Rogers Communications Inc.
First Quarter 2024 Results
Conference Call Transcript

Date: April 24, 2024

Time: 8:00 AM ET

Speakers:

Tony Staffieri
President, Chief Executive Officer

Glenn Brandt
Chief Financial Officer

Paul Carpino
Vice President, Investor Relations

Operator:
Welcome to the Rogers Communications Inc. First Quarter 2024 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. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

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

Paul Carpino:
Thank you, Ariel, and good morning, everyone, and thank you for joining us. Today I'm 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 2023 annual report regarding the various factors, assumptions and risks that could cause our actual results to differ.

As a reminder, we will be holding our annual meeting this morning at 11 AM, and we will be concluding this call at approximately 8:50. We'd ask that you keep your questions limited to one question and a brief follow-up if necessary so we can get as many questions as possible. To view the webcast of our AGM, a link can be accessed through the Investor Relations portion of our website.

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

Tony Staffieri:
Thank you, Paul, and good morning, everyone. I'm pleased to report that Rogers delivered another strong quarter of growth in the first quarter of 2024. This reflects the ninth straight quarter of momentum for the Company.

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Looking at the first quarter, we executed our game plan with discipline and focus. We delivered industry-leading results and made record investments to drive growth, improve efficiencies and lead the industry. In Q1, we grew total service revenue by 31% and Adjusted EBITDA by 34%. We reaffirmed our industry-leading financial guidance for the year and we invested $1.1 billion in capital across our cable and wireless networks - all in all, a very productive first quarter.

In wireless, service revenue and Adjusted EBITDA were both up 9%. Cable service revenue was up 94% and Adjusted EBITDA was up 97% due to the Shaw acquisition from one year ago. From a subscriber perspective, we continue to attract the most customers, adding 124,000 postpaid mobile phone and retail internet net additions. This is the highest number of net additions in our industry. In wireless, we led the market with 98,000 postpaid mobile phone net additions, up 3,000 from last year, and we continue to see a healthy mix from the new-to-Canada market. The competitive intensity from the fourth quarter carried into Q1, and the team executed their game plan with discipline.

In retail internet, we delivered 26,000 net additions, up 12,000 from one year ago. We introduced Rogers 5G home internet in the quarter, offering home Internet to customers in places we historically could not. It's early days, but we're seeing good consumer interest in the product. Overall, we remain focused on returning to organic revenue growth in cable by year-end.

In media, top and bottom line were down as a result of a one-time gain in prior year's results and front-loaded programming and payroll costs in the quarter. We will see things even out as the year progresses to deliver profitable growth here on a full year basis. Our media brands continue to be critical to our Company and our customers as demand for sports and entertainment grow. Q1 was the most watched first quarter in Sportsnet's history, entrenching Sportsnet as Canada's number one sports network.

Moving on to the merger, April marks the one-year anniversary of the Shaw merger. I have to say I continue to be impressed with the Shaw assets and the power of our combined scale. We have integrated the two companies and delivered on the key commitments we set for ourselves in the first year. We delivered on our $1 billion synergy targets one year ahead of schedule, and we remain focused on selling non-core assets to reduce our debt leverage ratio. Overall, we are well ahead of schedule, and I could not be prouder of our team.

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I'm also proud of our efforts to continue to drive innovation in the quarter. In January, we completed the first nationwide live test of 5G network slicing technology in Canada. This technology will use our 5G network to create multiple lanes of wireless traffic. Each slice or lane can provide tailored features from low latency to faster speeds to more capacity. To start, we'll use the technology to offer a dedicated lane for first responders to have priority on the network. Over time, it will be a meaningful solution for our business customers. Network slicing will also help accelerate the expansion of Rogers 5G home internet.

To get ahead of wildfire season, we installed AI cameras in the Okanagan Valley to help first responders monitor, detect and prevent wildfires. This important trial will help us understand how to use 5G technology and soon satellite technology to mitigate the devastating impact of climate change.

