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Rogers Communications, Inc. (RCI)

CIBC Eastern Institutional Investor Conference

CORPORATE PARTICIPANTS

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

MANAGEMENT DISCUSSION SECTION

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Okay. Thank you. Welcome back from the break. My pleasure to be hosting our next discussion with Rogers Communications. Not on, right? Hello. There we go. Thank you. Welcome back for the break. My pleasure to be hosting our next presentation with Rogers Communications. Joining us again this year is Tony Staffieri, who is the Chief Financial Officer. Welcome, Tony.

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

Thank you. Thank you for having us, and good morning, everyone.

QUESTION AND ANSWER SECTION

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So the common question we've been giving to all your peers, I'll throw it to you as well, is the uptick in regulatory noise that we've seen of late both from a wire line decision basis and also Wireless posturing, perhaps ahead of an election. So maybe if you could just start with your big picture thoughts on the current regulatory environment, and then maybe we'll dig into a couple of the specifics on both wire line and Wireless.

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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Well, there's a few, I would say, different pieces of the regulatory agenda that have sort of come together. I think it's important when you sort of step back and try to, as you said, look at the big picture of it. Our industry has had a long history of regulatory oversight, and I think it really speaks to the importance of the industry in terms of not only infrastructure investment, but the importance of the industry for consumer and enterprise in the nation, especially as we continue to move on the digital highway agenda.

And so, there's always been, I think, a very good, healthy dialogue, healthy tension that has got us to where we are. We're at a place now where notwithstanding our population density, the size of the country, we lead the world in networks, among the best in the G7. And it's no accident that we got here, and I think it's been healthy policy, a very disciplined investment by the industry. And so, I think that context is important. I think the various bodies of government fully understand, with that backdrop, the importance of facilities-based competition.

I think it's also important that we sort of split out the various pieces that have come together. There's certainly the elections side of it, and we've seen that before, and every election brings some new highlights for it. And then more specifically, there's the CRTC, peppered in with things the Competition Bureau has said and will say in respect of the wireless industry. And so more to come on it, but I think it's important that we stay rational and focus on the various pieces of it and what it means for long-term policy.

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Okay. So, digging in the specifics, the wholesale third-party decision was particularly onerous to Rogers, given I guess the current dynamic with resellers. Again, your thoughts on that decision, and you are part of an appeal that decision. I mean, what do you think is the prospect of that and having a discussion with the government to, kind of, review this at some point?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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Well, as you said, it is in front of the courts at this stage. We have filed an appeal as have the other telecom players. And so, I'm somewhat limited in what I can say, but what I will say is that we're extremely disappointed with a few things, not only the outcome. We think the rates are that have been set are inappropriate relative to facilities-based philosophy and [ph] full costing (00:03:33) principles that have been the mainstay of our policy and industry, and two, the retroactive nature of it and the process that went through; the fact that it's 3.5 years later.

Since that point in time, we invested CAD 4.4 billion in our Cable business. And so, to have that type of impact, it's not good for us and it's not good for foreign investment in Canada. And so, I think it's important we stay focused on the bigger picture, and having transparency and certainty is a principle that we think is important as we work through this appeal. In terms of dollar impact, we've disclosed that the retroactive impact to us is CAD 140 million and you'll see that disclosed in our financials when we announce in just a little bit in our Q3 results. And that's probably all I can say at this stage.

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Yeah. Well, it's fair. Turning to Wireless, we've got a hearing on Jan 13 discussing a bunch of topics, but heightened concern over MVNO, given some comments again perhaps back to the election posturing. But what comments would you have on that threat or that risk of somehow destabilizing the facilities-based argument for Wireless as well?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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Yeah. Along the same lines, I think, again, context is always helpful. We had a five-year Wireless review coming. And as part of that five-year, we have MVNO as – I would describe it, as one of the headline factors of it. I think it's important that we put it up against the context of two principles. One is facilities-based; I don't think it's lost on anyone that, as an industry, this year alone combined telecom industry is going to invest CAD 19 billion in capital. Now, we employ as an industry over 120,000 Canadians across the country, and probably well over that if you think about the suppliers that we have and the jobs we provide in the country. So I think it's substantial.

And then the second principle is what's the problem that we're trying to fix. If you were to look at the state of competition across the nation, we've got four well-capitalized players in every region, and we have multiple brands. And so, we have over 10 brands competing in each of the markets. And so, if you were to look at even the last quarter, for example, it's clear that there's healthy competition and that's against the backdrop where in the US they find it suitable to move from four players to a three-player market and think that that reflects healthy competition.

And then you move on and sort of say, what's the impact to the industry? I think it's relatively clear that any type of MVNO structure is going to hurt the new entrants, if I can still call them that. And I think by their own admission, it would be impactful to them most significantly. And so, it's a bit of a head-scratcher as to why something like that would happen, given the subsidization that has gone on for the last 11 years for those new entrants. So there's a lot of factors that we'll be making as we go through this, but it really revolves around, is the customer ultimately going to be better off.

