Company Name: Rogers Communications
Company Ticker: RCI/B CN
Date: 2018-06-13
Event Description: Scotiabank Telecom, Media & Technology Conference

Market Cap: 32,067.10
Current PX: 62.35
YTD Change($): -1.70
YTD Change(%): -2.654

Bloomberg Estimates - EPS
Current Quarter: 1.046
Current Year: 4.082
Bloomberg Estimates - Sales
Current Quarter: 3783.667
Current Year: 14932.786

Scotiabank Telecom, Media & Technology Conference

Company Participants

- Jeffrey Fan
- Anthony Staffieri

MANAGEMENT DISCUSSION SECTION

Jeffrey Fan

Thank you. Welcome back. On stage with me is Rogers' CFO, Tony Staffieri. Welcome, Tony.

Anthony Staffieri

Good afternoon. Thank you for having us.

Q&A

<Q - Jeffrey Fan>: Wireless is your biggest business, the biggest topic for everyone whenever we have Rogers on stage, so I'll start there. The Wireless overall market has been quite strong in terms of subscriber adds for the past year, really year-and-a-half. We're adding about 1.5 million postpaid new subscribers every year. There is a lot of factors, whether it's population growth, penetration growth. What, if anything, could derail that? Do you see that as a kind of a consistent growth rate in the foreseeable future?

<A - Anthony Staffieri>: As you said, Jeff, when we look at the trending on it growing at 5% consistently, the factors that contribute to it, you've alluded to some of them. And so we look at it and say, if some of those, are there reasons they would diverge from the trending they've been on. The penetration rates have accelerated the last little while, but we still sit well behind the U.S., 86% in Canada, still well behind the 119%, 120% that you see in the U.S. We don't see any structural reasons why they should be different. And, in fact, a lot of the customer behavior on both consumer and enterprise side, like having dual phones, is accelerating.

So we see that continuing to play well. And then we look at it against the backdrop of the macro economy, and that continues to move along well in terms of GDP and all the other macro factors that we look at. So we don't see that as a big risk in terms of the horizon. So all the things that led to the growth still seem to be there, and there doesn't seem to be any major detractors from it. So for the balance of the year, as we thought about the guidance that we put out at the beginning of the year, is in Wireless revenue it was based on a combination of ARPU growth, as well as subscriber growth, and we seem to be on track with our expectations.

<Q - Jeffrey Fan>: The question that I think a lot of people ask is, yes, we have the subscriber growth, but we do have an operator in Shaw on Freedom that is gradually improving their network quality to compete more effectively. Do you see that as being a risk in terms of a competitive standpoint that that could cause the market to be a little bit more irrational? How do you think about that?

<A - Anthony Staffieri>: The way we viewed it, continues to be consistent with the way we've seen it play out. We've competed with Freedom and prior names of Freedom for a long time, for upwards of 10 years. And we compete not only on price, but importantly on network quality and on points of distribution, as well as other factors. Getting the customer is one thing, but keeping the customer is something else. And so we look at the whole lifetime value of it in terms of how we go to market.

<Q - Jeffrey Fan>: Yeah.

<A - Anthony Staffieri>: Are we seeing signs that there is disruption in the market that are going to ruin the economic dynamics of the market? Not really. And you're seeing it play out even in terms of the competitive intensity around certain parts of the year. In Q4 it was certainly competitive, but it isn't something that carried on into the first quarter and you're not seeing it in the second quarter. So it continues to be a fairly rational, yet competitive market. But it comes back to the point you raised earlier, the market's growing at a very healthy clip and I think that gives a player like Freedom to absorb their aspirations within that growth without really having much of a market impact.

<Q - Jeffrey Fan>: Right. You mentioned ARPU growth or ABPU growth now. Some of your peers are seeing sort of CPI-type level of growth in terms of percentage growth year-on-year. What are you guys seeing in terms of ARPU/ABPU growth?

<A - Anthony Staffieri>: Again, in terms of the drivers of ARPU growth, we continue to see all the dynamics that contribute to it still being there and it's largely data. There are other factors, roaming for one, but usage continues to be in the 30% to 50% range. And our view is try to translate that into a very reasonable 3% to 5% ARPU growth for this year. And that's again what our guidance was predicated upon. In the first quarter, you saw us grow blended ARPU 4% and on an IFRS adjusted basis at 3%, so both very healthy. And so for the rest of this year, as we close out Q2 and into the back half of the year, we continue to see all the right ingredients for a 3% to 5% ARPU growth, and on an IFRS 15 basis growth in the 2% to 4% range. And so we continue to just be very disciplined not only on the acquisition side, but in managing the base ARPU as well. And it's coming through nicely on ARPU growth.

