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Q4 2015 Rogers Communications Inc. Earnings Call

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OVERVIEW:

Co. reported 4Q15 consolidated revenue growth of 3% and consolidated adjusted operating profit of $1.2B. Expects 2016 revenue to grow 1-3%.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, thank you for standing by. Welcome to the Rogers Communications Q4 2015 results analyst teleconference. (Operator Instructions). I would like to remind everyone that this conference call is being recorded on Wednesday, January 27, at 8 AM Eastern Time. I will now turn the conference over to Ms. Amy Schwalm with the Rogers Communications management team. Please go ahead.

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

Thanks, Ron. Good morning, everyone, and thanks for joining us. I am here with the 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 in 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. So this morning we released our Q4 results -- overall steady progress on our plan despite a fiercely competitive quarter. We reported solid financial and operating results with particular strong performance in Wireless and Internet. We met our guidance for the year and released an outlook that shows continued improvement in 2016.

While we traditionally announce a dividend increase with year-end results, this year we have decided to keep the dividend at its current rate. Whilst we see continued growth in the fundamentals, we felt it prudent to maintain the current dividend until we have made more progress on our leverage ratio. However, we remain committed to increasing shareholder returns over time.

Before Tony shares further details on the financials I thought I would highlight key activities from our fourth quarter. So starting with Wireless, we delivered strong results again this quarter posting network revenue growth of 3% and adjusted operating profit of 4%. Despite the competitive intensity, churn improved 11 basis points thanks to the growing success of our commercial propositions and our customer experience investments.

Wireless postpaid net additions were up 89,000 year over year reaching 31,000 in the quarter. In the last six months alone we've added 108,000 wireless net additions due to the increasing popularity of Share Everything. In fact the number of Share Everything customers has increased 63% year over year.

Today we announced a further expansion of Roam Like Home to Asia. We now cover over 100 destinations around the world reaching virtually everywhere our customers travel. I said we would solve the roaming issues for our customers and we have, unlike the pale imitations you have seen from our competitors.

Turning to our Cable business, we delivered improved subscriber metrics this quarter, but continue to face pressure on revenue. This stems from cumulative TV and phone subscriber losses and our response to a highly competitive environment that started during the back-to-school period.

We expect to see some improvement in our TV figures this year as our investments start to gain traction. For example, we have rolled out our new Navigatr guide to approximately 450,000 homes and expect to reach roughly 1 million homes in the next few weeks. It has been extremely well received by our customers and we are looking forward to introducing more enhancements during 2016.

We also started to deliver Rogers 4K TV. Sales of 4K TV have tripled over the last year and last month we introduced 4K set top boxes. We have now started to broadcast in 4K and have delivered the world's first 4K NBA and NHL games. This year we will broadcast 100 live sporting events in 4K including every Jay’s home game and 20 NHL games.

Turning to Internet, this is a particular bright spot within residential. Internet is the anchor in the home and we are delivering strong results. We grew revenue by 10% in the quarter whilst adding 20,000 more customers. Roughly 40% of our Internet customers are now on IGNITE, which is impressive given the service launched less than a year ago.

We've also started to roll out our new gigabyte Internet service and it is now available in 130,000 homes. We expect to complete our entire cable footprint - that is 4.2 million homes, by the end of this year. As I said before, we are able to do this much faster and more cost effectively than the competition.

Closing out on Wireless and Cable, Ookla, a global leader in broadband testing, named Rogers as both Canada's fastest ISP and Canada's fastest mobile network. We believe this confirms how our network investments are driving a higher-quality customer experience.

Moving to Media, revenue grew 3% thanks to strong growth at Sportsnet and improved financials at the Blue Jays. Sportsnet successfully closed the year as the number one sports media brand in the country.

The Blue Jays had a terrific season and it was exciting to see the entire country rally around the team. The Jays remain an important part of the Company but, to put it in context, they represent less than 2% of our overall financials. Looking ahead, spring training is just around the corner and we look forward to watching the home opener in 4K.

Whilst we are well into our second season in hockey, we continue to see a positive contribution to revenue and adjusted operating profit. Whilst viewership is modestly down given the performance of some of the teams, we continue to extract a lot of value from this investment.

Media's operating profit was impacted by lower advertising revenue in our traditional Media businesses. It is not a secret that traditional media companies around the world are struggling with softening advertising revenues. We are facing the same pressure and that is why we announced some job cuts primarily affecting conventional TV, radio, publishing and back-office positions.

