

BMO 22nd Annual Media & Telecom Conference

Company Participants

- Joe Natale, CEO
- Tim Casey, Telecom, Media & Cable Analyst
- Tony Staffieri, CFO

Presentation

Tim Casey {BIO 1556292 <GO>}

Good afternoon. We're delighted to have the team from Rogers, Joe Natale, CEO; Tony Staffieri, CFO. Familiar names to everyone to out there. Hey, guys, how you doing?

Joe Natale {BIO 6407853 <GO>}

Doing well, Tim. How are you doing?

Tim Casey {BIO 1556292 <GO>}

Good. Good. Thanks for joining us today.

Joe Natale {BIO 6407853 <GO>}

You're sporting this professorial beard and ...

Tim Casey {BIO 1556292 <GO>}

Yes.

Joe Natale {BIO 6407853 <GO>}

... slicked back hair, like ...

Tim Casey {BIO 1556292 <GO>}

That's right. That's right.

Joe Natale {BIO 6407853 <GO>}

... (inaudible).

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Bloomberg Transcript

Tim Casey {BIO 1556292 <GO>}

Put a little gray in just for you.

Questions And Answers

A - Tim Casey {BIO 1556292 <GO>}

Look, let's get into it. Let's talk about the Shaw deal. You've passed a few hurdles but still lots to go. Maybe an update on where we are in the process there.

A - Joe Natale {BIO 6407853 <GO>}

Sure. Be happy to spend a couple of minutes on the Shaw deal. We're as excited as ever about the opportunity strategically, operationally and what it means for our ability to drive growth and expansion into rural Canada, et cetera.

As you recall, there are -- there are five approvals around the deal. Two of them are done. Three to go. There is shareholder approval, of course, the Alberta courts. Both of those are done. And now, we're working through the CRTC approval on the transfer of the BDU licenses, and there is a hearing coming up in November on that topic.

We are talking to ISET [ph] about spectrum transfer. And, then, of course, the Competition Bureau is through a process and we're in the middle of a daily collection analysis process that looks at the economics of the deal, the efficiencies of the deal, et cetera. So, we're working our way through that. It's kind of [ph] progressing as expected.

At the same time, we've launched a pretty comprehensive integration team of a number of our leaders and the Shaw leaders that are working through a number of integration workstreams. And if you recall, we postulated a synergy stream of about \$1 billion in combination of EBITDA or -- sorry -- cost, capex and revenue. And we're feeling very good about the synergy benefits and think that that's going to proceed as we've hoped overall.

And the other day [ph], our ability to compete more effectively in the enterprise space, our ability to offer a truly national footprint, our ability to support the needs of wholesale operators, for that matter, our ability to extend our capabilities and our footprint into rural Canada are all part of this deal. As you know, we put forward a billion dollar fund to drive connectivity into rural, remote and indigenous communities in Canada. So, overall, feeling good about it, Tim.

And the most important thing of all is that we've got some good people on it. But we'll continue to drive the momentum in our core business while this is going on. And we're very pleased with the momentum we do have in our business while this is going on.

A - Tim Casey {BIO 1556292 <GO>}

Okay. A few follow-ups there, if I could.

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A - Joe Natale {BIO 6407853 <GO>}

Sure. Shoot.

A - Tim Casey {BIO 1556292 <GO>}

First on the -- on the issue of wireless remedies, I think there is a fairly large consensus among your shareholders there's probably going to be -- have to be something done there. Is there any more insight or any more thoughts you can offer the Street on that?

A - Joe Natale {BIO 6407853 <GO>}

Nothing at this point in time, only to say that we believe that the wireless industry is intensely competitive and will continue to be intensely competitive even post-deal. Having said that, of course, we will sit down with regulators and figure out what are potential solutions or opportunities that help to put any concerns to bed.

We are fully intent on closing this deal, as you know, and this deal will close. It's a question of what are some of the different things that have to be worked through and as there's an opportunity to sit down and have that conversation, of course, I'm more than happy to have those discussions. We've got a number of ideas on that front but nothing that we can share at this point.

A - Tim Casey {BIO 1556292 <GO>}

Fair enough. And one of your competitors is apparently going to challenge the deal from the BDU license transfer perspective, concerned about your position with respect to video. How do you respond to Bell's comments (inaudible)?

