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RCI.B.TO - Q1 2013 Rogers Communications Inc. Earnings Conference Call

EVENT DATE/TIME: APRIL 22, 2013 / 4:30PM EST

OVERVIEW:

Co. reported 1Q13 consolidated revenue growth of 2.9%.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Rogers Communications first quarter 2013 results analyst conference call. At this time all participants are in a listen-only mode. Following the presentation there will be a question and answer session. (Operator Instructions).

I would like to remind everyone that this conference is being recorded today, April 22, 2013. And I would now like to turn the conference over to Bruce Mann with the Rogers Communications management team. Please go ahead.

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

Good afternoon everybody. Thanks for joining us for Rogers' first quarter 2013 investment community teleconference. It is Bruce Mann here. Joining me on the line in Toronto are Rogers' President and CEO Nadir Mohamed; our Chief Financial Officer Tony Staffieri; Rob Bruce, who is the President of our Communications Division; and Keith Pelley, who is the President of our Media Division. Also, joining us today Bob Berner, our Chief Technology Officer, and then Ken Engelhart, who runs our regulatory team, is joining us on the line as well.

We released our first quarter results right at the market close this afternoon. The purpose of the call is to crisply provide you with a bit of additional background right up front, and then we are going to answer as many of the questions as time permits.

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As today's remarks and then the discussion which ensues will undoubtedly touch on estimates and other forward-looking information, from which our results could be different, you should review the cautionary language in the release and in our 2012 Annual Report, including the various factors and assumptions and risks that could cause things to differ. Because all of those apply equally to the dialogue on the call, if you don't have copies of today's release and/or our Annual Report, they are both available on the investor relations section of Rogers.com or on the EDGAR or SEDAR securities website.

So with that, I will turn it over to our CEO Nadir Mohamed, and then Tony Staffieri, our CFO, for some brief introductory remarks. And then the management team will dive into taking your questions. So over to you, Nadir.

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

Thanks, Bruce, and welcome everyone and thank you for joining us. As you can see from today's earnings release we delivered another balanced set of financial and subscriber results. We had a strong start to 2013 in terms of both revenue and adjusted operating profit. And, importantly, a number of other positive operating trends in ARPU, churn and margin profiles which we achieved during 2012 are clearly carrying into 2013.

The balanced growth in Q1 across subscribers, revenue, margin and earnings clearly reflects our innovative product offerings and the strength of our asset mix, which positions us uniquely as Canada's largest wireless provider, complemented by healthy broadband, video and media businesses. In particular, our topline growth for both wireless network and cable revenues further accelerated for the fourth straight quarter. At the same time, consolidated margins, adjusted operating profit, earnings per share and free cash flow are all up versus Q1 of last year.

On the subscriber front, our focus continues to be on driving data, smartphone activations for wireless and Internet growth for cable. And we have been successful executing this strategy in Q1.

Now it is important to note that in terms of the quality of the net subscribers we added this quarter, they were almost exclusively on higher value voice plus data smartphone plans, whereas in Q1 of last year there were a large number of data-only postpaid adds on data sticks and tablets, which as you know have a lower ARPU profile than the average smartphone subscriber.

Having said that, whereas our churn rate for postpaid subscribers improved year-over-year again this quarter, we're highly focused on reducing this further. I see this as frankly our best opportunity to drive a more balanced share of net additions.

Importantly, we delivered postpaid ARPU growth for the second quarter in a row. This was driven by both the continued acceleration in wireless data revenue growth and the continued slowing of the erosion of voice ARPU.

For the third straight quarter, we were successful in accelerating the growth rate for wireless data revenue, which this quarter was up 22% over Q1 of last year, which albeit was a somewhat easier comp this quarter given the challenges we had during the first half of 2012 on the wireless data roaming front.

The wireless data growth reflects strong growth across all of the data categories. In addition to data roaming, we are seeing continued success in data upsell and the cumulative effect of our growing subscriber base, deeper penetration of smartphones, and the increased usage of wireless data all contributed to this growth.

Importantly, the growth rate reflects the very strong results we continue to drive in the smartphone category, a key component of our wireless data strategy. In the quarter we activated 673,000 smartphones, 5% more than Q1 last year, which, as you may recall, was a relatively heavy iPhone refresh quarter for us. The demand continues to be significant, with some of the demand being stimulated by relatively intense device pricing that we saw during the quarter.

Overall, our postpaid smartphone penetration is now at 71%, and I believe this puts Rogers at the highest in Canada and at the top in North America as well.

Our smartphone metrics -- ARPU, churn and upgrade rates -- remain intact and remain healthy given the competitive backdrop. And we are continuing to attract and retain our highest lifetime value customers, which is squarely on strategy and the most significant driver of our topline.

