Rogers Communications Inc.
First Quarter 2023 Results
Conference Call Transcript

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Time: **8:00 AM ET**

Speakers:

Tony Staffieri
President and Chief Executive Officer

Glenn Brandt
Chief Financial Officer

Paul Carpino
VP Investor Relations

Operator:
Welcome to the Rogers Communications First Quarter 2023 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. Following the presentation, we'll conduct a question-and-answer session. (Operator Instructions)

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:
Thanks Ariel and good morning everyone, and thank you for joining us. Today I am here with our President and Chief Executive Officer, Tony Staffieri, and our Chief Financial Officer, Glenn Brandt.

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 2022 annual report regarding the various factors, assumptions and risks that could cause our actual results to differ.

As a reminder, we are holding our annual general meeting this morning, so we will be concluding this call just before 9:00 am.

With that, let me turn it over to Tony to begin.

Tony Staffieri:
Thank you Paul and good morning everyone.

As you can see from our Q1 results, Rogers delivered another strong quarter with continued improvements across all our businesses, but in particular highlighted by our national leadership in wireless customer growth. Since instituting change to our Management Team five quarters ago, our performance has been strong as we gain traction on our growth agenda. We are achieving this through better execution and building upon our reinvigorated corporate culture of doing what we say we will do.

Our Q1 results represent an important milestone for the Rogers team. These results represent the last standalone quarter for Rogers before integration Shaw's business. As we move forward with the integration of these two iconic companies, the Rogers business is executing better today than when this transaction was announced over two years ago, so we are ready and excited to move forward.

It has been just over three weeks since we closed the transaction, and we remain very confident in our ability to deliver on our synergy opportunities, implement increasing capital investments in our networks, pursue new wireless and wireline growth opportunities, and drive more competition and choice for customers, and now particularly in the west.

Let me provide a few highlights on the quarter, as well as some early thoughts on our integration progress with Shaw before turning the call over to Glenn for a bit more detail on Q1.

Rogers' Q1 financial and operating results were strong. Total service revenue grew by 4% and Adjusted EBITDA grew a solid 7%. Despite the highly competitive nature of Canada's growing telecom market, we have learned to become more targeted, disciplined and efficient in operating the Company, and this will serve us well as we integrate our business with Shaw.

In wireless, we continue to lead the industry in postpaid mobile phone growth as more customers are choosing Rogers. Postpaid mobile phone net additions were 95,000 in the first quarter, up 44% from last year. We are winning new customers based on the value and diversity of our wireless plans, an expanding market led by immigration growth where Rogers has always done well, a strong distribution network, better execution, and our excellent unlimited plans operating on our robust 5G network. Importantly with the healthy loading, financials were also strong. Wireless service revenue and Adjusted EBITDA increased 7% and 9% respectively, and postpaid mobile churn came in a healthy 0.79%.

In cable, our focus on better execution is starting to produce results. Despite an aggressive promotional internet market, we are beginning to take back share with an 8% increase in internet loading year over year. More to do on this front to return our top line revenue back to growth from the decline we reported this quarter, but nonetheless with our efficiency work underway, we delivered positive Adjusted EBITDA growth of 1%. I am confident that the changes we are making and the fundamentals of this business will serve us and our customers well in coming quarters and years as we come together with Shaw.

In media, we delivered 5% revenue growth and saw a $28 million improvement in year-over-year Adjusted EBITDA. Impressively, in a difficult media market, performance of our media and sports assets continues to shine in the industry, and we are particularly excited with the prospects of the Toronto Blue Jays and our new game viewing experiences for fans at the recently renovated Rogers Centre.

Finally, in Q1 we continued with our commitment to investing for growth. Capital spend for the quarter was a record $892 million with network-specific investments up over 40% from last year. Our country is growing at unprecedented rates and we are bullish on investing in Canada and bullish on investing more in the west. This is reflected in the guidance we provided following approval of the deal, where we increased capital spending by more than 20% year-over-year for the combined Company.

With Rogers and Shaw now together, we will deploy more capital faster to build better networks that span even greater reach. Our wireline network now covers 70% of households in Canada, and this builds on our leadership in wireless connectivity where Rogers already owns and operates the only national coast-to-coast 5G wireless network. You should expect to see us continue with our strategy of key network investments, including some true industry firsts as we go forward.

