



Rogers Communications Inc. Second Quarter 2021 Results Conference Call Transcript

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Time: 8:00 AM ET

Speakers: **Joseph Natale**
President, Chief Executive Officer & Director

Tony Staffieri
Chief Financial Officer

Paul Carpino
Vice President, Investor Relations

Operator:

Welcome to the Rogers Communications Inc. Second Quarter 2021 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.

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

Paul Carpino:

Great, thanks, 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 2020 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 Joe to begin.

Joseph Natale:

Thank you, Paul, and good morning, everyone.

Over the past 16 months, successive waves of the pandemic have had a profound impact on all of our lives. This time last year, our second quarter results reflected the significant societal and economic impacts of the first nationwide lockdown. As Canada grappled with the challenges of COVID-19, our teams worked tirelessly to adapt all aspects of our Company's operations to keep our customers connected and our employees safe.

Twelve months later, we have come a long way. We have developed new, innovative ways to deliver for our customers while improving efficiency and managing costs. I'm incredibly proud of our teams' ability to pivot quickly in challenging times to deliver a solid performance across our business in Q2.

While some elements of the pandemic will be with us for some time, we're optimistic about the road ahead. Today, more than 79% of eligible Canadians have received their first dose of the vaccine, provinces are progressively reopening, and economic indicators point to strong growth in the back half of this year. As Canada steps towards a brighter future, we are well-positioned to meet the needs of our customers and support our country's economic recovery.

Today, I'd like to take you through the highlights of our second quarter, followed by an overview of how we continue to deliver for our customers while investing in our long-term growth, after which I'll provide more details on how we are well-positioned to deliver continuous improvement throughout this year before turning to Tony for more detailed commentary.

Despite the third wave of the pandemic and varying degrees of lockdowns across provinces, our total service revenue was up 12% and Adjusted EBITDA up 6%. In wireless, our Q2 postpaid net additions were very strong with 99,000 new subscribers. This is up 100,000 from a year ago and represents 22,000 more subscribers than the 77,000 postpaid net additions we reported in Q2 of 2019.

While travel restrictions continue to impact roaming revenues, our wireless service revenue returned to growth and was up 2%, and we maintained a postpaid churn of 0.80%. As our stores reopen, we anticipate seeing the benefits of our exceptional physical distribution network combined with the strong digital capabilities we've developed over the past year.

In our cable business, we saw revenue growth of a solid 5% year-over-year and Adjusted EBITDA up 8%. Our Ignite TV platform attracted an additional 66,000 subscribers in Q2 and ARPA also grew. This growth was driven by the continued investment in our robust Ignite platform as well as one gigabit internet speeds across our entire footprint, and now expanding with the launch of Ignite Internet Gigabit 1.5.

Finally, in Rogers Sports and Media, we saw strong growth as audience viewership reached record levels and advertisers enthusiastically returned to our live professional sports programming. Revenue grew by 84% from the pandemic lows of Q2 2020.

Overall, we are very encouraged by our performance in Q2 as the business continues to recover. We remain focused on delivering sequential improvements each quarter as well as making longer term growth investments. We continue to make strategic capital investments to enhance the performance of our network and meet the future needs of our customers. We are expanding our GPON-based fibre in strategic areas and continue to upgrade and evolve our DOCSIS 3.1 platform as our cable network evolves to DOCSIS 4.0.

We also continue to accelerate the rollout of Canada's largest 5G network. A recent report by the Economist Intelligence Unit looking at the 5G environment in 60 markets globally found that approximately 68% of the countries studied are likely to have switched on 5G by the end of 2021. Without a question, 5G is an essential requirement in a country's ongoing productivity, fueling growth, fueling innovation that Canada needs now more than ever. Proudly, Rogers was one of the first to bring 5G to Canada in 2020. We already connect more than 700 communities, and by the end of the year we will cover 1,000 communities, reaching over 70% of the Canadian population.

For the third year in a row, our network leadership was recognized in July by *umlaut*, the global leader in mobile network benchmarking, which named Rogers 4G and 5G as Best in Test and Canada's most reliable network. Rogers won in BC, Alberta, Ontario, Nova Scotia, New Brunswick, and Quebec, including Canada's largest cities Vancouver, Edmonton, Calgary, Toronto, Ottawa, and Montreal.

We were also recently recognized by *Ookla*, the global leader in fixed broadband and mobile network testing applications, as Canada's most consistent national wireless and broadband provider with the fastest internet in Ontario, New Brunswick, Newfoundland, and Labrador. These awards reinforce that our investments in our world-class networks not only keeps Canadians connected to what matters most today but provides a strong foundation for us to continue expanding and enhancing our networks to bring them the very best performance in the future.

While we connect more Canadians to 5G, we continue to build partnerships across the country to develop use cases that move towards ongoing commercialization of 5G technology. Last month, we helped achieve another first, providing 5G connectivity for Canada's first autonomous 5G shuttle with the University of Waterloo. We also recently enabled Canada's first 5G drone flight with the University of British Columbia and InDro Robotics. Ongoing investments in networks, technology, and innovation

are vital for Canada's future. With recent regulatory decisions helping bring more certainty to the investment climate for our sector, we will continue investing in our networks which will in turn help spur job creation, economic growth, and bridge the digital divide that exists in many places across our country.

