

Company Name: Rogers Communications
Company Ticker: RCI/B CN
Date: 2018-05-16
Event Description: TD Securities Telecom & Media Forum

Market Cap: 32,168.51
Current PX: 62.44
YTD Change(\$): -1.61
YTD Change(%): -2.514

Bloomberg Estimates - EPS
Current Quarter: 1.039
Current Year: 4.082
Bloomberg Estimates - Sales
Current Quarter: 3791.286
Current Year: 14957.200

TD Securities Telecom & Media Forum

Company Participants

- Vince Valentini
- Anthony Staffieri

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Vince Valentini

...very much. Anybody who doesn't know me, I'm Vince Valentini, the Telecom Analyst at TD, and thrilled to start off the conference with one of the biggest, and in my opinion, most successful companies in the communication sector of Canada being Rogers Communications. And this person beside me should be no stranger to anybody in the investment community, Tony Staffieri, the Chief Financial Officer. Tony, thanks very much for joining us here this morning to kick things off.

Anthony Staffieri

Thank you for the invitation, Vince, and good morning, everyone.

Q&A

<Q - Vince Valentini>: So I have a bunch of questions. We'll open up to the floor a little later, and in case that you guys have some questions of your own you want to throw at Tony, but let's start obviously with Wireless, your biggest business unit, and it's been not just your own but, I mean, whole industry has had some very strong results recently and very good subscriber growth. Can you start us off with your updated thoughts on what may be driving such good sub growth for the Canadian industry and perhaps how sustainable it is?

<A - Anthony Staffieri>: Absolutely. Certainly pleased with the way we've seen the trending. In 2017, we saw the Wireless sector grow subscriber-wise by 5%, and now that we've all reported the first quarter, we see that trend continuing with another 5% growth for the market in Q1. As we unpack, let's try to understand sort of what are the things driving it, because fundamentally, there's a couple of things at it. One is penetration rates in Canada still continue to lag. Other developed countries, and in particular, we look to the U.S. We stood at 86%, 87% today penetration rates depending on how you measure it, compared to the U.S. at 119% or 120%.

And we don't see any structural reasons why we should be different. We've seen acceleration of those penetration rates the last little while, we think there's some good things that have contributed to that. Certainly, the Share Everything construct has made it a lot easier to add more devices to the plan. A lot of the things we've done on Data Management and getting customers to move to data buckets so they get more certainty.

And it's really that umbrella of certainty is what's given customers, whether they're on Consumer or Enterprise side, more confidence in adding multiple devices to their plan. And of course that's against the backdrop of fairly healthy Canadian economy, with GDP growth continuing to be there in excess of 2%. Immigration is also helping it as well. And the immigration that we're seeing is coming in, to a large extent, on the postpaid side of it. So, the SIM equation is a lot closer one to one for new adds than it would have been in previous years.

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<Q - Vince Valentini>: Excellent. So, if I can jump to sort of what that means for the Freedom Mobile and the other new entrants in other regions, is it your contention that the market growth is big enough for everybody to succeed without the need for overly aggressive price competition? I mean, we saw this a little sporadic period in December, but since then, it seems like everybody's been playing nice, we've seen no irrational promotions, maybe you've even seen a couple cases in roaming where some rates have actually increased. What's your perspective on the ability of this market growth to absorb a fourth player in most regions?

<A - Anthony Staffieri>: I think I'd start with competition continues to be healthy, particularly during those intense periods as you referred to. There are probably somewhere between 15 to 25 key days in a year that we would classify as heightened competitive intensity. Many of those are in the fourth quarter, and so what you saw in the fourth quarter was not unlike prior years, maybe the aggressiveness of the offers was a bit heightened, but there are going to continue to be promotional periods that are going to drive that competitive behavior. But if we put it against the backdrop of the whole year, you're absolutely right. With 30 million subscribers in the industry, growing at a rate of 5%, that's, we estimate, 1.2 million to 1.5 million new subscribers a year. We continue to focus on trying to get our fair share of that. But with that kind of growth, there is healthy upside for all players to do well.

And we reiterate it's more than just price as well, there's a number of other factors that we compete on, network, our distribution channels, and I can go on and on, but price is certainly one of them. In the first quarter, what we saw is we would describe as resumption to some of the price discipline that we've seen in the past. And there are certain things that have [ph] high (04:44) utility value, roaming is one, where as consumers and businesses are getting more comfortable with the constructs, we're seeing usage go up, and so you see price increase commensurate with those usage patterns.