A - Joe Natale {BIO 6407853 <GO>}

Well, first of all, I think we are very surprised to see that. It's not something we fully expected. I would tell you that the distribution market is intensely competitive, not just in terms of BDU providers but also the various OTT providers that are out there. And they're -- but all [ph] completely follow the logic as a whole.

I would say to you that the irony isn't lost on us. In Rogers' 60-year history, we've always been the challenger, the challenger and, in many ways, kind of standing up against the larger players in the market. The challenger to Bell on many fronts. And it -- there is a high degree of irony in Bell looking at us as being a bigger player.

And Ted Rogers is probably smiling somewhere from above saying, "Who would have thought that that would be the approach that Bell would take at this point in the game?" But, happy to go through the hearing and lay down our thoughts and views on it. I think our rationale, our arguments are very, very clear on the BDU front. There's no overlap in the networks whatsoever.

It's really become an Internet game more than anything else. And the Internet game is all about capital allocation, capital deployment and continuing to spread the reach of that

network into rural -- into rural Canada, remote Canada. And the balance sheet and the scale will allow us to do just that. I will punctuate by saying even after Shaw and Rogers come together, we will still be smaller than Bell Canada from a market capital point of view or overall wireline business point of view.

A - Tim Casey {BIO 1556292 <GO>}

Right. And last question. We've got an election next Monday. Do you think it will have any implications with -- to the way the regulatory process proceeds with respect to Shaw?

A - Joe Natale {BIO 6407853 <GO>}

Look [ph], I think we've worked hard over the last few years building a good relationship with government, both at the elected official level and also at the sort of administrative or bureaucratic level, policymaking level of government. I think we have a good reputation amongst the hallways of government. And we'll continue to sit down and look at things from the same side of the table and solve problems and issues as they come along no matter who is successful next week.

And we have relationships and a history with the various players that will -- that will form government. And we are very well known to the very senior policymakers that have been there through many, many governments over the years. And we've had many conversations with them about the future of telecom, what's important in the future.

And there's no question that the issues will remain the same. Number one is we have a -- we have a too big underserved population in Canada -- 2 million homes without high-speed Internet. On top of that, there are many places in the country that don't have much choice in terms of providers, especially in some of the more rural parts of Canada.

And we sit at the doorstep of 5G, and 5G will be a game-changer for us economically as a nation. We also sit at the doorstep of what 5G can bring to small and large businesses, what it can bring to fixed wireless and, therefore, very much looking forward to having the broad conversation around the future and what it means to Canada's digital success and what it means to all Canadians, whether they live in a downtown city or whether they live in a remote part of the country.

And I tell you there are many different perspectives out there in Canada. I spent quite a bit of time in rural Canada in the last few months speaking to rural mayors and speaking for First Nations leaders. And there's a perspective around connectivity that says we have to bridge that divide once and for all.

And it's only going to happen when telecommunications operators and government policymakers sit on the same side of the table and say, "How do we solve the collective important policies for the future of Canada?" And we're, as always, prepared to do exactly that and make a right balance and tradeoff -- tradeoffs in those decision-making criteria.

So, long way of saying, Tim, we are here and ready to work with whatever forms of government.

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A - Tim Casey {BIO 1556292 <GO>}

Fair enough. Now, maybe if I could draw Tony into the conversation and just revisit the de-leverage ratio. At the time of the deal, Tony, you talked that you -- you thought you would emerge from Shaw without about -- a leverage ratio of around five times and you were looking at about a three-year window organically to de-lever back to levels where you are now.

Given the auction -- and we'll get into the auction in a moment -- but, where does that stand now? Do you -- do you -- do you still see yourself de-levering the balance sheet organically? And maybe if you could just update on timing and some of the metrics around that.

A - Tony Staffieri {BIO 6566699 <GO>}

Sure. So, a few things. Coming out of the auction, we spent more than we have modeled and communicated in some of our earlier discussions. On a standalone basis, in October, once we pay for the 3.3 billion, we will -- our leverage on the standalone will center about 3.5 times. And traditionally, we've always burned that down at a rate of 0.2 to 0.3 a year just through our organic growth. And that's been accelerating of late.

