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RCI.B.TO - Q1 2012 Rogers Communications Inc. Earnings Conference Call

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OVERVIEW:

RCI.B.TO reported 1Q12 consolidated revenue decline of 1%.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Rogers Communications first-quarter 2012 results conference call. At this time all lines are in a listen-only mode. Following the presentation we will conduct a question-and-answer session. (Operator Instructions) I would like to remind everyone this conference is being recorded today, Tuesday, April 24, 2012, at 5 p.m. Eastern Time.

I would now like to turn the conference over to Mr. Bruce Mann with the Rogers Communications management team. Please go ahead, sir.

Bruce Mann - ***Rogers Communications Inc. - VP IR***

Thanks very much, Luke. Good afternoon, everybody. Thank you for joining Rogers for our first-quarter 2012 investment community teleconference. It's Bruce Mann here.

Joining me on the line in Toronto is Rogers' President and Chief Executive Officer, Nadir Mohamed; Bill Linton, our Chief Financial Officer; Rob Bruce, who is the President of our Communications division; Keith Pelley, who is President of Rogers Media; and Bob Berner, our Chief Technology Officer; as well as a couple of members of their respective teams. And also joining us is Tony Staffieri, who as we announced back in October of 2011 will be succeeding Bill as Rogers' new Chief Financial Officer shortly.

We released our Q1 results earlier this afternoon. The purpose of this call is to crisply provide you with a bit of additional background upfront, and then we are going to answer as many of your questions as time permits.

As this afternoon's remarks will -- and the discussion, for that matter -- will undoubtedly touch on estimates and other forward-looking types of information from which our actual results could be different, you should review the cautionary language in the earnings release today in our 2011 Annual Report. These include various factors and assumptions and risks as to how our actual results could differ, and all of those cautions importantly apply equally to our dialog in today's call. If you don't already have copies of both our Q1 release and our 2011 Annual Report to accompany the call, they are both available on the Investor Relations section of Rogers.com or on the EDGAR or SEDAR website.

So with that I'm going to turn it over to Nadir Mohamed and then Bill Linton for some brief introductory remarks, and then the management team here will take your questions. Over to you, Nadir.

Nadir Mohamed - *Rogers Communications Inc. - President, CEO*

Thanks, Bruce. Welcome, everyone, and thank you for joining us. As you can see from this afternoon's earnings release, we delivered a relatively balanced set of financial and subscriber results. There are some clear areas of strength, and there are some areas that we are focused on doing better over the balance of the year.

Overall, the results reflect the strength of our asset mix as well as the continuation of what is an extremely competitive period in the market. In terms of asset mix we are uniquely positioned as Canada's largest wireless provider, complemented by our healthy and growing broadband and Media businesses.

During the first quarter, we had strong execution in Wireless on both the sales as well as retention front. Postpaid gross additions and postpaid net additions were both up year-over-year. In fact, it was one of the strongest Q1s for postpaid gross additions in a number of years.

We made solid improvement in stabilizing on the key metrics on the Wireless side postpaid churn. While it was up a modest 3 basis points year-over-year, this is by far the smallest year-over-year increase we have seen in nearly two years; and it's a sequential improvement, a significant one, from Q4 as well.

It was also the third straight quarter in which we have been able to slow the year-over-year rate of decline on postpaid voice ARPU, which is another key metric for us on the Wireless side. It is still obviously under pressure in the face of intense competition in the Wireless market, but we have continued to focus on managing this decline as much as possible, given the environment. While the strength of Wireless data offset much of this pressure, we still saw an overall 4% decline in postpaid ARPU.

We are also continuing to drive our Wireless data strategy. Despite what was an intensely competitive environment in Q1, we activated over 640,000 smartphones, the second highest number of smartphones ever in a single quarter and the highest during a first quarter.

Embedded in that, and one of the drivers of expense growth in the quarter, was that iPhone activations including upgrades were up a full 35% from Q1 of last year. This in part reflects residual demand from Q4 of last year, where we were supply-constrained for a good portion of the quarter.

We've continued solid success in the high-value smartphone category, and we now have 60% of our postpaid subscriber base on smartphones. So smartphone metrics, ARPU, churn, and upgrade rate remained healthy given the competitive backdrop. And at the same time we are both attracting and retaining our highest lifetime value customers, which is squarely on our strategy.

As a result, we continue to drive double-digit revenue growth in our Wireless data business, which was the most significant driver of our top-line. We did, however, see a sequential slowing again in Q1 in the rate of growth of Wireless data revenue. This is attributable to a combination of higher number of new Wireless subscribers coming on to new entry-level Wireless data pricing plans, as well as the new outbound data roaming plans that we talked about in February.

We obviously have work underway aimed at helping to improve the trajectory of the Wireless data growth. As I said in February, I think we can do better on this metric, as well as ARPU more broadly; and this is an area of focus for us from an executional perspective.

At the same time we are driving very meaningful cost efficiencies. You can see this when you consider that, despite adding 20% more new smartphone activations in Q1 this year over last year, a 35% year-over-year increase in iPhone activations, and continued ARPU pressure, we were able to achieve a strong 46% Wireless service margin.

We also continue to invest in platforms and services on the Wireless side, including further expansion of our LTE network across a number of additional cities. Rogers has Canada's first and largest LTE network; and today we already cover approximately 35% of Canada's population. And we have the biggest collection of LTE devices available in Canada.

