flexibility in how, when and where they consume content.

We improved the features of our existing set-top box platform and we see our recent 4K announcement as a key differentiator. And we are investing to offer an even more compelling video offering that embraces OTT, IP video broadcast and Pick-and-Pay. We are investing in our product to where the consumer is headed and so changing our trajectory on subscribers for the video product will take some time.

Cable adjusted operating profit was up 2% year over year in the quarter on revenue flow through and from cost efficiency initiatives. While the overall change in cable TSUs was flat year-over-year, we continue to see some improvement in churn across all three cable products.

We saw strong growth in Internet net additions, which were up 50% to 24,000, and we are seeing an increasing demand for speed. As we see this demand grow we are pleased with the competitive advantage that our fiber-coax network is delivering both from a customer experience perspective and, importantly, from an investment return lens.

On the customer experience front, today we offer Internet speeds across our entire footprint at multiple times the rate which our telco competitor can deliver. Virtually all of our footprint can receive speeds of up to 250 megabits per second. And as announced, will deliver 1 gig of speed to our entire footprint by end of 2016.

From a capital efficiency perspective we can offer these speeds with little incremental investment thereby providing immediate financial payback models. We do not have to make upfront $1 billion investments that come with the execution uncertainty of penetration rates.

Under our 1 gig announcement we will be able to make these speeds available to our entire footprint using DOCSIS technology at an incremental cost of less than $50 per home passed. And of course we will continue to invest in bandwidth capacity as demand evolves, but that will be within our Capex envelope which we expect to decline in coming years.

We view this as extremely capital efficient compared to what an immediate fiber to the home investment strategy means for telcos. As we continue to focus on growing our return on assets in the near-term we see network and investment payback models measured in months rather than decades as a key capital differentiator for our Company.

Turning now to our Media segment, top-line growth was up 8%, the result of continued strong growth at Sportsnet and the Toronto Blue Jays, partially offset by continued softness and structural shifts in conventional TV and print advertising. Overall Media's adjusted operating profit was up $35 million year on year with solid revenue flow through combined with the realization of cost savings, particularly in the television and publishing divisions.

On a consolidated level free cash flow for Q3 was up 78% to $660 million, a result of higher adjusted operating profit with lower Capex, lower cash income taxes and interest. Normalizing for the cash tax benefit from the consolidation of Mobilicity, free cash flow would have been up approximately 30% year on year. This allowed us to deliver $247 million in dividends to shareholders, an increase of 5% from the same quarter last year.

Capex was lower in Q3 primarily due to timing of spend in Wireless. We expect full-year Capex for 2015 to come in just below the top end of the guidance range we had previously provided.

Turning to consolidated results below the operating profit line, adjusted net income and earnings per share were up about 17% on growth in adjusted operating profit and higher equity income from our joint ventures, partially offset by higher depreciation and amortization expense.

On the balance sheet, we ended the quarter with $1.9 billion in available liquidity and leverage sits at approximately 3 times. We continue to be focused on reducing leverage to our 2.5 times target.

To sum up, I would say that Q3 showed steady progress on our growth objective, strong financial results underpinned by solid customer growth and operating fundamentals. With that let's get into the questions you have.

QUESTION AND ANSWER

Operator

(Operator Instructions). Jeff Fan, Scotiabank.

Jeff Fan - *Scotiabank - Analyst*

Wanted to just explore the comments regarding broadband and DOCSIS 3.1 for a second. Tony, you mentioned the less than $50 per home. Can you just break that out with respect to is that all fixed and what is the rough success base Capex per home going forward to going to be?

And also just broadly speaking, you talked about Cable Capex -- or Capex intensity coming down. I am wondering if that is -- you are talking about just consolidated or is that just in relation to Cable.

And also speak in light of all the investments you are making including DOCSIS, 4K as well as the next gen video service. Because I think this is a pretty important subject given how much the telcos are spending. I mean we are estimating close to $2,000 plus for their spend. So this is an important thing I think to address. Thanks.

