



Rogers Communications Inc. Second Quarter 2019 Results Conference Call Transcript

Date: July 23, 2019

Time: 8:00 AM ET

Speakers: **Joseph Natale**
President and Chief Executive Officer

Tony Staffieri
Chief Financial Officer

Paul Carpino
Vice President, Investor Relations

Operator:

Welcome to the Rogers Communications Inc. Second Quarter 2019 Results Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. Following the presentation, we will conduct a question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Paul Carpino with Rogers Communications. Please go ahead, Mr. Carpino.

Paul Carpino:

Thank you, Ariel. Good morning, everyone, and thank you for joining us today. I'm here with our President and Chief Executive Officer, Joe Natale, 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 2018 Annual Report regarding the various factors, assumptions and risks that could cause our actual results to differ.

With that, let me turn the call over to Joe.

Joseph Natale:

Thank you, Mr. Carpino. Good morning, everyone. Today, I'm pleased to share our results and our progress in the second quarter. Overall, it was a pivotal quarter for Rogers and the Canadian Wireless industry. We continued to deliver strong fundamentals, and it is from this position of strength that we introduced fundamental changes to our Wireless offering. We made these changes after a thorough and thoughtful analysis on where the industry is going and what matters most to our customers. Now, more than ever, customers want worry-free data. 5G is at our doorstep and we need to unlock and unleash customer demand for data. This is a bold and important step forward and I truly believe it is the right time to lean in and drive this industry direction.

We approached this change with three main objectives: number one, drive growth in data usage by delivering a worry-free proposition for customers; secondly, get ready for 5G by shifting the value

proposition from capped data to focus on the quality and capability of the service, a necessary evolution and a key market construct to prepare Canada for 5G; thirdly, redefine industry economics around equipment financing and a better customer experience to drive affordability, reduce friction and reshape the subsidy model over time.

Overall, we believe a small moderation in short-term growth rates will yield sustainable, superior economics in the medium- and long-term. While it is still early days, the response has been overwhelmingly positive. Our customers and our front line team love the simple, easy pricing. Our national competitors saw the strategic merit of our move and followed our lead. Overall, this was the right move for our customers, our Company and our country.

I will share further details on our customer uptake in a few moments, but first let me turn to our overall second quarter results.

Overall, we continue to deliver strong, profitable growth. In Wireless, we saw strong growth in service revenue and Adjusted EBITDA. We attracted 77,000 postpaid net additions and we executed strong pricing discipline to attract the right customers with the best lifetime value. We grew blended ARPU by 2% and we delivered postpaid churn of 0.99% for the second consecutive quarter, reflecting our steadfast focus on the customer experience and customer base management. In Cable, we delivered solid growth in revenue, margin, Adjusted EBITDA and free cash flow, accompanied by strong Internet loading. We also continued to grow Internet penetration for the 16th consecutive quarter. On a consolidated basis, we grew revenue by 1% and Adjusted EBITDA by 9%. We returned over \$300 million to shareholders through dividend payments and share repurchases in the second quarter, and we will return over \$1 billion to shareholders this year.

As I said earlier, thanks to these robust fundamentals, we were able to introduce a number of strategic moves to put our customers first. We were the first national carrier to introduce unlimited data plans with no overage fees, and Canadians are responding; 365,000 subscribers are already on these new plans. When you look at our customers who migrated, roughly two-thirds upgraded their price plan, choosing to spend more, and one-third are spending less. Overall, these customers are using 50% more data. This is impressive growth in just six short weeks and it's tracking favourably to our business case. Thanks to the simpler pricing construct and important digital investments, online transactions are

up substantially and average handle time is down both in retail and care, a great reminder that customer experience and cost management do work hand-in-hand.

In addition, we were also first to introduce both 24- and 36-month device financing. We have made it instantly more affordable for Canadians to purchase the latest devices any day of the year at zero dollars and interest-free. In the first two weeks, between the two options, more than 50% are choosing the 36-month plan. It is clear customers value the longer-term payment plan, as it helps them purchase the latest devices on more affordable terms. These new financing options not only make Wireless services more affordable, but by separating the embedded subsidy, it is also more transparent. Overall, we believe this construct should improve device subsidy economics over the long term.

The team delivered these two critical customer-first initiatives flawlessly and I'm incredibly proud of their execution efforts. We're on a long-term journey to deliver the best possible experience to our customers and these were important moves, with more to come.

We also made significant headway on our 5G roadmap. We started to deploy 600 megahertz capable radio equipment and we'll start to deploy 600 megahertz spectrum later this year. As you recall, we secured 52 of 64 available licences of this precious resource in every single province and territory. This low frequency, wide area spectrum is foundational to our 5G roll-out starting next year.

Last month, we announced a partnership to open a new national centre for cybersecurity at Ryerson University. Last week, we announced the creation of a 5G innovation lab with Communitel in Waterloo. We also completed our first successful 5G test calls in Brampton, Toronto and Vancouver. 5G is unlike any other Wireless technology we have seen before, and that is why we need the right partnerships to bring the right economic use cases and the right applications to market. Working with Ericsson, a global 5G leader, we will lead and bring the very best of 5G to Canadians.