We also announced a strategic partnership with CableLabs, a global tech organization, to launch CableLabs North at the Rogers Campus in Calgary. CableLabs has been a crucial source of technological breakthroughs for the broadband industry, including DOCSIS 4 technology that has brought together industry leaders like Comcast and Charter to develop scalable tech. Rogers technologists will work with global industry partners to develop converged 5G and 10G solutions that ensure seamless connections for customers in and out of the home. As we look ahead to the launch of our 10G and DOCSIS 4 internet road map, CableLabs North will be front and centre.

Taking a step back, I'm pleased with our consistent sustained momentum. We have delivered strong results for nine straight quarters and we have exceeded our Shaw merger targets. At the one-year anniversary of the merger, I remain confident in our plan and proud of our team. I would like to thank our entire team for their continued commitment to driving growth and innovation.

Let me now turn the call over to Glenn.

Glenn Brandt:
Thanks, Tony, and good morning, everyone. Thank you for your time and attention this morning.

Rogers' first quarter results reflect another strong quarter of industry-leading growth and execution. Notably, it also marks the one-year anniversary of closing our Shaw transaction, and I am very pleased to report that we have very substantially outpaced our initial timeline for our cost synergy, deleveraging,

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and overall integration targets. We continue to execute well, including identifying opportunities to further improve operating performance, network and customer service reliability, and innovation.

In wireless against the backdrop of a highly competitive environment, we continue to lead with very strong year-over-year growth across subscriber net adds, service revenue, Adjusted EBITDA and ARPU. Our continued emphasis on our premium 5G services and the Rogers brand and the value these plans generate for our customers is reflected in our sustained growth and financial performance. We have led on wireless operating and financial performance for nine consecutive quarters now, and not by accident.

Wireless service revenue in the quarter grew 9% and postpaid mobile phone customer net additions were 98,000, up 3,000 year-over-year on what was also a very strong prior year comparative. Importantly and deliberately, the vast majority of our new customers were welcomed on our premium Rogers brand, which is fundamental to our operating strategy. Overall mobile phone ARPU as reported was up more than 1% year-over-year. More striking, on an organic basis adjusting for the impact of our Shaw Mobile customers, ARPU is up almost 3% year-over-year. Once again, our disciplined focus on the Rogers brand is delivering leading market share and strong financial performance.

Postpaid mobile phone churn in the quarter was 1.1%, up 31 basis points year-over-year. While churn remains elevated, it is down from the prior quarter both in absolute terms and in the amount of increase from the prior year comparative. These results reflect our continued discipline balancing subscriber growth and financial performance, and as a result, our wireless Adjusted EBITDA is up 9% and our Adjusted EBITDA margin grew by 10 basis points year-over-year to 64%.

Moving to our cable business, we continue to build momentum on subscriber loading, both east and west and in and out of our wire line territory as we pursue growth in the 40% of Canadian homes not covered by our wire line footprint. Leveraging our national capabilities from coast to coast, we are targeting to return our cable business back to organic revenue growth in the fourth quarter of this year. Cable revenue was up 93% year-over-year, roughly doubled in scale as a result of the Shaw transaction. Organically across the combined operations, underlying revenue is down 3% year-over-year, reflecting sustained promotional competition carrying over, at least in part from the 2023 holiday period through the first quarter.

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Adjusted EBITDA also reflects the scale benefits of the Shaw acquisition, growing 97% year-over-year. On an organic basis, cable's Adjusted EBITDA was up 7% year-over-year against an already strong prior year comparative, largely reflecting our substantial success driving cost synergies, which I will come back to shortly.

We are encouraged by our performance on retail internet net additions, which is starting to reflect the benefits of our growth strategy. Retail internet net additions were 26,000 in the first quarter, almost doubled from 14,000 in the prior year. In a very competitive environment, we are seeing growth driven by our diverse product capabilities and starting to grow customer additions in markets where Rogers has not previously operated.

Offsetting the impact of competitive promotional pressure on revenue growth, I am very happy to report that we have completed our cost synergy plan a full one year ahead of schedule. We exited the first quarter having achieved our full $1 billion cost synergy target run rate within 12 months from acquisition, rather than the original 24-month target. Moreover, through the first full year of the Shaw acquisition, we have realized approximately $600 million of cost synergies in our reported results, more than double our original one-year target. These savings will continue to flow through our results in the coming quarters, providing further support for our industry-leading 56% cable margins which are up 140 basis points against the prior year.