We also delivered solid margins in the Cable Operations portion of the business. While Q1 is generally a seasonally slow quarter in Cable, we did also face intensified IPTV competition in our territory during the quarter.

Clearly we are entering a period of stepped-up competition where our primary telco competitors who already have their broadly deployed satellite offerings is now pushing with deeper concessions on its more widely available IPTV product. You see the effect on the year-over-year change in basic Cable subscribers nets, and also the impact of retention and promotional offers that we have needed to utilize in the dampened rate of growth you'll see on the revenue line.

Having said that, the reported Cable revenue growth somewhat understates the organic growth of the core business, as it also reflects the divestiture of the circuit-switched telephony business which occurred late in 2011.

As in Wireless, we continue to have good cost management in Cable. Even with some additional costs in customer care and service associated with supporting the analog-to-digital tier migration that we started in Q1 and the deployment of our new digital set-top box, we were able to deliver a healthy 46% margin in Cable Operations.

As many of you are aware, this quarter we began going live across the majority of our Cable territory with our new digital cable user interface. This includes whole-home PVR capabilities as well as a new, fully refreshed guide and search capability.

This greatly enhanced functionality and UI is combined and marketed under our NextBox 2.0 umbrella and is being very well received by our Cable subscribers. In fact, we are a head of our internal projections in terms of subscribers opting to move over to NextBox 2.0.

At the same time, we continue to highlight and reinforce the strength of our Internet services, underpinned by our DOCSIS 3.0 platform, which covers essentially 100% of our Cable footprint. The combination of superior broadband speed and an enhanced user interface complement what is already a superior Video offering in terms of the underlying content, which bodes very well for our Cable business.

At the Rogers Business Solutions division, where our wireline enterprise focus is, we continue to concentrate on a planned exit of lower-margin legacy services and off-net businesses where there were some step-function declines that impact EBITDA in Q1 that we expect to begin to offset as we go forward.

As well, the Q1 results last year reflected a one-time revenue item that also makes the comp to Q1 frankly quite difficult. But the on-net and NextGen portions of the business actually grew at 8% on the top line or 19% if you exclude this high-margin nonrecurring revenue item from Q1 of last year. This reflects our focus on growing our presence in the SME segments, the small-medium segments of the business market and the areas where we have our Cable and fiber network facilities.

Now turning to Rogers Media, we achieved continued top-line growth across almost all of our properties despite what was a somewhat tougher ad market than we originally expected coming into the year. As a reminder, Q1 is a historically seasonally slow quarter for the Media property.

What you are seeing in Media is good cost containment being offset by continued investment in new properties and content to generate additional growth going forward. These include new channels such as CityNews and FX Canada, as well as new programming initiatives including Canada's Got Talent and a number of other initiatives.

Also in the content front, we are still on track at this point to close on our investment in Maple Leaf Sports & Entertainment and summer. This will further advance our strategy to be the number-one destination for sports in Canada.

To sum up, it was a good quarter of good, solid, postpaid Wireless subscriber additions with continued strong smartphone sales. We also stabilized postpaid churn while slowing the rate of decline in voice ARPU for the third straight quarter. So some good progress showing in some of the key metrics.

We also made a number of important investments during the quarter across the business, in our cable set-top box and UI interface, our analog-to-digital transition, growing our LTE footprint, the launch of our Rogers One Number service, new programs, and other initiatives at Media. So we continue to invest at a healthy rate to deliver new and innovative products and services and to maintain our leading network positions.

And importantly, we continue to focus our execution and manage costs to deliver continued core profitability, which you see in what are very respectable margins. Having said that, we are seeing a softer rate of top-line growth than we would have liked; and that is a reflection on the continued intense wireless competitive environment and a further slowing in the rate of growth of Wireless data.

At the same time, the competitive intensity heated up in Cable, as IPTV became more widely available; and the ad market softened at Media, particularly late in the quarter.

As such, we also accelerated a number of cost reduction initiatives aimed at offsetting the top-line pressures. We took some decisive actions late in Q1 on the cost side, and we will continue to do so as required to protect our margins and cash flow.

While I expect it will continue to be a tough period, I have no doubt whatsoever that the strength of our franchise and our superior asset mix will remain a great platform for continued success. Before I turn it over to Bill, I wanted to quickly remind everyone of the CFO transition that we announced this past October. That transition officially becomes effective tomorrow after our Board meeting and Annual Shareholders Meeting, at which point Tony Staffieri will become Rogers' new Chief Financial Officer.

Bill, Tony, and I have been working together in the background to prepare for this and ensure that this planned transition is completely seamless, and I expect that Tony will hit the ground running and add a lot of value as we go forward.

With that, I will turn it over to Bill one final time for a few remarks on the numbers, and then we will take your questions.

Bill Linton - ***Rogers Communications Inc. - EVP Finance, CFO***

Thanks, Nadir. I will provide a little bit of additional color on the financial results and the metrics for the quarter. On the top line, our consolidated revenue was down 1% for the quarter. As you can see, Wireless network revenue was essentially flat, and we put up continued growth at both Cable Operations and Media.

The offsetting declines at RBS and Video took the top line down modestly year-over-year. As Nadir mentioned, much of what you see at RBS is the intentional culling of lower-margin legacy services, while at Video we are in the process of winding that business down; and these two items somewhat detract from the continued strength in our core business.

The single biggest change year-over-year on the Opex side was the direct result of our success during Q1 in attracting more new smartphone subscribers at Wireless -- 20% more, in fact, than in Q1 of last year. Now, much of this was driven by the 35% increase in the number of iPhone subscriber activations and upgrades in Q1 of this year versus the same quarter last year. This was a function of the timing of Apple's product launch during late 2011 and our being supply-constrained during Q4.