Tony Staffieri *- Rogers Communications Inc. - CFO*

Thanks for the question, Jeff. A couple things, I will start with the second part of your question. In terms of our Capex envelope and capital intensity, my comments related to our Capex envelope overall. So this year we provided guidance of up to $2,450 and we intend to come in slightly under that for the coming year. Next year we expect to actually take that down as a number of our programs have been fully implemented.

On the Cable front specifically we will continue with some of what I would call business as usual programs segmentation, for example, our set-top box deployment while we had a ramp up in previous years is now coming down. And so those bode well for the cable side of it.

With respect to your question on providing 1 gig, a couple of clarifications. Our 1 gig offering isn't dependent necessarily on DOCSIS 3.1. We can offer 1 gig of speed with our existing DOCSIS technology. The $50, or less than $50 I should clarify, is making that available to our entire footprint. We will continue through segmentation to broaden our capacity as demand evolves, just like we would in any other case and just as we do today.

DOCSIS 3.1, as we roll that out next year, that will be an opportunity to more efficiently offer the bandwidth needed for 1 gig. And so, as demand for that level of speed grows DOCSIS 3.1 will provide an elegant what I would describe as capital efficient way of deploying that more broadly.

So, overall the cost of it to make it available is within the $50 number that I provided. The success based capital is nominal; it is not unlike what you see today in terms of modem spend and minor miscellaneous Capex related to it.

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

If I may chip in on this, Jeff, actually. I think that there is probably and under appreciation of the success of our strategy of buying the 700 spectrum a couple of years ago coupled with the Mobilicity acquisition and the swap of spectrum with WIND. So this has enabled us to significantly reduce our anticipated Capex on wireless which is adding into this overall consolidated view of our Capex spend over the coming years.

Basically we have deployed the beachfront spectrum and we been able to deploy the Shaw spectrum and we are in the process of deploying the other spectrum with Mobilicity and WIND. And that really does have a significant effect on what we then need to spend going forward on Wireless.

Also on the Cable side we have made significant investments on cable infrastructure, as Tony alluded to, on that segmentation side in the run up to our announcement on 4K. So, although you see it from the perspective it is subtly announced. You say, oh, that is good, they've started to do this. We have actually been working on this for over 18 months.

Jeff Fan *- Scotiabank - Analyst*

Okay, thank you.

Operator

Simon Flannery, Morgan Stanley.

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

Very nice job on the net adds and the gross adds up 19% was very healthy. Perhaps -- I think you did touch on it, but if you could just desegregate it more. Do you think this is mostly a double cohort thing or is this reflecting perhaps getting the why Rogers question and that more people -- you have got more mind share and you are driving more traffic to the stores that is will be sustainable beyond the end of the double cohort?

And related to the net adds, the churn flat year-over-year, that is good, but there is still a gap to the best-in-class. Do think there is an opportunity over the coming year or so to really start to turn that downward and have improvements year over year? Thanks.

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

Well, I would say yes to all of the above and we will solve world peace while we are at it (laughter). But I would say you are seeing -- companies like ours are not one trick ponies. I mean this is the coming together of a number of different strategies.

The first one is our inclusion of content in our packages which is getting leverage in the marketplace. It is very clearly that the customer sees value in these and, as you know, we have content in the majority of our high-end packages now.

The second area is channel discipline as we put a lot more discipline into how and what we invest in terms of each channel by week, by device and so on and so forth and we are getting better and better at that.

Thirdly is we are getting better at customer service, we have got a long way to go. I am like a broken record in saying this is a journey, not a destination. But then nevertheless we are seeing green shoots in this area and that is also contributing.

If I am honest with you, I don't actually sit there and breakdown which of those is actually contributing towards the 77,000. I am more focused on making sure that every week we just get better at each and every one of those headings.

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

And on the churn side?