<Q - Jeffrey Fan>: Okay. One other topic that comes up quite often is network sharing and the appetite for that. Recently, I think, you had said that there are some inherent issues with network sharing. Wondering if you can just elaborate on that a little bit, whether you think that's just a timing issue or whether there is something structural that creates those inherent issues.

<A - Anthony Staffieri>: In terms of network, as we think about our competitive advantages, we certainly are proud of what we consider to be best-in-class network performance across the country. As we evolve into 5G, more and more we think about us having our own network nationally as being a competitive advantage. It's going to give us a number of advantages, agility and nimbleness, especially as 5G evolves on the enterprise side, to tackle that aggressively out of the gate.

And so my comments previously really stem from that view that more and more it is a competitive advantage to own our own network and not have to rely on another party for something that's critical to the wireless industry. In terms of how we think about it in potential sharing with Freedom, for example, we'll always look at it. But to-date as we look to the economics, we just don't see the economics working out in our favor, and so continue to view that network sharing is not good for Rogers at this time.

<Q - Jeffrey Fan>: You do have a sharing arrangement with another partner in Québec with Vidéotron. How do you think about what you just said applied in that scenario?

<A - Anthony Staffieri>: Yeah. So the Vidéotron arrangement was struck many years ago, seven, eight years ago now in a world of 3G and 3.5G that evolved to 4G. And as we evolve that arrangement to 5G, both of us, Rogers and Vidéotron, will look to what's going to work for us economically on both sides of the partnership. So we're always evaluating it and I expect Vidéotron will say the same thing. Just given that partnership, there's not a lot I want to say about it in respect of our partner, but we'll continue to evaluate it and make sure it makes sense going forward.

<Q - Jeffrey Fan>: Okay. You alluded to 5G. We had a panel earlier this morning talking about 5G and the migration from 4G to 5G. They were technologists, they were CTOs. It's great to have a CFO talk about 5G. So how do you think about capital spending as you migrate from 4G to 4.5G and now to 5G in terms of the type of spending that's required?

<A - Anthony Staffieri>: As you said, as a CFO, I won't weigh into the technology side of it deeply, but we look at it as exciting technology. But we're all waiting for the business case and the revenue opportunities to be written. They still haven't evolved yet globally. So putting aside a fixed wireless solution and what that might bring economically in terms of revenue, those business cases still need to be written. And so, we see kind of a gradual pacing towards 5G in a very rational way.

We're in the process of upgrading our network to 4.5G and that hardware is upgradeable to 5G through software. So we kind of see a moderated investment path to 5G simply through software. And then as higher band spectrum becomes available on 5G, then we'll go through what you would expect in terms of hardware replacement. But we kind of see it as a very methodical rational migration as those business cases evolve. And so, as far as we can see – we've said capital intensity for Wireless right for us is about 12% to 14%. And as we move to 5G, we kind of still see that range as the right range over the near-term horizon.

<Q - Jeffrey Fan>: Okay. You mentioned fixed wireless and Verizon in the U.S. has taken a leap and said they're going outside their footprint and they're going to deploy fixed wireless to compete against the existing broadband technologies outside their fixed footprint. Do you see that happening in Canada, wireless operators going outside their fixed line footprint to try to go after the broadband revenues in other regions, i.e., Rogers going out west or other operators coming into Ontario?

<A - Anthony Staffieri>: Well, there is a couple of things. In terms of fixed wireless solution, I think in the first instance, it's a solution for the last mile into the neighborhood. In order to feed it, you need to have deep fiber to the fixed wireless location. And so you sort of need to get to – most CTOs will tell you, you need to get fiber to a place where the fixed wireless covers around 50 to 100 homes. So you have to have deep fiber in the first instance. Is it something we'll look at? That's kind of the first question. Sure, have been looking at and continue to look at it.

For us, the last mile is less of an issue, because of coax technology. Coax has a long life and a lot of upside for the last mile. In the next 12 to 18 months, our fiber-coax technology takes speeds from 1-gig today to upwards of close to 10-gigs, a much better symmetry in terms of upload and download. So coax has a lot of space for the last mile. Telcos are in a different position relying on copper and faced with the need to make fiber investment. So we get the point of trying to look for a cost effective solution.