These decisions are never easy, but they are right for the business long-term. Our focus remains on sports, news and digital and we project strong growth in these areas. In fact, sports already represents over 50% of media's revenues and adjusted operating profit.

In Enterprise we are open for business and launching a new series of ‘leap-frog’ propositions in the market. Back in Q3 we announced managed Wi-Fi as a service and last quarter we announced a global cyber security solution with Trustwave. We see a significant growth opportunity in Enterprise, but of course this will take time.

Finally, we continue to make meaningful progress on customer experience. In 2015 we reduced the number of times our customers needed to contact us by 12.7% and we delivered the most improved performance in reducing customer complaints to the CCTS amongst our peers, down 26%.

As an example of innovation in this area, we were the first telecom in the world to introduce customer care using Facebook Messenger. In December alone we responded over 70,000 times using this platform, representing 75% of all of our online customer engagement. In 2016 we will reinvest another $100 million to continue to improve customer experience.

Looking back on 2015, we established good momentum in Wireless and Internet, the major growth engines of our business. We successfully repositioned Media to capitalize on sports, stood up our enterprise business and made meaningful progress on customer experience.

Looking ahead to 2016, we will address the core challenges facing both our TV and traditional media businesses. We will continue to tackle customer experience and begin to drive growth in Enterprise. Whilst we have work to do our results show that Rogers 3.0 is the right plan to drive revenue growth, increase free cash flow and increase shareholder returns.

Looking ahead, our guidance reaffirms our continued improvement into 2016 as we deliver the second full year of our plan. I will now turn it over to Tony.

Tony Staffieri - *Rogers Communications Inc. - CFO*

Thanks, Guy, and good morning, everyone. I will provide a bit more context around Q4 financial results and our 2016 guidance and then we can get to your specific questions.

This quarter we continued to gain traction. We are restoring sustainable top-line revenue growth while maintaining a strong track record of generating robust margins and cash flow. Consolidated revenue growth of 3% was driven by Wireless and our ongoing strategic focus on customer lifetime value.

As Guy mentioned, the penetration of Share Everything is growing and contributed to ARPA growth of 4%. We introduced postpaid ARPA as a key metric a few quarters ago since it better measures the share of the customer wallet.

Our blended ARPU growth was 2% when adjusted for roaming, wireless home phone subscribers and the addition of Mobilicity customers. Although roaming continues to have an impact on ARPU, the rate of revenue declines is decelerating so that volumes are beginning to offset the price changes on a year-on-year basis.

We continued to attract and retain wireless customers this quarter. Postpaid gross customer additions were up 23% and we reported net additions of 31,000. We also demonstrated continued discipline in channel execution. Our cost of acquisition per customer addition was down 14% while cost of retention per customer upgrade was down 4%. So continued progress in wireless subscriber trends.

We continue to maintain industry-leading wireless margins. Adjusted operating profit was up 4% with good flow-through of top-line growth while operating costs, excluding equipment, were down 3%.

Turning to Cable, revenue was down 2% and adjusted operating profit was flat year-over-year. Operating expenses declined 4% related to the timing of customer investments in the relative shift to higher margin Internet services. Our strong performance in Internet reflects the household mix shift that is occurring in the market and the importance of Internet in driving household ARPA and margin growth.

Overall on a consolidated basis we reported adjusted operating profit of $1.2 billion for the quarter, reflecting the flow-through of revenue changes I have just described offset by weakness in traditional media businesses. We are addressing the need to take out costs in these legacy media businesses which include the restructuring announcement made earlier this week.

Free cash flow was a healthy $274 million and contributed to annual free cash flow coming in just above the top end of our 2015 guidance. This allowed us to deliver $247 million in dividends to shareholders in the quarter.

Turning to results below the operating profit line, adjusted net income and EPS were down 7%, primarily the result of higher depreciation and amortization expense. On the balance sheet we ended the quarter with $3.3 billion in available liquidity and our key leverage ratio sits at approximately 3.1 times.

In the quarter we successfully refinanced some of our credit facility advances and you would have seen the rating agencies reaffirm our ratings and outlook. In an effort to further enhance financial flexibility, we are working toward our long-term target ratio of adjusted net debt to adjusted operating profit of 2.5 times or better. Our enhanced operational performance and lower expected capex is anticipated to allow us to reduce leverage over time.