These significant investments in the west and in other markets in Canada are a central component of our growth strategy, which also has the added benefit of creating jobs. Whether these jobs come from network building, adding customer service personnel, or creating significant benefits for the hospitality industry by building a winning Toronto Blue Jays team and renovated stadium, Rogers' growth plans revolve around making key investments in our communities.

An example of this is our acquisition of BAI Canada that will accelerate the building of a robust 911 service and provide full 5G connectivity throughout Toronto's entire subway system. While this investment will increase safety for our communities and benefit millions of individuals that ride the TTC every week, we have no doubt that businesses, service industries and entrepreneurs will find additional ways to leverage 5G technologies to benefit TTC riders and the economy as a whole.

Turning to our coming together with Shaw, we're excited that the two organizations are finally together and that we get on with the important business of serving Canadians. There's lots of work to do, but I am very encouraged with the energy and excitement that I've seen in both the east and west as we bring these two strong companies together. Over the past three weeks, I've spent most of my time in the west meeting with our teams, customers, community builders and local governments. I'm extremely grateful for the encouragement and reception we have received from these stakeholders, particularly with our shared view of what a new long term-oriented and stronger competitor will do for investment and competition going forward.

Already while only four weeks in since we closed the transaction, our integration work is well underway. One of my top priorities following the close of the transaction was to finalize my executive leadership team, and you saw the changes we announced last week. We have added Shaw leadership directly to my organization and added new experienced individuals to an already strong executive leadership team. These leaders and their energized teams will play a critical role in our growth agenda.

Our teams have also already started the work associated with integrating day-to-day operations. This includes everything from frontline training, customer migrations to Rogers wireless, and rolling out email connectivity and collaboration tools to focusing on more extensive business development initiatives associated with branding plans, storefront initiatives, new bundling strategies, and network upgrades. For example, progress on customer service integration includes our announcement earlier this month that we would be repatriating hundreds of Shaw jobs back to Canada. This aligns with Rogers' commitment to have a 100% Canada-based customer service team, the only national carrier with its entire customer service team based here at home.

Over the coming quarters, we will continue to provide colour on our progress, including how we are delivering on our $1 billion in operating synergies over the next 24 months which have yet to be reflected in our financial performance. We are confident in the future of the Rogers organization. When I stepped into the CEO role a little over a year ago, our goal was to return to growth and consistently deliver disciplined execution. We are now achieving this and I am incredibly proud and excited with the execution and commitment of our expanded and energized national team, the new opportunities that lie ahead, and the accomplishments we will achieve together.

With that, let me turn the call over to Glenn, who will provide more details on Q1.

Glenn Brandt:

Thanks Tony and good morning everyone, and thank you for joining us this morning. Before I begin, let me remind everyone that our Q1 results being discussed today cover the first quarter ending March 31, 2023, and a reminder that this morning's release reflects Rogers' standalone results only. The Shaw transaction did not close until April 3.

Rogers' first quarter results reflect continued strong execution with Rogers leading the Canadian telecom sector for the fifth consecutive quarter, particularly on wireless share and earnings growth. In wireless, our first quarter service revenue was up a very healthy 7%. This increase was primarily driven by higher roaming revenue and a larger growing mobile phone subscriber base, reflecting our market leading wireless subscriber growth seen throughout 2022 and now continuing into 2023. We added 95,000 postpaid net additions in the first quarter, reflecting a 44% increase from one year ago. This was driven by improved customer service, continued strong execution, and growth in our unlimited plans each contributing to continued leading market share of a growing population in Canada.

In what has been a very robust and competitive wireless market, our postpaid mobile phone churn performance remained healthy, coming in at 0.79% for the quarter. Wireless ARPU for the quarter was $57.26, unchanged from one year ago. Overall consumer and business roaming volume remained slightly lower than pre-pandemic levels and are currently at approximately 85% for the similar period in 2019.

As an aside, I'd like to highlight that in the first quarter of this year, Rogers did not follow on with the 14% increase in roaming charges that our two national peers launched, but instead Rogers offered customers one free day of roaming for all customers traveling during the busy March Break period. As consumer and business travel continues to recover and grow, we are well positioned to take a continued leading share of roaming volumes.

Wireless Adjusted EBITDA was up a solid 9%, reflecting excellent flow-through from our service revenue growth, and Adjusted EBITDA service margin came in at 64.2%, an increase of 120 basis points from last year.

Moving to our internet and cable business, total revenue was down 2% from one year ago primarily due to continued competitive promotional activity from our primary wireline competitor; however, our ongoing emphasis on managing costs and improving operating efficiency more than offset the revenue decline, driving wireline earnings growth with Adjusted EBITDA margin coming in at 54.8%, or a 160 basis point improvement from one year ago. We are well positioned as we come together with Shaw from the start of the second quarter.