Finally, in our sports and media business, media revenue was down 5%, and Adjusted EBITDA was down $65 million year-over-year. Most notably, the year-over-year change reflects a very strong prior year comparative affecting media content revenue and cost, as well as higher payroll expenses at the Toronto Blue Jays this year. At a consolidated level, Q1 total service revenue increased 31% and Adjusted EBITDA was up by 34%, driving our consolidated EBITDA margin up by 210 basis points year-over-year to 45%.

Capital expenditures were up 19% year-over-year to just over $1 billion, most predominantly reflecting continued investment in our wireless and cable networks to support our growth priorities. We also saw an increase in our sports and media capital spend as we completed the majority of the second and final year of renovations at the Rogers Centre. Early feedback from fans and players has been exceptional. While capital expenditures did grow, capital intensity declined by approximately 170 basis points versus

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the prior year to approximately 21.6%, and after-tax free cash flow grew 58% year-over-year to $586 million.

Turning to the balance sheet at March 31, we had $4.6 billion of available liquidity, including $800 million in cash and short term deposits and $3.8 billion available under our bank credit facilities. Our weighted average interest rate on all borrowings is below 4.8%, which is down from 4.9% at December 31, 2023, and our weighted average term to maturity is 11 years, both measures favorably impacted by our very successful bond financing completed in February.

Our 4.7 times debt leverage ratio at quarter end was flat to year-end 2023, notwithstanding seasonal working capital and spectrum investments made in the first quarter. Our target is to reduce leverage by roughly half a turn each year on average, supported by a combination of earnings growth, available free cash flow, and proceeds from asset sales. We have processes currently underway to sell targeted noncore assets, predominantly real estate assets which are at various stages of progress and/or consideration, and we do anticipate completing sales in 2024. While taking longer than originally anticipated as a result of softness in the current real estate market ahead of anticipated interest rate reductions, we remain committed to this initiative and we are being diligent to ensure we maximize proceeds.

In the meantime, the combined effect of our December 2023 sale of our Cogeco holdings and our February 2024 U.S. dollar bond issue, both of which were used together with other available funding to repay a combined $5 billion of our Shaw-related bank term loans, has lowered our 2023 annual interest costs by approximately $100 million, in turn helping free cash flow.

Finally, we are reaffirming all of our 2024 guidance range targets - this includes service revenue growth of 8% to 10%, Adjusted EBITDA growth of 12% to 15%, capital expenditures of $3.8 billion to $4.0 billion, and free cash flow in the range of $2.9 billion to $3.1 billion. Our industry-best outlook reflects our confidence in continued strong execution and world-class assets.

Let me conclude by joining Tony in thanking our entire team here at Rogers from coast to coast. Our employees remain focused and committed to serving our customers with a collective passion to grow and innovate for the benefit of all Canadians.

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Thank you for your time this morning, and with that, Ariel, can we please commence with the Q&A. Thank you.

Operator:

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

Our first question comes from Sebastiano Petti of JPMorgan. Please go ahead.

Sebastiano Petti:

Hi, thanks for taking the question. Solid internet results in the first quarter. I was wondering if perhaps you can give us a little bit of colour around the—I guess the way to describe it, in footprint or incumbent growth in the market within the 60% of homes that you do pass, versus that remaining 40% that you're pushing into with perhaps FWA, maybe TPIA, etc., so if you could maybe unpack what you saw within the first quarter, the benefit in either cohort, and then maybe how you're thinking about the progression of internet net adds over the course of the year in those two different buckets, if you will.

Then the other question that I did have was more in regards to just the competitive environment. Obviously, the ARPU growth was pretty strong on the wireless side. How are you thinking about Rogers' go-to-market strategy and the ability to continue to drive ARPU growth, given the backdrop? Obviously you have had the nice tailwind from converting over the Shaw subs to the Rogers brand, but any other levers that we should perhaps be thinking about as well on the wireless ARPU side? Thank you so much.