Turning to our guidance, we look forward to 2016 bringing continued growth in revenue and adjusted operating profit, lower capital expenditures and higher free cash flow. We've provided revenue guidance in the range of 1% to 3% growth. We see good momentum in Wireless in Internet and have well-developed plans to improve Television and Media.

For adjusted operating profit we expect growth in the 1% to 3% range. This translates to expected free cash flow growth of 1% to 3% when combined with reduced capex in the $2.3 billion to $2.4 billion range.

We are leaving a period of elevated capital spending following strategic investments in our superior networks and products to drive sustainable revenue growth. Our unique strategic partnership with Vodafone also contributes to ongoing technology cost savings.

In summary, we delivered another quarter of top-line growth and solid free cash flow generation enabling us to enter 2016 with some good momentum. While we expect the market to remain highly competitive, our plan is working. Combined with our superior asset mix we have the best foundation for continued success and remain well poised to drive growth in our return on assets in the near- and long-term. With that let's get into the questions you may have.

QUESTION AND ANSWER

Operator

(Operator Instructions). Bob Bek, CIBC World Markets.

Bob Bek - *CIBC World Markets - Analyst*

Guy, I just wanted to circle back on your Cable comments, as you say cumulative subscriber losses, competitive pressures putting pressure on the revenue mix. You have got a substantial price increase coming next month, you have got pick and pay coming in the spring to start with anyway.

Can you give us a bit of your view as to how this will flush out as far as getting recovery in pricing at the same time you are getting customers looking at a greater option as far as mix goes? And how this plays into your guidance for the year as far as the Cable specifically goes?

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

So just to unravel a couple of different bits of your paragraph if you like. First of all, the price increase isn't substantial; I would describe it as an appropriate level. And I think that it is pretty clear across the industry that with rising costs that the prices are going to go up.

On the pick and pay, we are ready for March 1 and I think we are going to see some experimentation by customers. But at the end of the day it will come down to what customers want to view. And I still think we have a lot of content that they will want to pay for.

In terms of my comments regarding Q4, so I would say roughly out of the revenue decline, about half of it was due to competitive pressure. As we have started to gear up our engine in residential and make more traction, naturally the other side don't like that and so they are responding. And it started at back-to-school and I would say it has continued since then. And some of it is just a function of the losses over previous years.

But I think if you are trying to kind of get a shape for Cable looking forward this year, you have to look at the sheer slate of things that we have on the agenda coming out. I mean just going through them: the legacy upgrade of our boxes to Navigatr which is going very well; the fact that we have launched 4K; the fact that you have got 1 gig rolling out at a huge rate, we are doing this in a year not in three years.

The fact that you have got these new packages, which I think actually a lot of people will find attractive. So we may see the return of some people who have left cable TV because they are able to pick and pay genres of content that they desire. So I would say be careful to read through too much from this quarter's results as you look out across the whole year.

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

Perfect, thank you very much.

Operator

Phillip Huang, Barclays.

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

Quick question on the dividend -- your decision to halt the dividend increase. I was wondering if you could elaborate a little bit on the metrics or the type of thing that you look for before you ease in the dividend growth. Is it sort of where your balance sheet needs to be or where your growth overall needs to be?

And then another question on the Wireless ARPU side. I totally understand the increased focus on ARPA, but there is still a significant focus I believe for investors on ARPU. And because of the impact of the wireless home phone and Mobilicity subscriber base I was wondering if you might be able to comment on relative sizes of those subscriber bases, whether they are growing, how quickly and just so that we can get a sense as to their future impact to future quarters. Thanks.

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

Phillip, I will start with the first one on dividend. I think a couple of comments I would say at the outset. One is we continue to be focused on increasing the value of this Company by improving the fundamentals, top-line growth and converting that all the way down to cash flow and return on assets. And so that is the primary focus.

Secondarily, I would say that we continue to over the long-term have a vision of returning an appropriate amount of cash to shareholders. And so, the decision we made on dividends for right now is predominantly based on the balance sheet leverage we have. We sit at 3.1, as I mentioned, and we would like to see meaningful progress on the reduction of that before we consider a dividend increase.