<Q - Vince Valentini>: Okay. Sticking with sub growth. Your last quarter, I thought, was fantastic. It's tough to poke any holes in it, but I have heard some criticisms from people that your 95,000 postpaid adds was a little bit inflated perhaps by some carryover of those CAD 60 promotions from December, perhaps some tablet loading, perhaps some prepaid to postpaid migration. Can you give us any color from your perspective on how much quality you saw in your loadings in Q1, and then perhaps what that means for Q2 and beyond? Are you confident that those similar type of trends can continue?

<A - Anthony Staffieri>: Sure. As we look to our loading in the first quarter, the mix is not that different than what you would have seen in previous quarters. We stay focused on postpaid. And if you were to look at, one of the things we look at very carefully is the ARPU of the customers that are coming in, and we continue on balance to attract very healthy ARPUs.

If you were to look at them year-on-year ARPU win, again is up for us. And so that really speaks to the lifetime value that we're attracting. In terms of balance of the customers, some of it will be tablets, not an unusual mix in the first quarter than we would have seen in prior quarters. We've always focused on trying to convert our prepaid customers to post. And in the fourth quarter as well as in the first quarter, we saw healthy uptick in the amount of prepaid to post, but in terms of the overall subscriber mix, it continues to be very small.

If you looked at the key pieces, gross adds continue to do well, we always have leading share on the gross adds side, and I've talked about the quality of the gross adds coming in, best gross add quarter in 15 years. And so that was good uptick for us. But importantly, it was the churn factor that continue to come down, and you saw that come down year-on-year, and that follows a trend that we had in 2017 as well, so it's both of those that are contributing to the healthy net subscriber momentum on the postpaid side.

Will it continue for the rest of the year? It will depend on a number of factors, we feel confident about our ability to perform in what we think is a market that'll continue to have good healthy growth, may not be at 5% but certainly in the 4% to 5% range.

<Q - Vince Valentini>: Excellent. You mentioned the quality of the ARPU coming in, so let's talk about ARPU for a sec. Despite a little bit of wonkiness with your – the government contract and how that impacts the number, even when you strip that out, my estimate is your ARPU grew 3.5% in the first quarter, we've now seen close to 1.5% for both the

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other national incumbents. I mean, can you talk about what is helping you guys generate better ARPU than your peers at least for now, and then maybe if you think this is just sort of a temporary catch-up or if you think that's sustainable?

<A - Anthony Staffieri>: Yeah. I'll start with the last part. I mean, we've certainly been focused for a long while on the key drivers of the fundamental ARPU. It's kind of interesting when we all reported on blended ARPU for under the old accounting policy, which for us was about 5%, as you said, even if we adjust [ph] governing (00:08:24) Canada, still a healthy ARPU growth, but the one that we've been looking at for a while, and now it's disclosed publicly, is the ARPU under IFRS 15. And we've been focused on that because in the Canadian industry, given we are heavily subsidized, it strips out the subsidy component of the ARPU, and we were pleased with performance in the first quarter. You saw ARPU growth of 3%, and that's what we like into – it's never exact, but we like into real connectivity ARPU growth and the one we've been focused on.

Couple of things there that if you look at the underlying data usage, that continues to grow at 30% to 50% and so we've been very careful for a long while on making sure that we translate that usage to a healthy ARPU growth as part of that. And that's really been the focus of it. A lot of base management that goes into it, I talked about the ARPU win and the ARPU win is trending better than the ARPU on the customers we lose, and so it's the big piece in the middle, base management, that has become much more of a science of late. And we're doing a much better job of managing that base and moving them to the right tier buckets, and that's helping on the ARPU side.

We'll continue for the rest of the year. Don't want to get specific into providing ARPU guidance per se, but if you look at all the factors that contributed to the ARPU growth in 2017 and in Q1, we don't see those changing, and so we continue to believe we ought to deliver healthy ARPU growth for the rest of the year.

<Q - Vince Valentini>: Excellent. Is the base management you talk about, is this something that was in motion before Joe Natale took over, or do you see this as some of the first evidence of his – of him having a positive impact on the organization?

<A - Anthony Staffieri>: Absolutely. If you were to look at Joe's track record, very much focused on the customer at a very tactical level when we need to. And so I would say, Joe brought the discipline to the organization that helped us get focused very quickly on some of the key items. You certainly talked about customer experience, and as part of that, if we think about the reasons customers are contacting us, sometimes or a lot of times, they're just not in the right plan or they don't understand the plan. And that is one piece of what we call base management. And you've heard a lot about data analytics. I would say that's still somewhat nascent for the industry and for us, there's a lot of upside, but we're starting to see the returns fairly quickly on it.