We also made strategic advances in Cable. I'm pleased to share we're making steady progress on Ignite TV. We expanded our service to Newfoundland and we will expand to New Brunswick later this summer. Over 160,000 customers, almost 10% of our base, are using the service, and we're on track to reach our subscriber target for the full year. We continue to see impressive results, including significantly improved early lifecycle churn, likelihood to recommend and average revenue per account. This innovative service has a great future roadmap for the connected home, and it rests on our leading,

reliable broadband network, a network we continuously invest in and build on. Just last month, we introduced Ignite WiFi Hub to give customers more control over their WiFi experience, and we now monitor 2.5 million WiFi devices daily to ensure customers have a terrific in-home experience.

More broadly, I'm proud of our team's deep commitment to drive our customer's experience. Our multi-year program to drive improvement in channels is paying off. In the call centres, service levels are strong and first call resolution is improving at a healthy rate, and digital sales adoption is up almost 10% and online sales volume is up almost 50%. In Retail, we continue to modernize our in-store experience. Ultimately, this is all about serving our customers where and when they want.

Finally, I'm proud to share that our team achieved an employee engagement score of 85%, the highest in our Company's history, and five points above global best-in-class. We believe a high-performing culture is critical to our success and it is a sustainable competitive advantage.

In summary, our fundamentals are robust, we delivered strong growth across all the key value drivers of our business, we made significant headway in our strategic long-term plan. We have a strong Management Team and a strong front line team, along with the right strategy and the right priorities to lead and win. I'd like to thank our entire team for their incredible dedication and commitment.

With that, let me pass it over to Tony.

Tony Staffieri:

Thank you, Joe, and good morning, everyone. Rogers delivered solid Q2 results, reflecting strong quality loading in both Wireless and Internet subscribers, continued margin expansion, healthy service revenue gains and positive blended ARPU growth. As we have highlighted in previous quarters, our focus continues to be on balancing growth opportunities with sound economic returns to ensure we create long-term sustainable value for shareholders and customers alike.

In Wireless, we reported healthy service revenue growth of 3% and Adjusted EBITDA grew 10%. Wireless margins were 50.3%, an expansion of 380 basis points from last year, as a result of strong growth in Wireless service revenue, successful cost management and the impact of adopting IFRS 16. We continue to execute on our quality loading strategy and delivered 77,000 postpaid net subscriber additions. Contributing to the strong service revenue growth were increases in both blended ARPU and

blended ABPU. Blended ARPU was up 2% and reflected our 13th consecutive quarter of year-on-year blended ARPU growth. ABPU was up 4% in the quarter.

As Joe noted, it's early days with our Rogers Infinite plans, but we are pleased with the results to date. While Infinite had minimal impact in the second quarter, we are excited with the customer benefits and cost savings opportunities that these plans are expected to generate as we move into a 5G world. In addition to the value these plans provide our customers, we anticipate an ARPU and ABPU lift over time. Already, we are seeing our monthly recurring revenue being net higher for all those customers that have switched to our Infinite plans. Of course, this is impacting overage revenues, but at a rate that is shallower and faster than we anticipated. Operationally, we are already benefiting from the simplicity of these plans, as we are seeing fewer and shorter calls to our call centres and greater adoption of digital ordering. These types of benefits should drive greater efficiency in our Wireless business going forward. Importantly, both the revenue and cost saving improvements should be accretive to margin expansion and Adjusted EBITDA growth in the future.

Enhancing Rogers Infinite plans are newly introduced 24-month and 36-month consumer-friendly device financing programs. These simpler zero down, zero interest financing options now put total control in the hands of those customers interested in acquiring new devices and builds on the savings that all customers can access through the value embedded in our no overages and unlimited data plans. We currently spend over \$2 billion each year on handsets, including significant subsidies that only benefit customers wanting new handsets. With reduced subsidies going forward, combined with eventual securitization of those financing receivables, this plan is expected to expand margins, be accretive to Adjusted EBITDA and drive stronger cash flow going forward.

Turning to Cable, we grew revenue by 1% this quarter and Adjusted EBITDA by 3%. Our Internet offering continues to be a key driver for our Cable business. Internet revenue grew 7% this quarter, reflecting the movement of Internet customers to higher speed and usage tiers, some service pricing changes and a larger Internet subscriber base. We remain uniquely positioned to meet customer demand for faster speeds and higher data with our ability to offer Ignite gigabyte Internet across our entire Cable footprint.

In Q2, we reported 22,000 net Internet subscriber additions. This reflects the 16th consecutive quarter of increasing Internet penetration rates. In addition, Internet ARPU grew compared to the prior year quarter. We also expanded Cable margins by 130 basis points this quarter, due to continued focus on efficiencies and product mix shift to higher margin Internet. Importantly, we again made good strides in reducing our CapEx intensity in Cable down to 29%. Combined with our EBITDA margin expansion in the quarter, our cash margin for Cable expanded to 19% this quarter, from 11% last year, good progress towards our goal of 25% cash margin by the end of 2021.