Secondly on the Opex side were the significant number of important investments during the quarter across the business that Nadir spoke to a couple of moments ago. The combined impact of these two areas was the modest decline in adjusted operating profits you see year-over-year for Q1.

But as you can see from our release, we have been able to hold overall margins at very healthy levels, with continued solid cost management. In fact, if you exclude the cost of Wireless equipment sales, year-over-year operating expenses were only up 1% on a consolidated basis, despite the considerable number of incremental investments that we made.

And we have accelerated a number of cost-reduction initiatives aimed at offsetting as much as possible the top-line pressures. As Nadir said, we took some very decisive actions late in Q1, and we will continue to do so as required to protect our margins and cash flow. So that is clearly an executional focus that continues.

At Wireless, 60% of our postpaid subscriber base now has a smartphone; and during Q1 almost 70% of our postpaid gross adds came in on smartphones. So we are continuing to have good success, concentrating in the higher end of the market. And as a result, Wireless data revenue, despite some slowing, was up and now represents 39% of Wireless network revenue.

Turning to Cable operations, the revenue growth rate reflects a few things going on. We've got pricing changes that have been made over the past year, and this is partially offset by the impact of some tactical promotional and retention pricing activities we have needed to respond with, in the face of aggressively priced IPTV offerings. And then you add back the impact of the now-completed circuit-switched telephony business divestiture, which if normalized for, would add almost 90 basis points of growth to Cable Operations.

At Media, the top-line growth of 4% is modestly improved sequentially from last quarter and remains consistent with the slowing we continue to see in the advertising market. Also keep in mind that Rogers Media is on a calendar-year reporting cycle versus a number of our other media companies in Canada who are on the broadcast calendar, and that Q1 is historically the seasonally slowest quarter of the year. While the decline in Media's adjusted operating profit more than anything reflects those Q1 dynamics, combined with a whole number of investments in new programming, stations, and other initiatives, which Nadir spoke to earlier.

Looking on a consolidated basis below the operating profit line, there really weren't a lot of unusual items to talk about in this year's quarter. Adjusted EPS was down year-over-year by $0.08, with a step-up in depreciation and amortization more than offsetting reduced income tax expense.

This increase in D&A is almost all related to the increase in depreciation on assets and reflects a combination of IT systems that became available for use in the second half of last year, the acceleration of depreciation on certain network transmission assets, and the timing of readiness of certain network and system initiatives, including the launch of our LTE network in various cities throughout 2011. So there are no significant one-time items in depreciation and amortization that contributed to the increase.

Below the line there was $64 million of integration and restructuring costs incurred during the quarter. Most are split into two categories, with the first approximately one-third of the costs, representing the closing of a number of video stores earlier in Q1, including the related lease exit costs.

As many of you are aware, for the past couple of years we have been exiting the video rental and sale business in a measured manner that balanced lease exit costs against continued contribution margin. The Video-related restructuring costs in Q1 represent basically the last of the closures associated with the remaining standalone video stores.

In the stores where there were Wireless and Cable sales and service as well as video rental activity, we are in the process now of exiting the Video portion of the activity and liquidating the related inventory. We expect by the end of Q2 of this year we will have completed the exit of that business.

The balance of the integration and restructuring costs incurred during Q1 relate to severance costs associated with organizational changes and cost management initiatives that we implemented.

On the Capex side, the year-over-year increase was about the timing of our spend during the year. At this point we remain on target in the Capex spend range we gave guidance for earlier in the year.

We also are not making any changes at this early point to our adjusted operating profit or pretax free cash flow guidance ranges that we set out earlier in the year. As Nadir mentioned, the pressures on revenue are incrementally greater than we forecast late last year; but we have also accelerated a number of cost management initiatives that we believe at this point can offset the top-line pressure we have seen to date.

From a cash perspective, during the first quarter we generated $413 million of after-tax free cash flow and $485 million on a pretax basis. With this free cash flow, amongst other things, we paid out $187 million in dividends.

We did not buy back any shares during the relatively short one-month window we had after we reported our Q4 results, but fully expect to do so as the year goes on. We generally seek to be opportunistic in our repurchases. And during the last month of the quarter, when we could have been active, the market was extremely volatile so we kept our powder dry.

As Nadir mentioned, we remain on track to close the MLSE investment transaction this summer. From a modeling perspective, we have determined that this 37.5% ownership stake will be recorded as an investment and accounted for under the equity method. So you won't see revenue or adjusted operating profit pickup in our operating results once that transaction closes.

I'll finish by saying that we continue to be in a very strong position financially with an exceptionally solid balance sheet. We have investment-grade ratings and relatively low balance sheet leverage at about 2.3 times debt to EBITDA, with no near-term debt maturities. And we have approximately $1.9 billion of liquidity available under our fully committed bank facility.

So in terms of the balance sheet from the perspectives of leverage, liquidity, and maturity, we continue to be in a very solid position. With that, I will pass it back to Bruce and the operator so we can take any questions you have.

Bruce Mann - ***Rogers Communications Inc. - VP IR***

Thanks, Bill. Operator, we will be ready to take questions from the participants in just a couple of seconds. Quickly before we begin, we will request as we do on each of these calls that those participants asking questions be courteous to everyone else listening in or wanting to ask questions and limit the questions to one topic, so that as many people as possible have a chance to participate. Then to the extent we have time, we will circle back and take the additional questions or we will get them answered for you separately after the call.