<Q - Vince Valentini>: Okay. And as Joe's impact in the base management, I guess it's a good segue into churn, that's all part of the customer's experience, I guess, is – your churn has come from 1.3%, down to about 1.15%, if I exclude that technical glitch in the fourth quarter. It's nice, but obviously there are many carriers, including one in Canada, who have postpaid churn below 1%. Is it possible with changing the culture and changing the customer service infrastructure and Joe's expertise that we can get down to 1% or less postpaid churn at some point, and maybe you can give us some broad guidelines as to when that could be possible?

<A - Anthony Staffieri>: Yeah. We think the fact that there are North American players with churn at less than 1% is a good beacon, and what it says is we've got work to do. But there are no structural reasons why we shouldn't be able to achieve the same or better churn results at Rogers. So we continue to tackle that. You've seen churn come down in 2017, and you've seen it come down as well year-on-year in the first quarter, and we continue to chip away at it. There's a number of things that we're working on and strive to improve to get at that churn number, and it's across both Consumer as well as Enterprise that we're doing that.

So a number of work streams, and you're absolutely right, Joe brings very much an execution mentality and culture at the very detailed level when needed to be able to execute on that. And so we continue to look forward to improving churn. In terms of when do we hit a 1% milestone, tough to predict, it'll depend on quarter-by-quarter, but it'll be over a long period of time. We want to get there on a sustainable basis. And so it's going to take time.

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<Q - Vince Valentini>: Maybe it's not fair to pin you down to when you're below 1%, let me rephrase it in terms of – but even TELUS talks about how long it took them to get a customer-friendly organization and change the culture. And is it realistic that Joe or any management team could do that within 6 to 12 months, or is this really going to be a two to three-year process to get Rogers running at an optimal level in terms of customer service?

<A - Anthony Staffieri>: It's tough to predict, I would say, you're absolutely right, the culture change, some of the tools and analytics to get at it in a healthy way. Keep in mind, the churn drivers of five years ago are going to be different than the churn drivers today. So how we go about tackling it is going to be different. And so, we kind of learn as we go along and try to get at the right things that are going to reduce churn. It's going to be a long process. So I don't want to get pinned down in terms of a timeframe, but it will be a long process. We're hopeful that we'll start to see it in less than a year's time. But time will tell how good we're going to be at it.

<Q - Vince Valentini>: Okay. Let's switch gears to the investment required in Wireless to make the organization perform so well in terms of subs, ARPU, and churn. Your CapEx budget for this year, you've increased to a range of 12% to 14% of revenue. I think most of that is just playing a bit of catch-up [ph] of one goal that on (00:14:26) LTE and data speeds. So if you can talk a little bit about 5G, and does that mean we'd need to go from 12% to 14% up to a step function and much higher level, or does that just seamlessly work in over a number of years at the same 12% to 14% intensity in your mind?

<A - Anthony Staffieri>: Sure. As you said, we've, for this year, expect our Wireless capital intensity to be in the 12% to 14%. We had paused on some investments, key investments, on Wireless, and you saw in some previous quarters down to 8%, 9%, and as we always said, the 8% to 9% isn't a sustainable number. The industry generally is at 12% to 14%, and so as we now launch our 4.5G implementation, we're glad we waited, two things for us. One is not only on pricing, but importantly, it's now 4.5G is at a stage where it's upgradeable to 5G on a software basis without necessarily having to replace the hardware.

It also gives us time to think about the partner that we wanted, and we selected Ericsson ultimately, which is North America's leader in wireless technology and implementation, and so we're glad we went that route. As we move to 5G, a lot of that is still unfolding. And so while there are trials going on, standards are still being finalized, but most importantly, the business case for this is still to be written and what the revenue sources are going to be. Our thinking is, we will fast follow the industry, depending on how it moves, and in particular, how the North American industry moves.

We've had been spending, continue to spend time with the large players in the direction they're going in, and that's the approach you should expect us to take. We'll be at the forefront of it, but on a very efficient basis. And our thinking is we will spend based on what the revenue models look like. So our expectation is that our Wireless capital intensity, even as we go through the 5G implementation and migration, will keep us in that 12% to 14% range. Keep in mind, 5G isn't a major uplift. It's an evolution of the 4.5G as I've talked about, and so different parts of the country will happen at different times. And again, that'll give us the opportunity to have the revenue come in as well.