Moving to Media, revenue was 3% lower, largely as a result of the sale of our publishing business in the second quarter and lower revenue from the Toronto Blue Jays. This was partially offset by higher subscription and advertising revenue generated by our Sportsnet properties. Media EBITDA was strong, up 20%, driven by efficiencies and lower Toronto Blue Jays salaries.

On a consolidated basis, we delivered total revenue growth of 1% and strong Adjusted EBITDA growth of 9%. We invested \$742 million in CapEx for the quarter, which increased 13% year-over-year. The increases in capital expenditures in Wireless this quarter are a result of the ongoing investments being made to augment our networks as we continue to drive towards a 5G world. Capital intensity was a bit higher this quarter, driven by both the timing of our investments, as well as lower revenue in our hardware sales.

With respect to cash flow and returning capital to shareholders, we generated free cash flow of \$609 million this quarter, an increase of 2%. The increase this quarter was a result of higher Adjusted EBITDA, partially offset by higher planned capital expenditures and higher cash income tax payments in the quarter. We do, however, anticipate our cash tax rate to be in the 6% range for Fiscal 2019 as a percent of Adjusted EBITDA, compared to our full year 2018 cash tax rate of 8.2%. During the quarter, we continued to demonstrate our commitment to returning cash to shareholders through dividend payments of \$257 million and repurchasing \$50 million in Class B non-voting shares.

Our debt leverage ratio at the end of Q2 was 3.0 times, reflecting a 50-basis-point increase, compared to the end of 2018. IFRS 16 lease accounting drove 20 basis points of the increase and the completion of 600 megahertz spectrum purchase added 30 basis points. With a healthy business and strong free cash flow, we expect to continue reducing our leverage, moving closer to 2.5 times in the future.

We had liquidity of \$2.6 billion at the end of the quarter and have solid investment grade credit ratings with a stable outlook. Additionally, our balance sheet is well positioned with long-term maturities and low interest rates on our outstanding debt.

In summary, we're very pleased with our Q2 results and the long-term outlook for Rogers. We remain laser-focused on effectively managing our base business, driving greater efficiency throughout the operations, improving the customer experience, and ensuring our growth is underpinned by sound economic fundamentals.

With that, I'll ask the Operator to open the lines for questions.

Operator:

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

Our first question comes from David Barden of Bank of America Merrill Lynch.

David Barden:

Hey, guys, thanks for taking the questions. I guess first, just if I could get a little clarification. Tony, I think you said in your—sorry, Joe, in your prepared remarks that we should expect short-term moderation in growth with respect to the Infinite plan, but then you shared some stats that roughly two-thirds of the customers who were adopting the plan thus far are spending more. I'm just trying to understand, the next couple quarters, are we expecting growth to slow down or is this actually going to help, from kind of a cadence standpoint, over the course of the next couple quarters?

Then, second, I think you highlighted that about 10% of the base has now the new Ignite TV program. I was wondering if you could kind of elaborate a little bit about kind of what the goals and the shape of that are in terms of expectations for the rest of the year and into next. Thank you.

Joseph Natale:

Hi, David. Thank you. Why don't I start, Tony, and then you can chip in. When you look at the two-thirds that upgraded to the plans, versus the one-third, and you do the sort of monthly service revenue math on that, we're seeing a net positive, a net positive monthly service revenue. The moderation of overage—and we said last time we've been having meetings, that overage for Rogers is less than 5%. The overage over time will diminish and, therefore, moderate our growth rates as a whole, and that's exactly what we're seeing. We're still seeing a healthy, vibrant Wireless market with penetration growth opportunities, with data growth opportunities, and we think we've picked a good price point with respect to these unlimited plans, and we think that will just serve in the medium to long term to drive sustainable growth in the business as a whole. In the short term, we'll see some moderation.

Tony, feel free to comment on that specifically, if you like.

Tony Staffieri:

Sure, to put a finer point on it, David. You saw in the second quarter service revenue growth of 3%, and as Joe said, the recurring MRC is coming in quite nicely on a positive basis. It's the overage piece that, as you would expect, and we expected, some of that to melt. It's not as much as we thought. More of it, in terms of subscribers, but that's in our opening remarks, we said it was shallower than we expected. That 3%, you can expect a slight moderation of that growth rate in the back half of the year on service revenue, but, again, it's only six weeks into the plan, and so, as best as we can estimate it, that's what we're seeing. For the rest of the year, we don't expect it to be a material impact to our Wireless service revenue.

Joseph Natale:

We think we've picked the right balancing point for the future health of the business and the ability to make the shift and pivot it with the right economics, and we're very pleased with the results so far. Early days, but very pleased so far.

On your question around Ignite TV, our goal is to migrate the entire base over the next couple of years. We're taking a thoughtful approach and doing it steadily quarter-by-quarter. We're seeing good resultant economics of customers that do move. As I said earlier, it shows up in better churn, it shows up in higher ARPU and, most importantly, it shows up in very strong likelihood to recommend the service, as a whole. One thing we're making sure is that we do it in a manner that's not stirring our base

and we just do it in a manner that is thoughtful and at a pace that makes sense overall. Over the course of the next couple years, we should be completing the migration.