Tony Staffieri:

Sebastiano, thank you for the question. On the first one in terms of the internet net adds, it came from a number of different initiatives, both, as you described it, in-footprint or on-net for our wire line business, as well as some from the launch of our fixed wireless access product. We're not disclosing the split on those, but let me say our strategy on this has been clear, and what you're seeing in the first quarter are continuation of the green shoots.

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Clearly in our wire line cable footprint, the intent was always really twofold: in the west, focus on gross adds, and you see that coming through, through a number of different initiatives, and early days but we like what we see in that market; in the east, it's been about churn reduction, and early initiatives are giving us solid results on that and so we like what we see there.

As you know, our wire line footprint covers about two-thirds of Canadian households. For the other one-third, we have a two-pronged strategy. One was the launch of fixed wireless access, and the launch of that product has been quite terrific, and it really speaks to the quality of the product itself in terms of how it performs for home internet, including video streaming. But secondarily, the ease of buying and setting up of the product is something that's really resonating with consumers, and so as we focus on that one-third territory, it's been extremely helpful, and there are certain use cases where it's also been helpful. New-to-Canada, for example; as folks get here and are looking to get set up, certainly they're looking to a SIM card and a smartphone, but home internet is top of mind, and is something that we've been able to add to our suite of offerings to make it easy for that segment of the market.

We've also started, although Q1 was very, very early, the wholesaling of internet to bundle it with our national wireless offering in the one-third territory where we don't have wire line assets. Early days on that, and as you would have seen in the fourth quarter, we purchased Comwave to facilitate that strategy, and that is ramping up nicely as well.

The second part of your question relates to the competitive intensity and ARPU. I continue—you know, as we look to some of the offers and—that are in marketplace that were in Q4, continued into Q1, I continue to re-emphasize that some of those offers are focused on a certain segment of the market, and we're playing a balanced portfolio game. We'll compete aggressively with some of those offers in what I would call the flanker segment of the market, but we continue to stay focused so that the vast, vast majority of our net adds are on the Rogers premium brand, and what we're seeing work nicely is customers wanting to move from 4G to 5G with our $50 entry price points - that's been a real catalyst for ARPU growth overall in our portfolio, so as we look to the rest of the year, we'll continue with that strategy and as consumers look to upgrade their phones and want to get on the best 5G network, that's what we'll continue to execute on. It's as simple as that.

Paul Carpino:

Thanks Sebastiano. Next question, Ariel?

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Operator:

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

Vince Valentini:

Thanks very much. Maybe I can start with a clarification first. Glenn, you said interest costs $100 million lower in 2023 - I think that's what you said, I'm not sure that's what you meant.

Glenn Brandt:

Right, lower than they otherwise would be in '24 from those initiatives, Vince, so if I said '23, I misspoke it. This year's interest cost will be down by $100 million as a result of the interest savings from the Cogeco proceeds received in December - that's money we don't have to borrow, and then also the CA $3.4 billion we raised in February, we raised that at about 4.9%, and it's paying back floating rate term loans that we put on for the acquisition of Shaw that were about—sitting just over 6.5%, and so the interest savings on that for the calendar year - we did this in February - is another $50 million on top of the roughly $50 million we save from the Cogeco proceeds, so 2024 interest expense is down.

Vince Valentini:

Yes, down versus what it would have been otherwise. Your full year '24 interest costs are going to be higher than full year '23, they have to be.

Glenn Brandt:

Oh, absolutely - right, but those initiatives have lowered what otherwise would have gone into our results and what would be—part of which will be reflected in guidance. We knew about Cogeco. We had not baked in the lower borrowings in February from the bond deal.

Vince Valentini:

Perfect.

The second question may be for you as well, Glenn, but whoever wants to chime in. I think your underlying ARPU performance is extremely encouraging, given what we've seen in the market in terms of advertised pricing. I know you're doing a great job migrating and focusing on the Rogers brand, but I think you would admit you do have some customers coming in at these lower end flanker prices, so to be able to offset that and show ARPU growth the way you are is great. I just don't want that to be

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overshadowed by these subscriber write-downs. It makes sense if they're non-performing subscribers that are businesses that have been discontinued - it's logical. But it would really help us if you could adjust for it, like if that 1.4% ARPU growth you put up, if you didn't have the 166,000 subscriber write-downs, would that still have been slightly positive, do you think?