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Okay. Those were good points. So, just digging into Rogers in particular, sticking with Wireless, another hot topic we've had to work with in this conference is the launch of unlimited data plans on Wireless which you spearheaded – Rogers spearheaded. So, maybe talk a bit about the rationale for that move to that now. I think the universal view is that, I think, most players were hoping that was a year or two away, but the rationale to move now with your unlimited data model with Rogers Infinite and, kind of, what you think is the early response to that, to Rogers in particular.

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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I think it's important to pick up on the word you used. What was the strategic rationale for it, and you ought to know and we've said this before that this was something that was a long time in the making. And as the largest Wireless operator in the country, we sort of look at what is the next phase of strategic change for the industry. And I think there were a couple of things that we wanted to change the trajectory on, and we thought now was the perfect timing for it.

One, we really needed to ensure that consumer and enterprise segment and how they thought about using Wireless services was well-tuned for the next generation of 5G. 5G is really going to be about paying for quality of network, paying for solutions, and doing it with comfort. And what we saw with the existing plans that we had, prior to the launch of our Infinite plans, was a trepidation of customers to feel comfortable with their usage. What we saw was year-on-year growth sliding down below 20%.

We previously used to see data usage growth of 50% consistently; in the US, it's even slightly higher than that. And so, clearly we had a pricing construct that was making it uncomfortable for consumers to use the data. It's not that they didn't want to. What we do know is that, if you were to look at our market in Canada and south of the border, consumers on both sides use about 10 gigs of data. But in the US, it's 7 to 8GB on Wireless and 2 to 3GB in the home or Wi-Fi; whereas in Canada, it was the opposite, 7 to 8GB in the home and 2 to 3GB on Wireless. And clearly, for the strength of the industry long-term we needed to accelerate that data growth.

And so, we spent quite a bit of time looking at what it would mean for the industry. We've been carefully watching other markets. And if you were to look at – traditionally think of unlimited as a throwback to where the US market was when they launched unlimited over five years ago, they've since progressed into something that I would call throttled unlimited or paying for quality, and that's where we're joining the evolution of unlimited. It's based on throttling experience that is really aimed at worry-free usage. And so, that was the strategy for it. And, as I said, we thought the timing was right when we launched it. We thought it was the right time for the industry and for our markets.

What are we seeing to-date? On track and probably better than we expected. As I said, we originally – one of the key tenets of it was to increase data usage. If we look at customers before and after – two months before, two months after, usage is up 54%. So, we're getting the behavior that we hoped we would be getting. If you were to look at customer sentiment, is this resonating with customers, our likelihood to recommend scores are up 50%, pre to post – pre-Infinite and post-Infinite. So that's terrific.

If we were to look at the time customers are spending with our agents or online shopping, it's gone down dramatically. It's a very simple process, and we're seeing the cost savings that we expected. If we were to look at price plan changes or churn, pre to post, and it's still early days, it's also way down in terms of the behavior of that cohort.

What it has done in the short term though is a couple of things which we expected. One is, it's excited the base. So I think churn it's fair to say against a backdrop of good, steady growth in Q3, churn is probably up slightly, but we continue to do very well in market share. And so, I think that's important. The second piece of it is, we were going to exchange a declining overage revenue regime to something that was much more predictable. And so, when you look at our customers before and after and what the impact has been on ARPU, excluding overage, ARPU moves up 2%. So it's been a very good impact. The adoption has been much faster than we expected. Compared to the number I reported to you a few weeks ago, we're now approaching 900,000 customers on these Infinite plans, and we're still seeing a ratio of one-third downgraders, two-third upgraders, which is better than we were expecting at this time.

So as you kind of tear apart those pieces, what it means is, we're moving faster to a better place. A year from now – because we think this overage melt is now four to five quarters – so a year from now, we're going to be in a spot where a majority of our customers are going to be on plans that start at CAD 75, customers that are much less likely to churn because they're not going to get bill shock with overage. And so, all the fundamentals are sort of sitting in the right place as we look forward to coming out of the overage melt.

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No, it's great. It's very helpful. You mentioned a good, steady growth continuing, the market notwithstanding a bit of – appearance of maturity on subscribers, still tons of growth left. What are your thoughts on the long tail growth prospects for Wireless in Canada? Are you as confident of the long tail?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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Very much so. I think, just to pick up on your term, maturity, I would say maybe that's the way you were thinking about it is solidified growth. Last year, we had very good subscriber growth and when we look at this year, we started off slow, but the second quarter picked up. And what we're seeing in the third quarter is a market that, on a subscriber basis, continues to grow at a very healthy pace. We would say, this quarter seems to be slightly below last year...

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Which is fine.

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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...and last year was an exceptionally good growth year. And so, we think all the principles for subscriber growth in the nation continue to be there, largely lending to our continued strong immigration, strong GDP, and fundamentally a penetration rate that is well below other countries, in the US in particular, sitting at about 88%, in the US, well above 120%. And so, I think one of the strategy points with the unlimited plans was to really increase those penetration rates, and we're starting to see that with the Share Everything construct.

We're starting to see the number of connected devices on Share Everything starting to grow again. And so, that's been a healthy attribute. And so we see subscriber growing and, as I said, long-term, we see good prospects for continued ARPU growth as well. So, I think both of those together point to good direction for top line growth.