On the cost side, we continue to drive very meaningful efficiencies, not just at wireless, but across the business. At wireless this helped us to hold adjusted operating profit margins relatively steady year-over-year while absorbing the cost of upgrading 8% more smartphone customers, and at a higher average subsidy amount than during the first quarter of last year.

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In the Cable segment of the business, we again delivered not only solid, but increased topline and operating profit growth along with increased margins. In terms of net subscriber activity, our strong cable high speed Internet product numbers were supported by the wholesale and small-business market, while we also continued to deepen penetration of our cable telephony products.

The television products reflect the impact again this quarter of the challenging competitive environment led by continued aggressive pricing activity by our primary telco competitor. We continue to intensely evaluate subscriber loads, pricing and margins on a day-to-day basis in the face of these extremely deep discounts as we work through this period.

You can see the net effect of the current competitive environment -- in the basic cable subscriber nets, as well as the impact of retention and promotional offers that we have needed to utilize and the dampened rate of growth on the TV revenue line. Having said that, you also see the continued growth on the Internet and cable telephony revenue line, which frankly more than offset the pressure on TV revenues and enable us to continue to grow the topline in this segment of the business.

Our focus on driving Internet and phone can be seen in the strong topline growth that we experienced in Q1. And as you saw at Wireless, we also benefited from ongoing solid cost management in our Cable Operations segment, where we recorded margins which are up both year-over-year and sequentially.

At the Rogers Business Solutions division or RBS, we again successfully focused on driving the on-net and next gen portions of the business where we put up a healthy double-digit revenue increase. We also hit a bit of a milestone at RBS where we crossed over to a point where the on-net and next gen portions of the business are now larger than the legacy portions. This bodes well for topline growth as well as margins at RBS as we go forward.

You can see the effect of this shift to on-net in the improved operating margins at RBS.

Turning now to Rogers Media, there are a couple of items of note in Q1. First, while the advertising market continues to be soft, reflecting ad dollars shifting to digital platforms, as well as the global macroeconomic challenges, there were also some residual effect of the NHL lockout which was settled in January. This resulted in fewer games being played in Q1, which impacted both the revenue and expense lines at Media.

And it is important to point out that excluding this effect and a one-time item last year, Media's revenues would have been essentially flat year-over-year versus the 3.7% decline that we reported.

We have been building on our sports platform in Media, anchored by our highly successful Sportsnet brand. We are currently expecting to receive final regulatory approvals allowing Rogers to take full control of our Q4 acquisition of theScore Television Network. As you recall, theScore is a national specialty TV service that provides sports news, information, highlights and live event programming across Canada. It is the country's third-largest specialty sports channel with 6.6 million subscribers. Pending final approvals, theScore is currently being operated in a separate trust.

Also, on the sports side, Sportsnet reached a 10-year broadcast rights extension with the Vancouver Canucks, which is in addition to our broadcast agreements with the Calgary Flames, Edmonton Oilers, Ottawa Senators, and the Toronto Maple Leafs. We are squarely on strategy to really build up the strength of this valuable brand and franchise.

To sum up, on a consolidated basis it was a quarter accelerated growth on both the top and bottom line with continued improvement in a number of key operating metrics, expansion of our margins and strong double-digit growth in earnings per share.

While I expect it will continue to be a highly competitive market and I recognize that the comps will get somewhat more challenging as we lap the first half of 2012, I have no doubt whatsoever that the strength of our franchise and our superior asset mix will remain a great platform for continued success.

So a good start to the year, and we are well-positioned both operationally and financially to deliver on our game plan. With that I will turn it over to Tony for some remarks on the numbers, and then we will take your questions.

Tony Staffieri - *Rogers Communications Inc. - EVP and CFO*

Thank you, Nadir, and good afternoon everyone. I will provide a little bit of additional context around the financial results and metrics for the quarter, and then we can get into the specific questions you may have.

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On the topline our consolidated revenue was up 2.9% for the quarter, driven by revenue growth of 4.4% at both Wireless Network and Cable. Media's revenue on a reported basis was down 3.7%. But adjusting for residual impacts related to the NHL lockout and a one-time pickup and the prior year, Media's revenue would have been generally flat with Q1 of 2012, to Nadir's point earlier.

Rogers Business Solutions also grew revenue this quarter by 6.9%, with IP next generation and on-net revenue now representing 56% of the total base. In this quarter we also continue to improve the trajectory of consolidated adjusted operating profit, which grew at 7.8% compared to 6.8% in Q4 and negative 5.9% in Q1 of last year.

And we expanded consolidated margins for the quarter by 170 basis points from 37.2% last year to 38.9% this quarter. So, good continued progress in the trajectory of growth on both the topline and adjusted operating profit lines.