Glenn Brandt:
Absolutely, it would still have been positive, Vince. We have consistently had ARPU growth on the right side of zero for the last several quarters. Without those write-downs, it still would have been positive, and on an organic basis we still would have had growth north of 1% - it would have been in the range of 1.5% or so without those write-downs. The write-downs are just a reflection of how we're going to market. We've discontinued those business lines, and just to be—to clarify and to be clear, we put that in our release, but very clearly, yes, we would have been positive without those write-downs, Vince.

Vince Valentini:
That’s very helpful. Thank you.

Glenn Brandt:
Thank you.

Paul Carpino:
Thank you, Vince. Next question, Ariel?

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

Maher Yaghi:
Great, thank you for taking my question. I wanted to congratulate you on attaining your billion-dollar cost synergies well ahead of plan. Now Tony, I know for some reason, probably, you don't want to keep updating us on those synergies going forward, but can you tell us what other additional projects you could be working on to improve on that billion-dollar cost-cutting effort, which has been significant, and how should we think about margins going forward as you continue to break the silos and bring together operating systems, etc.? Will we continue to see the margin improvement on the cable side, or you will

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use most of those for your go-to-market strategy and growing the subscriber base on the cable side, like you said, and fixed wireless, etc.?

Tony Staffieri:
Very good question, Maher. A couple of things here that I'll unpack for you.

What you'll see from us going forward is a couple of things. Having hit the $1 billion of synergy savings doesn't mean we're taking our foot off the gas pedal in terms of continued efficiency improvements, and so rather than report it in the context of a billion and what it grows to, you'll see that come through in expanding margins, and Glenn will provide a little more colour for that in a moment, and so we continue to see opportunities in working with our vendors.

There are still some systems and IT integration projects that need completion, and those will provide some additional synergies, but the other piece we're focused on are the revenue synergies, and what we're seeing is very good traction in terms of enterprise or business space, particularly in the west as we bring together our wireless and now wire line offering in a complete bundle package for businesses, and so we see that segment of the market in terms of geography probably our fastest growing right now, and so that revenue synergy is certainly one.

The second piece relates to new construction. While it has slowed a bit, the pace of new construction, particularly in major markets like Vancouver and Toronto, continues to be strong, and we said we would over-index in that space in the west, and our strategies there are starting to yield good results that you'll see come through in future quarters, so it's a combination of both the revenue side as well as the cost side that you'll continue to see in quarters, both through margin expansion. But also, as we talk about exiting the year with top line growth in cable, those pieces I talked about are going to be crucial to that strategy and that's what we're focused on executing on.

Glenn Brandt:
Then Maher, just filling in the remaining targets that we'll be going after, we have largely completed the people side of our cost synergy targets, and by far that's the category that we have accelerated the most. It had the benefit of driving dollar cost savings. It had the larger benefit of moving through the integration of the combined operations faster and settling people into their new responsibilities quicker, and so that's by far the largest piece that we've accelerated.

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In terms of targets that we're still looking to get at, I'll highlight a few of the media content costs we have started on, but there's still more to factor in over the coming, I'll say one to two years, as some of it's going to take a longer effort in terms of reflecting changing viewing habits and fully rolling those in.

One of the other initiatives that I had highlighted early on was the prevalence of fiber that we picked up, particularly in the west with the acquisition of Shaw, and the ability to replace microwave backhaul with fibre-connected backhaul over more of our cell towers. That is underway but it's earlier days, and as we move that through over the coming year, I'm anticipating pulling out a significant number of—a significant amount of costs for that microwave spectrum backhaul and replacing it with owned fibre infrastructure, and so that will involve construction over the next one to two years and beyond as we build towers.

Then I think in terms of where I anticipate margins going over time, particularly as we reverse the current negative trend on cable revenue, I expect that we will see some additional upside on our cable margins. We're at 56% now. I think over time, you could see that move up by somewhere in the range of another 1% or 2% as we settle in the revenues and continue to drive some of those cost savings.

Maher Yaghi:
That’s great, thank you.

Glenn Brandt:
Thanks, Maher.