All of our investments are a part of a multi-year plan to bring next generation wireless and wireline services to communities and businesses across Canada, and in particular in rural and remote areas. In the last two years, we have doubled the number of rural and remote communities where we offer reliable internet. By the end of 2021, we will reach more than 500,000 households in rural and underserved areas. We are proud to be partnering with governments and communities at every level in this very important work.

This quarter, we partnered with the Mississaugas of the Credit First Nation to bring fibre connectivity to homes and businesses across the community. We're also partnering with the Government of Canada through the Universal Broadband Fund to bring high speed internet to communities of Carlsbad Springs and Simcoe County. From rural and remote communities to urban centres, over the past year and a half we have enabled and enhanced connectivity to more than a thousand communities faster than at any time before in our Company's history.

As Canadian families and businesses relied on our networks to work, to learn, to stay connected, we delivered fibre to the neighbourhoods, brought 5G to Canadians for the first time, added even more speed and reliability to our home internet service, and built new cell towers in rural and remote parts of our country. In the second half of this year, we will accelerate the pace of our infrastructure rollout to reach an additional 750 communities.

Together with Shaw, we will be able to deliver next generation connectivity to communities across Western Canada faster than either company could alone, helping to create jobs and attract investment. As planned, we are engaged and working with the regulatory bodies as they review the transaction, and we continue to expect the deal to close in the first half of next year.

Before we shift to a more detailed view of our financials, I'd like to recognize the tremendous efforts of our team who relentlessly deliver for our customers and our communities every single day. Despite the

challenges of the pandemic, our team members' dedication, absolute commitment to connect Canadians to a world of possibility and the moments that matter most in their lives has never, ever been stronger.

We continue to invest in Canada's next generation of leaders, next generation of change-makers and innovators through our Ted Rogers Scholarship Program, which is now in its fifth year. This year, we awarded more than 375 scholarships to young people across 125 communities. These scholarships support youth to overcome financial barriers to post-secondary education, helping to enable them achieve their highest potential.

While our passion to give back and support our communities continues to thrive, we're also focused on the opportunity and responsibility we have to help shape a brighter future for all Canadians. As an organization, we're taking meaningful steps to strengthen our environmental, social, and governance performance. We have enhanced our transparency and reporting framework to include our commitments to the UN Sustainable Development goals, the Sustainability Accounting Standards Board and Task Force on Climate-Related Financial Disclosures, and continue tracking against the Global Reporting Initiative.

Later this month, we will release our 2020 ESG and social impact reports. For more than 10 years, Rogers has published our Corporate Social Responsibility Report outlining our commitments to communities across Canada from coast to coast. With this year's more comprehensive report, we will highlight our commitment to drive progress on a broader range of important issues to Canadians and the metrics we're using to help track our progress.

With that, let me now turn the call over to Tony to share more details about the quarter. Tony, over to you.

Tony Staffieri:

Thank you, Joe, and good morning, everyone. Our Q2 results reflect solid improvements Rogers has seen as the country continues to recover from the pandemic. In wireless, we delivered another quarter of strong postpaid net adds and service revenue returned to growth. Postpaid net adds were 99,000 compared to a net loss of 1,000 last year and were more than double sequentially from the 44,000 in

Q1 of this year. Service revenue was up 2% primarily driven by a growing postpaid subscriber base, and ARPU was stable on a year-over-year basis at \$49.16. Roaming revenue was up around \$25 million from one year ago but still well-below the \$115 million seen in Q2 2019, in the pre-COVID environment.

Wireless Adjusted EBITDA was up 10% and Adjusted EBITDA service margin grew 420 basis points to just over 62%. The year-over-year improvement primarily reflects the impact of the incremental bad debt provision taken in the second quarter of last year; however, our efficiency initiatives are also contributing to the year-over-year improvements and this should further underpin strong revenue flow-through and profitability growth rates as revenue recovers.

Our Cable business delivered strong financial results. Revenue increased 5%, driven by higher ARPA as a result of disciplined promotional activity, service pricing changes implemented in 2020, and an increase in total customer relationships seen over the last year. We continue to see growth in our Internet and Ignite TV subscriber base, where we added 15,000 broadband net additions along with 66,000 Ignite TV net additions in Q2.

Our Ignite TV net additions were higher by 48,000 compared to last year, and our Ignite TV subscriber base now stands at 668,000. This base is 54% higher than our subscriber base was in the second quarter last year.

These results are impressive and are being driven by a combination of our fully one gig-enabled Internet footprint combined with the impressive capabilities of the Ignite platform. These two drivers are not only delivering healthy subscriber growth but also delivering significant operating and CapEx efficiency as well.

Adjusted EBITDA grew a healthy 8% year-over-year. This gave rise to a margin of 48.6% in cable in Q2, up 160 basis points from the second quarter last year. Along with our strong cable margin performance, capital spending efficiency and ongoing improvements in hardware costs resulted in capital intensity of 22%, down from 25% in Q2 last year. Cash margins remained at a healthy 26% this quarter.