So, on close of the transaction, depending on the timing, we expect it to now be -- now above five times -- probably in the 5.3-, 5.4-time range, again, with a very aggressive burn rate from that. We're making terrific traction on the synergies. We talked about synergies being circa a billion dollars. And what we are finding is very good progress on hardening that number and getting confidence around that billion dollars and being able to execute on that within the first 24 months.

Most of the savings are going to be EBITDA-impacting. And, so, that's going to go a long way to helping the leverage ratio. And, so, we expect -- our expectation previously was within three years, we'd be back down to the low three times leverage ratio. And with the synergies that we are seeing, we sort of see the same sort of timeframe getting to about the same low threes and certainly under 3.25 as sort of a beacon of where we want to be in three years post deal close.

A - Tim Casey {BIO 1556292 <GO>}

And, to confirm, that is -- that is all done organically with free cash flow conversion? That's not contemplating any asset sales or anything like that?

A - Tony Staffieri {BIO 6566699 <GO>}

We're currently confident in the cash flow generation that we have. And, so, we continue to focus on those savings as the driver to de-lever. As we go along, we may look at not so much asset sales but, rather, capital structures that may be helpful in terms of balance sheet financing. But, as I said, the primary driver is going to be organic EBITDA improvement.

A - Tim Casey {BIO 1556292 <GO>}

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Okay. Thanks for that. You mentioned you spent more on spectrum. The whole industry did. It certainly surprised the Street. At a high level, what's the takeaway for investors about a spectrum auction that reaches almost 9 billion in proceeds both for the industry and for Rogers at 3.3?

A - Joe Natale {BIO 6407853 <GO>}

I think the first takeaway is that 5G is really important for the future and, therefore, we need the foundational spectrum that's going to make 5G happen. You saw us perform very well in the 600 [ph] megahertz auction. That was for tranche one. And this is tranche two in terms of 3,500.

And we're pleased with the outcome. We're going to have spectrum that covers 99.4% of the Canadian population. We spent a bit more than we thought we were going to spend. There was a dynamic in the auction that couldn't completely be contemplated, a combination of competitive intensity from a number of players that drove those prices up and the structure of the auction as well drove those prices up.

But we're pleased with the outcome, Tim. And we're going to be investing in 5G just once in our history. And this is it. And we sat at the doorstep of 4G and we looked at the investments required, whether they were capex or spectrum. And look what it led to. It led to a vibrant wireless market, data growth and adoption, et cetera. And now, we're on the doorstep of 5G. And 5G will have a number of opportunities.

It's really -- we really think it's important that we have to continue to lead in 5G and continue to be on the forefront of 5G. We were the first out of the gate, and we were the first to build a meaningful capability in 5G. We've replaced all of our radio access network. We were ready to go. We've got a great spectrum portfolio overall but also within the 5G frequencies as a whole. And the future is now about monetizing those investments. And we've got a number of important plans and actions on that front that will come in a few flavors [ph].

What's different in 5G is that in 3G or 4G, it was sort of one monolithic investment. Right? It was like we are doing this to get more speed and more capacity, period. Well, in the world 5G, there are a number of currencies and opportunities that are not monolithic in nature. They're -- vary depending on the market.

Now, we are already seeing the IoT market start to wake up in the 5G world. And whether it's private networks for mining or manufacturing sites so they can run a whole series of 5G IoT applications on them, that's real, that's happening right now. Whether it's the use of 5G technologies for smart cities, public safety, there are a number of projects going on across Canada doing exactly that. Whether it's experiments around drone delivery for drugs to remote areas of the country, those are real experiments but they have a huge commercial opportunity down the road.

So, we're going to continue to lean into that opportunity. At the same time, there is a big opportunity around fixed wireless. And as I said earlier, there are two million homes with

no high-speed Internet. And fiber will never be economic for a good portion of those homes.

But a 5G fixed wireless capability can really change the game in terms of reaching homes where the strands [ph] and the looplands [ph] are far too long from a fiber economics point of view even with support from various funding models, et cetera. So, I think fixed wireless will play an important role in filling out that capability.