Paul Carpino:
Thanks, Maher. Next question, Ariel?

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

Matt:
Hi, good morning. It’s Matt sitting in for Dave. Thanks for taking the questions.

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First of all, I just wanted to clarify on the—it's great that you're running ahead of pace on the synergy realization. In relation to when you set guidance, was it contemplated at that time that you would be a year ahead on realizing the synergies, or should we be expecting that as you work through those items that Glenn just laid out, that would be incremental to what you were contemplating when guidance was provided?

Then just secondly on a different topic, on the fixed wireless access, I totally understand you don't want to give quarterly updates on the new launch and how it's going, but I was curious if you'd be willing or able to quantify how large an opportunity you think it actually is. Other operators look at it as excess capacity and they have a clear line of sight as to what that capacity is and how many subscribers could fill it up, so if there's any colour that you could provide along those lines, it would be helpful. Thanks.

Glenn Brandt:
Thank you, Matt. On your first question in terms of running ahead of the original pace, I'd been signaling through Q3 and Q4 last year that we're very happy with the accelerated pace, and I'm not surprised that a year in, we have met that billion-dollar target. That was a critical target for us and we were focused on meeting that sooner rather than later, so the quick answer to your question is not a surprise to us and it would have been factored in as we were rolling out our guidance, and which is why we've reaffirmed guidance again this—with this release for the year, so that answers that question.

Tony Staffieri
On the second part, Matt, in terms of fixed wireless access and the market we see for that, we're going to let the customers decide in terms of what works best for them, depending on their particular use case. As we look to the potential demand for that, we're comfortable we have the capacity for it, particularly as we approach the—get into the back half of the year and launch network slicing. That's going to allow us to have dedicated lanes for fixed wireless access users so it doesn't congest our mobile smartphone users or other enterprise applications, and so we're comfortable we have the capacity to meet demand, depending on the customers that choose that.

But as well, we'll continue to focus on the ability to sell our wire line product but also wholesale wire line in those territories, so we just think about it as we can now address 100% of homes passed and we have three technologies to get there: our online cable fibre network wholesaling, coax from other players, and then fixed wireless access.

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Matt:
Thanks a lot, guys.

Paul Carpino:
Great, thanks, Matt. Next question, Ariel.

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

Tim Casey:
Thanks. Tony, could you just talk a little bit about cable? I'm just wondering if you could talk about some of the revenue erosion you're seeing on the minus 3%, is any of that due to pricing, and if you could unpack, is some of that just price discounting by Bell or is there also bundle credits that are going through as you—in your footprint, you offer more wireless-wire line bundles to retail customers? Just wondering if you could maybe shed some light.

Then secondly, when you talked about the construction opportunities out west, is this related to what you used to talk about, how Shaw had laid fibre to the street but not to the buildings? Is that what you're talking about, as completing the last mile there? Thanks.

Tony Staffieri:
Thanks, Tim. I'll start with the second part. The short answer is yes, that's a big component of it and so—but there's also a new construction that's going on as well, that is nearing completion, and so we're aggressively chasing those in terms of penetration on a building-by-building basis. But absolutely, either bringing fibre up to the suites or from the curb to the buildings, that is definitely a strategy that we've been executing on.

In terms of the first part of your question, the revenue erosion that we're seeing in cable, there's really a few different things that are going on there. If you were to look at, notwithstanding what I would describe as healthy competition in the internet space, we continue to post positive ARPU growth in internet, and so—and that really speaks to our ability to continue to offer one gig speeds-plus throughout our entire base, and the team has been actively working and doing a good job in executing the up-sell of customers to that product. Much like you see on the wireless side, where we've had good

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base management in moving customers to higher speeds and tiers, you're seeing the same thing happening on the cable side as well.

Offsetting that is, quite frankly, the cord-cutting you're seeing on video, and so that is providing what I would say is natural headwinds against the revenue line. But keep in mind, that comes at a much lower margin than the internet upside we seem, and so that's why—one of the factors, synergies are certainly one, but the mix shift of predominantly more internet revenue vis-à-vis video revenue is providing support for our margin expansion in the cable business, and so while we're focused on returning it to top line growth, the decline is predominantly coming from the video side declines.