I can't give you any specifics on timing of that, but that continues to be our focus. When you look at the other ratios, payout ratios, ours continue to be I would say conservative relative to the other guys. In 2015 our payout -- cash payout ratio stood at 58% and that is a range I would say we are comfortable with. But right now we are focused on the balance sheet leverage and that was the primary driver in our decision for now.

The second question you had, Phillip, related to Wireless ARPU. And so there is a couple of things there that when you look at blended ARPU -- and again, we pivoted our focus to ARPA because we think it is more relevant. And to bring our disclosure of ARPU in line with our competitors we moved to blended ARPU. So there is a couple of things there.

I would say in terms of the impact individually of the items, Mobilicity and wireless home phone, think of those as relatively stable and not significant or material. The bigger item in the near-term has been roaming.

So as we expanded roaming to more and more countries, what we see is the adoption of that increasing significantly, it is commensurate with the increase in Share Everything that you see. And so in the short term that has the reprice impact. And so that has been the biggest piece. So when you look at the 2% that I have described, I would say a little more than the majority of that difference relates to roaming.

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

Got it. Thanks very much.

Operator

Vince Valentini, TD Securities.

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

Sorry, I'm going to come back to the dividend and debt. So if you want to pay down debt I understand that; a 5% dividend increase would add an extra $52 million approximately of cash. On a $15 billion or so debt base it is almost insignificant.

If you really want to pay down debt I'm just wondering why you haven't considered some of your non-core assets like Cogeco shares, corporate real estate, towers -- I mean there's areas you could make a big dent in your debt leverage versus taking away dividend growth that I think shareholders somewhat covet. So can you give us a little more color on other debt reduction options that you may consider if debt is such a high priority now?

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

Vince, I would say a couple of things; one is it is a priority in the sense of bringing it down in a manageable and disciplined way. I wouldn't put it in the category of anything that we need to be alarmed of and need to start selling off assets.

We go through, as you would expect; a continual evaluation of each of our assets and look to the near- and longer-term value of each of those assets. And we combine that with our view of our outlook on the business and our ability to generate growing cash flow and applying that cash flow to various investments in the bringing down of debt.

And so, at the right time if there is an opportunity to sell assets we will always consider that. But right now our plan is to bring down our leverage in a very disciplined and methodical way and we think that will happen over time and that is the key driver of our decision right now.

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

Okay, thanks.

Operator

Simon Flannery, Morgan Stanley.

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

Guy, you talked a little bit about in a good position with your enterprise offerings open for business. Can you help us size the opportunity there? What do you think the sort of total addressable market is and what sort of share do you think you have of that today, any color around the potential there? And I don't think you really talked about the macro-environment, obviously a lot of concerns there. Perhaps if you had any commentary about what you are seeing right now. Thanks.

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

Thank you. So I don't have the figure on the top of my head for this side of the enterprise market. I think [it's fair] to say that we have under indexed on both Wireless and wireline for forever. And therefore we have a good command of the consumer business; you are talking, I don't know, at least 10 points of market share difference when it comes to Enterprise.

So there is a large opportunity for us here, but with Enterprise you have to come at this in a certain way. We were disorganized in the sense that we had three different enterprise teams; we put them together just over a year ago. We didn't have a sizable product team; we now have a very good international product team. And we have also spent a lot of time going out and talking to businesses about where they feel that they need new technologies to help them build their businesses.

So this is a slowly, slowly capture the monkey strategy rather than a hurdle into the market and send up fireworks strategy. But I do think that over time we could make a good dent in wireless and unified communications related services along with security as a service.

So this will come at a certain pace; it won't come at a sprint, it is more of a marathon. But I do think that over the mid-term and the long-term, which is what the Company is focused on, we can really increase our share here. You had a second question about the general environment, I believe.

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

Yes.

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

It is -- so it varies greatly depending on where you are, to be quite frank. For instance, when I was in Calgary you had sort of people throwing themselves off the sidewalk. When you are in Edmonton I would describe themselves as more relaxed. By the time I got to Vancouver they were having lunch.

So it is very different, it is very geographically specific. I am not sure people know how to feel at the moment and occasionally they get spooked by newspaper headlines and international events. And other times they just go about their business as though nothing has happened.

So in summary I would say there is not a national picture on this and there is not a clear emerging picture on this. We ourselves have upped our research to make sure we keep in tune with what customers are thinking and where they place value.