As cost for fixed wireless comes down and the reliability of fixed wireless improves, it'll be an alternative for us, but doesn't change our strategy, because we are – as we continued node splitting, we're all, as cablecos moving to 32 or 64 homes per node, which is kind of the node you need for fixed wireless. So fiber will feed either the last mile of coax or it will feed fixed wireless, depending on the technology and the cost.

So is there an opportunity for us to move out of footprint? It's kind of a bit impractical in the sense that we would otherwise still have to put deep fiber in something that would be out of footprint. So just don't see it from a practicality standpoint.

<Q - Jeffrey Fan>: Okay. You touched on fiber, so let's expand on that a little bit with respect to fiber, because at the panel earlier fiber was talked about as is something that's needed. But, obviously, coax is workable with respect to deploying 5G as the backhaul technology. Is that the view and then can you move fast enough if fiber becomes a necessity for 5G?

<A - Anthony Staffieri>: Yeah. As we think about a 5G network, I suspect what you heard today is fiber is important, but there'll be a number of ways that 5G is fed. So if we were look at our macro towers today, they're fed by both fiber, as well as microwave. Microwave continues to have a very big ecosystem out there for us in the U.S. and in Europe, and microwave technology continues to evolve and I suspect that's what you heard. And so for certain applications in 5G, such as rural, it's very probable that microwave is going to be a very healthy solution and cost effective solution.

As we think about urban deployments of it, we're all facing the same issues, in the sense of it's a macro site with a whole bunch of small cells the size of a notebook that are plastered on the sides of buildings, just like outside here. And it's about getting the fiber that you already have in this building to that location or very close to that location. And so the fiber network is largely there for all of us and we're all going to have to build out a little bit to where that small cell is going to need to be. And you've heard it before, it's largely going to be a real estate play in that respect, not unlike how you saw in building coverage play out over the last 10 years between the large wireless players. So there's work to be done for the whole industry and we all get there. We expect, but there's practical solutions to fiber-only for where it makes sense.

<Q - Jeffrey Fan>: And, I guess, the key is you can keep it within that 12% to 14% and below as you make this migration?

<A - Anthony Staffieri>: That's right, and that's how we're thinking about it for fiber. There is some discussion as to whether or not the fiber-coax or fiber that you otherwise have deployed is going to be useful for it. Keep in mind, we think about 5G is predominately going to be an enterprise play for the most part. There'll be consumer applications, but it's really going to focus on enterprise, which is going to be in commercial centers, urban centers, industrial parks. That's not where a lot of the residential network is today. And so we see it as something separate and something that's largely well fed today.

<Q - Jeffrey Fan>: Okay. Spectrum, last week [ph] ICIT (00:16:03) released more spectrum auctions to come in 2020, 2021, and we've gotten an auction coming up in March 2019. From a CFO and from a financial perspective, do you think those are spaced out nice enough from your perspective in terms of timing of when you have to make the spectrum spend versus the time that you can actually extract the value from those licenses and deploy it for additional revenue opportunities?

<A - Anthony Staffieri>: Yeah, we do think so. I mean, ultimately, the worst thing we want to have is a spectrum auction without an ecosystem that's going to be able to deploy it. And so as we think about 600-megahertz in terms of overall value for us, the way we think about it somewhat less value than 700-megahertz, and certainly less value than the higher end spectrums that'll come later on in 2021 or maybe even beyond. We sort of need to see how the 5G ecosystem evolves and how the applications evolve. And so they are well spaced. But in some ways, we think about it less from a cash flow standpoint and more from a technology ecosystem. And as I said earlier on, how fast the corresponding revenues can come in, that's the bigger issue for us.

<Q - Jeffrey Fan>: Right. Switching gears over to Cable, it sounds like you're soft launching the Ignite TV on the Comcast X1 platform. How do you measure success with respect to that product, specifically you're looking for subscriber performance, is it ARPU, is it improvement in the capital per home? How do you think about that?

<A - Anthony Staffieri>: Yeah. As you said, we soft launched our Ignite TV product, which is the X1 IP version of the platform; very excited about it in the way it's playing out. We've employee trial tested it over the last six months and we have upwards of 5,000 employees who have had it, continue to use it, and now we're doing a soft launch. We think about the metrics we focus on as two phases.