We continue to try and strike an appropriate balance between loading and maintaining financial performance in our internet and cable business as we consider matching promotional offers where appropriate. We will continue to focus on getting the promotional balance right in the near term as we look to leverage our national scale going forward. That said, the team delivered stronger loading results in Q1 with retail internet net customer additions of 14,000, up 8% from one year ago.

In our media business, we are starting the year with mid single digit revenue growth and improving Adjusted EBITDA. Revenue was up 5% driven by higher advertising revenue across all divisions and higher Toronto Blue Jays revenue from 11 additional spring training games being played. You'll recall pre-season play was interrupted by a lockout this time last year. We are particularly excited about the Blue Jays new season in our newly renovated Rogers Centre.

Adjusted EBITDA improved by $28 million to a loss of $38 million. The seasonal Q1 loss reflects the higher programming costs and seasonally lower revenues that occur in the first quarter; however, our first quarter results reflect a notable improvement from the prior year loss of $66 million.

At a consolidated level, Q1 service revenue grew by 4% and Adjusted EBITDA grew by 7%. Capital expenditures were $892 million in the quarter and free cash flow excluding the Shaw financing costs was $363 million. Each of these KPI measures reflects continued strong execution and sector-leading performance. We are growing revenue, earnings and customers while re-investing to expand services and drive further growth.

Turning to the balance sheet, at March 31 we had $3.3 billion of available liquidity, including $553 million of cash and cash equivalents on hand. Our weighted average cost of all borrowings was 4.56% at March 31 and our weighted average term to maturity was 11.2 years. These figures reflect the five-year interest rate term in our $3 billion of subordinated hybrid notes rather than the 60-year principal maturity

Our debt leverage ratio at quarter end, our final quarter in which we adjust to exclude the Shaw financing, was 3.2 times, up marginally from 3.1 times at December 31, 2022. Our balance sheet at March 31 also included $12.8 billion in restricted cash and cash equivalents that were fully used in early April to fund the cash consideration of the Shaw transaction. We will provide more colour on our consolidated balance sheet with Shaw when we report our Q2 results in July; however, and consistent with our previous expectations and discussions, Rogers leverage following the closing of the transaction comes in at approximately 5.3 times on a combined 12-month trailing EBITDA basis based on our Q1 results.

The credit rating agencies have all issued their updated credit ratings reflecting the Shaw transaction. Of substantive importance, we have maintained an investment-grade rating on our senior bonds from each of the four credit rating agencies.

In terms of our outlook, earlier in April we updated our guidance for 2023 following the close of the Shaw transaction. With our post-close guidance, we anticipate total service revenue growth in the range of 26% to 30% and Adjusted EBITDA growth in the range of 31% to 35%. These growth metrics are industry leading versus our national peers for 2023. Our anticipated 2023 capital expenditures will be in the $3.7 billion to $3.9 billion range, and we anticipate free cash flow to grow between $2.0 billion and $2.2 billion for the year. This guidance is strong and reflects the confidence we have in our outlook for 2023 and beyond.

In summary, we are very pleased with our Q1 results and the opportunities we have to drive growth going forward. We are in a strong operational and financial position as our integration with Shaw begins. We are thrilled and excited to bring these two iconic Canadian family companies together to drive growth and to provide more choice and competition to the Canadian telecom landscape. Canada's telecom service sector is strong and competitive with global leading networks, and now more than at any other time, Rogers is well positioned to continue to lead. Ted captured it well years ago - the best is yet to come.

Thank you for your interest and attention this morning, and with that, Ariel, can you please commence with the Q&A?

Operator:
Certainly. We will now begin the question and answer session. (Operator instructions)

Our first question comes from Vince Valentini of TD Cowen. Please go ahead.

Vince Valentini:
Thanks very much. Congrats on the strong quarter.

One clarification and one question for me, if you don't mind. The Shaw subscriber numbers you threw in the release, you seem to be rounding to very general numbers, but the rounding on internet seems like it's down quite a bit. They last reported 2.0996 for internet subs at the end of November, and you're saying it now rounds to 2 million even, so is that just loose rounding, or did you re-classify some of their business internet subs as something else now, so a clarification on that?