In our Wireless business, postpaid revenue growth of 5% and postpaid ARPU growth of 2% was driven largely by continued growth in wireless data, which now accounts for 45% of our network revenues. Data revenue growth was up 22%, representing the third straight quarter of accelerated growth, with smartphone activations up 5% year-on-year as well.

During the first quarter about 70% of our Wireless gross adds came in on smartphones, and as a result, 71% of our postpaid customer base is now on one. So we are continuing to have success concentrated in the higher end of the market.

Notably, retention spending was up 18% in the first quarter on both the volume of heavy smartphone activations and more so by the rate of per-device subsidy, which was up year-over-year driven by a more competitive device pricing environment.

Adjusted operating profit in Wireless was up 4% despite higher levels of smartphone upgrades in the quarter of this year versus the first quarter of 2012, enabled by continued execution of cost management and efficiency gain initiatives.

Solid execution, in terms of operating efficiencies at Cable as well, were even with a faster rate of revenue growth and increased level of subscriber additions than Q1 last year. Margins were up to 49.8% and adjusted operating profit grew at 13%.

Adjusting for a one-time benefit of CRTC license fees payable, Cable margins would have been 48.9% and adjusted operating profit growth would have been 11%. Still, obviously very respectable results.

Revenue growth in this segment was fueled by Internet, growing at 15% year-on-year, together with home phone growth at 6%, both of which more than offset the TV revenue softness reflective of the ongoing competitive challenge in that segment, which Nadir spoke to a couple of moments ago.

At our Rogers Business Solutions segment, the shift to and growth of on-net next-generation revenues continues to drive improvements in the financial profile of this business. A combination of the improving revenue mix together with cost management delivered a strong 28% growth in adjusted operating profit, and a 400 basis point increase in margins versus Q1 of last year.

In terms of the results at Media, overall good cost containment with total Opex down to $20 million or 5%, which helped improve the operating loss year-on-year in what is seasonally always the softest quarter of the year, principally as a result of the timing of the baseball season and the level of preseason expenses.

As Nadir mentioned, we are seeing continued softness in the advertising markets across most of the divisions at Media, but we are also seeing continued strength in subscription revenues, particularly at Sportsnet. As mentioned, Media's results in the quarter were impacted by the revised post-lockout NHL schedule, which reduced revenues, but also reduced cost as a result of fewer game programming costs, the combination of which had no impact to operating profit for Media in the quarter.

Stepping back, I would say overall a combination of continued growth and healthy margins across the Company. We have continued to make healthy levels of investments in both customers and networks, and have been able to do so while preserving both margins and cash flow as a result of the success of the simplification and cost efficiency initiatives we are executing on, as a core focus in terms of continuous cost productivity improvements.

And you see this productivity improvement in our financials. Put aside the equipment costs associated with the significant smartphone volumes this quarter, our consolidated operating costs actually declined by 2% in the quarter from a year earlier. While a small portion of this can be attributed to the CRTC license fees payable adjustment, it is overwhelmingly a reflection of focused execution and disciplined cost management.

When I look across the operating results overall, I see good performances in terms of both gross sales and retention, with continued stabilization of key metrics and solid success in terms of monetization of the strong data services growth, both at wireless and at cable. And that continued momentum has clearly been the key driver behind the solid financial results this quarter.

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Looking on a consolidated basis below the operating profit line, you will see that our adjusted net income grew by 15% year-on-year, reflecting our growth in adjusted operating profit offset by an increase in our tax expense. Our effective income tax rate in Q1 was 330 basis points higher than Q1 of last year. Of the $31 million increase in tax expense, $17 million results from the $60 million increase in net income before taxes, with most of the balance associated with our stock-based compensation that is only partially deductible for tax purposes.

You will see in our income statement that first quarter stock-based compensation expense increased to $58 million. And this is primarily the result of recording our stock-based compensation liability to the market price of RCI shares which have appreciated in the quarter. Towards the end of the quarter we put in place a hedging program that will significantly reduce, going forward, the price appreciation risk on the shares under our stock-based compensation program. In Q1 this hedging program gave us a benefit of $9 million on this expense line.

Also of note was a $13 million decrease in depreciation and amortization expense. This is a result of an increase in the estimated useful life of certain network and information technology assets we enacted in the third quarter of last year, partially offset by our initiative to bring the cycle time of assets under construction to completion more quickly, thereby increasing our depreciation, but also increasing the amounts deductible for tax purposes in the near term.

Net-net on an adjusted basis, our net income growth translated to an increase in adjusted diluted earnings per share of 18% or $0.12 year-over-year.

In terms of cash, during the first quarter we generated $543 million pretax free cash flow, up 11% year-over-year or 13% on a per-share basis. This growth was primarily driven by the increase in adjusted operating profit, offset in part by slightly higher Capex spend and an increase in interest expense of $15 million.