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

Well, the churn side is the next step after you have solved some of the other issues. As you get more traction with your offers, as customer service gets better, etc., etc., then eventually it will impact churn. But it is interesting that you are asking about that.

I mean, most people have been asking for the last year when we'll get churn to a point where it is flat. And everyone said I think in the run-up to this call that it couldn't be done during a double cohort. Now I am not saying it is going to be flat next quarter, by the way, because there will always be some vibrations in the figures. But nevertheless this represents significant movement in a positive way.

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

Thank you.

Operator

Drew McReynolds, RBC.

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

Guy, you have mentioned in the past over the last couple quarters your focus on ARPU-IN being greater than ARPU-OUT. Just can you comment on that just in the absence of a postpaid ARPU dynamic?

And then secondly, just on the Internet revenue growth up within cable a little bit higher than expected. Can you just talk to pricing and usage dynamics? And then on the Internet net add front, can you comment at all kind of what percentage is consumer versus SMB? Thank you.

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

Let me talk to the -- I will do the Internet one and I will let Tony cover the other point. So what we are seeing is the need for speed. The customers have started to realize that actually they need significant speeds coming into the home to cope with the number of connected devices in the home that they have got.

So you have got two phenomenons going on, the number of devices connected to a router is going up and the amount of consumption per devices is going up. And that just means you need more speed because they're used simultaneously. The traditional family model of husband, wife, two children, a Labrador dog sat watching the TV has broken down and the fact is they are all in different rooms watching different things at the same time.

And therefore the need for speed is increasing and therefore they are trading up to the higher packages. Which is why when I look at my new customers coming in the majority are now going for 100 megabytes, which is a relatively new phenomenon but it is there and I don't think it is going to change. Now let me turn it back to Tony for the first point.

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

Drew, on your question of net adds, from a net adds perspective consumer and business, we don't split that out externally. What I can tell you is we are pleased with the net additions on both those sides of the customer fence.

And then if you could just clarify, I think your question was on postpaid ARPU-IN versus OUT. And let me try to answer it and hopefully it gets to what you're getting at. We continue to see very good progress on ARPU-IN versus OUT. Our ARPU-IN is at the point where it is clearly above ARPU-OUT. And so, our customer growth is accretive to our ARPU profiles.

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

Okay, thank you.

Operator

Greg MacDonald, Macquarie.

Greg MacDonald - ***Macquarie - Analyst***

Congrats on some turnarounds in these results. I want to focus a little on Media ad trends. And I will ask this a couple of ways. Number one, excluding sports, I wonder what the trends are. We have seen some reasonably negative trends in other companies, sort of negative 3% to 5% on the revenue front and that is supported by Corus' results this morning. Can you talk a little bit about what is happening excluding sports?

And then let's focus on sports -- fantastic result out of baseball. Clearly that is additive. I wonder if you might comment on the NHL viewership, the view of that being somewhat disappointing relative to targets and what that means for renegotiation of ad trends next year versus the baseball. Which I think it's an understatement to say has beat in terms of viewership and what that means for renegotiate on add trends next year.

Are you prepared to say whether that is a net flat or positive or whatever? I will take a punt and ask you that. Or if you are not prepared to talk future trends then what can you say kind of on your expectations overall for what you have seen out of sports? It looks like things are relatively positive. But I would like to see if you would give a little more color. Thanks.

Tony Staffieri *- Rogers Communications Inc. - CFO*

Greg, a couple of things in terms of -- let me start with the first part of your question. When you exclude sports our conventional -- what I would describe as our conventional TV ad revenue, which is a very small part of the portfolio, continues to decline. And so, that is declining at a rate of 2% year on year. So not dissimilar to what you see in the rest of the industry. And sports continues to increase at very healthy rates on a year-on-year basis.

When you look at sports overall two things I wanted to clarify. One, absolutely the Jays continue to set records in terms of audiences and we are pleased with that. And that is translating into some of the revenue you see in our third-quarter results. Keep in mind that that is all pre-playoff revenue, and so there will be additional upside as we look to Q4.