Moving to our Media business, we saw significant revenue growth with the return of professional sports programming. Revenue was \$546 million, up 84% from last year, reflecting the healthy recovery of advertising. Adjusted EBITDA declined to negative \$75 million associated with higher sports programming fees and additional production costs, as well as the additional impact of the Blue Jays player payroll, all while having significant limitations on game day revenues.

On a consolidated basis, total revenue grew by 14% and consolidated Adjusted EBITDA increased by 6%. COVID-19 impacts in Q2 were still notable with estimated impacts of \$160 million in revenue and \$185 million in Adjusted EBITDA. While these results are much improved compared to the \$725 million and \$300 million impact in the same period last year, parts of our business are still recovering.

Capital expenditures in Q2 were \$719 million, up 29% year-over-year as we played some catch-up from a quieter spending environment in Q1. This reflected a CapEx intensity of 20%.

Cash income taxes sequentially decreased this quarter to a more normalized level of \$175 million, reflecting a cash tax rate of 13% as a percentage of Adjusted EBITDA. Free cash flow was \$302 million, down 35% as a result of increases in cash income taxes and capital expenditures.

As at June 30, 2021, we had \$6.9 billion of available liquidity, including \$900 million in cash and cash equivalents and a combined \$6 billion available under our bank credit facilities and receivables securitization program. This quarter, we entered into a USD \$1.6 billion non-revolving credit facility and also increased the limit on our existing revolving credit facility to \$4 billion. Our weighted average cost of borrowings was 4.02% as at June 30 this year, and our weighted average term to maturity was 13.4 years.

While we are in a peak investment period, we are making generational investments that are 100% consistent to our core operations and multi-decade strategy to grow our networks and connect Canadians. As we have proven over multiple decades, the investments we have made have created long term value for our customers and our shareholders.

As we expand our networks to bridge the digital divide, expand our 5G network including the purchasing of essential spectrum, and complete the Shaw transaction to drive competition and increase

capabilities across the country, we're excited with the value we expect these investments will create for decades to come.

Let me now turn to our Q3 outlook. In our Wireless business, our traditional retail distribution channels are fully open and we expect the positive loading environment to continue in Q3. Pent-up consumer demand, people becoming mobile again, and students returning to school will drive this growth.

We believe service revenue will grow modestly on a sequential basis and anticipate blended ARPU should be back to \$50 as roaming starts to recover. Additionally, we anticipate our strong wireless Adjusted EBITDA margin performance to continue and remain at the 63% level, and we expect CapEx intensity to be approximately 19%.

In our Cable business, we expect strong results to continue in Q3, although year-on-year revenue and EBITDA growth will be slightly lower as we have held back on any price adjustments at this time. Cable Adjusted EBITDA margins are expected to be back at approximately 50%. Additionally, CapEx intensity is expected to be approximately 23% as we continue to enhance our cable infrastructure and provide connectivity to more communities.

In our Sports and Media business, we expect revenue to sequentially decline slightly as both the NHL and NBA have completed their seasons; however, EBITDA will return to profitability in the \$30 million range primarily associated with lower programming fees.

Finally, on cash taxes and free cash flow, we expect our cash taxes to be approximately \$175 million in Q3, similar to Q2, and free cash flow will be down on a year-over-year basis driven by higher taxes and CapEx spending.

Overall, we're very pleased with our execution and results in Q2 as the economy continues to recover. While Cable has resumed a more normal operating environment, both our Wireless business and Sports and Media business are still recovering, but in excellent shape to benefit from an opening economy.

Let me now turn the call back to the Operator to commence with Q&A.

Operator:

Thank you. We will now begin the question-and-answer session.

Our first question comes from Drew McReynolds of RBC. Please go ahead.

Drew McReynolds:

Thanks very much. Good morning, everyone. Three for me.

First Tony, thanks very much for the detailed Q3. Maybe more broadly speaking, can you talk about your CapEx plans at least directionally, just given most of the peers are putting in transition or elevated CapEx projects and continue to do so.

Secondly, I guess also for you, Tony, just in terms of full year guidance, you talked about a couple of known unknowns that have prevented you from providing full year guidance, so presumably that still is the case, but maybe you can provide a little bit of granularity on that.

Lastly, just an update on the migration to unlimited plans and where you expect to be exiting Q3. Thank you.

Tony Staffieri:

Thanks, Drew.

I'll start going through the list. On CapEx in terms of—it's probably best to explain it by way of capital intensity. On the Wireless side as we've accelerated our 5G rollout, I think you ought to expect the capital intensity in Wireless to sit somewhere in the 14% to 15% range for the balance of the year and as we look to the early parts of next year. I think that's consistent with what we've said in the past.

Then on the Cable side, we continue aggressive build-out of our footprint and in particular rural communities, together with the government and funding from the government, and so expect our cable CapEx to sit in the 22% to 24% range over the course of the balance of this year, as well as into early

parts of next year, and then we'll provide appropriate guidance at the right time with respect to 2022, so I think no surprises there and a continuation of healthy investment in our networks.