In the first phase, now the soft launch, we're looking at all the metrics around operational excellence. We've priced it in the market at a premium space, and it's bundled with Internet as well. And so, it's a premium Internet product, besides being a premium video product. The product itself, if you're not familiar with it, it is the Comcast platform, integrates OTT options, such as Netflix and YouTube, today and as more OTT alternatives become available in Canada, it will integrate those as well and that's the beauty of it and that's what we like is the elegant frontend that it has to be able to use voice to integrate all of these.

The metrics that we'll look for now, as I said, around operational excellence, products stability first and foremost and that one, we have a high degree of confidence on, just given the amount of testing that's gone on with the product and it performs well with very little to no follow-up. So from a product standpoint, we'll continue to watch that. But the important ones are customer service metrics.

I'm trying to look at how easy was it for the customer to get the product? How easy and simple was it for them to choose a video package, to go with the Internet package? How did the tech show up, did they show up when you wanted? Did they get the install right quickly on the first try, and were you up and running within a period of time that we set for ourselves? When the tech left and you got your first bill, was it exactly what you expected, no surprises? And so we're looking at all of those operational metrics and at the end of it, how likely is the customer to recommend the product. That's what we're more focused on right now.

If we get that right, then the next phases of the launch is we move to loud and proud, then we'll look to ARPA in the home as a primary metric, and looking to move ARPA up from where we are today, but also household churn, moving household churn down. Those would be the two biggest value drivers for us.

<Q - Jeffrey Fan>: Okay.

<A - Anthony Staffieri>: There's a whole bunch of metrics underneath that, but those would be the two big proof points that we'll look to assess the success of not only the X1 platform, but immediately afterwards we'll launch xFi and then XHome. And so as we launch the Comcast X suite of products, we do view that as anchoring a home centered around best Internet and that competitive advantage we have, and making the customer sticky, even in the event when our competitor is able to offer fiber-to-the-home, which we still see for the majority of our footprint being a very long time. But when that day does happen, if it does, we've got a customer who is going to be very tough to unstick on product alone.

<Q - Jeffrey Fan>: I see. But also the capital per home is also a meaningful change from the old cable service to the new platform.

<A - Anthony Staffieri>: Absolutely. One of the two big things that we were quite enthused about in following the Comcast roadmap; one, we get out of the product development business. We just don't have the scale to do it effectively. And so we move from a large fixed cost to a much smaller variable success-based model, which works well for us.

<Q - Jeffrey Fan>: Yeah.

<A - Anthony Staffieri>: And at the same time move from CPE ecosystem that today on average a home costs us almost $1,100, that will move on day one on the soft launches to under $400 per home, and that cost will come down over time as well. So CPE becomes a much less relevant factor in the whole cable CapEx. And today our cable capital intensity would sit at just over 30% and we said that the right spot for us is 20% to 22%. And one of the big ingredients is the CPE switchover that happens. And once we get traction on the X1, it'll happen relatively quickly we think.

And the second pieces of it are the product investments that we previously made in IP that once we're behind this lunch is worth another 5 points. So the building blocks for getting our capital intensity down are in place and ought to happen.

<Q - Jeffrey Fan>: Right. Just curious, a show of hands, how many in the audience are Rogers Cable customers in their home?

<A - Anthony Staffieri>: Thank you for your business.

<Q - Jeffrey Fan>: And how many of you actually would like to see trial the new service? That's a pretty big percentage of your base, so there you go.

<A - Anthony Staffieri>: [ph] Pretty good. (00:23:26)

<Q - Jeffrey Fan>: I can't let you leave the stage without asking the dividend question, because that's important for the audience. In light of everything we talked about with respect to 5G investment, spectrum auctions coming up, how do we think about dividend and reinstating that dividend growth as you look ahead?

<A - Anthony Staffieri>: Not a lot has changed in our thinking. The spectrum auctions were always there and at the time we paused dividends, we had no growth, no top line growth and no cash flow growth, and it didn't make a lot of sense to get ahead of ourselves. And what we said was, we would focus on growing the top line and growing cash flow, getting our balance sheet to a leverage ratio that we're more comfortable with. All those factors have come in nicely and we've gone through a CEO transition. And Joe, being here just over a year, has been able to develop his own confidence level with the performance of the business and the sustainability of that performance. And so although things are trending in the right direction to help us make a dividend increase decision, but we haven't made one yet.

Jeffrey Fan

Okay. In light of time, unfortunately, we have to end it there. Thank you, Tony, and thanks for all the insights.

Anthony Staffieri

Thank you.