After-tax free cash flow was also up by 3%, and on a per-share basis up 5%. During the first quarter we returned $204 million in cash in the form of dividends to our shareholders, up 9% year-over-year.

As we turn to the balance sheet, we ended the quarter with $3.9 billion of available liquidity. In addition to our $2 billion of undrawn credit facility and our cash on hand of $1.4 billion, during the quarter we drew $400 million against our accounts receivable securitization program, which has available up to $900 million of liquidity at a very attractive interest rate. Our securitization program further reduces our cost of debt capital, and improves our liquidity position at the same time.

The $1.4 billion of cash on the balance sheet primarily relates to the $1 billion in new investment grade debt financing we completed in the quarter and the $400 million draw against our accounts receivable securitization program. We expect to close and complete payment on the Mountain Cable transaction on or about May 1, retire an outstanding debt issue in June, and we'll continue to hold cash reserves as we prepare for the 700 megahertz spectrum auction later in the year.

Overall, a solid start to the year, which I characterize as on-plan, and as you can see from the release we remain comfortable with our full-year consolidated financial guidance ranges that we put forward at the start of the year. I will reiterate Nadir's comments of earlier by saying that I expect the year will get somewhat more challenging as we lap the first half of 2012, but overall, we are very well positioned.

I will 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 with no significant near-term debt maturities and very significant liquidity available.

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 of IR***

Thanks, Tony. Operator, we will be ready to take questions in maybe 20 seconds. But I just want to quickly, before we begin, request as we do in each of these calls that those participants that would like to ask questions be as considerate as you can to the other participants and limit the questions to one topic and one part, and that way as many people as possible have a chance to participate. And then to the extent we can, and have time, we will circle back and take additional questions or Dan and I will for sure get them answered off-line for you separately after the call.

So, with that, operator, if you could explain how you would like people to organize the Q&A polling process, we would be ready to answer questions.

QUESTION AND ANSWER

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Operator

(Operator Instructions). Jeff Fan, Scotiabank.

Jeff Fan - ***Scotiabank - Analyst***

My question is on your churn and retention costs, and trying to understand how you balance the two. You show very good churn improvement year-over-year on the postpaid side, but your retention cost seems to be a lot higher than at least what we were looking for. So it seems like on the one hand, yes, churn did come down, but it did cost you quite a bit to bring that churn number down. Can you help us understand a bit of how you managed this and what we should expect going forward? Thanks.

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

Yes, Jeff, it is Rob. I think the thing that will be helpful is that when we look at retention costs really represent retention costs as well as handset upgrades. And in a quarter like Q1 where we had intensely low prices on smartphones, it drives a lot more handset upgrade activity.

So if we just disaggregated the retention costs for the quarter, which were about $250 million, about $210 million of that was a combination of hardware and commission on hardware upgrades. So that was the vast majority and that is why the numbers look so high. The remainder of the activity that was really focused on retention would be at normal levels.

Jeff Fan - ***Scotiabank - Analyst***

So maybe just a quick follow-up. You alluded to the intensely low prices on smartphones. Was there something in the quarter? And how would you characterize the quarter on what drove those low prices in the industry?

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

Listen, it was a fairly active quarter across the board. I think -- I would characterize it as being almost a continuation of a very intensely competitive Q4 -- aggressive device promotions, zero dollar iPhone 4, $99 iPhone 5, zero dollar Samsung GALAXY III -- very much like what we saw in Q4.

We also saw some pressure on some premium brand pricing. Premium brand pricing on non-premium smartphones that Telus did at $43, 400 megabit plans; and plans in that mid-range that were highly aggressive. And we also saw some intense activity with iPhone 5 on $45 MSF plans. So, again, very aggressive and very attractive handset prices.

So, the second we put those out there as an industry, at retail, and to acquire new customers, of course, we are obligated to match those kind of prices for existing customers, which drives a fair number of customers to the stores to actually upgrade sooner than they would normally do.

Operator

Glen Campbell, Bank of America.

Glen Campbell - ***Bank of America - Analyst***

Just a follow-up on Jeff's line of questioning there. Should we regard this new pricing or the low Q1 pricing as the new normal on the high-end smartphones?

And maybe just stepping back a little bit, is there anything that you can see that would suggest that smartphone customers, when they upgrade, are taking anything less than the heaviest subsidy available or waiting any longer than absolutely necessary to upgrade? I'm just trying to get a sense of what we should look for, for the rest of the year. Thanks.

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

Just to follow on, I think to call it a new normal would be a stretch. Q4, for sure, was abnormally competitive. And it seemed to trickle back into Q1, but at this point it is really a two-quarter phenomenon.

I think these devices are valuable. We are very committed to try to make sure the customers are aware that the value that are in those devices.