Paul Carpino:
Great, thanks, Tim.

Tim Casey:
Thank you.

Paul Carpino:
Yes, sorry, Tim. Next question, Ariel?

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

Stephanie Price:
Good morning. Free cash flow came in strong this quarter. Just curious if you could talk about the drivers and how we should think about the cadence of free cash flow through the year.

Glenn Brandt:
Thanks, Stephanie. I think it came in stronger year-over-year. I think it's—I would say it's where we would expect it to be, given the guidance through the year. If you look at where our capital spend is on an annualized basis, we're not far off from the range we've given, maybe a little bit higher in the first quarter, which is usually a little bit slower for the winter months. We've had a good construction season here through the winter and so that allowed us to lean in a little more. We also had the finishing up of the Rogers Centre, year two of the renovations, and so that was in the first quarter.

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Don't read anything into the up or down on the free cash flow. I think you'll see us continue apace and hit our guidance.

Stephanie Price:

Then on wireless churn at 1.1%, can you talk a little bit about how you see those metrics evolving over 2024 and the broader wireless pricing strategy here?

Tony Staffieri:

Stephanie, in terms of churn, the summary is we continue to see an environment where we'll have heightened churn. Certainly in Q1, as you saw many of the offers from Q4 continue into Q1, what you saw is continued heightened churn, as Glenn pointed out. Sequentially, when you look on year-on-year increases, it came down in Q1 as some of that promotional activity subsided in and out of the quarter, but as we look to the rest of the year, we continue to see factors that would suggest heightened churn. A number of them is just the way the new-to-Canada segment works in terms of coming in, coming out, and that's a factor that's going to be a bit of a permanent input to increase churn, and ease of switching is going to be another factor facilitated by eSIM, as an example, and there are other factors that we see driving up churn, but it isn't something that we're necessarily concerned about. It actually continues to—and it's really a demonstration of the competitiveness in the market, and as customers decide to—and have choices, we do well in that environment, and so we continue to look at it on a net basis and ensure that the cost of acquisition costs continue to come down, so that even in a higher churn environment, we have a very balanced approach to deliver industry-leading margins on the wireless portfolio.

Stephanie Price

Thank you.

Paul Carpino:

Thanks, Stephanie. Next question, Ariel?

Operator:

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

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Jerome Dubreuil:
Hey, good morning. Thanks for taking my questions.

The first one, we're seeing reports of potential data centre sales, so maybe it just provides you an opportunity for commenting on that; but some foreign telecom operators, they do see data centres as a way to offer maybe more end-to-end connectivity solutions and being an important part of digital infrastructure. If you can comment on the rationale of a potential sale there.

Then my second one would be on the new immigration target by the federal government. If you can comment on the dynamics you are seeing on penetration in the future, just so we have a better idea of where the net adds might be trending in the future. Thank you.

Glenn Brandt:
Thank you, Jerome. I'll start with the first one on there were some media reports over the last month or so around a potential sale of our data centres, and so it's true - we are looking at raising about a billion dollars in asset sales, predominantly real estate, however we are looking for interest in our data centre business. The business that we're looking to sell is not one that would affect how we sell our wireless services or the end-to-end, as you say, data aspect of those services, it's the enterprise-type data centre business that is really focused on third party sales. We have our own data centre requirements that we manage separately from that.

We have undertaken a process to see if there are interested parties. We're taking our time with all of our asset sales, and I mentioned this, I think in my comments - the interest rate environment has run with rates a little bit higher for a little bit longer than anticipated, and so that has had a slowing effect on the timing for the real estate sales, as well as the timing around the data centers. I do expect that we will have asset sales to announce this year. I am hoping that we will have some interest, sufficient interest in the data centres that might be one of the opportunities. That's as much as I'll say on that.

Then on the immigration numbers—?

Tony Staffieri:
Yes, on the immigration piece, Jerome, I would say it's important to set the context. If we were to look at total market growth for the industry last year, it was over 5%, which was remarkable. As we look to

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the first quarter, which is the initial impact of some of the curbing of foreign students to Canada, we expect market growth to be about 4.6% for Q1, would be our best estimate, and as we look to the balance of the year, we continue to see likely growth, all things considered, in the 4% to 4.5% range, which continues to be extremely strong growth.