That is for instance why we increased the number of Roam Like Home countries which now covers over 100 destinations and covers 99% of the places that Canadians roam. Because we know that they are facing problems with the Canadian dollar and anything we can do to help them when they do go abroad is gratefully received. So at the moment -- at least I am not seeing a clear national picture or a definite trend one way or the other, it is patchy and fragile.

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

Thank you.

Operator

Greg MacDonald, Macquarie.

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

Thanks, guys. Sorry about this and I'm going to go back to the dividend question. It is a surprising result actually to keep the dividend flat. I am going to kind of reiterate Vince's comments on $50 million being a relatively small price versus the messaging that I think you are giving to the market. I want to zero in on two items here.

Number one, Shaw got a rather hard time from S&P on the prospect of leverage increases as well on the back of that acquisition that they made recently. I wonder if the rating agency is one of the major drivers in the decision to be made.

And then number two, kind of what surprises are out there that could be of high magnitude that might also be driving this decision? I am thinking the 600 megahertz auction, but is it the fact that the industry is getting more risky in terms of the operating outlook and is that driving the decision as well? Thanks.

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

Greg, I will start with the first part of your question in terms of the rating agency. We are making our decision based on what we think is the right balance sheet for us based on the outlooks that we have. We set out in our guidance we see continued growth into 2016. And as I said, we just want to make continued focus on deleveraging.

The rating agencies have their criteria and we'll leave it to them to do their assessment. You saw when we issued debt in the fourth quarter that they've reaffirmed their ratings and their outlook. And so, I can't speak for them much more than what they have done. And so again, I'd just reiterate that the decision was based on what we thought was prudent stewardship of our financials at this time.

In terms of whether it signals some type of confidence either in our growth rate or broader, Guy has just spoken to the broader macroeconomic part of it. In terms of our business, I think there is always challenges. But we continue to see us as being able to execute on those and deliver within the guidance we provided.

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

And how big an impact is the prospect of what seems like a larger and larger spending on spectrum?

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

Well, I think the spectrum -- the timetable for the 600 and the nature of the auction is still uncertain at the moment because it is predicated to a degree by what happens in the US in terms of how that pans out. And the nature of the auction here will be probably slightly different and therefore there is not 100% read across. But that auction will come up at a certain point and it needs to be funded obviously.

But I think -- and three of you have mentioned the dividend. And I understand why you are raising the question. But I think we have to be careful not to over rotate on this issue. This is not ditch to ditch; this is just us being prudent at this point in time.

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

Yes, although I will say this. I mean Canada is probably the most crowded yield trade in the world and your payout ratio at less than 60% I think has left a lot of people thinking that there is room to have some consistency of growth even if you go through cycles of capex or even sort of large one-time items like spectrum. So I will respectfully disagree. I think the market puts a significant amount of weight on dividend growth.

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

Thank you, Greg. Appreciate the view.

Operator

Aravinda Galappatthige, Canaccord Genuity.

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

I wanted to focus a little bit on cable capex intensity; it is close to 30%. And I know there are lots of moving parts in there. But as we think ahead, particularly beyond 2016 once you get your IPTV product out, should we expect that number to sort of taper down towards where your cable peers in Canada and maybe even the US are as well at this point? Just wanted your thoughts on that.

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

Aravinda, I would say absolutely. The increase in capital intensity that you have seen over the last little while on cable has been driven by two things: one, certainly the network investments; but even more so through the set-top box investments that we have made with NextBox 3.0.

That program I would say is tapering off. And as we move to Internet television there is a couple of things you should know. One is the investments in that program and that product has been contained within our capex investments to date. And two, the nature of the technology is different in that it will require much less in set-top box investments. And so you will see that part of it come way down as well. And that is going to -- and so as that happens you will see the capital intensity come down.

I should also say, when you talk about cable, I suspect you are also lumping in there the Internet piece as well. And so, as we've said in the past, we see our ability to -- we always continue to make investments in segmentation providing capacity and broadband speeds. Our 1 gig announcement is part of that what I would call very methodical plan. And so even with that you will see our capex investment come down.

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

Thanks for that. And just a quick second question. You recently launched a fairly attractive pricing for home Internet for your Fido customers. And there are obviously some -- a number of objectives there. But I was curious as to your thoughts on the idea of wireless wireline bundles. Do think it is something that would sort of see some positive evolution in the Canadian market? Just wanted your thoughts on that as well. Thank you.