So with that, Luke, why don't you please go ahead and explain to everyone how you would like to organize the Q&A polling process, and then we will jump in.

QUESTION AND ANSWER

Operator

(Operator Instructions) Adam Shine, National Bank Financial.

Adam Shine - ***National Bank Financial - Analyst***

Hi, good afternoon. Thanks. What I will do is I will start with IPTV perhaps. Any color in terms of particular areas or types of customers which opted to switch to Bell?

And obviously maybe it's a little bit of a follow-up, did the launch of NextBox 2.0 just after the midpoint in the period help slow any of the losses experienced in TV? Thanks.

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Yes, thanks, Adam. It's Rob Bruce. Adam, with respect to the quarter, starting off with NextBox TV, for us it was one of the highlights of the quarter. I think what it did is it gave us a platform to reassert our video leadership in the marketplace, and we leveraged it to do that.

We saw it as quite successful with high take rates above our plan. But as you pointed out, only midway through the quarter and with particular appeal to the higher-value and bundled subscribers that we treasure most.

Where we actually saw the losses in subscribers again were more at the bottom end of the market, with bundled offers that were extremely cheap. What we would call unsustainable, aggressive bundled offers with price points down in the mid-70s, $70 range for a triple-play for the first six months. So those were the places where they -- the plans were most prominent.

Just in terms of coming back and talking about our overall plans from a video leadership perspective, as you know we have been video leaders in this market for a very long time and NextBox represents one of the three thrusts that we have to continue to be dominant in that video category. That was to bring home our investment in delivering whole-home PVR, remote PVR; the new guide to better UI and search; and to enable that streaming experience to the tablet, which is becoming ever more important for customers in the home. And that was all delivered in the NextBox.

The second key plank of our platform to continue to grow our data -- rather our video leadership was to extend the Video offerings to new platforms. We continue to grow our success of Rogers Anyplace TV which we formerly called Rogers OnDemand Online, and continue to grow our leadership of our VOD offering.

And lastly, and it will be reflected in some of the capital numbers that you see, we continued to make investment towards our IP-based video platform that we have referred to as Wave 3. That continues on track; and that we believe in the longer term will put us in an even stronger leadership position in the Video category. Thanks for your question, Adam.

Adam Shine - ***National Bank Financial - Analyst***

Bruce, if I can just follow-up just very quickly, just in regards to any improvement towards the end of the quarter and/or into early Q2 just as it relates to retention of TV subscribers, let alone growth?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Yes, to be honest with you, in the very back part of the quarter, we started to notice some swing back from a churn perspective. But honestly, Adam, three or four weeks in my mind don't really make a trend.

Adam Shine - ***National Bank Financial - Analyst***

I'll leave it there. Thank you.

Operator

Phillip Huang, UBS.

Phillip Huang - ***UBS - Analyst***

Hi, good afternoon, guys. Thanks for taking my question. A quick question on the Wireless margins. We saw AT&T report better wireless margin today, partly due to slower handset upgrades; and they sounded very bullish on margins going forward given I guess recent initiatives essentially putting in more stringent handset upgrade policy.

Sounds like these initiatives are quite similar to what you guys, in fact what all three incumbents in Canada have done recently. Do you see the same potential for your Wireless margins to improve in the foreseeable future? Or do you see the competition competing it away?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Yes, Phillip, it's Rob again. I think we have said over a long period of time that we think realistically the mid-40s is kind of the zone that we expect, that if you are in the zone you are in probably the right and realistic zone for Wireless margins in the long run. We will continue to do things to propel ourselves in terms of margin into the kind of place -- into that zone where we think it's appropriate, but at the same time also working to ensure that we get our share of subscribers and the growth in the marketplace.

Nadir Mohamed - ***Rogers Communications Inc. - President, CEO***

Phillip, it's Nadir. Maybe just to add it, to your point, looking at AT&T and looking at ourselves, it's important to note Q4 margins were above 41%, going by memory; and obviously this quarter we're at 46%.

The thing that I wanted to highlight, going to your question about smartphones and iPhones, is that 46% that we have delivered in the quarter includes the impact of a significant uptake of iPhones and smartphones. Generally smartphones were up 20% year-over-year, iPhones up 35%.

So that cost, the subsidy, is embedded in the structure that we had to deal with this quarter. Some of it obviously was the carryover from the shortage we had on iPhones in Q4. But it speaks, I believe, to the strength of our franchise and our cost structure that we can deliver 46% margins even with those factors.

Phillip Huang - ***UBS - Analyst***

Got it. So with the spillover demand for the iPhone over, I mean you made a comment earlier about greater than expected pressure on EBITDA. Is it just on the Cable side, or is it both on the Wireless and the Cable side?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

I think we have seen it both, on both sides. So if you look at the top-line pressures that we have already spoken to, whether it is on the IPTV side and then on Wireless, we just talked about the cost of equipment, subsidies and so on. So I think the pressures are on both. But what is important for me is even with that pressure we are hitting 46% margin both in Cable and Wireless.

I think it is really important for me to really look at the -- I will call it subscriber side in the quarter, because what we are starting to see is some real good success on metrics that we care a lot about -- the net additions on postpaid but also the churn number. As you recall we talked about it in the last conference call, Q4 churn was higher than what we liked and we worked hard.