The second one is a wireless question. Your numbers are so strong, it always opens up your competitors especially to try to criticize you that the quality of the loading isn't there, so maybe we can pre-empt that and even try to talk about how you're getting so many sub adds. Are there tablets in here, are there any home wireless internet—sorry, home wireless phone customers you're counting as wireless subs, or anything else you would deem to be low quality, or is this really just what it seems to be, that you're hitting the cover off the ball?

Tony Staffieri:
Vince, I'll start with the second part of the question and then Glenn will come back to your question on the Shaw subs.

In terms of wireless performance, just to state it plainly, it is what it is. They are postpaid and prepaid wireless phone subscribers - there aren't tablets in it, we disclose that separately. In terms of the quality of loadings, I'm pleased to tell you that when you look at the split between Rogers and Fido, the vast, vast majority of those customers in net adds are on the Rogers brand and we're extremely proud of the migration that we've seen over the last year and a half from Fido-centric loading to what we now see as on the Rogers brand, and so that's coming in nicely.

In terms of the fundamentals that underpin it, it really goes back to the fundamentals that we've always talked about - having the best network, having strong distribution, and having good and improving customer service to make sure that the customers' issues are resolved. You see that in the churn numbers coming in better and better each quarter.

Glenn Brandt:

Then Vince, on your question on the Shaw numbers, there's no restatement. You'll see the Shaw filing for its final quarter ending February 28 coming up in the next few days, and so there will be more detail around Shaw's performance through that quarter, but I'll just reiterate there's no restatement or undo rounding or noise going on with those numbers.

Vince Valentini:

So Glenn, to be clear then, if you're rounding down to 2.0, they must be below 2.05 on an actual basis?

Glenn Brandt:

You're in the hundreds of thousands of rounding. I would say just succinctly, Vince, I've been very pleased with the quality to which they have held onto their customers. There are some differences in accounting for TPIA wholesale subs, and in the Freedom sub, and so that granularity will come out as we report in the quarter; but thematically when we started this acquisition of Shaw two years ago, I'm very pleased with the extent to which they have held onto both the EBITDA, and in fact I've got about $150 million more EBITDA today than I anticipated two years ago with the Shaw mobile piece, and with the degree to which they've held onto customers through two years of difficult competition as we awaited regulatory approvals.

There is no undo noise there. There is some adjusting for the TPIA wholesale, but it's small.

Vince Valentini:

That's what I was looking for. Thank you, Glenn.

Operator:

Our next question comes from Maher Yaghi of Scotiabank. Please go ahead.

Maher Yaghi:
Thank you for taking my questions. Good morning everybody.

Missing in your press release post-closing of the Shaw transaction was the synergy number, but Tony, you mentioned it this morning, you reiterated your billion dollars of cost synergies. Could you help us in understanding the timeline in generating those synergies and how much of those synergies will flow to the free cash flow line, and maybe the OpEx and CapEx split?

Second question related to wireless, as Vince mentioned, very strong subscriber numbers in the quarter. Immigration is helping everybody, but it seems you guys are gaining a stronger share than peers. However, you mentioned in your press release the possibility of a recession in Canada later this year. We had AT&T and Verizon already reporting in the U.S. and both companies are seeing business wireless slowing down. Are you seeing that yet in Canada, and can you give us a little peak on your exposure to business when it comes to wireless loading? Thank you.

Tony Staffieri:
Thanks Maher. I'll start with the second part and then lead into the billion of synergies, and Glenn will pick up on some of the details.

In terms of the wireless loading that we're seeing, we continue as not only we come out of the first quarter but into the second quarter. Our sense is the size and pace of the market continues to be strong and it's based on the factors that you described, which includes predominantly the immigration to Canada, foreign students, foreign workers to Canada, as well as the under-penetration that generally we have in Canada in wireless relative to some other countries, and in particular in the U.S. All of those bode well, seem to bode well in terms of fundamentals moving forward.

We have not seen any indication of recessionary pressures. How this will play out in the back half of the year, we'll see relative to those factors that I just described, and so a number of things will go into it.

In terms of the billion dollars of synergies, we've been fairly clear and consistent on this. We aren't counting the efficiencies we've already executed on over the last year and a bit. The billion dollars of synergies are forward-looking, they're not in the results. We're committed to that number, and we've said we would execute on that and deliver it in the next 24 months, so that's the plan, to be clear.

Glenn Brandt:

And just to add onto that, you will see us starting to report on that when we file our second quarter report. We will include in there some granularity around the degree to which we have some achieved through the second quarter, and then that will be ongoing in the subsequent quarters. We will make sure that you don't have to look too hard to see how we're executing on those synergies, Maher.