However, at the same time, we are not seeing any movement in trends in terms of the patience of the customers to wait even longer to upgrade. Nor are we seeing any rapid decline in the subsidies that are required by the manufacturers to actually bring these products to market at reasonable prices. So those are the two things that I think I would factor into your thinking as you model this out going forward.

Glen Campbell - ***Bank of America - Analyst***

Q2 so far fairly similar to Q1?

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

It is early days, so I think the nature of the quarter is a little bit different from the outset, without saying much more than that.

Glen Campbell - ***Bank of America - Analyst***

Okay, thank you.

Operator

Vince Valentini, TD Securities.

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

If I can stick with wireless, the prepaid sub losses, I guess this has been going on most quarters in a row now for a couple of years, can you give us any sense where all these prepaid customers are going? I would get the sense that the new entrants are all desperately out there looking for money these days and probably not that aggressive in the market. Is it still the prepaid subs just going to new guys, or would it be going to Bell and Telus, or is the market just disappearing?

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

Really a very fundamental shift, the postpaid going on in the market. So the quick answer and the good answer is prepaid customers are becoming postpaid customers. And we are finding our prepaid customers are migrating to become postpaid customers of ours.

And this is not something that is really unique to Rogers or to Bell or to Telus. Even Verizon has dropped dramatically. They were in the range of 250,000-plus nets a year ago, and they are dropped down into -- if I remember somewhere between 25,000 and 40,000 net positive this quarter, so a dramatic drop.

New entrants continue to chase these flows, both with their very, very low-end postpaid offerings and with prepaid offerings. As you know, our focus is we don't chase the lowest value loads. We are still fully supporting this business, but not at any cost. And as we have learned, most of the customers do eventually become postpaid customers. So it is a business we want to continue to play in, but, again, not at any cost.

Operator

Simon Flannery, Morgan Stanley.

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

I was wondering if you could just talk about the BLACKIRON acquisition. Just talk a little bit that you can about describing the company and what it was that appealed to you about it, and any other financial metrics you can share. And is this the start of a broader push into hosting cloud type services? Or is this going to give you what you need in that space?

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

I would put it squarely as the strategy that we have had for RBS, which is really providing business connectivity and increasing the managed solutions to our customers. So what we're looking to do is complement the network side with data centers, and so scale in cloud computing and managed solutions.

So we wanted something that, frankly, was Canadian, because that is where we play. And with where the data centers are located, in particular the new data center, it is squarely in our footprint. So it is very much a complimentary acquisition, and scale-wise it fits in our RBS business, which remains to provide solutions on-net, IP-based and increasingly up the value chain. So in that sense it is a continuation of that strategy.

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

Thank you.

Operator

Drew McReynolds, RBC Capital Markets.

Drew McReynolds - ***RBC Capital Markets - Analyst***

Just two questions for me. Just for you, Rob, if you look out for the rest of 2013 and you just look at your aspirations for postpaid ARPU growth, we are clearly, I think, awaiting new roaming plans to come into effect. And then, obviously, you have mentioned you lap tougher year-over-year comps. Can you just comment on what your aspirational growth target would be largely on postpaid ARPU?

And then another question, just on the Cable side, the Internet revenue growth of 15%, obviously, some higher-tier sub growth in pricing in there. I'm just wondering if you could break down that growth a little bit. What percentage is pricing? What percentage is some of the upgrades, the higher tiers? Thanks.

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

Okay. Firstly, of course, our predictions about where we are going from a revenue perspective is really trapped in our guidance. And I would always fall back on the things that we have told you from a guidance perspective and use that to populate the balance of the year.

So I missed a little bit of your second question. Was it about Internet revenue?

Drew McReynolds - ***RBC Capital Markets - Analyst***

Yes, just on the Internet revenue growth, obviously, pretty strong in the quarter. And there is obviously moving parts in there, pricing, the higher tiers, and I think business contributed. Just wondering if you can break down that growth a little bit by what contributed to it?

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

Yes. First and foremost, Tony started off by saying that we had seen growth of about 15%. It is well split between getting new subscribers. And our subscriber growth, as you can see, continues to be strong. We have some significant migrations of customers up to higher tiers.

And, as well, we have some overage as people continue to grow and expand and see incredible facility for Internet. And, as I have said on past calls, Internet has been really one of the hallmarks, one of our incredible strengths. And we think that is because of our superior products with much better speed, the aggressive marketing that we do to our competitors, DSL-based.

We continue to see growth rates on small and medium business that are driving revenue increases in the 20%, 25% range.

And we have continued to augment that Internet service with the launch of premium technical support. We call it Techxpert. We removed all our traffic management processes and we have continued to re-speed a lot of our tiers to make our services even more attractive.

So I think those things in combination have really been the backbone of our success on Internet.

Drew McReynolds - ***RBC Capital Markets - Analyst***

Thank you.