What is was really impressive, I think, is how quickly the churn has come down to 1.26%. And when I looked at it, and I went back a few quarters, actually I think it has been eight quarters before you would find the kind of performance we have had, where -- the 3 basis point change.

As you know, throughout the year last year it was more like a 14, 15 basis point delta. So we are feeling it across both sides in terms of top-line pressure, but we are quite encouraged by the progress we are making on the underlying business.

Operator

Bob Bek, CIBC.

Bob Bek - ***CIBC World Markets - Analyst***

Just a question on ARPU, I guess, data ARPU in particular. So we are seeing the same trends from Q4 as far as some of the roaming changes and some of the pricing plans. I would take it that this is going to take a few quarters to work through for this; and so we are going to see some headwinds on the data side.

But how do we reconcile with the smartphone growth? You have had massive smartphone growth. At what point does that start to really take over some of the pressures we are seeing on some of the pricing? Or does it really require some smartphone usage that grows materially?

And just while I am on, since Tony is on the call, is it possible that he could perhaps offer up any comments, any initial thoughts, observations, on priorities? Since I guess he is in the chair; as Nadir said he is hitting the ground running. So if appropriate, I just thought I would throw that out.

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Yes, let me start off and then maybe I will hand it over to -- for Tony and Nadir for further comment. So there is no question -- and Nadir highlighted -- we are obviously excited about our success on smartphones. I think the one thing that is important to say is the smartphone market, as we penetrate 60% of our base, and the market in general starting to be penetrated with smartphones, the kind of customers that are going to be getting on smartphones more and more are not going to be customers that are willing to spend north of $100 to get on smartphones.

So it's incumbent upon all of us as we figure out how to intelligently penetrate this market, to figure out how to put offerings in front of a customer that will bring on those smartphone customers that have slightly lower ARPU, and find devices and combinations of plans that will actually let us get at that revenue. Because in the long run people really want smartphones.

So let me tell you a few things about what we saw in data this quarter, beyond the fact that we are excited because our data revenue is at 39% now, and we continue to have good momentum on smartphones. Sequentially you're right; we did see a slowdown in data of about $10 million, taking us from the 19% growth we talked about in Q4 to about 16% growth. Last quarter when I talked about it, I talked about three factors being instrumental, so let me go back to those three factors.

Firstly we talked about data roaming. Data roaming this quarter is flat to Q4. We have made some adjustments, but fairly recently, to try to tweak some of those things on data roaming, try to improve the experience with customers, and try to ratchet back some of that data roaming revenue.

Those efforts have recently gone into market; we have few more tweaks to make. And my guess is you're exactly right; it will probably take multiple quarters to get all the way to back.

The second one was SMS and MMS. I am pleased to report that this quarter we have ratcheted back about $5 million in terms of performance on that line. So that is going in the right direction.

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The part of the formula that still needs some tweaking to get it right and some fine-tuning is the data plan and the data attach that goes with those plans. We are seeing lower data attach and lower data revenues on some of those plans than we like.

So balancing that smartphone data penetration and data revenue in totality is one of our key executional focuses going forward. I think if we can figure out how to fine-tune it, and win the customers, and get our fair share of data at the same time, we will be well ahead of the pack on this one.

So look for more on coming calls, Bob. And maybe with that, I will turn it over to Tony.

Tony Staffieri - ***Rogers Communications Inc. - CFO-Elect***

Thanks, Rob. Thanks for the question, Bob. Look forward to meeting you and working with you, and the same as well for those of you on the call that I haven't had a chance to meet in the past.

Let me say at the outset that I'm extremely glad to be part of Nadir's management team and to be a part of the Rogers organization. I think the Company has a terrific asset mix, and with a very entrepreneurial growth-focused culture with -- together really highlight the opportunities here.

In answering your question, let me keep it simple. I intend to stay focused on activities that drive sustainable shareholder value. And as you know, in this business that will revolve around a few key fundamentals.

Firstly, it is the ongoing monetization of our assets. Specifically, it is driving penetration and ARPU.

The second is the continual shaping of our cost structure to ensure we continue to deliver strong margins, and meet the financial commitments we make in terms of guidance, and deliver the returns we are looking for on the investments that we choose to make.

And then finally, a continual focus on maintaining the strength of our balance sheet and ensuring that we have an optimal cost of capital. As I continue into the role, clearly more priorities are going to evolve; but you can expect that these fundamentals are going to be at the core of my focus. Thanks for the question, Bob.

Bob Bek - ***CIBC World Markets - Analyst***

Yes, thank you.

Operator

Greg MacDonald, Macquarie Capital.

Greg MacDonald - ***Macquarie Research - Analyst***

Thanks. Let me ask another one of Tony actually. A decent free cash flow number in the quarter. I noticed there were no shares purchased.

Any particular reason for that? Can I still assume that it is the Company's intention to fully execute on the buyback plan?

Bill Linton - ***Rogers Communications Inc. - EVP Finance, CFO***

Greg, it's Bill. I haven't gone yet.

Greg MacDonald - ***Macquarie Research - Analyst***

You'll never fully go away, Bill.

Bill Linton - ***Rogers Communications Inc. - EVP Finance, CFO***

Listen, we only had a month between that wasn't blacked out, and we didn't buy any in the same quarter last year because it is a very short period of time. We are opportunistic about this; but we are serious about our NCIB that we filed this year, and you will probably see buybacks in the future.

Greg MacDonald - ***Macquarie Research - Analyst***

Okay, and just to make sure I am correct, you are now past the blackout period as of tomorrow?