<Q - Vince Valentini>: Okay. And in terms of the spectrum requirements for 5G, Rogers has more spectrum than any other carrier, not including Bell and TELUS sharing their spectrum, but on a standalone basis, you guys have the deepest spectrum position at all bands. Does that allow you to be more choosy when it comes to all these new spectrum bands coming up, whether it's the millimeter wave spectrum or the 600 MHz spectrum, those all different types of bands? Is there any spectrum that's an absolute must-have that we may see Rogers, if I can call and go nuts again like you did in the 700 megahertz auction, or can you guys be more disciplined and say, we can live without that spectrum, we've got enough arsenal of other spectrum to deal with? Or do you think there's must haves [ph] there (00:17:44) over the next two, three years?

<A - Anthony Staffieri>: Well, true, spectrum is critical for us. And as our founders said many times, haven't seen a piece of spectrum we didn't like. And there are certain pieces that are more valuable than others. 700 MHz for us was key. As we head into 600 MHz, it's good spectrum, it isn't going to be as key as 700 MHz, at least for us. But as we head into 5G, it's the high bands that are going to be more important depending on the application. And so, our expectation is, over time, that's where you'll see the value move towards, we sit in a good position on the high band

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spectrum, and we'll see how the ecosystem evolves.

But you're right, Vince, we sit in a healthy position today. There'll be pieces that we will see as more important, but we'll always be disciplined in sort of assessing what the value is to us over the long term and think about that in our pricing and bidding.

<Q - Vince Valentini>: Great. And last one sort of CapEx in Wireless networks. Is – the topic of network sharing, it always comes up, I mean, Bell and TELUS seem to have benefited from sharing for years, you have your own perspective on the deals you have in Quebec and in Northern Ontario and Manitoba, whether those have worked well for you, I mean, the big alpha in the room is Shaw and you guys, they obviously have a lot of wireline infrastructure in the West, you guys are a cable company, you know the HFC infrastructure and what it can do to – for backhaul purposes. Do you have any updated thoughts on if, when, what it would take, what benefits you may see to Rogers from network sharing in the future with Shaw?

<A - Anthony Staffieri>: Yeah, a couple things you've touched on. Network sharings come with their own inherent problems, and I think one of the things we see is owning our own independent network across the nation brings us some competitive advantages. There are niches where we have been. You mentioned Videotron and Manitoba would be another one where we have them, and they've been working fine. And we'd look to another network sharing, never say never, but when you look at the pluses and minuses of a network sharing, we just don't see enough pluses to make it compelling. And in particular, having a network sharing partners that are of unequal size just brings a very disparate mindset and economics to the equation. And so we just can't see the economics working for us, and probably not working for us in a long time – for a long time. So, probably, as of now, don't see any benefit to us. We'll see how it unfolds, but no plans.

<Q - Vince Valentini>: Okay. That's clear. Thank you. I'm going to shift gears to Cable. Not quite as attractive in terms of the subscriber growth and overall growth that we've seen in Wireless. What's your perspective on how fast things are evolving in terms of video maturing and then quarter tightening kicking in. I mean, can Cable still overall be a good business even if video subscribers and video revenue never grow again? Is there enough mix shift into broadband to keep overall Cable business growing profitably even if video is in structural decline?

<A - Anthony Staffieri>: Absolutely. We're quite excited about the Cable business. It's been driven on the back of broadband, and that's been a focus for us over the last long while. What you've seen is us focus on that. Our penetration on Internet continues to go up every quarter, and that's on the back of healthy ARPU, ARPU that's driven by customers migrating continually, migrating up on the tier speed curve. You've heard before over half of our customers are in speeds of 100 megs or more, and that really – and we're seeing that increase continue week-on-week, month-on-month. And so there's a healthy appetite for more speed, more data, and that continues to drive that business.

And so that's where our focus is going to be. We're preparing ourselves for a world where video consumption will come from a number of different sources. When we look at OTT, cord-cutting and it is about half the rate than it is in the U.S., and there is several structural reasons for that. But we're preparing ourselves for a world where consumers will want to consume content anywhere and from different providers. Later this year, we're launching the X1 platform, and it's the X1 IP version of it, which will integrate Netflix, as well as YouTube.

And so we like it in the sense that it's somewhat of an open standard and incorporate some of the OTT alternatives, and as more become popular, it include those, our thinking is, as long as we're able to monetize the data traffic that happens in that video consumption, whether it's through us or someone else, then that's what's going to hold the Cable model together. We still see good value in having a product that allows the consumer with one voice command or one click to look at video content from multiple sources, which is what the Ignite TV product is going to do. And so that's going to be very compelling. And as we've said, the extent we keep the consumer focused on the HDMI 1 input, it's going to be a very healthy interface.