In terms of full-year guidance, as we look to the fourth quarter, what are the issues that we're looking at that are still in the category of uncertainty, we had always outlined sports media as being one, and the Jays in particular. I would say the certainty around that has been helped with the announcement that the Jays are back in Toronto. It gives us a little bit of a better feel for what that's going to look like, but the attendance in the stands is capped and therefore there's probably little variability there.

More importantly, though, in terms of roaming, that one's still a difficult one to predict. You saw in Q2 that we were running at about 20% of where we used to be two years ago, and so that one is going to have a lot of volatility depending on international travel, the status of border openings and closings, and so much more difficult to predict.

Then along those lines in terms of demand, new subscribers, we're seeing, much like we saw in Q2, good healthy demand in Q3. Again, still difficult to predict how that's going to play in Q4 with any variant and related closures that might have, so that's probably the second biggest in terms of wireless volumes.

Having said that, we are fairly optimistic about the pent-up demand we're seeing in wireless and the number of things that we expect to come onboard, including immigration, a very healthy GDP backdrop, so we're feeling bullish about volumes, but again, still a touch of uncertainty there.

Then finally on unlimited plans, we ended the quarter at over 2.7 million. We're really pleased with that. We have seen the migration slightly slow down from past trends, and frankly, we expected that as consumers continue to be at home and working off of in-home WiFi, the need for unlimited is just less compelling. But what we do see is as soon as things open up, if you were to look at stats for the last week, for example, data usage on mobile just bounces up to 50%-plus in terms of growth, and so we fully expect that that demand will resume on what is already the largest unlimited base in the country. We're very pleased with where we sit and the future prospect for the unlimited plans.

Drew McReynolds:

That's great. Thank you, Tony.

Paul Carpino:

Thanks, Drew. Next question, Ariel.

Operator:

Our next question comes from Jeff Fan of Scotiabank. Please go ahead.

Jeff Fan:

Thank you. Good morning.

Postpaid churn was really encouraging, didn't think you would come close to last year's churn number when everything was shut down, so can you talk a little bit about maybe the factors that led into it, and perhaps help us think about the competitive environment, because last year when things reopened, we saw some pretty aggressive promotions that were in the market as everyone was chasing the reopening demand. Wondering if you have any early indications of how the competitive environment looks like currently since the—I know it's pretty early, but just wondering if you have any thoughts about the competitive environment and what you're seeing now.

Then the second, perhaps a little bit related, is the ARPU. Really nice to see that stability for the first time in a couple of years. I know roaming is still unclear, so if we leave that aside for a moment because that's hard to predict, could we still see that ARPU trend continue to improve going through the second half without roaming? Thanks.

Joseph Natale:

Hey, Jeff. It's Joe.

Why don't I talk about the competitive environment and also churn, and then I'll ask Tony to unpack ARPU ex-roaming for you. In Q2 we saw a very healthy volume in the marketplace. We fully expect that we'll see overall industry growth in terms of Q2 when everyone finishes reporting, industry growth that might be similar to Q2 of 2019, sort of in that 4% overall subscriber growth range across all the peers.

We fully expect that to continue into Q3 as volumes are there, they're consistent. It certainly is helped by the fact that stores are pretty much opened up across the country with some limited volume restrictions in terms of people in the store, etc., but there is robust demand, we believe, all across the wireless business. It's just fueled by the sense of freedom and people getting out there and using their devices and just feeling that mobility is an important part of their lives.

If you look at all the surveys that have been done around the so-called COVID revenge spending, for lack of a better way of describing it, you know, where will you spend some money heading into the latter part of this year, a new wireless device sits in the top five category. When you consider the fact that a consumer has never had a higher level of savings, credit card debt is low, that immigration is resuming; immigration pre-COVID was around 300,000 a year, and our government is saying 420,000 or so is the new annual number and is starting to happen, and then the overall GDP outlook, so we think it bodes well for the overall health of the industry.

In terms of the competitive intensity around it, back to school will be the telling sign. It's hard to really say what's going to happen overall, but right now what we're seeing is strong competition in the marketplace. In terms of why are we doing well, it's really the fact that we're now firing on both cylinders. We've got a very strong physical distribution network with over 5,000 points of presence, and we worked very hard on the digital and omnichannel capability, so even in the throes of Q2 when we were essentially locked down, we were doing very well because of that newfound, newly developed capability, everything from Pro On-the-Go to curbside pickup to really the intermingling of physical and digital channels as a whole.

Some of that same capability factored into churn management. Churn management, base management has become a data analytics game more than anything else, and that is really mining our understanding of our customer base to try to predict who is vulnerable and thinking of leaving, and then intercepting that discussion with an outreach, an outreach that looks to figure out what is the best way, the best offer, the best approach in a very customized and bespoke way for that particular customer conversation.

That capability, we've been spending a lot of time developing it, that precision marketing capability over the last year and a half or so, and you're starting to see it show up in our consistent churn performance, and I would lay it completely at the doorstep of that capability.