Bill Linton - ***Rogers Communications Inc. - EVP Finance, CFO***

That's correct.

Greg MacDonald - ***Macquarie Research - Analyst***

Great. Thanks, guys.

Operator

Vince Valentini, TD Securities.

Vince Valentini - ***TD Securities - Analyst***

Yes, thanks very much. A question on the iPhone. Given how impactful it seems to be from quarter-to-quarter, depending on how many you sell, I am wondering -- in your guidance for the year have you explicitly factored in the launch of yet another iPhone? Because you are obviously starting off at a bit of a hole at minus 6% on EBITDA versus zero to 4% guidance.

If there is an iPhone 5 launch and it is widely adopted by consumers in Q3 or Q4 or sometime this year, does that put your guidance at jeopardy, in your view?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Yes, Vince, it's Rob Bruce. Yes, we have taken it into consideration; and yes, we remain committed to our guidance.

Nadir Mohamed - ***Rogers Communications Inc. - President, CEO***

Yes, Vince, let me just pick up on that because I think it is really important. Clearly you have already heard me and others talk to the softer top-line growth that we saw in Q1. Frankly, as we look over the, call it the near term, I think it is prudent and we have taken a prudent approach to assume that we will have continued pressure on the top line.

What we have done is taken some very decisive action. To me there is no question that we need to reduce our costs. You saw the restructuring charge in Q1.

But importantly, we will continue to drive out cost reductions to protect our margins and deliver cash flow. We are well aware of what our commitments are. So you can rest assured we will be very focused on the cost side of the equation in the face of what we see, continued pressure.

We think it is prudent to assume that. And, obviously, we have got other measures in terms of restoring the growth on the top line, but we are very focused on managing our cost structure.

Vince Valentini - ***TD Securities - Analyst***

Okay, thanks.

Operator

Jeff Fan, Scotia Capital.

Jeff Fan - ***Scotia Capital - Analyst***

Thanks very much and good afternoon, and let me congratulate Bill on his retirement. My question is on the spectrum auction, regarding the 700 megahertz. I was wondering, since this is the first call since those new rules came out, wondering if you can comment on how you see the rules?

And specifically with respect to the cap of 10 megahertz on 700, how do you see the roadmap with 4G LTE come along with your spectrum position on 700 plus, I guess, the AWS?

Ken Engelhart - ***Rogers Communications Inc. - SVP Regulatory Affairs***

Jeff, it's Ken. Obviously we are disappointed with the spectrum decision. We don't think it was the right decision. We advocated strongly for a wide-open auction, and we think that would have been best for the Canadian wireless market. You know that we think that a cap is problematic because Bell and Telus build their networks together. So a cap we think affects us more than it affects them.

As to our future plans, I really can't talk about it. But you know, we will figure out a way to make sure we have an industry-leading LTE offering. But we are still working on it.

Nadir Mohamed - ***Rogers Communications Inc. - President, CEO***

And, Jeff, maybe I will build on Ken, because obviously you know our stated view on both -- on the spectrum, which was to make sure that it was an open and fair auction, unrestricted.

Also on the foreign ownership file, or that side of the policy direction, our view was that if there was going to be a change it should be applied to all parties. And that is not what happened.

But I think what is useful to glean out of these decisions, maybe on a macro level, is something that I believe that the minister alluded to as well. Which is what you are really seeing is a policy that essentially could serve as the catalyst for consolidation. The minister I believe made reference to the fact that you could see a world where four or so players would be in the market; and as you know currently we have way more than four players in any given area.

And I think this could become a catalyst for consolidation. In my view, I have always felt this is a scale-driven business. It is very hard to see, with the population we have and the scale we have, and frankly very good, well-built-out wireless network service providers, to see how we can see going beyond the three level and going beyond the four.

So we will see what happens, but I think the decision is an important one in terms of how this plays out.

The one other thing that perhaps has not been discussed as much as I think it will be over time -- and that that included in many of the rules that surround the big picture is a reference to carriers opening up their networks for roaming. As you know in the past that has been very much a new-entrant issue. It is now open to all carriers to be able to roam on any other carrier.

I think when you think of distant rural markets in particular, but it could be more than that, there is the opportunity to leverage roaming relationships to avoid some Capex and deliver service more effectively, more efficiently.

So I think there are things that will become important over time. We are sensitive, aware of the issue around caps. And I think it would be premature, given the rules aren't out with respect to a full set of entities. But you can rest assured we have our plans.

Jeff Fan - ***Scotia Capital - Analyst***

Great, thanks.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - ***Morgan Stanley - Analyst***

Thank you very much. Good afternoon. On the Wireless data ARPU, can you talk a little bit about what is going on with data usage as we get more powerful devices, as you start to roll out LTE? It seems like people are choosing lower tiers. But you are starting to see for people who had devices who trade up to the 4S that their usage is getting higher, and ultimately that will drive people to move up the tiers and buy bigger data buckets or else generate overage revenue. What are you seeing there? Thanks.

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Simon, it's Rob. Listen, we have over time seen a gradual creep up on smartphones in the range of getting to be sort of 0.5 gig kind of usages. But not very significant. Frankly, tablets have been relatively stationary at levels not much higher than that as yet.

Sticks again higher, but not anywhere close to the very low end of what we see on landline Internet. And at the high end of the usage continuum on Wireless. We would see hubs.

But again, across-the-board, Simon, no big moves yet in terms of significant increases of consumption of data. But I think LTE could be the critical catalyst to start driving those usage levels up, again favorably impacting our revenues going forward.