Maher Yaghi:

That's great, thank you everybody.

Paul Carpino:

Thanks Maher. Next question, Ariel?

Operator:

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

Sebastiano Petti:

Hi, thanks for taking the question. Maybe just shifting over to the cable results, Tony, you've been pretty clear that you expect better execution this year. Some of that did come through in the first quarter on the KPI side in terms of subs and EBITDA, but could you outline or maybe provide us a high level of the blocking and tackling, or just overall the strategy behind improving the cable trends, and is that a—when should we expect that perhaps to make its way to the legacy Shaw footprint in terms of integration efforts?

Tony Staffieri:

Sure Sebastiano, let me provide a little bit of colour on this, and maybe in doing that, it'd be helpful to just clarify sort of the facts of our cable business.

A couple of things as we look to the performance of that, we're not satisfied with the decline in revenue, and so we are focused on turning that around, and every one of our businesses needs and will be a growth business. Within cable, that really comes from regaining market share. Notwithstanding that, if we were to look at how it's performed from a subscriber basis over the last year, so notwithstanding the changes we've been making, including migrating from a heavy Fido internet discount to the Rogers premium, as well as operational fundamental foundational issues that we've been fixing, our cable homes passed grew by just over 100,000, and if you were to look at internet growth in subscriber, it's 53,000, so a little over half in terms of share performance, which is good. But we think we can do better, because we ultimately have a better product to bring to market, and when you combine it with our improving service, we think we have the formula to continue to gain traction. You saw that start to come through in the first quarter, and you'll see a continuation of that throughout the year.

On the product side, we have the best internet, period. If you look at some of the recent third party analytics that came out in the last month or two, we have the best internet in the east and we have the best internet in the west with the Shaw network, and so we will execute on that structural advantage. We continue to offer speeds across our entire footprint of at least 1.5 gigs and in some parts at 2.5 gigs, and that continues to climb, so that's well ahead of the market demand that continues to sit at about 300 megs. So, we're very confident in our ability to execute on that advantage.

As we've said before, we continue aggressively on the DOCSIS 4.0 road map for places where we don't otherwise have fibre to the home, which is not insignificant. In those cases, we're moving to passive optical and have moved to passive optical, so that you see 8 gigs symmetrically on those. DOCSIS 4.0 is part of the 10G road map, and we're already in what I would call practical trials - we have the equipment and we've been going through. We have 8 gigs of download speeds, 6 gigs of upload speed, and so that's coming in nicely as we work with our cable peers south of the border, and so we're moving alongside them in terms of pacing on that, and that's something you'll start to see in market into next year, but again well ahead of where market demand exists today so we're comfortable with that product.

Then when you combine it with the Comcast Xfiniti UI for video, which we branded Rogers Ignite and you can expect us to deploy that brand nationally as well, that's coming in nicely and dovetails well with the shift we're seeing in the industry from linear to OTT alternatives. It's the perfect product to be able to capitalize on that market trend.

Sebastiano Petti:
Then if I could quickly follow up there, you did mention the DOCSIS 4.0 coupled with the—talking about more of a brownfield network expansion perhaps in the west. I'm not asking for forward-year guidance and CapEx above and beyond what's been articulated for the 2023, but is there—should we expect a meaningful acceleration off the implied 2023 pro forma run rate? Said differently, is there a CapEx step-

up or bubble perhaps coming here as we kind of try to parse through the 4.0 upgrades as well maybe some of the network expansion efforts in the west? Thanks again.

Tony Staffieri:
Sebastiano, think about it this way. I'll start and Glenn has a few comments on this one. Think about it as us focusing on the quality of the network and always continuing to upgrade that, and there, there is nothing unusual and I think our CapEx efficiency on that is solid. But what you do see and what you will see, and what we're excited about is the opportunity to expand our network particularly, as you said, in some of those recent developments out west that haven't been fully serviced with the Shaw network. We intend to aggressively go back, fill those in, and so to the extent you see heightened CapEx on that, what you should see fast follow and what you will see is a commensurate increase in homes passed, and if we do our job right, which we expect to, then you should see a commensurate increase in subscriber penetration on that. We're going to be very transparent as we work through that in each of the quarters.