With respect to the NHL, I am not sure where you get your stats from. We were extremely pleased with the first season of NHL. Viewership was up year on year in total. And our objective of increasing the number of our eyeballs on NHL games was achieved in double-digit numbers in terms of year-on-year growth. So we were pleased with that and we were pleased with how that translated into financial performance for the first year.

As we head into the second year, we are looking forward to continued growth on that and continued leveraging of some of the things we did really well in the first season. As you look to the fourth quarter, I did want to caution, we will certainly have the upside -- the financial upside related to the Jays playoffs.

And on the flipside, when you look at our NHL performance, our costs are amortized on a per game basis and we will have a higher number of games compared to last year in the fourth quarter. And so, while on an overall basis we continue to expect year-on-year growth in NHL profit, you are not going to necessarily see that in the fourth quarter. Hopefully that answers your questions.

Greg MacDonald *- Macquarie - Analyst*

It is and, by the way, where I was getting my insights on is essentially from the media. The view that that the media has put out that there were disappointments relative to budget on what the NHL numbers had been. But I think you addressed it in your view that there will be a net positive growth next year when it comes to advertising for overall Sportsnet and that is kind of what I was looking for.

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

Yes, what I said was the sports media have a lot of insight into the quality of the games and the teams and the tactics that are used; they don't have a lot of quality insight into what our budget is.

Greg MacDonald *- Macquarie - Analyst*

Okay, well said. Thanks, guys.

Operator

Maher Yaghi, Desjardins Capital Markets.

Maher Yaghi *- Desjardins Capital Markets - Analyst*

I wanted to go back to your initial discussion about the differential between your investment and getting Internet speeds up into the 1 gigabyte versus the investments required by the telcos to do that. And I was surprised by you saying that you are seeing a lot of traction for clients at 100 megabyte right now, which is much faster than I think a lot of people had expected since the most recent numbers we are seeing from the CRTC indicate that the majority of customers in Canada are choosing speeds between 10 and 30 megabyte.

So, I would like you maybe just to discuss a little bit how you see the deployment of your 1 gigabyte strategy helping. And just in terms of cost, when you talk about the cost to deploy 1 gig, what is your definition of that cost from -- in terms of technology? What are you counting in those dollars and are you counting the set-top boxes as well?

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

Let me take the first part and then I will turn over to Tony on the cost side. So, the CRTC figures that you are quoting are kind of rearview mirror figures and actually not terribly current. And I'm actually talking about a phenomenon that has happened in the last couple of months. And what you are seeing is that the public has started to say to itself that they need to ensure they are kind of -- the household is fit for purpose.

There is nothing worse for mom or dad than to come home from a long day's work and have the kids complaining that they can't get onto the Internet. There are many things that they will put up with in life but that is not one of them. And I think that given the plethora of announcements around 1 gig and speed over the recent months from a number of competitors plus ourselves, the public has just woken up to the fact that they need to get equipped for the future.

So the need for speed is here. I don't see it being a one quarter wonder. I think it will continue. And I think then as 4K TVs come into the marketplace, and again I go back to our plans which have been laid over a very long time. We talked to the TV manufacturers a very long time ago about accelerating 4K TV sales in Canada. And I think when you come to Black Friday you will be amazed at how many 4K TVs are out there in the price points they are at.

So this is a, if you like, loosely coordinated but very clear intent across the industry to get 4K TVs with HDR into the marketplace and that will then further drive the need for speed as we go forward.

Tony Staffieri *- Rogers Communications Inc. - CFO*

Maher, with respect to your question on costs, so let me reiterate that the sub $50 number that I quoted to you is all the augmentation we need to offer 1 gig to the entire footprint. So it includes the equipment investment we need to make at that node and so that is all in that number.