And, then, there's a whole series of stuff happening around low-latency applications. And we tend to spend a lot of time on 5G talking about those things. But those things are probably more nascent in nature. But they're happening. They're happening. We're running a number of pilots, whether it's driverless shuttles and things of that nature.

They will -- they will take years to come to commercial maturity. But, the time to invest to make sure you're set up for it is right now. So, if you want to play the game, you've got to put down your money now. And, really, these are investments for the next 20 years or longer in that sort of -- that foundational piece.

And it wasn't long ago we were walking around with two-line interactive pager that we thought was the most exciting thing in the world and the BlackBerry two-line green display. And look where we are now in terms of watching the Jays on your phone from anywhere you might be. I think we'll have as severe an evolution and innovation as it relates to 5G in all the realms I've just talked about. And without making an investment, it's not going to happen and people will be left behind or companies will be left behind.

There are fundamental technological capabilities that only come with 5G around dynamic spectrum management, around massive MIMO, around these capabilities that take these expensive and scarce resources called spectrum and allows us to do incredible things with it that wouldn't be possible in the past.

And, therefore, it's a gateway to the future in all this capability. So, yes, 3,500 costs more than anybody would have anticipated and the numbers are big on an absolute and relative basis. I mean when you compare 3,500 prices to almost anywhere in the globe, we've had some of the highest, full stop.

But we have to play for the future. And Canada is a big country with a -- with a sparse population and one of the biggest geographies, and it's important to make these investments now. Mark my words. We'll look back on this and say, well, "Thank God we did that. Thank God we did that." And as an industry and as a company, frankly.

A - Tim Casey {BIO 1556292 <GO>}

Right. Maybe let's switch gears, given where we are with respect to time. What's the update on the current loading environment in wireless? What are you seeing there in terms of competitive intensity and a back-to-school environment?

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A - Joe Natale {BIO 6407853 <GO>}

The market has been terrific the last couple of months. Back to school has been busy and momentum has been growing over the entirety of the quarter. Opening up stores, opening up the economy has unleashed this latent demand for wireless needs and services.

If you think back, I think I made a comment to you, Tim, a few months ago. Someone did an analysis, it may have been Mastercard, that said, "What are your top COVID revenge spending priorities?" And getting a new wireless phone was in the top five. So, we saw that come to fruition and we still are seeing it and we're very pleased with our outcome, very pleased with the momentum and the results that we're getting as a company. And I may pause there and give Tony a chance to jump in on the wireless front in the marketplace.

A - Tony Staffieri {BIO 6566699 <GO>}

Sure. As Joe said, the market seems very robust. If we had to size the market -- and there's a few weeks left in the quarter -- probably a market bigger than what we saw back in 2019 is our estimation. We're really pleased with our market share of phone net ads within that growing market. So, it's good to see.

And it really speaks to the strength of our distribution channels. As those stayed open for most of the quarter, the strength of that really started to come through and good traffic and good turnover to sale. So, we're quite pleased with the way that that's played out.

And, then, as we translate that to financials for the quarter in line with the expectations that we outlined in Q2, service and, on top of this, service revenue, good gross loading, churn continues to perform remarkably well. And, then, on the ARPU [ph] front, in line with our expectations, it may be slightly better. So, you'll see a sequential improvement in ARPU [ph] this quarter.

A - Tim Casey {BIO 1556292 <GO>}

Are you -- are you ...

A - Joe Natale {BIO 6407853 <GO>}

The best -- the best thing that happened during this busy period for us in wireless is that we did see the true power of our distribution channels, as Tony said, not just the physical distribution channels but all the work that we did over the last 18 months on digital channels because we were not as progressed or as evolved as we wanted to be when COVID started. But, now, we've got sort of both engines firing and it's a good thing for this business.

A - Tim Casey {BIO 1556292 <GO>}

Any comments on the migration of people to infinity plans? And -- are we -- is there still any headwinds with respect to overages, or is that behind you now?

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A - Joe Natale {BIO 6407853 <GO>}

(Inaudible).

A - Tony Staffieri {BIO 6566699 <GO>}

We ended the second quarter with 2.7 million on unlimited plans. We started to see a slight pickup in the basing [ph] on that. So, as you would expect, the catalyst for it is really usage. And, so, as consumers and businesses start to move outside of their fixed place -- for consumers, it's being outside of the home and for business, it's at least predominantly Canadian travel that we see starting to pick up.