Glenn Brandt:
But just succinctly, Sebastiano, there's not a large bubble that's to come through. There's not a large expansion. This will be done in the context of similar levels of investment that you see in our guidance, factoring in the fact that we've got nine months of results for the Shaw acquisition rolling through in 2023. I'm not going to get into '24 guidance today, but don't be anticipating that you will see a substantially different theme in 2024 and beyond. It will be within our capital expenditure window that you'd expect. We've got ample room in that envelope to invest in these networks.

Sebastiano Petti:
Thanks again.

Paul Carpino:
Good, thanks Sebastiano. Next question, Ariel?

Operator:
Our next question comes from Drew McReynolds of RBC. Please go ahead.

Drew McReynolds:

Yes, thanks very much. Good morning, and my question was just answered, but two additional ones for me. First, very impressed by the cable EBITDA margin in Q1, particularly given what you were comped against last year. I think cable OpEx was down 5%. Can you just kind of unpack what's driving that year-over-year decline in cable OpEx?

Then on the wireless ARPU side, I don't think it's any surprise to Q1 ARPU growth and all the dynamics around it. What's your best guess in terms of how ARPU growth trends for the remainder of the year? And, maybe talk to a few puts and takes around that outlook. Thank you.

Glenn Brandt:

Thank you Drew. On the cable OpEx side, I think what you've seen is similar to what you heard a year ago last year, where we have leaned in and just refocused our efforts at right-sizing our expenses across the Company, and in particular you're seeing the results within cable. There was a fair bit of conversation around this a year ago, and I think what you're seeing a year later is we've held onto those gains and leaned in further over the last year. We've pulled out some of the expenses on our management oversight-type roles, I'll say, and we've invested some of those into customer service. Some of that comes with increased resourcing and increased cost to get more people into the customer service centres. It also happens to improve that customer service experience and pull some costs out as we handle that traffic better.

But succinctly, I would say we have managed to hold onto the gains that you saw in the first quarter of 2022 and build on them through 2023. It's been an ongoing effort over the last several quarters, and so we're—you know, we are focused on that throughout all the business units and the customer service investment as well, we are focused on enhancing that across both wireless and wireline.

On ARPU, you're seeing a continuation of the trend that you saw through 2022, most particularly in terms of roaming traffic. I think we're now sitting somewhere in the range of 85% of roaming volume relative to 2019 pre-COVID levels. The consumer market, as we've said for some time now, seems to be fully back, the business market is building. We're still a little bit behind 2019, but catching up quickly on the revenue side. We're now running at about 1.5 times the 2019 roaming volume - that's reflected in the ARPU. You'll see that continue to develop, but we're probably running out on that over the coming few quarters, but there is certainly still growth on moving customers up further to the unlimited plans and tiering through that.

I'll cap my answer there and hopefully I addressed the question.

Drew McReynolds:
Yes, thank you very much.

Tony Staffieri:
Thank you Drew.

Paul Carpino:
Thanks Drew. Next question, Ariel?

Operator:
Our next question comes from Dave Barden of Bank of America. Please go ahead.

Dave Barden:
Hey guys, thanks so much for taking the questions. I guess two, if I could.

The first, maybe going back to the questions on cable, Rogers, I think over the course of this pending merger review was pretty conservative, if completely conservative on pricing, and I was wondering if you could kind of talk about your thoughts on how you're going to, A, potentially move pricing up to reflect higher content costs on cable, maybe some of the value accretion on broadband and how you align those things with Shaw, and when all that might happen. Is it a 2023 event, or does it kind of reset in 2024?

Then the second question, obviously one of the big concerns around the merger was what did Rogers have to give to Quebecor in order to get the government's blessing to let this deal happen, and is that give going to change the nature of the competitive balance of power in the industry on a go-forward basis? I think people are kind of sitting around wondering what that's going to look like and waiting to see what happens on that front. No one would know better than you what could conceivably happen there, based on you're being at the table, so any kind of colour/comfort that you might want to share with the market on that front would be super helpful. Thank you, guys.

Tony Staffieri:
Thanks Dave. Let me touch on both of them.

On the second part of your question, in selling the Freedom business to Quebecor, we work through what I would call transitional commercial terms, and that includes TPIA rates as well as roaming rates. Those commercial terms are not much different than agreements we otherwise have. A key principle in doing the Shaw transaction is to make sure we do not detract value from our wireless franchise, and we've been very clear on that and we're confident that deal we put together is not going to do that.