Operator

Greg MacDonald, Macquarie.

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

Question's on gross adds. I saw that they are down about 4.5% this quarter. I know that there was a first quarter 2012, perhaps, outsized iPhone issue. Can you talk about what the normalized postpaid gross add trends are right now? I'm wondering on the maturity side of the business whether we've peaked or not.

And then as a related question to that, on sub mix, a lot of promotions this past quarter on the flanker brand -- it seems to be that that is where a lot of the gross adds are shifting to as we go forward. Is there any usage pattern difference that we should be focused on?

I am wondering whether data roaming is a lot lower for these types of customers. I will say data ARPU was very strong this quarter; voice was weak, so trying to put the trends together. Thanks.

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

That is an awful lot packed into one question, but I will do my best. Listen, standing back first and foremost, and I think most people on the call know, it is difficult to understand size versus share. At where we are in the market, of course, we're the first to release.

And as you pointed out so rightly, last year -- it is hard to read this year against last year. We had a very significant iPhone residual sort of flow-through. And we also had an iPad launch in March, which actually contributed to the very solid load profile that we saw last year. And those events went relatively unduplicated this year.

As Nadir said, we are very happy with the profile of the loads. If we compare them to the year ago, they are spectacular -- almost double the number of smartphone loads; again, very high ARPU loads. We did about 18,000 a year ago. We did 35,000 this year. Last year the remainder of our mix was made up of tablets and sticks, which, again, have a much lower ARPU. And they dropped off significantly this year.

Our view is this at least reflects partially a reality of WiFi and tethering beginning to be available on almost all smartphone devices. So what we once counted as a subscriber now appears really as incremental data revenue.

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And, you know, we saw some really good numbers there. We saw -- we are up plus 22%, smartphone subs now reaching North American highs, as Nadir highlighted, and data revenue making up 45% of our total revenue.

So, again, happy with the numbers. Happy particularly with the ARPU profile of the numbers. Again, difficult at this point to say how the numbers shake out from a share perspective, but those would be my thoughts.

Coming back to your question on sub mix, the flankers, it would seem just from our observations that for sure some of that is true, that probably there is a better balance than there was four or five years ago between the flanker brands. And I don't like to think of that, because Fido for us is very much a very core brand. And the usage profiles at this point -- no big trends that we can point out on the differences in usage profile, but we will be looking at those in more detail over time. Thanks for your question.

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

And just for clarity, Rob, it is -- the lower voice ARPU is a function of that flanker mix, right? Can't argue with the data, but the voice is still lower.

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

The voice ARPU is going down as a function of a decline in MSF, LD over time drifting down, essential services effectively being rolled into the base of the plans. So I wouldn't point necessarily to what you would call flanker brands for that. I would point more to some of the line items that we normally talk about when we are talking about the revenue lines from a voice perspective.

Operator

Tim Casey, BMO Capital Markets.

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

Just switching over to the regulatory side, can you refresh our memory on when you expect to hear on your proposed acquisition of the Shaw spectrum? And if the proposal is denied, what repercussions do you have with regard to that spectrum?

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

Ken, do you want to take that one?

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

Sure. The five-year limitation period for Shaw to sell the spectrum to an incumbent does not come up until September of 2014. So I don't expect a decision from Industry Canada until September of 2014 or thereabouts. Obviously, it is very useful spectrum for us to provide LTE services, so if we are not allowed to buy it, we will need to figure something else out.

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

But presumably wouldn't there be some clarification of that going into the auctions?

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

I don't expect it. No.

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

But do you not have the ability to influence what Shaw does with the spectrum between now and then?

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

Tim, a couple of things. One is I think we want to avoid speculation. But you should know that in our agreement with Shaw, we have got various alternatives that we will explore under those conditions. But I think it is premature to speculate.

Our view is very straightforward that the spectrum that is not used currently, if you look at what is happening with wireless data and consumption, it's going up at least 100% year over year -- it is hundreds of percentage points every year. So it is responding to the demand from consumers, and we think is the best thing to do is to actually make that available in terms of networks to consumers.

But we will play it out and we will not speculate, I don't think, in terms of process that government might undertake.

Operator

Adam Shine, National Bank Financial.

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

Rob, maybe just in the context of the evolving nature of competition, perhaps by geography, I don't want to press you across the country. But there is at least one incumbent that obviously is being pretty vocal about its efforts to push deeper into the West, where obviously you have a pretty strong presence in BC/Alberta. Can you speak to how that dynamic is evolving and whether or not you're feeling any added pressure from that context?

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

Yes, we continue to have a very strong share in BC and continue to work on building that share. Lots and lots of focus, though, and lots of extra investment from our perspective in Alberta, both in terms of stores, in terms of network investment and in terms of partnership with large clients in that market.