In terms of -- I wasn't clear about your question. In terms of CPE set-top box, if you mean modem, to offer the 1 gig, it will be the next generation modem that we have out today that is coming into market shortly. And that is at a price point that is not dissimilar to what we currently pay.

So our incremental success based capital is I would say not materially different from what it is today. As demand for the 1 gig or actual take-up rates on the 1 gig increase we'll continue to invest in bandwidth capacity. We will continue to invest in segmentation just like we have. And so, we don't see that as an incremental Capex investment from what we are otherwise doing today.

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

Yes, I think just again to echo about the fact that this program on 4K in 1 gig has been developed over a very long time. In fact, the modem design for the 1 gig modem I signed off I think it was the second week of December last year. I mean, this has been a project in the development in complete secrecy for a very long time which we are now bringing to the market.

But because we have had so much time to develop it, it has allowed us to make sure that we are not burning unnecessary capital on the production of these boxes and modems because we have built into our run of business as we have come up towards the announcement.

Maher Yaghi *- Desjardins Capital Markets - Analyst*

Thank you. And just one follow-up question on the incumbent's investment in fiber to the home, during the CRTC hearings they alluded to the fact that they need 50% market share take up of fiber to the home -- in the fiber to the home territory to make that investment worthwhile. What is your view on that assumption, Guy?

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

I can't speak for my competitors. I am sure they are right.

Operator

John Hodulik, UBS.

John Hodulik - ***UBS - Analyst***

Great, I guess just following up on the last question. Guy, given all the focus on the increasing need for speed and your guys' positioning and the rollout of the 1 gig, I mean do you expect to see a change in trend on what we have been seeing on subscriber trends in broadband and maybe ARPU trends as well?

It seems like if I put two and two together you saw something of a meaningful improvement this quarter. I mean, should we expect that the rest of the year and into 2016 as this get rolled out? And two, should this have a pull through effect on video if you are in fact adding more high-speed data subscribers?

And then lastly on the 4K strategy, can you talk about the set-top box requirements? I mean, are you guys going to be rolling out 4K compatible set-tops to new subscribers going forward? And if so, is there a change in the costs of those boxes?

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

Yes, so, on the last one, the 4K set-top box. Again like the modem, we developed this over a number of periods. So all we're doing is basically upgrading the current box to the 4K box. There is no change in the cost profile of that other than a couple of dollars. What was the -- just remind me the other two earlier parts?

John Hodulik - ***UBS - Analyst***

The first is really just the -- with this new trend in terms of in the last couple of months the need for speed and your positioning, can we see some faster subscriber growth in high-speed data more similar to what we saw say 2011-2012? And a change in trend on the ARPU side as well?

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

Well, I think it will come. I wouldn't get too overheated on the fact that it is going to now happen instantaneously in the next 12 weeks. And the reason for that is because a number of things are coming together, but they will come together in a certain way.

You have got the penetration of 4K TVs, you have got the penetration of the 4K set-top box, you have got the content of course, which is critical, there is no point in having the first two if you don't have the third. And what we have committed to is a number of marquee NHL games together with the entire home Jay’s season next year.

And so, therefore what happens as those things come together then the public awareness is increasing, that turns into purchasing consideration, that turns into then acquisition, that then turns into a bill, that turns into ARPU. So all of -- what we said is we are focused very much on steady improvements every quarter with a long-term perspective to growing the top line and that is what we are focused on.

So, it will come through now because all the piece-meal parts are now in place to make this happen. And for instance we are very, very confident now with the Jay's games next season that will have for not only 4K but 4K with HDR, which produces a fantastic brilliance in color and brings something to the game that no one has seen before. But all these things will come through one quarter after another and they will pull through the customers and the ARPU with them as we go.

John Hodulik - ***UBS - Analyst***

Okay, thanks.

Operator

Bob Bek, CIBC.