We are going to compete, and we fully expect that Quebecor in purchasing the Freedom asset intends to vigorously compete, and we're prepared for that. That's what we're going to do. Just to put a very clear cap on this, there is no advantage in those commercial agreements that are structural advantages for Quebecor, so that's, I think, an important point to make clear because the question keeps coming up, and so I think that's important.

The second part relates to the ability to grow cable revenues, and I think I would say it slightly different. We're focused on growing cable ARPA in the home, and so as we look together with the bundled internet and video, as well as smart home monitoring, it's the total revenue and margin that we're looking at, specifically on video. Our sense of what's playing out there is that there are things audiences want to watch and are willing to pay for - sports is a great example of that. Some of the other stuff, they're not, and so when you talk about rising content costs, what you're seeing is things that are in demand command a premium, and things that aren't, aren't; and so we are managing our content COGS, I would say in a much more tactical way. What it does mean is the way we present the value proposition to the customer will start to migrate.

Generally, cable packaging for us in the industry has been putting together a whole selection of linear channels and on-demand content that some are in big demand and some not, and that idea of offering everything for one price probably needs some migration to more of pricing packages that are based on the way consumers actually want to consume the content. A lot of times when you throw in channels that aren't being necessarily watched in the demand that some of the others are, then that's not an effective use of that spend all the time, and so what you should expect to see from us nationally now in where we have our wireline footprint is a re-imagination of those cable packages to something that's more effective vis-a-vis consumer demand, so expect us to pivot to where the market is telling us they want to go on that front. When you combine that simplicity and ease with best-in-class internet, that's really the formula, and smart home monitoring will be the add-on for that, also on the Comcast platform.

Hope that helps, Dave.

Dave Barden:
Yes, thanks Tony. Appreciate it guys.

Paul Carpino:
Thanks Dave. Next question, Ariel? Next question, Ariel? Ariel, next question?

Operator:
Our next question comes from Stephanie Price of CIBC. Please go ahead.

Stephanie Price:
Good morning. In your prepared remarks, you mentioned that initially your expectation was that you wouldn't retain Shaw Mobile. Just curious how you're thinking about that business and whether you're planning on transitioning those Shaw Mobile customers to Rogers.

Glenn Brandt:
Stephanie, I'd clarify that. It wasn't that we weren't expecting it. When I set out to figure out how to fund this company, I work in contingencies. We had embarked on this with the original intent of acquiring 100% of the company and then recognizing that the wireless piece, there would be a question mark on. My purpose for the comment was simply indicating that we've actually closed on more than I had anticipated through that contingency planning. Nothing more than that to read into it.

Tony Staffieri:
And Stephanie, if I could top up on it, you'll hear and see more about that when we release our second quarter results, but to pick up on Glenn's comments, we're extremely pleased with not only the subscriber base of Shaw Mobile but the quality of those customers bundled with the home product -

extremely sticky, low churn customers, and you can expect us to do all the right things to make sure those customers are able to take advantage of the Rogers 5G network, and we think that's going to be a big value-add for those customers.

Stephanie Price:
Great, thanks. One more, if I could. Internet subs were very solid in the quarter. Just curious if there's any particular area you found success in the quarter, whether it's non-fibre overlap or newly built homes or upgraded homes.

Glenn Brandt:
I think it's a general improvement in the overall customer service levels and in our promotional activity in competing for customers. We've had a good run rate for several quarters now in terms of gross adds across the wireline business. The investment in customer service resources and improvements in those service levels is helping to bring down the churn, and you're seeing that in the internet adds.

Stephanie Price:
Great, thank you very much.

Glenn Brandt:
Thank you.

Paul Carpino:
Thanks Stephanie. Next question, Ariel?

Operator:
Our next question comes from Tim Casey of BMO. Please go ahead.

Tim Casey:
Thanks, good morning. Could you talk, Tony, a little bit about what you're seeing on the competitive front on wireline? You mentioned in the prepared remarks that you did see some pressure from your—from the telco competition. Could you just maybe flesh that out a bit and add a little more colour on what you're seeing and how you're going to compete with that beyond the improved customer service you've talked about?

Tony Staffieri:

Sure, thanks Tim for the question. In terms of what we're seeing and have been seeing on the cable front, as Glenn said, when you look at our gross adds, we actually over-index, so what you've seen is sales execution come in nicely and we see that growing at a very healthy clip year-on-year, week-on-week, month-on-month. But the issue has been churn, and that's always related to two fundamental issues. Obviously customer experience, if they're having problems that we don't resolve fast enough, then we have a customer that churns, and what you've seen us do over the last year is consistently improve that. We continue to be focused on not only picking up the phone and answering the customer more quickly than we would have in the past, but we do a much better job of getting it what we call first time right and improving how fast we fix that customer's problem as quickly and as easily as possible.