And so our strategy on Cable is stay focused on monetizing Internet, and in the near term, we expect that's what's going to drive improved ROI for the Cable business, and to the extent that video consumption comes along with it, great, and – but we see it as incremental augmenting revenue and value as opposed to the core driver.

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<Q - Vince Valentini>: So the X1 and Ignite platform, is it fair to say you don't expect this to stop cord-cutting or to lead to your video subscribers increasing, but it's more to service the home that wants that full functionality and maybe improves your ARPU potential or retention potential in those homes that still want 200 video channels versus 20?

<A - Anthony Staffieri>: Yes and no. So, we don't think it's going to necessarily stop cord-cutting, it'll slow it down possibly. But we do think it's going to help increase our share of the video market compared to the product we have today. Our Cable business is driven by our Internet competitive advantage. And X1 is going to give us a video competitive advantage, and that product is going to be followed by the X suite of products very soon after in terms of XY and X-Home. And so, the plan is simple, give consumers the best Internet experience, complement it with these tools that are going to make the whole home value proposition compelling, and we think that's going to be important not only in acquiring customers, but more importantly for us in continuing to reduce churn at the whole home level.

<Q - Vince Valentini>: Okay. And sort of like The Oprah Winfrey Show, can we assume that you guys got here early and put X1 Boxes under everybody's chair to take home with them, or you're not quite ready for that level of deployment yet? What are the...

<A - Anthony Staffieri>: No, we decided to give a car instead. I love Oprah.

<Q - Vince Valentini>: I mean, is the commercial rollout still – I mean, I know you – I think 15,000 employees using it now, is it by this summer or fall, will our regular consumer will be able to call you and get it if they want it?

<A - Anthony Staffieri>: Yeah. So in terms of rollout, the product has been up and running for a while. I've had it in my home since October. We've got 2,500 employees on it now. We've offered it to 15,000 employees, and it's ramping up very quickly. And so we've kept it within the Rogers family right now. It's not so much about the product at this point. I mean, the product works well, a terrific experience. We're trying to reinvent the whole end-to-end experience around it, how you go about ordering it, how the tech shows up at your home, how you are advised and receive your first bill. So it's that complete end-to-end that we really want to get right, and that's the piece that we're busily working through. We still are on track for a launch later this year. I won't talk specific about the months, but it continues to be on track.

<Q - Vince Valentini>: Okay. So let's go back to broadband and to ARPU potential. Certainly it surprised me, the magnitude of the rate increase you announced this year with most of your customers getting an CAD 8 lift, and it looks like they'll close to match that. Can you give us, first, the strategy behind such a big rate increase in broadband with no increase in video this year? And then secondly, if you can comment on what the consumer reaction has been to that rate increase in the past month?

<A - Anthony Staffieri>: Sure. We look at price increases. It's important to highlight that we look at price increase based on what we're seeing the customer using, and what's driving the costs for us. And so on the broadband side, what we see is customers continuing to use it in excess of 30% a year. So if you look at an individual user or home, usage year-on-year is growing well over 30%. So that continues to be healthy.

Our primary driver of ARPU is customer self-selecting to higher speed tiers, and that's been healthy for us and I've talked about our mix – a healthy mix of good lifetime value customers at the higher speed tiers. As they move to those, what we've done is made a lot of those plans unlimited. And so, when you think about the data usage growth that happens with those unlimited, we're investing more for that traffic. And so what you see is cost price increases to compensate for some of that increased cost, and that's what was announced in the first quarter.

In terms of consumer impact contacting us, it's been very small, I mean, which I think speaks to the strength and the competitive advantage that the product has in the marketplace. We offer 1 gig across our entire footprint. The sweet spot right now is in the 100 to 150 megs, which again we offer across the entire footprint. And as consumers look for that, they see value in the pricing that we put forward.

<Q - Vince Valentini>: You mentioned the 30% increase. Do you have or are you willing to disclose the updated figure on what the average household is using per month?

<A - Anthony Staffieri>: In actual amount?

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<Q - **Vince Valentini**>: Yeah. How many gigabytes of data the average broadband customer you have is using...

<A - **Anthony Staffieri**>: Yeah.

<Q - **Vince Valentini**>: ...is it up to 200 gigabytes or...