David Barden:

Thank you. Just as quick follow-up, you called out the kind of expansion of Ignite TV as kind of a contributor to the higher Cable CapEx this year. Is that going to plan? The trajectory in Cable CapEx intensity seems to be falling rather than rising. Is there anything to talk about there?

Tony Staffieri:

What we're seeing, David, quite frankly, is very good unit cost efficiencies that are driving that Cable capital intensity down. We are getting the migrations from legacy to Ignite that we expected. The unit costs on a per-home basis are at and, in fact, slightly better than we anticipated. We've talked about a legacy home costing us upwards of \$1,100 and the new Ignite platform at under \$400, and falling, and so that's coming in as expected, but on top of that, what we're seeing is efficiency improvements in our node segmentation program, as well as efficiency improvements in our truck rolls and installation rates. That's what you see coming through. We do see it as sustainable declines in our Cable capital intensity.

David Barden:

Great. Thanks, guys.

Paul Carpino:

Thanks, David. Next question, Ariel.

Operator:

Our next question comes from Vince Valentini of TD Securities.

Vince Valentini:

Thanks very much. Let's stick with that last point first. I believe in your original guidance in January you were talking about Cable CapEx intensity not really declining much from the sort of low-30s percent last year. You're now at 29% year-to-date and you're saying it's kind of sustainable. Can I read into that that Cable CapEx may be coming in a bit below what you thought originally, Tony, but on the flip side, it

looks like your Wireless CapEx, potentially on the 5G side, is ramping up, so total CapEx is still where you thought, but it's a bit of shift from Cable into Wireless?

Tony Staffieri:

Let me clarify a few of those points. On Cable CapEx, yes, we do think it's sustainable. As you look to the back half of the year, our expectation is it will continue to sit around 29% to 30%, so below what we originally thought. On the Wireless side, the uptick that you saw in the second quarter was really as a result of timing, and so we don't see it necessarily transcending to the back half of the year. On a total basis, our CapEx may come in slightly below or in the lower range that we provided in guidance.

Vince Valentini:

That's very clear, thank you. Just back on the unlimited trends, and so forth, can I clarify it a different way? The 365,000, and I'm not 100% sure on that, I think that's as of basically now or in the last couple of days, or is that as of the end of Q2?

Tony Staffieri:

As of, like, yesterday, Vince.

Vince Valentini:

Okay, and is that virtually all migrations or does that include a lot of new gross adds coming in on those plans, as well?

Tony Staffieri:

It's a combination of migrations and new customers.

Vince Valentini:

Can you characterize that at all, would it be mostly migrations or ...

Tony Staffieri:

No, it's as expected. We're not getting into the specifics of it, but it's as expected. It's been a great attraction for new customers, and also a good opportunity for existing customers, so we're happy with that balance overall.

Vince Valentini:

Okay, and last on that ...

Tony Staffieri:

The thing to bear in mind is we're really happy to see the positive ARPU that we're getting from the monthly revenue, and as we kind of wade our way through the overage, we think there's goodness on the other end. Bear in mind that, as I said earlier, overage is less than 5%, and if you were to do a full economic analysis on that small piece of revenue, on the entire business, a full economic analysis around what is the extent to which we speak to those customers, our negotiating that overage number, our dealing with it on their bill, our having follow-up conversations with them, our issuing credits, our driving a propensity to churn around it, it is, in some ways, revenue with no real economic outcome. Weaning ourselves off that revenue and driving the goodness around unlimited plans, given the positive ARPU we're seeing so far, early days, we think is the right formula for the business moving forward. You think about the fact that we have some of the lowest data growth rates globally, right? That's not sustainable. That's not an environment where we're going to head into 5G, where customers are afraid of using data. I mean, it all kind of hangs together from that perspective, Vince.

Vince Valentini:

I fully appreciate that, and you kind of segued my last question. In terms of those cost reductions and the benefits you see, is it fair to say, even though you may be seeing a slight moderation in service revenue growth for the back half of the year, that you can fully make up for that at the EBITDA line with various cost initiatives? Whatever your guidance was before or consensus was before, you're still comfortable with?

Tony Staffieri:

That's right, Vince, and I think you said it well. Notwithstanding some of the, as you would expect, forecasting an estimation that we're going through on the revenue side, what we do know with a higher degree of certainty are the cost reductions are coming in. First and foremost, the subsidy changes have been implemented, and you see that when you look at our websites and how the cost of the device is factored into the 24- and 36-month periods, as well as on the subsidized plans, you see some moderation in the subsidies there on the Fido brand. That's already started to happen. But, as Joe said, in terms of average handling time on a call, we're seeing very good reduction, and there are other pieces of it that we had talked about, customers coming in on autopay, e-bill, and, again, while it's early

days, that's coming in nicely, as well. On a net-net basis, what we do have good line of sight to is a strong impact to EBITDA and free cash flow.