Bob Bek *- CIBC World Markets - Analyst*

Guy, just on the Internet topic again. I think increasingly with each one of these quarters and these calls you have highlighted the strength of your pipe more and more and we are building to a crescendo here as to your advantages, which I think is great. But do you think this -- should we think that this is going to translate into a greater push from a consumer perspective?

I mean I think most people or some people know the advantages you have currently, but do we expect to see that picked up in the promotional not necessarily price but in advertising the strengths you have? Especially given the advantage you have on rolling to bigger speeds in 4K relative to your competitor. Can we expect that to be more obvious to the average consumer and therefore perhaps a bit more of a battle for subs going forward?

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

Well, I think -- it is interesting because we didn't actually wake up the market on speed, it was actually our competitors who are disadvantaged on speed who woke up the market first. We weren't ready to announce because we have our plans and we were intending to announce them this quarter. So actually I really can't thank my competitors enough for educating the market on speed. And of course we have a strategic advantage there that we will now build on.

Bob Bek *- CIBC World Markets - Analyst*

Okay, and coming back to your comments on the changing offer at some point. I know you won't elaborate on that at the moment, but perhaps a bit of kind of blue sky thoughts on how a package might change. And for timing perspective I mean would we look for things to change more as we get to the CRTC timetable on take and pay or is this something that will kind of transition over time?

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

No, I think again, don't look for kind of one-day wonders here. It is really a series of different things. I mean we haven't even talked on this call yet about the fact that we continue to improve our legacy product. We have a number of new software upgrades coming out before Christmas and some more in the new year.

Then we have got also the development of IPTV which will come in its fully fledged form in the back end of next year. So -- and then you have got the CRTC, Let's Talk TV change to packages as well. So, no one is going to be bored in the TV sector next year because there is so much happening. And all of it I see as an opportunity for us to exploit.

Bob Bek *- CIBC World Markets - Analyst*

That's great. Thank you very much.

Operator

Mike Rollins, Citi Investment Research.

Mike Rollins *- Citi Investment Research - Analyst*

Curious on two things. First, can you talk a little bit more about how you think consumption caps change as you increase speed towards that gigabit level? And then secondly, what are you seeing in terms on Wireless for usage trends and your ability to get paid for the growth in data consumption on that side of the business? Thanks.

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

Okay, we didn't hear the first part of your question because we had a glitch on the line. We heard the word consumption and then we lost you. So can you just repeat the first half, please?

Mike Rollins *- Citi Investment Research - Analyst*

Sure, I was curious how the consumption caps might change for your broadband customers as they move towards gigabit speeds.

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

We don't have any caps because most of our tariffs are unlimited. Is that what you meant?

Mike Rollins *- Citi Investment Research - Analyst*

Yes. So would you put consumption caps in place as you move towards gigabit speed?

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

No, I think -- well, we don't divulge forward pricing on these kinds of calls. But what I can say is the majority of our high-speed tariffs are actually unlimited. And actually I think -- you make a good point actually, I am not sure you intended to, but you actually make a good point in that the -- making these high-end packages unlimited has unlocked a lot of demand because people were worried about going outside their bundle.

So they could see their kids consume a huge amount of content, but they weren't actually quite happy with it because they were wondering what the bill was going to be at the end of the month. As a consequence we have alleviated that concern, a little bit like we have alleviated the concern on international revenue on the Wireless side for instance and that has definitely unlocked demand. And therefore as we go forward we will continue to price accordingly as what we think we need to do in the market.

On the Wireless side regarding usage, I don't think you should be looking at a 100% linear relationship between increasing consumption and monetization, I think that is unrealistic. It is the same as buying jam in the supermarket. If you buy a small jar of jam you pay a certain price; if you buy a huge jar of jam then you don't pay the same per grams as you would for the small one.

So, as the consumers trade up to the much larger buckets they are looking for a better value for money and that -- we need to price that accordingly, but still make sure that we recoup our investment. But again I go back to -- again two years ago to the acquisition of the beachhead spectrum and the Mobilicity deal in recent months in terms of us getting down our effective cost for delivering a gigabyte across the wireless network.