Simon Flannery - ***Morgan Stanley - Analyst***

Thank you.

Operator

Glen Campbell, Merrill Lynch.

Glen Campbell - ***BofA Merrill Lynch - Analyst***

Yes, thanks very much. My question is on prepaid. Churn was up but your gross adds were down; and it seems that there is very much a postpaid focus in the quarter. But could you talk a little bit about the components of the change in demand in prepaid? Where there are changes in what was going on with chatr or with tablets?

And maybe just then to follow up, with the launch of the LTE iPad are you seeing an inflection point in terms of the proportion of iPad buyers who are now connecting to the network? Thanks.

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Yes, thanks, Glen. So some words about prepaid. I mean needless to say, and then I think it is evident in everyone's numbers, the traditional prepaid offering of five years ago has lost a lot of its shine with customers. The competitive low-end postpaid plans have driven, I think, prepaid churn across all carriers as they have managed to hit a sweet spot. And prepayment too has also siphoned off those customers.

So for us, our base is composed as you identified of really three critical pieces. The traditional prepaid, which is declining relatively rapidly. A very successful chatr franchise, which seems highly relevant to customers and is highly successful and we believe is bringing on new users to the category and people that aren't nearly as committed to their cellular offering. And lastly, prepaid in terms of an activation mechanism for iPad and other tablets.

So key things to take away is traditional prepaid in significant decline; chatr very, very successful, vastly achieving; and most of our activations these days are on postpaid on tablets. A very, very small percentage, less than 5% of the tablets being activated on prepaid.

Part of the reason our numbers aren't as large as you would expect is that traditionally as you know the Q1 quarter is a quarter of relatively high churn because of the six-month deactivation policy. So lots of take-up in the summertime and through the back-to-school period typically results in churn at this time of the quarter.

At the same time, as the chatr base has grown bigger and become more mature, that base is starting to rise to a normative level of churn, just like other prepaid offerings. So all of these things are factors that really shape the numbers.

We are very postpaid focused. We are very focused on high-value customers and smartphones. And I think it is important then we remind ourself regularly that prepaid revenue is only 5% of our total network revenue, and that we have to measure the amount of energy that we put into it, and stay focused on what is our core strategy, which is the higher-value customers.

Glen Campbell - ***BofA Merrill Lynch - Analyst***

And any uptake on LTE tablets?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

We have some, but it is fairly limited at this point.

Glen Campbell - ***BofA Merrill Lynch - Analyst***

Okay. Thanks very much.

Operator

Dvai Ghose, Canaccord Genuity.

Dvai Ghose - ***Canaccord Genuity - Analyst***

Yes, thanks very much. I just want to go back to the basic cable number. It was obviously surprising that you lost 21,000 in the quarter. It is not in isolation. You have seen accelerating losses at Cogeco, Shaw for some time.

But the fundamental issue seems to be your legacy cable boxes do not have the functionality of the media room boxes which the telcos are rolling out. Now I think your next-gen Cisco boxes are a much more viable and competitive product; but you are charging customers for the upgrade, whereas the telcos are generally subsidizing aggressively.

Do you have to revert to a subsidy model in order to maintain Cable's share? And what does that mean for financials going forward?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

So, Dvai, we are working away and I think as we have said on past calls, one, before we launched NextBox 2.0 we had distributed in the marketplace almost 350,000 boxes that were compatible and enabled to be able to work with NextBox 2.0. Currently we are letting customers opt in to the 2.0 service, and we continue to be active in that regard.

In terms of going forward, back into the legacy base, we're trying to make boxes available at attractive prices for our subscribers from a rental perspective. And we will continue to try to make the NextBox 2.0 offering available to our customers that are interested in it, while at the same time being as responsible as we can in terms of subsidizing boxes and offers in the process.

Dvai Ghose - ***Canaccord Genuity - Analyst***

Okay. Can I ask you a quick follow-up? Is there any point in still selling the legacy boxes, as I believe you still are, which seem to be rather antiquated?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Yes, frankly, Dvai, there are still a lot of people out there that are looking for a fairly basic television offering. I think to be able to provide that for them at a low cost of activation both to us and the customer, it continues to be a relevant part of the products as far as I am concerned.

Operator

Ric Prentiss, Raymond James.

Ric Prentiss - ***Raymond James - Analyst***

Thanks. Good afternoon. A couple of extra questions on the smartphone side. With smartphones up 20% year-over-year, do you expect that you're going to sell more smartphones in 2012 than '11?

And, Rob, you mentioned maybe trying to -- the new users come on they are a little bit lower ARPU, positioning the right device and plan. Can you talk a little bit about what you see the line-up being from the different handset manufacturers?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Okay. Listen, you know, it is hard to have a crystal ball. We are driving to try to have the most smartphone customers that we can, and obviously looking to get the ones at the highest ARPU.

Shifting from that, Ric, to what the handset lineups are, I think I can comment in relatively informed fashion. I spent some significant time in Barcelona. I went through the handset lineups with almost all the major manufacturers.

And I would tell you there has never been a better lineup of great smartphones that cover the range from the low end and very accessible, with relatively low subsidies, to sports models that will be waterproof and everything else. So the universe of smartphones ahead of us makes me feel even more confident that our success in smartphones -- and for that matter, the success of smartphones in general terms, of penetrating the market -- is probably going to be stronger in 2012 than it ever has been before. So, maybe I will just leave you with that unless you have any follow-up questions.