Vince Valentini:

Thank you.

Paul Carpino:

Thanks, Vince. Next question, Ariel.

Operator:

Our next question comes from Maher Yagi of Desjardins.

Maher Yagi:

Thanks for taking my question. I just wanted to go maybe a little bit bigger picture on the health of the Wireless market in general. When I look at your gross adds, still down year-on-year, but half of the decline that we saw in the first quarter. Can you talk a little bit, Joe, about the overall Wireless postpaid market, how is it changing, shifting with introduction of these unlimited plans, and your competitive positioning in the market?

Joseph Natale:

Sure. Thanks, Maher. Overall, we're still very bullish about the growth opportunity in the Wireless market. The circumstances around that have not changed. Penetration opportunity in Canada is still very strong at 87% penetration, on the road to similar to the U.S., 120% penetration. That penetration gain is still available to us. We're seeing, and modeling in our forecast, overall subscribers growing at about 4.5% for the year, end of period to end of period. We're still seeing that kind of growth and believing it's there for the taking.

I would say to you that the first part of the year, Q1, was quiet, and we talked about it on the last call, but we saw the market wake up about halfway through Q2, and it's been active and strong ever since. Bear in mind that we're still in the early part of the year. Despite half of the calendar year having gone by, two-thirds of the volume of our industry happens in the second half of the year, between all the various Black Friday, back-to-school, etc.

We think that some of the affordability options that we've introduced will help to stimulate that growth opportunity, and that's part of the thinking behind Infinite and behind device financing. We're very pleased with what we're seeing around the 36-month plans already. Clearly, Canadians have spoken and have said, "You know what? We love the choice between 24 and 36 months. We love the affordability options." In six weeks, we've seen more than half of our customers, more than half of the 365,000 customers who have chosen the Infinite plans—or the ones who have gone on financing have chosen 36 months as a whole, right? That's an impressive start to equipment financing, and more to come.

On a macro perspective, some of our view was to unlock the future growth potential. We had to do two important things. One is take away the fear and the burden of overage. When the overage regime in Canada was such that people were paying \$100 for a gig of overage or had to sign up to a number of, you know, top-up approaches that they had to manage and worry about whether their son or daughter or family member was using too much data, etc., it creates a burden on our customers and it shows up in the data growth rates, while we've seen already that with this cohort of Infinite customers, we've seen those growth rates climb substantively. Then, you take a look at affordability of handsets. Handsets are getting more expensive, not less expensive. We have, in some ways, a duty to our customers to help them figure out how to afford these handsets through choice of 24 or 36 months, etc. We think those are two very important catalysts to continue driving the growth opportunity that exists in our market, as a whole.

Wireless as a service for everyday life is becoming even more vital and important, and it's insinuated itself into every facet of life. Therefore, I think the upside continues to be very strong. The applications around 5G, I think, although early days right now, and all day right now, they all seem rather theoretical in nature. We are having a very similar conversation on the advent of 4G, and look what it's done to change the approach for consumers and to create the on-demand economy. 5G will create a new real-time economy with all kinds of use cases that we have only begun to anticipate, and I think it bodes well for both the medium- and long-term growth prospects of our sector.

Maher Yaghi:

Great, thank you, and just to follow-up on the second half, you mentioned it's very important, as we all know. In your planning into the launch of the unlimited plan, did you have in mind or did your market research indicate that the early adopters of these unlimited plans are mostly guys who would upgrade

or downgrade, because I'm looking at your two-thirds of the new unlimited plan takers have upgraded versus downgraded. Do you believe in the second half are mostly guys who would continue to upgrade, or how do you see this taking place in the second half with the back-to-school period?

Tony Staffieri:

Maher, our modelling, when we had put together our outlook for the Infinite plans, our expectation was that early on the majority of customers would be downgraders and they would chase the savings quickly and the upgraders were going to take a while to understand the plan, understand the commitment they're making to a higher price point, and that always takes a bit of time. We actually had the inverse modeled in our plans, and so we were quite pleasantly surprised to see the inverse happening. Our expectation, then, is with upgraders waking up and adopting the plan sooner than we expected, I think we should expect to continue to see that. Will it be in that direct proportion, don't know, but I think it's off to a good start. As we've said, with the MRC being net positive, that's what we had hoped as the long-term outcome, and it's happening sooner than we expected. Good news on that front, but, again, six weeks into it.

Joseph Natale:

Bear in mind that as a portion of our entire base, the potential upgraders are vastly larger, vastly larger than the portion of downgraders. What we're seeing is the customer perception of value, the customer's value for money mindset, saying that worry-free data is worth spending a bit more for, and as a result, we're seeing more of the upgrader population move earlier on that, which is nice to see, actually.

Maher Yagi:

Yes, I agree, and just one last question on Cable. The net adds on Cable, on high speed, how do you—can you talk a little bit about the competitive picture in the GTA area as the competition increases on fibre-to-the-home, the pricing environment?