You know, we continue to drive that down by virtue of smart acquisition of spectrum and deployment of modern technologies. And we have done significant changes to the Wireless network to help get its Opex profile in the right position as demand increases.

Mike Rollins *- Citi Investment Research - Analyst*

Thanks very much.

Operator

Vince Valentini, TD Securities.

Vince Valentini - *TD Securities - Analyst*

A question on ARPU maybe for Tony. Given that you aren't giving us postpaid ARPU this quarter, I am fearful that the addition of Mobilicity has maybe skewed the blended ARPU numbers more than we might expect because obviously that growth is in blended ARPU. Are you able to extract the Mobilicity impact? I know you extracted that combined with roaming and home phone customers in your opening comments. But I mean just the Mobilicity impact, is that significant?

Tony Staffieri - *Rogers Communications Inc. - CFO*

So, Vince, let me just clarify. The Mobilicity customers are included in our prepaid base numbers. And so, they are included in the blended. And so, as I talked about, when you exclude Mobilicity roaming I gave you the number for blended ARPU.

The way you ought to think about it in terms of postpaid that we previously used to provide, nothing that would have been unusual this quarter on that and generally the roaming impact equates to 1 point. So an ARPA, for example, of 4% growth roaming would have -- excluding roaming it would otherwise have been at 5%. So in terms of postpaid impact, Mobilicity isn't a factor.

Vince Valentini - *TD Securities - Analyst*

So postpaid ARPU growth this quarter would have been similar to what we saw in the first and second quarter if you had reported it, is that fair?

Tony Staffieri - *Rogers Communications Inc. - CFO*

You wouldn't be surprised by the number, let me say it that way.

Vince Valentini - *TD Securities - Analyst*

Okay, and one other one. Guy, you mentioned some green shoots on the customer service front. Is there any data you can give us there yet of net promoter score or other customer satisfaction metrics that you have seen improvement in?

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

Well, I am not sure how your day goes in an average week, but I am not sure when you get in to work on a Monday morning you sit there and think, what shall I do for fun this week. Let me call a Wireless call center. And it is true for the public as well, they just don't do it as a hobby. So the number of calls goes down by over 12% and you have to take that -- it is a green shoot. Simple as that.

Operator

Tim Casey, BMO.

Tim Casey - *BMO Capital Markets - Analyst*

Two for me. One, Tony, any impact from handsets on the wireless numbers? Was the iPhone impactful on a year-over-year basis? And, Guy, on the 4K development, is there kind of a chicken and egg argument here about content versus hardware? I recall HD we talked about it for a long time and it took a while for the production of HD content to become available and then it really accelerated. I am just wondering if there is a similar kind of timeframe for the evolution of 4K that you are expecting as this develops. Thanks.

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

I will take the 4K one and then I will turn it over to Tony. So you have to look at it as a value chain. You start with a stadium, then you put a team in it, then you have a series of cameras that connect to a production truck and they upload a program to a sports channel that then broadcasts through a set-top box onto a TV.

So let's go back over the chain and look at it from our perspective. So -- and let's take the Jays. So we own the team, we have the stadium, we have a production company that we own 50% of that creates the content that then feeds it to a channel called Sportsnet that than sends it to a 4K set-top box that we have developed that is then broadcast onto a TV that is bought by the consumer that is 4K because the manufacturers are pushing them out as fast as they can.

So the point is that we can look across the entire ecosystem end to end then take a decision to invest where we need to. So therefore what you see in the US is, for instance, the broadcasters are not actually investing in the 4K technology for the cameras as early because they can't monetize it with the broadcasters. And therefore that is what you also have on HD is that there is a reluctance by the broadcasters to invest.

There is really no interest for the teams, the stadium or the production companies to get involved with it because they can't monetize it either. And therefore the whole thing stalls. The difference in Canada is our ability to influence that ecosystem for the benefit of the consumer because what the consumer actually gets on their screen is significantly improved viewing experience over what they got before.