I re-emphasize, you know, the growth that you see in the market is really combination of two factors. Half of it roughly is from penetration gains and then the other half relates to the new-to-Canada category, so it's important that you always look at it in that context.

Jerome Dubreuil:
Thank you.

Paul Carpino:
Great. Yes, thanks, Jerome. Ariel, we're going to take two more quick questions, please.

Operator:
Our next question comes from Batya Levi of UBS. Please go ahead.

Batya Levi:
Great, thank you. Just going back to the cable revenue declines, can you provide more colour on the drivers to get to growth in 4Q from about 3% declines now, assuming that video erosion will continue, and how should we think about broadband net adds for the balance of the year? Thank you.

Tony Staffieri:
Batya, okay, a couple of things there. In terms of the strategy to return cable to top line growth, it's really a combination of factors, some of which I talked about, or maybe all of them which I've talked about. One is turning around our market share performance in our cable footprint, and you're seeing early signs of that already, and that's across our entire footprint both in east and west. We have a compelling value proposition there where we can offer a superior internet product performance across more homes passed than our competitors can, so it's about execution on that.

Embedded in that is the opportunity to continue to grow internet ARPU because of our ability to offer speeds minimum of one gig ubiquitously across our entire footprint and in certain areas beyond that. As

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we continue with our network enhancements, largely around mid split and high split, then we'll continue to improve the product offerings there, and so that's in the near term. I won't even get into the DOCSIS 4 - it's much longer term, but that's the near term.

Then we look to the medium to small business enterprise side of it, and that's an area we've been underpenetrated in, and so we are very focused on that. We see double-digit growth in that segment of the market, which has been working well for us, and we expect it to continue to do so.

Then, of course, there is the one-third of the market that we haven't addressed in the past, and those are the one-third homes that I already mentioned, and we're addressing that market through our fixed wireless access as well as through wholesale. Those are the primary factors that we are executing on to get back to growth overall on our cable business.

Batya Levi:
Thank you.

Tony Staffieri:
The second part of your question, Batya, just remind me?

Glenn Brandt:
Broadband net adds through the year.

Tony Staffieri:
Oh, broadband net adds through the year, and so—and it really is a corollary to my response in the first part. Job one is to continue to focus not just on ARPU growth but in particular market share and penetration gains, and so you should expect us to continually have year-on-year growth in our net add internet performance as we approach what we consider to be strong market share gains.

Batya Levi:
Thank you.

Paul Carpino:
Thank you, Batya. Ariel, let's squeeze one more in, please.

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Operator:
Our next question comes from Aravinda Galappatthige of Canaccord Genuity. Please go ahead.

Aravinda Galappatthige:
Thanks, good morning. Two quick ones from me on wireless ARPU. Can you just maybe talk about the impact, the year-over-year impact because of international roaming, and some of the price adjustments that you did early in the year?

Then secondly on the cable side, I apologize if you gave this number out, Glenn. I know in the last quarter you provided a pro forma revenue movement number. I was wondering if you can repeat that for Q1.

Glenn Brandt:
I'll start with the second one, the pro forma, or as I say, organic revenue growth or shrinkage in the quarter would have been negative 3%, similar to the prior quarter, negative 3% for the quarter, and then EBITDA was up 7% on an organic basis, reflecting the impact of the cost synergies.

On wireless ARPU, the price increases, international roaming, there's not—there hasn't been that much of an impact from international roaming in terms of year-over-year change. We are through all of the catch-up by now as a result of travel shifts and changes from coming out from COVID, and so there's not a large impact on ARPU from any changes in international roaming. We did have a price change go through earlier in the year. It is a component of a number of different things. The largest impact really has been the emphasis on our premium brand and moving customers up to our 5G services and up-tiering customers, as opposed to that price increase only affected a small component of our customers that were not on contract.

Aravinda Galappatthige:
Thank you.

Glenn Brandt:
Thank you, Aravinda.

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Paul Carpino:

Great, thanks, Aravinda, and thanks for joining our call. If there's any additional questions, 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.

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