And further to that, we continue to work hard in the province of Saskatchewan to serve the oil and the other industries in Saskatchewan. So lots and lots of activity, lots of focus for us, and some great ARPU and lots of money in those provinces that is being spent on wireless and we are there in a big way.

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

Just from a modeling perspective, on a side note, just for Tony, just as it relates to that $8 million license fee payment for the CRTC matching, is there any color that you can give us for coming quarters, or nothing at this time?

Tony Staffieri - ***Rogers Communications Inc. - EVP and CFO***

Adam, I would say on that it was a one-time adjustment to our balance sheet payable as we reconciled our accounts with the government on that. They clarified in the way they wanted the timing of the payments, and so based on that, there was a one-time over accrual that we reversed into income. So we are just being transparent with that one-time item in the quarter. So it does not impact anything going forward.

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

I appreciate that. Thanks a lot.

Operator

Dvai Ghose, Canaccord Genuity.

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

Your incumbent competitors on the wireless side suggest that the new entrants are no longer the main drivers of pricing instability in the sector, but the Fido brand. They point to your double your minutes, double your bits offers, as well as your half-price for 3 to 6 months, et cetera.

They go on to argue they can understand why, given your weak share of postpaid additions -- we will see what the other two report this quarter, but argue that is a bit of a fruitless task, as you yourselves acknowledge, it is churn which is the issue, not growth. How do you respond to such allegations?

And just in a very quick related point, I was a little surprised by the increase in device subsidies because of the iconic nature of the iPhone 4S in the year-ago period. With the exception of BlackBerry 10, as you yourselves pointed out, there was nothing particularly special in this quarter. So what drove up those subsidies? Thanks.

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

Why don't I deal with Fido first? Fido continues to be a really strong brand, and is a brand that we are active with in the marketplace, just as we are with Rogers' brand. I think that when we stand back and look clearly at all the things that are going on, it is an active participant in that midmarket, but not leading prices down, but rather a participant in that market for that target group that it appeals to.

The second one, from a device subsidy perspective, again, the competitive intensity is there in the market. Frankly, I think others are having difficulty getting loads, and when that happens we see the trigger of price being pulled continuously. And that trigger is pulled way more on devices these days, for one reason or another, by our competitors.

And we continue to be active in ensuring that we have got full competitive pricing on handsets and devices. That is a critical decision criterion for our competitors, and we are committed to doing that in the long-term.

Operator

Rob Goff, Byron Capital Markets.

Rob Goff - ***Byron Capital Markets - Analyst***

Thank you very much for taking the question. Nadir, you had commented on the impact of competition on subscribers and promotions. Could you go further in terms of talking about the impact on your pricing leverage across your cable services?

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

Rob, I just want to make sure, you're talking about on the cable TV side, I assume?

Rob Goff - ***Byron Capital Markets - Analyst***

Yes, on the cable.

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

No, what we are seeing in the market is a twofold, I will call it, promotional activity. On the one hand what you have is our primary competitor deep discounting on the IPTV side as they roll that out through our footprint. And, obviously, what we are trying to do is to make sure that we stay focused on the one that we are promoting, which is Internet, but at the same time protect our share in the cable TV side. That is a balance between matching some of the discounts and what we do in terms of margin.

But, frankly, our focus is what we believe the future is and where we see growth, which is Internet. And so we are squarely on the path of leveraging our superior Internet service. Rob just went through some of the characteristics.

And we are seeing great success. You can see that in the loads, whereas we had the impact of the deep discounting on TV showed through in the nets, what you see is strong growth on the Internet side and telephony.

So we are seeing those two things are being played out in the market. And I would look at the quarter and look at the subscriber balance between Internet, cable and phone and square it with the margin that we produce and the EBITDA growth, and look at it as a pretty good balancing act, certainly, in Q1.

Rob Goff - ***Byron Capital Markets - Analyst***

Okay, thank you.

Operator

Maher Yaghi, Desjardins Capital Markets.

Maher Yaghi - ***Desjardins Capital Markets - Analyst***

I just wanted to talk a little bit about cable again. And when you are starting the year at the growth of 13%, and yet your core cable guidance for the year is 1% to 4%, I agree you mentioned you're going to face some stronger year-on-year comp in the second half. But that suggests a very heavy decline in the second half, which I suspect is not going to happen looking at the trends we are seeing right now.

So is it fair to say that cable is beating your expectations so far this year and cost-cutting is ahead of plan? And can you talk a little bit about what can we expect more in terms of cost cutting going into the second half?

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

It is Rob Bruce. Again, I think I said it a little earlier on the call with respect to wireless, our guidance is actually the best clue to what we can expect going forward. Obviously, very committed to ensuring that our cost basis is competitive as it can possibly be. So we will continue to be active on that front.