And if you can't get a ticket to the Jays, and believe me trying to get a ticket to the Jays is quite difficult, then the best next thing we can do is to provide the ultimate TV experience in the home. And therefore taking the look through position across the entire ecosystem and making sure that each and every part of that has the invested capital in order to deliver the experience is the main thing.

The other thing is that we've got significant buy in from the commissioners of both baseball and NHL in terms of actually making these upgrades because they see the advantage to this as well because it pulls through and is a success in Canada. Then obviously it will be a success in the US as well, which will then give each part of the fragmented ecosystem in the US the confidence to invest in each of their piece-meal parts.

So, I think that the parallel with HD is true that the upgrade from SD to HD was significant and the upgrade to 4K with HDR is significant. But I think the big upside here is our ability to influence the end-to-end ecosystem and make sure that we deliver a stunning result for the consumer in a much shorter amount of time.

The only bit that we missed was actually the 4K TVs. But what the manufacturers of the 4K TVs need was the confidence of a Company like Rogers that was prepared to invest in the ecosystem. And that is why next year we will be the largest broadcaster of 4K content in the world. So let me turn it now back to Tony, if he can actually remember the question you asked because I talked for so long because I am really excited about this subject.

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

You had a general question about iPhone and so I -- let me give you some general stats. As I said, the activations on iPhone this quarter are 28% higher than last year. There is nothing unusual I would note about the iPhone profile. We haven't had any -- we didn't have any inventory issues in Q3 and don't see any right now. And so, the supply-chain pipeline for that continues to be healthy. It is still early days in terms of the launch of the phone, and so nothing unusual to report.

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

Thank you.

Operator

Rob Peters, Credit Suisse.

Rob Peters - ***Credit Suisse - Analyst***

Just maybe touching on ARPU and specifically the impact of roaming. We are coming up to the lapping of the original debut of the Roam like Home plan for North America. And I was just wondering, is that plan at a point this quarter where you are kind of seeing the inflection in terms of the price discounting versus actual usage or is that still kind of a work in progress?

Tony Staffieri *- Rogers Communications Inc. - CFO*

In terms of the overall roaming profile there's two parts to it. One is the US which would have been, as you mentioned, a year ago that we launched the value proposition of Roam like Home for the US market. I would say that one is nicely trending on the uptick when you look at a year on year. And so, it is having the impact that we expected in terms of users.

In terms of total revenue, I think if your question is are we at that point that it is now an inflection and it is actually growing, that is tough to call, it varies week by week and month by month. I would say it is relatively close. So we are pleased with the way that has gone. Then the other piece of it is on the international side, that one was launched later and so, we are still going through the year-on-year impacts of that.

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

The thing to, again, to look at is just because you put a press release out and people go, oh, fantastic, doesn't change the entire customer base's behavior the following day. Nor do they travel to the US the following day just because you made it very good value for money.

So the reality is that what we saw on the US, to be quite frank, was a suspended disbelief that it could be this true. Actually I remember seeing the results when we launched it; there were a lot of customers were going, this is fantastic if it is true. And we actually saw a certain proportion of the customer base wait to hang back to see if their friends actually got a bill that really represented the value that we were promoting.

So therefore the penetration of people that were picking up on Roam like Home -- and you have seen this in our previous quarterly announcements in terms of the number of customers we have announced being on the plan -- has built up over time and therefore the year-on-year effect and when we get to a point of accretion is also going to build up over time rather than just being a certain day that is the anniversary of when we launched the proposition.

Rob Peters *- Credit Suisse - Analyst*

Perfect, thank you very much.

Operator

Ladies and gentlemen, this does conclude the Q&A session for today. And I will now turn the call back over to Miss Amy Schwalm for any closing remarks.

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

Thanks, everyone, for joining us today and we will conclude the webcast at this time.

Operator

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