And that's showing up in usage, which is sort of a precursor to the migrations to either larger buckets in capped plans or to the unlimited plans. And, so, that's still, I would say, on the come in terms of propensity to switch. But keep in mind, it's only available on the Rogers brand. So, when we say we have over 2.7 million, we're really pleased with the penetration rate that that gives us relative to the eligible base. So, we're seeing good progress there.

And, importantly, you may recall the reasons we went to the unlimited-type plans were a number of things in terms of customer satisfaction, lower cost to serve and, frankly, driving higher usage. And all three of those continue to play out extremely well. The cost to serve is playing out in the margin that you see for our wireless business which continues to move along at a very healthy -- roughly 63% margin. And, so, we're pleased with that turnover rate as well.

A - Joe Natale {BIO 6407853 <GO>}

So, we believe that the investment in overage revenue reduction was well worth the trip looking back now 2.7 million customers later. We've turned the corner on that melt [ph]. We're seeing all the substantive foundational pieces underneath it be very strong.

And as Tony said, our ARPU's [ph] headed in the right direction, and we're pleased about that. And that's without roaming really fully recovering. We still have, of course, the largest roaming portfolio in the industry in Canada. And, so, that's all upside. As people feel more comfortable crossing a border, that will all add to the momentum and the financial benefit for us in the business.

A - Tim Casey {BIO 1556292 <GO>}

That's great. And can we get an update on the cable side? Pretty strong growth through the pandemic and pretty steady outlook, I think, is what we're hearing from you.

A - Joe Natale {BIO 6407853 <GO>}

Pretty much so. We continue to be very bullish on the cable business. Back to school was healthier than you would have seen last year with some campuses opening up to having students back on campus. And we're seeing a little bit of a foreign student population coming in as well. So, it made for a better back to school, not quite what we would have seen two years ago. But against that backdrop, we're fairly pleased with the loading.

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More importantly, we're seeing very good revenue in line with the guidance we provided at the end of Q2 as well as margin and EBITDA performance. So, there are no surprises there. And that continues to move well. Clearly, our competitive advantage in that space is showing in terms of ubiquitous Internet speed, superiority across our entire footprint. It used to be 1 gig and we're now launching 1.5 gig, which is well ahead of where the market is. And I think it's important to note that.

And then you combine that with our video product, Ignite, which is the Comcast Xfinity, not only video but whole-home solution, seems to be performing extremely well in the marketplace. And, so, that -- those competitive advantages are all contributing to some fairly good cable financial fundamentals.

A - Tim Casey {BIO 1556292 <GO>}

Okay. Last question for me is sports gambling and online gambling rules are changing in Canada. You own a sports network businesses. You own sports franchises. You have a media executive team that is very digital-savvy. It just seems like a natural area you would explore. Is there -- is there any comments you'd make in that regard?

A - Joe Natale {BIO 6407853 <GO>}

I think the short comment is stay tuned, Tim, on that front. We do think that the whole world of fan engagement is changing before our eyes. Gone are the days when people sat down and just watched a game from end to end and didn't do much else other than maybe sip on something or having a bite to eat.

Now, if you watch young people watch sports, they're watching very different form factors, condensed games, highlights, and they're fully engaged with a device and they're -- many of them are fully engaged with some form of wager or gambling. And we think there's an opportunity to combine all of that and really take fan engagement to a new place. And that will drive advertising, sponsorship, revenue and all kinds of other models that we're working on.

And when we're ready, we'll be happy to unveil some of those. But we think of all the media content out there in the world, sports will continue to be a very important and foundational underpinning of a future media business because it's original content, because we have a lot of rights, because we have a digital platform. And add to that, sports betting, which will bring other opportunity to kind of change the fan experience.

A - Tim Casey {BIO 1556292 <GO>}

Super Bowl. Look forward to that. We're plum out of time. Thanks so much for your time, Joe and Tony. Great to see you.

A - Joe Natale {BIO 6407853 <GO>}

Thanks, Tim. Always a pleasure.

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