<A - **Anthony Staffieri**>: It continues to climb at a healthy pace. What I can tell you and there's a better metric is number of connected devices per home. A little while ago, we disclosed a number of 11. We now sit at closer to 15. And so the number of connected devices continues to climb at a very healthy pace, and that's how consumers actually see the value in it, and if you think about all the things you rely on it, your home Internet for, they really aren't measuring data traffic, but rather the utility value of it.

<Q - **Vince Valentini**>: Excellent. So let's talk about big blue Bell and their fiber-to-the-home and the competitive intensity there is. Does that make you worry that this type of pricing power in broadband could go away over time? Like what kind of behavior are you seeing from them recently in total, but then also specifically in areas where they've upgraded to fiber-to-the-home? Do you seem them being unusually aggressive and has it caused problems for your broadband business?

<A - **Anthony Staffieri**>: Yeah. What we've seen is, off late, is not different than we've seen for a long while. We've been competing with Bell with their fiber-to-the-node implementation and fiber-to-the-home for a long while. In some areas, we compete head-to-head especially on new construction. For a long while, we've been both putting fiber-to-the-suite or fiber-to-the-home, and in those areas, we continue to do well with leading share in new construction. If we look at other areas and how we've been competing, it's clear that their primary focus has been on price.

And I would say, we've become much more thoughtful and patient on that side of it. What is clear is, we're going to focus on a balance between subscriber and ARPU, and that's been working well for us. So notwithstanding what you've heard in terms of pricing as I said on broadband, we continue to increase penetration every quarter, and so that continues to do well, and when we look at our performance within FTTH territories, we continue to do well in that territory as well.

You'll see us moving away, continue to move away from some of the long-term promotional pricing that they put in the marketplace. What we found is when you're giving customers 12 to 24 months of promotional pricing, that becomes their expectation of what the ongoing price ought to be, and those customers have a very high propensity to churn.

And so while we might lose the customer on the first go around, there is, now that we've seen this play out for over several years, high propensity of that customer to come back at the end of the 12 or 24-month promotional period. And so, we'll stay focused on short-term pricing, and as I said, continue to balance subscriber growth with healthy financial growth on the Cable side.

<Q - **Vince Valentini**>: Okay. And the other competitor that I worry about, although I don't think we've seen too much evidence of it yet, is the resellers. I mean, the CRTC did seemingly substantially lowered the wholesale rates about 18 months ago. Do you notice any disruption from TekSavvy and the other resellers out there? Are they any more aggressive than they were a year or two years ago?

<A - **Anthony Staffieri**>: Well, you're right. They were given a – I would call it a break on the pricing, wholesale pricing, about two years ago, just under two years ago. And what we saw was not much. And so if we're to look at their share of the market and the way we've seen their share evolve, it's given them the opportunity to try to move up tier on some of the bands, but the volumes are extremely small. And if we were to look at trending before that and after that in terms of share, it really hasn't changed. And what that tells us is customers are looking at more than just price when they think about broadband, it's a whole bunch of things in terms of reliability and the service that go around it.

<Q - **Vince Valentini**>: Excellent. And CapEx on the Cable side, so if I have one criticism of your company, I don't fully understand how your Cable CapEx is so high consistently and even higher than what Bell's CapEx is, even though they're doing fiber-to-the-home. Can you talk us through again, I mean, you're over 30% intensity now, you've talked

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about getting down to 20% to 22% eventually. Can you reiterate that that's still your goal, and give us some sense of the timelines and when we'll start to see that step down?

<A - Anthony Staffieri>: Yes. We – absolutely. 20% to 22% is where we see sort of the resting rate for Cable capital intensity and more in line with the industry. There are couple of factors that have caused us to be frankly unusually high on capital intensity. One is the implementation of an IP-based video product. For a couple years, we invested in our own, and that drove capital intensity high. And now that we have moved to the X1 implementation, we've had the upfront costs related to that. I mean, upfront, although the model itself is a variable cost model with Comcast, there are upfront costs in stitching that IP platform with our billing systems and all our other core processes, and that's largely come to an end now, and that'll be a driver of reducing capital intensity.

The second piece is hardware, hardware related to our legacy video platform. HDPVR has [ph] run us (00:34:58) CAD 400 to CAD 450, and you need one for each TV that's in the home. And so, as that number moves up, the cost for us has moved up exponentially as – because it's not linear with the number of TVs moving up in the home, but also as folks try to move their current digital boxes to HDPVR. And so you don't necessarily always see it commensurate with revenue.