Tony Staffieri:

With respect to your question on ARPU, Jeff, it might help to sort of break down the key components of it and what we see. If you look at underlying ARPU of the recurring revenue side, so in other words, subscription revenue, today we're seeing a somewhat flattish type of ARPU growth, and so while some customers are upgrading to unlimited, as we talked about earlier, that pace has slowed, and so that ARPU growth catalyst has also slowed.

For the remainder of the year, if we think about the drivers of ARPU, they're really going to be tied to the opening up and continued opening up of the economy and all the growth drivers on demand, and so continued data growth usage will increase the propensity to move to unlimited. The second piece is for those that are capped plans, we see much less overage revenues and as that usage increases, then we expect some of the overage fees to increase as well. Then there are the volume related fees, and as we outlined, we expect a pretty robust Q3 in terms of volumes, and that should help in terms of the ARPU. We'll need to see where it moves into in Q4.

Then finally as an offset, late payment fees have been at record lows as consumers have been paying their bills, and you see it in other sectors as well, in the credit card industry for example, so those are sort of the variables that are impacting the up and down. If we have to summarize it, we sort of think somewhat flattish with mild ARPU growth in the back half if you exclude roaming revenue, to be clear, and perhaps we're being a touch conservative based on just the unknown variables around COVID and closures, but I hope that colour on the variables helps.

Jeff Fan:

Yes, that helps, Tony. Just maybe a quick, quick one. You said ARPU's flattish on the underlying. How does that compare to, say, the last few quarters? Has that been flattish as well, or has that been slightly negative?

Tony Staffieri:

If you were to go back several quarters, it's been—at the height of the pandemic where movement to unlimited really slowed, consumers were inside, and what you saw is, frankly, some aggressive promos on the bottom end flanker brands, and I would say those gained some popularity, but that's sort of dissipated, and that had a modest negative impact on underlying ARPU. We're seeing that sort of move away from that trend and move to flattish, so the trend is in the right direction.

Jeff Fan:

Great. Thanks, Tony.

Paul Carpino:

Thanks, Jeff. Next question, Ariel.

Operator:

Our next question comes from David Barden of Bank of America. Please go ahead.

Matt:

Hi, guys. Thanks for taking the question. It's Matt sitting in for Dave.

I just wanted to ask about the pent-up demand that you're expecting. We see some other carriers push aggressively on increasing the proportion of higher end 5G devices to increase the customer experience within their base. Do you think that the upcoming pent-up demand is going to kind of create that environment for you, or should we expect some elevated promotional activity around getting those devices in people's hands to partner with the network expansion that you guys have talked about on the 5G front?

Joseph Natale:

Hey, Matt, it's Joe. There is no question as people come out re-enter the malls, start looking at what are the new smartphones out there, there's always an excitement around the latest and greatest and the best devices, especially with 5G devices becoming even more prominent across all the brands, so that will certainly attract attention in the stores.

We launched our equipment installment plans in June of 2019, and that was really in an attempt to be a lot more transparent with customers around this is the price of the plan and this is the financing of the phone, and we fully expect that there be a continued discipline on that front. Will there be promotions around back-to-school? Sure, there always are back-to-school promotions. What will they be like? We don't know.

It all depends on how the market plays out as a whole, but even if customers come in looking for that iconic high end device and the affordability isn't there, we have got a range of other devices available that are very compelling in terms of feature set, and we continue to have refurbished devices at our disposal, etc., so the goal is to get our customers in the right device based on feature set they want and the affordability that they have, and then to use the ability of our equipment installment plans to kind of lay out just what that affordability looks like.

That's sort of the game, and that is how we kind of conduct ourselves in the marketplace, put our customers in the right device that they can afford. But there is pent-up demand, there is excitement, and we're seeing stronger and stronger focus on the iconic devices as sort of a, as I said before, as sort of a. for those who can afford it, a way of coming out of the pandemic and treating themselves to something special.

Matt:

Great, and maybe one follow-up, too. Tony mentioned how the late payments are at, I think, historic lows or at least recent lows. I'm not sure which exactly he said. I was wondering what that implies for the bad debt provision of a year ago, and whether that's going to be reversed. I didn't see anything in the release, but maybe I missed it. If you could just maybe address that.

Tony Staffieri:

Sure, Matt.

In terms of the provision, we continue to have the vast majority of that provision on our balance sheet, probably continue to hold on to it for a few more quarters yet to see how things play out in the fall, but we'll be very transparent with you and the investment community if there are changes to it and include it in our results.

Matt:

Great, thanks a lot.

Paul Carpino:

Thanks, Matt. Next question, Ariel.

Operator:

Our next question comes from Aravinda Galappathige of Canaccord. Please go ahead.

Aravinda Galappathige:

Good afternoon. Thanks for taking my question. Two from me.

I wanted to focus a little bit on Wireless cost. Obviously, yet again you did a good job. Other OpEx was down 11%. I know that bad debt provisioning was a part of that decline, but I was wondering, Joe or Tony, whether you can talk to that those initiatives going forward as you look to kind of maintain costs under control, even as we sort of think about restart cost and reopening, how we should think of that trajectory beyond even Q3.