Joseph Natale:

Sure. Well, first of all, the competitive landscape and intensity has not changed in either direction, frankly. It's been roughly the same as it has been the last long while, as a whole. Bear in mind that, as I mentioned earlier, this is 16 quarters, four years of Internet penetration growth for our organization. We're now sitting at 57% penetration across our footprint of 4.4 million homes and businesses passed, and those numbers are holding up whether it's in a competitor's fibre territory or not. It's holding up in

condo buildings in downtown Toronto and it's holding up in suburban parts of Canada. It's holding up in more sparsely populated parts of Canada where we have a footprint and operations, as a whole.

What we really see from customers, more than anything else, is they want Internet reliability. They want Internet and WiFi that works, and works well, and the fact that we've got a capability of a one-gig service with now managed WiFi capability across the entire base, and some more developments are coming on that front. Our new WiFi Hub is a great product and device. It allows our customers to manage to manage their WiFi in their home, but it also allows our technicians and our service operations people to look into the house and see how the WiFi is performing, and to take a look to practically manage that WiFi environment for our customers even before they call, or even before they've noticed they have a problem. We're doubling down on this notion of reliability, we think it's the number one item that matters most, and we're seeing customer response from that value proposition, as a whole.

There will continue to be competitive intensity in the market, that's not going to change, but we're very excited about the Ignite roadmap and what's coming around the corner, and as a result, there's some really interesting stuff coming. We've got a new generation of WiFi extenders that will be launched sometime very soon. We've got new capability around television viewing, new opportunities around the connected home. We'll continue to create reasons to believe in the Rogers product set and reasons to buy for people that will overcome some of the price-only competition that we've seen historically.

Maheer Yagi:

Great, thank you very much, guys.

Paul Carpino:

Thanks, Maheer. Next question, Ariel.

Operator:

Our next question comes from Drew McReynolds of RBC.

Drew McReynolds:

Thanks very much. Good morning. Two for me. First, Joe or Tony, on the unlimited plans that you have out there in market, you talk about wanting to stimulate data consumption. Can you—I know it's early

days, but provide us a little bit of an update in terms of what you're seeing in terms of behaviour in those unlimited plans, relative to what the behaviour was before?

Then, secondly, bigger picture, just on the regulatory outlook. In the last six months, I think if you look at all the Wireless pricing changes out there in the Canadian market, it's been pretty amazing to see and how fast it's all unfolded. Maybe, Joe, talk about whether expectations have changed from a regulatory standpoint as we look forward to the Wireless hearing. Thank you.

Joseph Natale:

Tony, do you want to take the first one on data and I'll pick up on regulatory?

Tony Staffieri:

Sure. On data, we said from the outset that one of the key success points we would look at on this is actually driving up data growth. Within our population—and it's probably not dissimilar to the rest of the industry—what we saw was data usage growth slowing to about 20% year-on-year, and so what we wanted to do is really ignite that growth rate. For customers—of the 365,000 customers that have switched to the new plans, what we saw immediately, within the six-week period, is sequentially their usage grew by 50%. When you look at it sequentially, as well as year-on-year, very healthy data usage growth, which was the behaviour we were expecting. We didn't expect it as quickly as we thought. There are some reasons for that, the biggest one being customers no longer toggling their WiFi on and WiFi off switch, and so just by leaving it off, they're comfortable using the data, which is the experience we wanted, and that's what we're seeing in the usage rates.

Joseph Natale:

Drew, on the regulatory front, one thing that some of the moves that we've made have done, especially around unlimited and equipment financing, it really demonstrates that we are perfectly aligned with the overall agenda for the government on the regulatory front with respect to making Wireless services more accessible and more affordable for Canadians. My simple view of it is the more we focus on what's important to the customer, the more we focus on the customer experience as a whole, the more aligned it becomes with the overall regulatory view and policy of government. We've had some very encouraging conversations around some of the moves that we've made most recently, very supportive conversations from the Minister and other members of the Cabinet, as a whole, and we think that's a good sign.

We've got a very precious resource in Canada, and that is Wireless infrastructure. Our networks are truly amongst the best in the entire world in terms of capability, in terms of reach to rural parts of the population, in terms of speed. Pick any metric and Canadian networks are amongst the best in the world. The best avenue, we believe, to drive the continuous investment of that precious resource and drive economic return from that investment in a country as sparsely populated as Canada is to make the voice of the customer be the loudest on the landscape to preserve that infrastructure for the use in the future, and for 5G and all that brings.

I'll get off my platform now, but I would just say to you that we think these are all aligned to what matters most and we're seeing good support on that front.

Drew McReynolds:

Okay, thank you.

Paul Carpino:

Thanks, Drew. Next question, Ariel.

Operator:

Our next question comes from Tim Casey of BMO.

Tim Casey:

Yes, two for me. One, Joe, could you talk a little bit about what you're seeing across brands? Given the new Infinite plans are all on the premium brand, and it looks like Chatr had a decent quarter, at least in loading terms, I'm just wondering what you're seeing, if anything, in terms of movement across brands as the new plans have been introduced.