The average home today costs us almost CAD 1,100. If you were to look at installation and CPE, as we move to X1, that number is going to move below CAD 400. So, moving to all IP is going to be key to get that number down. So those two factors alone are going to be the biggest drivers of reducing our Cable capital intensity. So you don't have to believe in heroic assumptions, it's some big items that are going to come off the table. Now in the meantime, we are ramping up some of the segmentation that we want to do, and that's offsetting it, but we're confident in the fullness of time that will be at the 20% to 22% capital intensity ratio.

<Q - Vince Valentini>: Segmentation, I mean, node splitting to increase your broadband capacity, [ph] is that (00:36:18) what you mean?

<A - Anthony Staffieri>: Absolutely. Yeah.

<Q - Vince Valentini>: So, is that – I mean you started to accelerate that last year, it seems like it's still accelerating this year. Does that have to keep accelerating in 2019, or do you finally start to reach a level where you've already had pretty small node sizes and you can slow down?

<A - Anthony Staffieri>: It's the latter. And so what we wanted to do is focus on, we call it Quick Start program, and it's going to give us capacity in some cases ahead of where the demand is. But in our models, we've kind of traded that off with reduced construction costs. So to the extent that we can make commitments with contractors on the amount of work they get and doing contiguous neighborhoods as part of this, what it does mean in the short term, capital goes higher than we might need. But it then comes off later on. So think about it more as a temporary rather than long term.

<Q - Vince Valentini>: Okay. And segue into business telecom sticking with CapEx to start with, is expanding into the business telecom market where, I think you guys have some room to play catch-up with so many other cable companies in terms of market share, is that an area where CapEx has been elevated as well to extend your network and your capabilities and to be able to service business customers?

<A - Anthony Staffieri>: Yeah. Two things on that, one is you're absolutely right. We have underperformed where we ought to be in terms of the business space or enterprise space. Our peers in the Cable sector on both sides of the border have demonstrated a good ability to get small and medium business penetration on the Cable network at a rate that's much better than us. And so that's not lost on us, and clearly, it's an opportunity, and we need to execute on it and we're focused on it.

We've made some changes to try to drive up – drive at that, and that's a key growth opportunity for us. As we move to what we traditionally called RBS or the fiber-based solutions, it's geared more towards the mid space. We think about the network now more and more as one network. It actually doesn't matter if it's on the Cable side of it or on the fiber side of it. A customer is a customer, and so, we've taught ourselves to be much more efficient in utilizing the network we have, and it doesn't matter where it came from.

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And so the key focus there is increasing penetration rates. So I wouldn't describe our capital intensity in Cable as being driven by the business side of it. And it's for the other reasons that I talked about, but certainly, it's an opportunity on increasing penetration, increasing utilization, and ultimately driving a better flow-through of revenue growth.

<Q - Vince Valentini>: And any sense of the timing there, or are you still in the [indiscernible] (00:39:12) in the formative stages of strategy and products to go-to-market with, or will we start to see rubber hit the road maybe second half of this year and then the next year in terms of better revenue growth perhaps.

<A - Anthony Staffieri>: Yeah. Being careful to not heighten expectations, we're behind where we thought we would be. If you recall, we talked about this a few years ago.

<Q - Vince Valentini>: Yeah. I recall, yes.

<A - Anthony Staffieri>: Didn't execute, and so, we learned from that and there's a couple of things we think we could and should do right [ph] and beans on those (00:39:43). It'll take time to do that. So we're not looking for a quick one-hit wonder, but rather – and he's very focused on the connectivity piece of that revenue, the recurring revenue piece, and it's going to take a while to build that book of business, but we're confident it'll come through, but it'll take some time.

<Q - Vince Valentini>: Okay. Mindful of time, I'm going to jump to sort of corporate – couple of corporate questions. First, obviously, the dividend. Your EBITDA growth is great, free cash flow was strong, your payout ratio was well below most of your peers, by my number, 57%. Any updated thoughts on the dividend like when we could see it increase? What you need to see? Is it a [ph] dec ratio (00:40:28) down? Is it getting through the spectrum auction? If you can give us some parameters around the dividend, it'd be wonderful.

<A - Anthony Staffieri>: Yeah. I'll start with the disappointment, not a lot new to say on the topic. We've said a while ago that we were going to focus on the value drivers of the business. We continue to see dividends as a part of a cash return model. It's a good way to augment valuation, but as we heard in the opening comments, we always thought long-term investors were focused on key value drivers, and that's where we're focused on, top line growth, healthy margin expansion, and cash flow growth, and continue to have healthy leverage on the balance sheet. We've said we'd like to be in the 2 to 2.5 range on the balance sheet.