Then perhaps connected to that, with respect to handset cost and subsidies, I know that with the launching of EIP plans a year and a half ago, or maybe two years ago, sort of bringing down that COA from, call it, 450 towards maybe even 250—sorry, from 450 to 250 was a focus. I was wondering if you could provide kind of an update, at least at the industry level, as to what kind of progress has been made there.

Then a quick question on Cable, on internet net adds. I know it was up year-over-year nicely, but perhaps a little lower than what the street was expecting. Historically, you were able to do sort of 20,000 in Q2. Any colour on that result? Thank you.

Tony Staffieri:

Sure, thanks for the questions, Aravinda.

The first one is on Wireless costs. As you said, if you were to exclude cost of equipment, we're very pleased with the reduction we saw year-on-year of 11% on our other operating expenses, and so good progress. Bad debt was part of it, and so keep in mind—you know, we disclosed last year that the total provision was \$90 million. Only a portion of that related to Wireless and the rest related to Cable, so keep that in mind, so we do have true operating efficiencies, and they fall into the categories you would expect.

The improvements of our digital channels and the cost efficiency that that's created sort of stands out as first and foremost, and so that's been an extremely helpful productivity tool for us and, frankly, a better customer experience in terms of being able to complete most, if not all of their transactions online, and then that sort of relates to some of the self-help and reduction in call centre call volumes.

One of the things we did say as we move to unlimited is we expected some other benefits, and one of them was certainty on the bill, and so when you look at the cohort of customers on unlimited plans, call volumes are way, way down and that's reflected in a much lower churn profile as well, so all the benefits we were expecting of customers moving to unlimited, we're actually seeing that.

Then keep in mind the stores were partially closed for a good part of Q2, and so therefore there are store savings, and as the stores open up and you look to Q3, we do expect cost to move up and, in some cases for some stores, ahead of the volume that we expect. But having said that, that's why I clarified in the notes that you should expect to continue to see wireless, cable margins in the 63% range to sort of help with that certainty, so in any particular quarter as things open up and we invest in our channels, then you may see some of that cost savings being reinvested, but on balance we are chasing what we think is a pretty healthy margin in wireless.

Your second question on handset costs and how the industry has done, I think if you were to look at—and it's unfortunate a lot of disclosure isn't as clear as it could be across the industry—but if you were to look at our numbers, we're very clear on what equipment revenue is and what the cost of equipment is, and if you were to look at what that trended like over the last two years since the introduction of installment plans, I think what you'll see is a very healthy migration of that net margin moving to flat and, in some quarters, actually positive as we benefit from small margins on the handset, and that includes, by the way, OEM rebates in there.

This quarter, you'll see that we had \$448 million of equipment revenue with a cost of \$455 million, so at a net loss, if you will, or investment in the customer of \$7 million in terms of subsidy, and then previous quarters it was positive, and so I think that is most telling of the industry in terms of being very careful about, as Joe said earlier, separating what our fee is for service revenue compared to what the cost of the handset is, and so I think as an industry and for our results, we're very pleased with the direction that that's moved in.

I think the last question was on internet nets overall, and I would say for the vast majority of the quarter, we were in a lockdown or a series of restrictions in our key cable footprint territories, and bear in mind, Aravinda, that we've got a number of different channels that operate effectively for us in that space and one of them is field sales, so door-to-door salespeople that work through different communities and try to create excitement around the Ignite platform, around our capability, etc. That was pretty much all curtailed through that period, and home internet is not a shopper category. You've heard me say that before - people don't wake up and say, hey, I should think about changing my home Internet. It really is a sales-driven exercise, and with our sales channels effectively truncated, whether it's field sales or store sales, etc., we didn't get the full benefit of that channel capability.

That's now come back. You add to that some other elements of what's happening in the marketplace, and one is in terms of back-to-school, we fully expect that post-secondary students will be, for the most part, back in the classroom and therefore requiring housing near campus, for those that are away at school, and therefore requiring an internet connection, which again is part of the opportunity for us as well.

And then, we're seeing a bit of a return to urban in some parts of, especially, Toronto. A lot of young people left their condos, whether rented or owned, and kind of consolidated with their families outside of the urban centre. They're coming back. A lot of condos were vacated that were dedicated to Airbnb, etc., and they're starting to come back, so we'll see that macro conditions start to prevail.

Then as we kind of get out there with the latest and greatest in terms of Ignite, we think there's even more reasons to come and join Rogers as a customer. You would have seen recently some of our announcements around the capabilities of Ignite TV with Spotify and Disney+ around the corner, etc.,

so we fully expect that will be another reason to buy as a whole, so we'll start to see that go in an even better direction over the course of the next few quarters.

Aravinda Galappathige:

That's excellent. Thank you so much.

Paul Carpino:

Thank you, Aravinda. Next question, Ariel.

Operator:

Our next question comes from Simon Flannery of Morgan Stanley. Please go ahead.

Diego Barajas:

Hi, good morning. This is Diego filling in for Simon.

Just a couple of questions on the Shaw transaction. Can you provide any more colour on the timing of maybe public hearings or any updates that we should be on the lookout for, to gauge progress there? Then just second in terms of de-leveraging post deal close, can you touch again on some of the additional options you have to de-lever, such as the sale of non-core assets, and if there's any change in view there? Thank you.