The second part of churn are the price competitive offers that our competitor puts out there, and specifically I'm talking about the east, and it's not that different in the west as we get into that. It's really about a door-to-door sales force that they've been utilizing to have offers that we generally call below-the line - they're not mass marketed, but they're put in front of the customer. We've gotten a lot better at responding to that real time with offers, and so we will not match offers that our competitor puts out there. They're going to be very targeted in the way we do that, and as I said, it's all in the tactics of how we do it, but the general principle of not matching is not a principle we're on, and so to the extent that our competitor puts offers out there, we'll continue to match and we'll put our own offers out there as well - it's part of the competitive nature, but it's all around the concept that we need to not only maintain but grow our market share while growing the overall financials, and in particular the margin.

Tim Casey:

Thank you.

Paul Carpino:

Great, thanks Tim. Next question, Ariel?

Operator:

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

Simon Flannery:

Great, thank you very much. Good morning.

I wonder if we could come back to the billion dollar synergy number. Could you help us with the flow of that through the next 24 months, what happens now through this year, and is it sort of back-end loaded? Any colour around how we should think about the various buckets as well, any more clarity around what's headcount, what's content costs, etc.?

Then Glenn, on the balance sheet, you said 5.3 times - thanks for that. What's the timeline here for getting back to the 4 times and under - is that kind of at the end of those two years? Any colour on that would be great as well.

Glenn Brandt:
Sure, thank you Simon. I'll start with the first one first, on synergy. It's a similar theme that you've heard for some time now in terms of what makes up those three primary buckets. Head count will be the largest portion of that, and then the other two buckets being media content and general vendor costs as we fill out the headcount, and elimination of redundancies across departments, duplicate positions - that's a little over half, approaching 60% of the total billion dollars.

We will execute on that and are starting to execute on that immediately. You'll see our first reporting on that when we release the second quarter. By the time we close out calendar 2023, I anticipate that we will have about $200 million of realized costs in our 2023 results for the year. We'll be at a run rate within the first year following the transaction, so this time next year, we will have had a run rate of about $600 million of identified and captured savings - that's on an annualized run rate, or a 12-month run rate.

Then we'll cover off the balance through the next 12 months. The substantial portion of that, I anticipate will be in calendar 2024 by the time we exit the year. By this time in early 2025, we will have completed that billion dollar target.

It's not back-end loaded. From my answer, you can see 60% of that, we will have in the first quarter in terms of our run rate. You'll start seeing that—sorry?

Simon Flannery:
Still a billion dollars in costs to achieve, is that right?

Glenn Brandt:

Absolutely. These are cost synergies, and we have started to work on those already. Whether it's truing up across—the Shaw Communications Inc. is no longer a legal entity that exist, it's been amalgamated into Rogers Communications Inc. To the extent we had duplicate or common vendors across the two legal entities, well, we now have two contracts. Those two contracts need to be rationalized into one. Just truing up the contract terms is an exercise that's already underway, and you can imagine between scale as well as just working through that, we will move to the lower common element in terms of pricing across that. I anticipate that we'll be able to drive significant savings through the scale that comes from having roughly doubled the size of our wireline ordering across expenses, as well as capital material for our network infrastructure. That's similar to what you've heard for several quarters.

In terms of the pace on which we will de-lever, again synergy is going to be a very large driver of that de-levering over the coming years. I expect that we will be sub-five times as we exit the year 2023. I anticipate that through earnings growth as well as the nominal pay down of debt as we move through the next couple years, two to three years, we will lower leverage by about a half turn a year through both earnings growth and paying down debt. There's no magic formula to how that gets done - it's going to get done by removing costs, finding growth in our revenues, continuing to invest in infrastructure. We are not going to be shy about expanding our service footprints, wireless and wireline - we never have been. We will continue to invest in spectrum - that's where future growth is going to come from, so we'll continue to invest in the envelope that we've signaled for 2023. You'll see similar levels going beyond, but this is going to be driven on the back primarily of earnings growth, as well as some nominal pay down as we generate free cash flow.

Simon Flannery:

Great, thanks for the colour.

Glenn Brandt:

Thank you.

Paul Carpino:

Thanks Simon. Thanks everyone for joining our call. If there is any questions, please feel free to reach out to the IR team.

Operator:

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