Our leverage sits at 2.7, which is a healthy decline from where we were a year earlier, by the end of the year, we'll probably be at 2.6, maybe even better. So, we've got a good natural runway to get to the level that we were looking for. So, leverage coming in nicely, cash flow growing nicely. And so the fundamentals seem to be there. And we'll continue to focus on that, and at the right time, we'll look to increasing the dividend. Again, we're committed to a dividend model, dividend increase model, and at the right time, we'll make that decision. It's just not now.

<Q - Vince Valentini>: Is it – can you clarify that there's nothing that worries you – I don't know if it's competition from Bell in fibre-to-the-home, Shaw in wireless, the 600 megahertz auction next year. Is there something that management team and the Board is saying, some little heightened risk right now, we need to get over that hump before we can think about the dividend, or is it just purely your optimal capital returns?

<A - Anthony Staffieri>: It's a bit of both, there are things that worry us every day that we've always got our eye on, and we continue to manage those risks. On balance, we see healthy future for Rogers in its key businesses. We've always said we have a terrific set of assets that are well-proportioned, focused on Wireless, leading on Wireless, focused on Cable, leading in Cable, and on the Media side, with just the right assets focused on sports that help us leverage that piece of it. And so when we look to – again, it's coming back to monetizing those assets, executing on the basics, and at the right time, augmenting it with dividends.

Our payout ratio today sits at about 57% to 60%, more conservative than our peers and competitors, but we think a well-balanced payout ratio somewhere in the 60% range makes sense, and we'll continue to think about it that way. And so, just think about it as being well-balanced over the long term. The final point I'd make on it is, when we raise dividends, we want to make sure it's a sustainable dividend increase. Is it going to be a one-time increase? So we want to be particularly thoughtful about how and when we do it.

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<Q - Vince Valentini>: Okay. And last question for me, and then I'll leave one minute for the audience, is just the – you mentioned a good mix of assets. Is there any update you want to provide anybody in terms of potential non-core assets [indiscernible] (00:44:02), anything else, is there anything that you and Joe view as potentially non-core that you could use to monetize to reduce debt in the near term?

<A - Anthony Staffieri>: What we've said all along is we want to make sure we get credit for the assets we have in our share valuation, and there are some assets that aren't fully reflected. And so, we continue to look for ways to ensure that we get credit for that value. We've talked about it as servicing value, and we continue to look at the alternatives. So that hasn't come off the radar for us. In the first while, we've focused on the things that mattered most, which were the Wireless fundamentals, Cable fundamentals, and that's where the focus has been. And so we continue to look at those. Nothing new to report on them.

<Q - Vince Valentini>: Okay. If anybody has a question in the audience, put your hand up, we'll get you a mic, we got time for maybe one question, over here.

<Q>: Verizon has been talking about 5G and their big investment there and how they think that's going to help drive revenue in the long run. Do you think Verizon – or do you think that 5G will be an opportunity to drive revenue, and will it – what will the impact be on CapEx as well as revenue?

<A - Anthony Staffieri>: Sure. Great question. Two parts to it. One is, is 5G going to drive revenue? Absolutely. I think it unleashes a whole host of use cases. The thinking is that it's probably going to be predominantly on the Enterprise side, so, yes, in terms of potential opportunities. The second piece of it, given you're talking about Verizon, is the fixed wireless part of 5G, which is sort of an aspect of 5G and whether or not that provides a solution. We continue to watch it. It's less of a concern for us given our Cable background. Coax has a long life for a long time for the last mile. Telcos need to find a solution because it's binary. You either have fiber-to-the-home or you don't.

And so fixed wireless matters. It's not at a point yet where the reliability and the cost is where it needs to be. We'll continue to watch it, but in the interim, less of an issue for us given the strength of fiber and coax. The DOCSIS implementations are coming over the next little while. I mentioned today, we had a 1 gig. It'll move to 10-gig probably within 18 months and symmetrical will improve substantially in the next little while. And then there is more technology roadmaps beyond that. And so the fixed wireless piece, as I said, we'll continue to watch it, but still too early to make any comment on it.

Vince Valentini

Wonderful. Tony, thank you very much for coming today and for your insights and commentary.

Anthony Staffieri

Thank you.

Vince Valentini

We will go round to our next speaker [ph] since we get Dave (00:47:09) up on stage, and we'll take a break after that. Thanks, Tony.

Anthony Staffieri

Good questions.

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Vince Valentini

Good answers.

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