Ric Prentiss - ***Raymond James - Analyst***

Just also maybe on the VoLTE lineup too, as far as when you think you might see that and how important is it to get the voice onto the LTE device?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Yes, maybe I will let Bob follow up a little bit on VoLTE. Our belief and the things that we have heard from people from a roadmap perspective makes us think that it's going to start to appear in devices in the latter part of 2012. And maybe with that Bob, I will turn it over to you for a few more comments on VoLTE.

Bob Berner - ***Rogers Communications Inc. - EVP Network, CTO***

Yes, I think what we are seeing in the US among the LTE carriers is that we will see some market trials of VoLTE service, voice on LTE, in the latter part of 2012 with commercial availability starting Q1 of 2013.

So there is a lot of work being done in the industry, and we are seeing capabilities in that time frame promised by manufacturers across the value chain. So I think you can expect to see something similar in Canada.

Ric Prentiss - ***Raymond James - Analyst***

Great. Thanks, guys.

Operator

Ladies and gentlemen, we have time for two final questions today. Tim Casey, BMO.

Tim Casey - ***BMO Capital Markets - Analyst***

Thanks. Could you talk a little bit about smartphone economics? I acknowledge it is not just a Rogers problem, but with subsidies for iPhones remaining high, and by your own admission you are penetrating a lower ARPU segment of the market, and the turnover rate of handsets doesn't seem to be getting any longer, are you still comparable with this economic model, this high subsidy and declining ARPU basis?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Thanks, Tim, it's Rob. Listen, our smartphone customers continue to deliver robust ARPUs, $80, in that range, 1.8 times non-smartphone customers. And they have much, much lower churn; and I think it is really important to remember how much lower that churn is.

So therefore -- and the reason that we are attracted to them is the higher life-time value. The great thing about that churn is not only is it very low, but it's also very, very stable. So there has not been a change of any significance when you look at the longer term in the churn yet.

ARPU is, as you identify, it is declining slightly over time as we would frankly expect as we get 60-plus-% penetration. And we fully expect as you do that this will continue.

So the key is we have got to continue to work on driving hardware costs down, driving channel costs down, and taking a real hard look at other support costs like upgrade rates and the cycle with which we move customers up that upgrade cycle so that we can continue to take more costs out and make it even more economical to be able to deliver the smartphone experience for all of the customers going forward.

So we've got a very sharp eye on that and a very sharp eye on protecting the long-term life-time value of our smartphone business. And we are going to continue to be very focused on that.

Nadir Mohamed - ***Rogers Communications Inc. - President, CEO***

Tim, its Nadir. I will just build on what Rob said. I think to your question, the structure of how one views smartphones, you will see more and more segmentation of the market. As we get deeper in the penetration, you will start to see at the simplest level a bifurcation.

Some of the issues that we have talked about really at the -- I'll call it the low end of the market, when you look at new customers coming onboard versus existing customers we have had for some time that are high ARPU customers. So how we upgrade and what kind of subsidy devices do we offer to what kind of customer will become more of the approach the market.

Whereas I think to be fair, in the early days of smartphones we were getting customers with much higher ARPUs than today. So the level of subsidy you could warrant in that case is different from what we will be going forward. And I think that will play out in the market.

The good news is we are seeing a broader range of smartphones with different subsidies associated with them. So you start matching them up a lot more as we go forward.

Tim Casey - ***BMO Capital Markets - Analyst***

Thank you.

Operator

Colin Moore, Credit Suisse.

Colin Moore - ***Credit Suisse - Analyst***

Great. Thanks for fitting me in. My final question is just going back to Cable. You touched on a number of drivers you are going to look at to combat against IPTV. I was wondering to what extent the priority is perhaps rolling out increased packaging flexibility.

And maybe in answering that question, to the extent you can do -- I know it is competitively sensitive -- perhaps just touch on some of the high-level results you saw in your London market trial?

Rob Bruce - ***Rogers Communications Inc. - President Communications***

Yes, thank you, Colin. I appreciate the question. In the long run we see a world where it is a world that is more consumer driven and not nearly as driven by regulatory or broadcasters or other things. It was in that spirit that we undertook the trial that we did in London, to try to see whether we could re-engage some of the customers that have unique needs and are not as well served by what I call more conventional cable television type offerings.

I guess what I would say right now is it is still early days. We extended the trial after three months. I would say the results were modest.

We had some enthusiasm for some of our lower-end packages. But we felt that it was too early to draw conclusions.

But at the end of the day, much as it sounds like you do, we are committed to try to make and deliver products that work for all our customers and all the people who potentially want to be customers, and we're going to continue on that path. Maybe on a future call we can talk more about the final outcomes and learnings on the London trial.

Colin Moore - ***Credit Suisse - Analyst***

Sure. Thank you.

Operator

Ladies and gentlemen, this does conclude the question-and-answer session. I'll now turn the conference back to Bruce Mann.

Bruce Mann - ***Rogers Communications Inc. - VP IR***

All right, well thank you very much, Luke, and we appreciate everybody joining us this afternoon. We appreciate your interest and your support. If you have questions that weren't answered on the call, please give myself or my colleague, Dan Coombes, a call this evening or in the morning. Our contact info is on today's earnings release, and we would be happy to provide whatever color or clarification you might require.

Thank you again. This concludes today's teleconference.

Operator

Ladies and gentlemen, this does conclude the conference call for today. Thank you for your participation and you may now disconnect your lines.