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

Yes, I think the short answer -- we are not sure. I see the Fido Internet as kind of a boutique kind of trial just to see what is out there. So part of the role of the Company I see is that we continue to innovate and experiment and see what attracts the market and you should put it in that category, really. So the answer to your question, let's see, I don't know.

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

Thank you. I will pass the line.

Operator

Jeff Fan, Scotia Capital.

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

This question is for Guy. I think if we look back since you joined, with the recent results we have really started to see some of the operating metrics moving in the right direction, especially in Wireless. You were asked earlier when you joined about M&A, and I think the answer was always something to the line of, you're not an M&A junkie.

But now that -- with the operation kind of on more stable ground, realizing there is going to be still gradual improvements going on here, can we get a view, maybe an updated view on what you think about M&A, particularly given all that is happening in the last few months in the Canadian market?

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

A good question, Jeff. So the operating metrics are moving in the right direction, as you say. And I don't see any reason why they won't continue to. But we still have a lot of work to do. I mean I am still not happy with our customer experience. We've made significant strides, but I am still keen to make improvements there, keen to improve our retail experience and so on and so forth. So I don't think you can put a final tick in the box and say that is done, let's go and buy something.

So -- but it is true to say that we have made inroads and we continue to look for opportunities for either tuck-ins or something else. And we will do that on an opportunistic basis. So there is no new news. We're definitely further down the line in terms of repairing the fundamentals. But it is not like I have got my checkbook out and I am kind of walking around Bay Street looking for things to buy right now.

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

Thank you.

Operator

Tim Casey, BMO. We will move on to the next question from Richard Choe, JPMorgan.

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

Wireless capex for the year came in at 12.5% of service revenue. And given your guidance of $2.3 billion to $2.4 billion in capex for 2016, is this a new level of Wireless capex intensity and what is driving that efficiency if so?

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

We didn't hear you very well, I am sorry. Could you just repeat it again, the question.

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

Yes, the question is, is capex intensity at a new level at like 12.5% to 13% versus the 14% and 15% we have seen in the past?

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

Yes, so, Richard, the answer is we have seen efficiency and I would say the capex -- well, a couple of things have happened. As our LTE investments come to -- start to taper off our LTE network now covers 93% of the population. And so, you see that program, as I said, slowing down and our investments are predominantly focused on capacity right now. And so, you should see current levels as being what we would expect in the near-term.

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

The thing is we are benefiting very clearly from some of the decisions we made two years ago when we bought the beachfront spectrum; the deployment of that has proved to be extremely useful. Added to that, the price which we acquired Mobilicity enabled us to further deploy spectrum and hence prevent us from building sites again in the back end of the year. And if you remember, we deployed that spectrum in 30 days having it being fallow for five years.

On top of that our collaboration with Vodafone has also proved to be extremely successful in the fact that we jointly procure both network and IT together now in a systemic way that allows us to enjoy prices that our Canadian peers won't be able to manage I would think.

So, to be honest, we have just done so much work on not only getting the unit price down but also increasing coverage that we just now feel that we have got the wireless network in the right place. I think proven by the Ookla results recently saying that our network is the fastest in Canada with the increases in coverage that we now feel we are in a very good position on wireless.

And of course that will allow us to translate that into commercial activity of course as well. So I think we are just in a good space and that allows us to -- we have reached the high water mark on capex in general for now. We have got a lot of the cable under control because we have been investing in it for two years.

People forget that although one of our competitors announced kind of 1 gig ahead of us, we've actually been working on this for two years. So we have been rolling out preparing for 1 gig. And the fact that they announced wasn't the day that we started our project we have been at it for two years. So I think the overall capex picture for the Company in general is very good.

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

And then one follow-up on the Wireless side. In terms of competitive levels as we get further away from the anniversary of last year of double cohort, do you think the competitive pressures will start to ease this year or is it just going to stay high given the environment?

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

No, I don't think so, I don't think so. I mean Q4 was the most fiercely competitive quarter probably in the history of Canadian mobile. And in my view it is the new normal. So, I mean -- I can understand a couple of you are going, oh, God, should I take price at that kind of statement. But you have to look at our figures and see what we delivered despite that.