Second point, how should we think about any regulatory discussions with respect to the three-year financing plan? You said more than half of customers so far have responded to them, but I know there is a little bit of confusion out there about how those plans will fit in with the code, just wondering how you would frame that debate. Thanks.

Joseph Natale:

Okay. Thanks, Tim. One of our goals in launching Infinite was to really focus the value proposition for each of our three brands in Wireless, and I'm happy to report that, through this change, Fido has done very well and kept momentum that it had, strong momentum it had, and on top of that, Chatr is performing well. We're trying to create delineation where the Rogers brand is a brand that is about customers that want worry-free unlimited data and a more-for-more value proposition.

The Fido brand is aimed at people that are looking to spend somewhere in that \$40 to \$60 range, want a good experience, want a good service and a good network, but have less opportunity to spend the higher amount. The Chatr brand is available, and it's a great service to anyone, with a great value proposition, and an opportunity for people that are either budget constrained or that want to manage their Wireless services in a very new approach. It's good for people that are new to Canada, we see a lot of new Canadians on the Chatr brand. It's great for students.

We're really doing a better job of sharpening the segment focus of each of the parts of the Canadian market across the three brands, the goal being that each of the three brands is attractive to those different parts of the market and drives good, strong economics in and of themselves, and we're happy with that result, as a whole.

In terms of regulatory discussion, we feel that our approach is right for consumers. We've given consumers a choice of 24 or 36 months. We've separated the equipment financing from the monthly service fee, so it's completely transparent and open. Customers, whenever they like, can pay off the balance and do whatever they want with their phone at that point. We think it's very customer-friendly, very transparent, very open. We believe it is completely aligned with the intent and the spirit of the Wireless Code and regulation, and we've been incredibly cooperative with the CRTC around providing information and insight into why these plans are right for consumers, and we await their consideration.

Tim Casey:

Thank you.

Paul Carpino:

Thanks, Tim. Next question, Ariel.

Operator:

Our next question comes from Jeff Fan of Scotiabank.

Jeff Fan:

Thanks. Good morning, and thanks for taking the questions. I've got a few, very quickly. Number one, on average, because you launched the plans, the Infinite plans, I guess, late in the quarter, was there any impact of overage in your second quarter number? I guess we'll start to see a little bit more of that in the third quarter and second half. I just wanted to clarify that.

Then, also clarifying, I guess, the moderation in growth. I'm wondering, as you kind of go through this transition, when should investors expect to see a reacceleration of the service revenue growth as you look further out, and how you model out the impact of Infinite?

Then, I guess the last one is on network usage. It's great to see that those that have come across on Infinite are seeing an increase of 50%. As you sit back on the network capacity, what are your thoughts in terms of how this may or may not impact capacity and, therefore, Wireless CapEx, and whether usage, over time, could maybe substitute some of the broadband usage or fixed broadband usage that's in the home, and that's, I guess, more of a longer-term story? Thanks.

Tony Staffieri:

Hi, Jeff. I'll start with the first one, straightforward. Virtually no overage impact in the second quarter. As you said, we launched it two weeks before the end of the quarter, and so there was hardly any impact in the second quarter.

I think the second part of your question is, how do we see this sort of unpacking in terms of time. Our expectation was that the full implementation of this was going to play itself out over six to eight quarters, somewhat in line with the contracted base. It may happen a little sooner. But, what we sort of see is, on the overage side, it's happening at a more moderated pace than we expected, so that might suggest it goes on a little longer, but as we've said, it's really a moderation to the growth rates. That's probably all we can say. It's, as we've said, six weeks into it, so it's tough to predict, but we're expecting a longer impact rather than shorter.

It's not unlike—one of the analogies we've been talking to some of you about is Roam Like Home. When we did that, what we saw was a very quick adoption of the value proposition and a much quicker, in terms of probably four to five quarters, adoption and impact on the revenue melt that it had. For what it's worth, that's somewhat of an analogy both in terms of value proposition, as well as materiality of the amount. That's probably all we can say at this point on that one.

Joseph Natale:

In terms of network, we've modeled network consumption and impact over the long term. We feel very comfortable with the types of growth rates that we would anticipate. We've benchmarked them against different countries in the world and their data growth rates and their consumption. We've got a great spectrum position, enhanced recently by the 600 megahertz acquisition, as a whole, so we've got the ability to deliver the capacity.

In terms of going forward, we're investing in 5G and adding more capability, which will deliver even more capacity at a better unit cost. As I said earlier, if 5G is inevitable, then we'll make—as an industry, make the pivot from data as a scarce resource that is measured by just tonnage or quantity to a pivot around the quality of service or capability that customers are paying for. There are new technologies that are coming along that will even create further capacity. The migration from 3G to 4G across the entire footprint, 4x4 MIMO technology will create capacity, new spectrum of 3500 will create strong capacity. We came from a paradigm, if I can use that phrase, a paradigm of scarce data was sort of a thing that defined the 3G and 4G era. The 5G era will be defined more by the level and capability and quality of a service, and I think that's the important thing to bear in mind. Dynamic spectrum sharing will change that opportunity in a big way. We feel very confident around that, overall, Jeff.