Joseph Natale:

Hi, Diego. I'll take the first one and then I'll ask Tony to comment on the second question.

In terms of the regulatory process, just to remind people that in totality there are five approvals on the Shaw transaction. One is shareholder approval, which is completed; second is the Alberta courts; which is completed, and so we have three to go: the CRTC around the transfer of the broadcast distribution licenses, ISED in terms of spectrum transfer, and the Competition Bureau in terms of overall approval of the deal.

Our timeline hasn't changed from the last time I talked about it. We think it will happen in the first half of 2022, somewhere in that time frame, and generally speaking, so far so good is sort of our mindset.

There's been a lot of information exchanged, a lot of discussion as a whole. We're going through a thoughtful set of submissions, economic analysis and otherwise, and more than ever we believe this is a great idea and a great transaction for consumers and for the ability to invest in rural and remote communities and bringing jobs to Western Canada and really driving the capability of networks and affordability overall.

We've got very overwhelmingly positive shareholder approval, which was nice to see, and we will just make our way through the discussions in the coming months, and as I said, we expect to get an answer in the first half of next year. We feel we have a very strong fact base. We've got a very good set of thoughtful economic arguments. The Canadian landscape is an intensely competitive one and that will persist even after the completion of this deal, and we are still very bullish on the completion of the deal.

Tony Staffieri:

With respect to the second part of your question, Diego, on de-leveraging post close, we've outlined before that we have a very robust plan in terms of synergies, and as we continue to work the file, our confidence level on those synergies continues to grow. We had put a number out previously of a billion dollars, and we continue to reiterate that we have very good, clear line of sight to those synergy levels, so as we think about de-levering, it's really going to come from EBITDA growth and the cost synergy savings.

There are additional revenue synergy opportunities that we see, but we are cautious in forecasting the upside in that growth and tend towards numbers that we have high confidence in, and so that's going to be the biggest catalyst to de-lever very quickly, within the first 24 months of the transaction close.

Diego Barajas:

Great. Thank you.

Paul Carpino:

Thanks, Diego. Next question, Ariel.

Operator:

Our next question comes from Sebastiano Petti of JP Morgan. Please go ahead.

Sebastiano Petti:

Good morning and thanks for taking the question.

Just wanted to see if perhaps you can update us on the state of conversations that you're having perhaps with enterprises, businesses as it pertains to the 5G opportunity, obviously staying away from any of the spectrum angle, but what are you hearing? Obviously, lots of noise in the market about mobile edge compute network slicing. Have things evolved? Are you seeing enterprises lean into 5G, or are we still in early days here?

Joseph Natale:

Thanks, Sebastiano. There's a lot of discussion with enterprise customers around 5G and what it means, and we're conducting a lot of analyses for them and doing pilots around different ideas, and so the interest level is there.

I think part of your question, I'm sure, is what are the most readily available commercial applications that might start to generate material economic benefit as a whole. I would say it kind of falls into a couple of categories in the very short term, so short term applications have really to do with IoT sensing capability, especially in sectors that we're familiar with, whether it's transportation or the resource sector, anywhere where there are expensive pieces of equipment or things to manage that a sensor can benefit immediately; it could be traffic management, it could be public safety, and we're doing work exactly in those areas in a number of different organizations across the country, so that's one. Bear in mind, we are already the IoT leader in 4G, so it's very natural for us to extend the conversation as to what's different in 5G and what new areas are available in those sectors.

The next thing we're seeing is, I would call it, the precursor to network slicing, and that is the ability of organizations to have a bespoke network, so leveraging the capabilities around 5G to cover their factory or cover their mining site and provide capabilities rather than build their own network by a portion of our network with very bespoke characteristics around everything from speed to latency to different signaling, etc., so that's a very real application that's happening right now.

The one everybody talks about is mobile edge computing, and there I would say it's more in the medium term. We're busy building relationships and partnerships to provide mobile edge computing capability across our 9,000 wireless sites, and there it's a lot of, I would say, analysis and showcasing type work going on but not really at sort of the key material economic level. You would have seen some of that in my comments earlier, like the shuttle on the University of Waterloo campus is a demonstration project to showcase a project that's real, a shuttle traversing the campus that is run by our 5G network and the mobile edge capability that it has.

The work that we've been doing with InDro Robotics around using the 5G network for drone delivery, these are all great showcase exercises and really prove the concept, and we believe in the years to come these will be large material applications that will start to take hold, certainly in terms of managing infrastructure and managing ideas across one of the largest landscapes in the world. We think it will be a very, very important consideration set in bringing computing power to every corner of Canada.

If you think about—you know, to you get your head around mobile edge computing in an urban setting, it's pretty straightforward. When you think about a country the size of Canada, 5G needs to cover every corner of this country and provide a consistent mobile edge capability if we're really going to deliver on the value in some of these applications and ideas, and we're dead set on doing exactly that. We've expanded to 700 communities or so, we're on track to cover 70% of Canada, and we're going to keep going in terms of the coverage of 5G. It is our future and an important part of where we're going. I hope that helps.