I mean, we delivered very well in this quarter despite that ferocity. But no, it is a fiercely competitive business and it will continue to be so. It reached new levels in December and I am sure it is going to continue that way. Why wouldn't it? But we are in good shape and that is what matters as far as I am concerned.

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

Great, thank you.

Operator

Maher Yaghi, Desjardins Securities.

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

Guy, I just wanted to talk a bit about the strategy that you have put in place. And when you first came in you were working on improving the revenues. We have seen a nice improvement in revenues in 2014 and to 2015 when revenue growth was 1% going to 4% in 2015. Now with the guidance we are looking at somewhere 2%.

So I just wanted to get your opinion on how much progress you feel you've -- the Company has achieved through this transition period. And your view on -- versus your initial expectations about improving revenue growth and now we are seeing revenue growth maybe come down a bit. Can you talk a little bit about what has changed or how the market has moved to bring this out?

And the second question I had on how -- I don't what to come too much on the dividend again, but when you look at -- actually I was looking at your spreads. And generally the market, we have seen spreads increase over the last few months. And when you look at Rogers spreads on the long end it is basically 100 bps wider than they have been at the types that we have seen last year. Has this been a major factor in your view about not increasing the dividend given the amount of debt that you have and you want to control or [game] that spread widening from getting wider?

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

Well, let me take the first one and Tony can answer the second one. So, yes, we have made solid progress on improving revenues. And our guidance is in a range. I think it goes back to the question that I had earlier from -- now who was it, was it Simon, I think -- regarding kind of where the economy is and all the rest of it.

The picture is a little bit uncertain; I tend to be on the prudent side a little bit like I am not an M&A junkie. And therefore we have issued guidance as we see at this point. I would also like to exceed our guidance, let's be clear. But I think that as we look out with a number of headwinds that we see, we have just taken a prudent perspective. I don't think it is a big problem; I just think that it is good to be prudent, that is all.

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

Maher, on your assessment in terms of the spreads, I think it's a pretty clever observation on your part. I would say while it is one factor we look at, it is not really the bigger part of it. We are not trying to game our dividend policy with respect to where yields and spreads are going. It is just part of, as Guy said, a more macro management of our cash flows and our balance sheet.

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

Okay, thank you.

Operator

David McFadgen, Cormark Securities.

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

I have a question on wireless ARPU. You didn't mention it in your release, but are you running out of free agent customers to convert to higher price two-year plans? This is a factor -- I am just wondering if this was a factor in the lower blended year-over-year ARPU. Telus mentioned it when they reported Q3 results.

And then secondly, how should we model the higher US dollar affecting the Wireless business in terms of the equipment expenses? And are you planning on increasing your equipment prices when people renew?

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

So, David, a couple of things. I think you faded out on part of it on our end, but I think I got the gist of the question in terms of ARPU and the impact of three- to two-year contracts on that. And then as part of that I would say there is the BYOD phenomenon that is happening.

So I think if your question is is the BYOD impacting our blended ARPU, the answer is, yes. And so, we are seeing that. We saw that play out throughout the second half of 2015. How it is going to play out in the next few quarters or the first half of this year? Don't know.

There is some changes sort of going on in the marketplace and we will see how that plays out. But it certainly was a factor in the fourth quarter. I am not going to quantify it for you in terms of impact for obvious reasons. But you are right, that did have an impact.

In terms of the US dollar, as you would expect, there is a couple of items. One, we enter into hedging programs well in advance of a particular year. And we have seen the cost of hedging continually come up. And so that is a factor that is impacting us every quarter, every year on an increasing basis.

In terms of how we factor that into handset pricing, we have done that all along. And so, you will continue to see us factor in handset pricing cost as part of that. Whether -- what it means in terms of this quarter or in the first half of 2016, I don't want to speculate on that, it will depend on a number of factors including types of handsets as well as the competitive conditions.

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

On the border topic, obviously the capex -- sorry, the US/Canadian dollar issue is affecting the prices against which we buy particularly network and IT equipment. And our philosophy is we want to continue to evolve and develop the network to provide the very best in both residential and wireless. And therefore our philosophy to continue to invest and seek to achieve that by getting better pricing despite the dollar, which is coming again primarily through the Vodafone relationship.

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

Okay, 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 to Ms. Amy Schwalm for any closing remarks.

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

Thanks, Ron, and thanks to everybody on the call for joining us today. This concludes our teleconference.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thanks for participating, please disconnect your lines.