Jeff Fan:

Thanks.

Paul Carpino:

Thanks, Jeff. Ariel, we have time for two more questions, please.

Operator:

Certainly. Our next question comes from Simon Flannery of Morgan Stanley.

Simon Flannery:

Great, thanks very much. Good morning. Joe, you talked quite a bit in the past about surfacing value from some of your investments. How are you prioritizing that at this point?

Then, maybe just to follow-up on the video business, can you just talk about what's going on in that business in terms of cord-cutting, what are you seeing in gross adds, what are you seeing in churn, and how does the profitability split? I think you said the margins are higher in Internet, but any colour you could give us around what happens on a video loss versus an Internet add. Thank you.

Joseph Natale:

On surfacing value, Simon, for some of our investments, I've got nothing really new to report. We continue to look for opportunities that make sense for the business in the long term, and when we have something that is meaningful, we'd be happy to share what we're thinking.

With respect to video, what we're seeing in the video market is, really, the market is coming together in sort of two segments, as whole. The overall market roughly runs at about 50% margin, versus Internet, as you know, is largely CapEx and fixed costs and the margin is much stronger, as a whole. What we're finding is that the top end of the video market, we're doing very well. We're doing very well for customers that want lots of content, wants an abundance of choice and programming, as a whole, and we're seeing very strong ARPU growth in TV, as a whole. We're seeing 4% ARPU growth as a result of that continued growth in that part of the market, and it's driven by Ignite TV and things that we're doing.

It's the other part of the market. If you think of the market as sort of being two sets of customers, a quasi-OTT kind of appetite, and there are some service offerings in different parts of the country that require very little investment in terms of installation or set-top box, and TV services for very basic service starting at about \$5 a month. We don't have a play in that part of the market yet, but something is on the horizon for us, and there our goal is to create more choice for customers, where they have a very affordable entry point and then, through the course of time, they can buy content in a much more snackable approach. They can buy a series or an episode. They can buy the Raptors playoff as a service overall. They can add on as they see fit. We would see ourselves merchandising this as an add-on to Internet.

If you take a step away back, that is goal. Internet is our primary service, broadband to the home, and we'll continue to find offerings, whether it's video, all-you-can-eat video or all-you-can-choose video, or whether it's smart home monitoring or the connected home, to add value and to add opportunity for that broadband connection. But, we're still very bullish on video, still think it's an important part of our business. It's going through the transformation that we see all around the marketplace, frankly, globally. Happy with our addressing of the video opportunity on the upper end of the market, and more to come with respect to the à la carte part of the market.

Simon Flannery:

Great, good colour, thank you.

Paul Carpino:

Great, thanks, Simon, and our last question, please, Ariel.

Operator:

Certainly. Our final question comes from Aravinda Galappathige of Canaccord Genuity.

Aravinda Galappathige:

Good morning. Thanks for squeezing me in. Two quick ones for me. Number one, on the Wireless side, I fully recognize the simplification of the Wireless offerings under the new sort of structure. For Joe or Tony, maybe, do you worry that that perhaps creates gaps in the market that will allow your competitors to maybe take a little bit more share? If you think about the \$75 plan—in a Rogers store, obviously, there isn't anything that's generally lower than that, so you're kind of forced to go to the flanker. Do you feel that for that segment of the market that wants a \$55, \$60 or \$65 plan, that that creates a gap that might cause some share drain there?

The second question, real quick, on Media, Tony, I was wondering if you can give us a little bit more colour on the puts and takes we should think about in the second half. I know there was a little bit of noise around the salaries and distribution from MLB, as well as the publishing sale. I was wondering if there's anything notable for the second half. Thanks.

Joseph Natale:

I'll take the first one and Tony can take the second one. Aravinda, we are, as I said earlier, really trying to create crisp delineation between the brands. We have done a very thorough analysis of the Rogers base and the opportunity for that base to sign up to the Infinite plans, and we're very happy with the delineation that we've created around these price points. As I said, Fido is doing very well. We're pleased with that direction, as a whole, and we'll continue to march forward. Now, at the end of the day, the market will continue to evolve, it's a dynamic market, but we're pleased with the way we're approaching it and we're confident it's the right direction.

Tony Staffieri:

On the second part of your question, Aravinda, yes, a couple things. I think you should expect to see good healthy top line and EBITDA growth in the second half for Media. The Jays viewership and monetization will continue to struggle, but in the back half we have the other sports franchises coming onboard, hockey and basketball, notably, and so we expect that to drive good numbers as we head into the fall, and that's underpinned by continuation of radio having a very good, solid growth trajectory into the back half. That, combined with the cost efficiencies that you've seen in the second quarter, that'll continue into the back half. I think the outlook for Media continues to be strong for us.

Aravinda Galappathige:

Great, thank you.

Paul Carpino:

Thanks, Aravinda, and thanks to everyone for joining us on the call today. If there's any follow-up questions, please feel free to reach out to the IR Team. Thank you.

Operator:

This concludes today's conference call, you may disconnect your lines. Thank you for participating and have a pleasant day.