Sebastiano Petti:

That was great. If I can just quickly follow up, I believe on Aravinda's question, just regarding the internet loadings in the quarter, it sounds as though the slowdown in 2Q is perhaps related to just limited gross adds or jump balls in the market. Is that fair? How would you categorize just the competitive environment? Should we assume that—you know, is there any correlation between the two there, the slowdown and just overall more competitive fibre expansion from some of your competitors? Thank you.

Tony Staffieri:

Yes. Sebastiano, I would very much relate it to the market dynamics. As Joe said, it was a relatively slow quarter with the lockdowns, and we didn't have the usual catalysts that you would see in that space. Don't mistake that for, you know, as things open up, where we sit from a product standpoint. Our competitive advantage of 1 gig, which has now moved to 1.5 gigs, we have 1 gig across our entire footprint and 1.5 gig as of today across the majority of our footprint, quickly moving to our entire footprint as well. That's on top of, as Joe talked about, some of the recent tests and third-party validation of best internet, so I think we're feeling very good from a product standpoint.

Then you layer on top of that the Ignite TV, or Comcast Xfinity product that you'd be familiar with, on top of that, and so from a home perspective, our advantage on the product set is clear, and we've seen it play out, continue to see it play out and expect to play out. You then layer on top of that our distribution channels and sales, and that's been on sort of quiet mode as a result of the lockdowns, and as that opens up, we expect that to open up as well.

And then, we continue to do well in greenfields. That's always been our strong suit for a number of different reasons, and so we have led and continue to increase internet penetration consistently and as things grow, we expect to get dominant share of that growth.

Then in terms of cable, let's not forget the performance of our business, R4B within that. We continue to do well in that space. There's been a bit of a slowdown, as you would expect, as restaurants slow down and things like that, and so as they come out of closure, we're seeing good demand pick-up there, and that will contribute to cable subscriber improvements that you'll see in Q3.

Sebastiano Petti:

Great. Thanks, guys.

Paul Carpino:

Thanks, Sebastiano. Ariel, we have time for two more questions.

Operator:

Certainly. Our next question comes from Jerome Dubreuil of Desjardins. Please go ahead.

Jerome Dubreuil:

Yes, thanks for taking my question.

Just going back to the increase in wireless CapEx, the acceleration, I'm looking for the reasons behind this acceleration. We've seen it with the peers as well, but the true 5G impact on the P&L, I don't think is expected in the near term, so if you can go through the rationale of this acceleration, please.

Tony Staffieri:

Sure, Jerome. I think at the end of the day, the investment in 5G is happening now across our footprint. We're also increasing capacity and coverage in the major corridors. You would have seen us go through and cover by the end of the year 70% of Canada with 5G, and it's important that we get that going for all the reasons and getting ready for the future as a whole. Bear in mind that the very first application, the killer app on 5G is really about spectrum efficiency, so it is really important that we continue to make those investments as a whole, and bear in mind it's a very efficient spend.

We were very capable in terms of moving in with 4G LTE advanced capability a couple of years ago. We made a commitment to go all of Ericsson as a result, and now we're just lighting up those cell sites, so as we said before, you can expect us to have CapEx in that range of 12% to 14% on a just overall average basis, and there are going to be peaks and valleys in the course of time around that, but that's a good run rate for our business in wireless.

Jerome Dubreuil:

Great. Thank you.

Paul Carpino:

Thanks, Jerome. Our last question, Ariel, please.

Operator:

Our final question comes from David McFadgen of Cormark. Please go ahead.

David McFadgen:

Hi, thanks for squeezing me in. I have two questions.

Just following up on the bad debt expense in wireless, I was just wondering if you could give us the delta year-over-year. I'm just wondering how much of the EBITDA improvement was just due to that.

Then secondly, you mentioned in your release about an increase in roaming revenue. I wouldn't have expected roaming revenue to really pick up yet, just given in Q2 the travel restrictions were still fairly much there, so I was just wondering what that impact was as well because it's nice to see it already pick up, because I think a lot of people believe that as the travel restrictions loosen, roaming revenue could really pick up for Rogers.

Tony Staffieri:

Thanks, David for the good questions. Two things. In terms of bad debt year-on-year, it's \$90 million, so in Q2 of last year, we took the provision of \$90 million and this quarter, we didn't release any provision and so think about the delta as \$90 million. Roughly—I don't think we disclosed the split between wireless and cable, so I'll leave it at a consolidated level.

Then in terms of roaming, keep in mind last year we credited customers for all of roaming, so we essentially had no roaming revenue. You may remember as a goodwill gesture for customers that were stuck outside of Canada, had trouble coming back into Canada with the border closures, we gave them free roaming for a period of time which ended at the end of June, and so when I say we have \$25 million of revenue this quarter, we didn't have that last year at all, so while the volume is about the same, if a little bit higher, we're actually getting paid for it this in this Q2.

Hope that helps, David.

David McFadgen:

Okay, yes. Thanks so much.

Paul Carpino:

Thanks, everyone, for joining us today, and if there's any follow-ups, please 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.