And we are in a good position, as I highlighted, on having a very superior Internet product, which is putting us in a tremendously good place, and lots of success in terms of growing our telephone products. So the combination of the two, I think, are real positives right now. And the balance of the year should fall in line at minimum with the guidance.

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

This is Nadir. Just want to say what you'd expect me to say since -- having spent time together for many, many years. One is it is only one quarter and our guidance is for the full year, so generally we don't approach these things on the basis of a single quarter's performance.

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And the second thing, just to remind everybody, that whereas we give guidance at an accelerated level, we do give additional information that is supplementary. That supplementary information we don't actually update as we go forward. It is there just for information to give context for the guidance that we do update when required.

Maher Yaghi - ***Desjardins Capital Markets - Analyst***

Okay, great. Can you just maybe split the improvement in the margin on the cable side from product mix and actual operating cost being driven down by improvement in efficiencies?

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

I think it is actually both. If you look at our cable revenues, they went up 4%, driven obviously -- or the core part of that is the Internet revenue going up. But 4%, if you go back the last few quarters, is certainly much stronger than what we have had. And it reflects what we have been doing over the last couple of years in terms of building out the Internet platform. So you can see that coming through.

On the operating expense side, continued efficiencies. We went through a program of really driving out costs. We continue to focus on that.

If you look at Opex on the Cable segment, it is actually down on a year-over-year basis, let's say around 3%. And we do have that one-time benefit that we referred to. But even if you take that into consideration, it shows a very good performance on the cost side.

So I think margin, frankly, has been benefiting from both. And that, for me, is the reason that when we look at the quarter, we are encouraged by the fact that we are seeing significant now topline growth across our business.

Operator

Matthew Niknam, Goldman Sachs.

Matthew Niknam - ***Goldman Sachs - Analyst***

The question is on use of cash. I'm wondering if you can help us think through how you prioritize use of cash post the dividend. And more specifically around potential M&A, is there a greater criteria focus on improving the topline growth profile of the Company? Or is it more weighted towards gaining greater scale and improving profitability? Thanks.

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

It is Nadir. I think when we have talked about capital, I always say that the first thing we look at and will never compromise is having the best networks and the best platforms, whether that is wired or wireless. We always start with what we need to do in terms of quality, speed and just having the ability to say we are the fastest, most reliable, and frankly, the superior network provider in the country. So that is -- I take that as something that we'll never move away from.

Having said that, when you look at in terms of returns to capital and M&A, we will always do what we think is right from an M&A perspective. We have a strategic game plan that we are focused on executing. And you have seen that at play over the last couple of years, very focused on network plays like Atria, Blink, at the same time looking at content on the sports side.

We did theScore acquisition that is nearing completion, the interest in MLSE, and beyond that, acquisition of sports properties or content properties. So those will give you a flavour for what we are looking at in terms of M&A. And we will, frankly, continue to execute on our game plan as required.

And we don't look at the dividend and buyback policies as getting in the way, but rather complementing our approach to what we do with our cash and our capital. Having said that, when we look at returning money to shareholders, I think you have seen a consistent pattern. I have always said that we want to be seen as somebody that's conservative in terms of dividend policy, but establish a track record for dividend growth.

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Over the last four years, I think if you go back, and then we certainly every year, we've increased dividend by about 10%; a couple of cases where it is just slightly higher at 11%. Obviously can't comment on what that looks like going forward.

But we would, frankly, like to continue to be able to grow dividends. We are always sensitive to keeping that and think with operating cash flow growth. And in our leverage targets that we set out earlier, 2 to 2.5 times.

When you take all of that, I think, fair to say share buybacks become more something we will look at on an opportunistic basis. Having said that, over the last few years we probably bought back more than a quarter of our Company in terms of shares.

So that gives you a sense of a Company that has done, I would say, pretty well in terms of returning cash to shareholders. But never at the expense of something that we think is germane to having the best franchise in Canada.

Operator

David McFadgen, Cormark Securities.

David McFadgen - ***Cormark Securities - Analyst***

I have a question on your Internet penetration. It is 86% of your basic cable subscribers. I was just wondering how high that could go. And so I think what would be helpful is if you could tell us how many subscribers you have that are Internet only.

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

David, it is Rob. We think that over time Internet is going to be the anchor product and it will be -- it will eventually go to 100%.

Operator

Ladies and gentlemen, this does conclude the question and answer session for today. I will turn the call back to Bruce Mann.

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

Thanks very much, operator, and the management team here at Rogers would like to thank everybody on the call for investing your time with us this afternoon during what we know is a busy period. We appreciate your interest and support. If you have got questions that weren't answered on the call, please call myself or my colleague Dan Coombes. We're -- both of our contact info is on the earnings release.

Thank you very much again. This concludes today's call. Thanks.

Operator

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

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