The other piece of our launch of the Infinite unlimited plans was also the installment plans, and that was the other side of the equation. I think it's important that, as an industry, we focus on that piece of it. The idea was let's try to make devices with their escalating costs affordable to customers. And rather than continually discounting the hardware price, or the handset, put it into payment terms that are affordable on a monthly basis for customers.

Our launch of zero taxes upfront was similar in that vein where we finance the taxes as well. It's really about customer affordability and that agenda – and so the benefit for us is that subsidies would slowly come down. And so great value on connectivity and move away from heavy discounting. And I would say that second piece of the equation hasn't moved as quickly as we would have liked, but we expect as we look out towards past the end of the year, we think the industry will get it right.

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Okay. You mentioned the connected devices as part of that growth. Your competitor, TELUS, recently changed their disclosure between devices and phones. I know Bell has said that they're looking at it, but not there. What are your thoughts on your current disclosure of devices? Is that something you might want to follow?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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It's certainly something we're thinking about. As we look to – annually as we decide on our disclosure principles, one of the things we want to get away from that we had tried in the past is making changes mid-year. And I think that always cause more confusion rather than being helpful. And so, as we think about our disclosure for next year, we continue to take a fresh look at not only the financial metrics that would be helpful, but also the leading KPIs. And we're certainly looking at what others are doing around the world and the example you had is clearly the path that Verizon is on for this year.

And I think the more transparency we have to quality of connections, I think it's going to be important, especially as we head into 5G world where one of the lead indicators clearly would be the IoT side of it. And so arguably, it might be a bit premature now, but without getting into too many specifics, I think there's a lot of good reporting out there that we continue to look at. And in the New Year, we'll come out with our proposal.

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Great. Wanted to touch on the network. The strength of your network has always been a hallmark of the story, but behind that is the spectrum. So you recently were quite active in the 600 megahertz spectrum, I think at pretty good prices, [ph] but you won a fair bit (00:18:04). Your thoughts on that decision putting the 600 megahertz to use. And then again we got the 3500 MHz next year that's somewhat complicated because of your Inukshuk position, but maybe your general views on the spectrum and the importance to Rogers?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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We're really excited about our leadership in network as we head into 5G, and the momentum that we have heading into 5G. I think it's important to reiterate that 5G networks are going to be an evolution of 4G and 4.5G networks. So it isn't a rip and replace, it's a building on that. And so, we are extremely pleased with the fact that we're entering a 5G world owning our entire network across the nation. We think that's going to be a competitive advantage. We're extremely pleased that we're going into a 5G overlay with the best network on 4G and 4.5G. You recently would have seen a P3 study on network competitiveness, and we ranked top network on voice and data across the country.

I think one of the reasons that particular study is important is it's not a clinical test on something like speed, it's based on actual user data, so crowdsourcing, et cetera. And so, it's based on things that matter: reliability, coverage, and having it when you need it. And so, I think it's a particularly important proof point to the quality of the network that we have. We've always had a very good technology at the forefront. And as we move to 5G, we're thrilled with the 600 megahertz spectrum that we were able to get spectrum 600 MHz, every province, every region, every territory, and that is key and foundational for 5G especially for a landmass like Canada. And then as we build out small cells around the macro towers which have already started, you'll see us enter the 3500 MHz auction with having already 30 megahertz of spectrum. So we're heading into it with a very good position.

And then finally I'd add, we're pleased that we made the decision almost two years ago to move to an all Ericsson network. Our decision was based on factors beyond security, and I would say those came later and that was fortuitous for us, but we're glad we chose the partner we did. And so, what it does mean is we think about capital intensity for Wireless. We continue to view 12% to 14% of capital intensity as the right spend, including investments we'll make in 5G.

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So, you touched on the network and the Ericsson, you've got some competitors with the Huawei issue potentially. If there's a delay on their end from a 5G perspective, could you see a situation where Rogers does 5G ahead of peers, or we're still so far off that that perhaps that will all work itself out? What are your thoughts?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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I couldn't speak to their timeline, but what I can say is, we see the initial stages of 5G over the next – playing out in-market over the next 6 to 12 months. Like, we'll start to see handsets and I would call them maybe premature handsets late this year with some of the big brands releasing sometime middle to late next year. And so on the consumer side of 5G, I think that would unfold relatively quickly. But more importantly, I think everyone would agree that the upside in revenue of 5G is really around enterprise.

And I think our advantage there is not only going to be one of speed, but the ability to build out a 5G network that is customer solution-specific without having to rely on a partner. I think we really do believe that is a key competitive advantage. We don't need to wait for a partner to do their part for our customer. We don't need to rely on our partners' spectrum or balance sheet position to do that. In a world where edge computing becomes more important, the fact that we own our towers and the base of our towers where a lot of this equipment is going to sit is going to be a key advantage for us. So, we think we're heading into 5G with all the right key advantages.

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So, we should stop having meetings to see if you want to sell your towers at some point. Like, I do that math like four times a year. So, makes sense. Before I turn it over to wire line, I wanted to make sure I get that in, let me turn to the audience if any Wireless questions I didn't touch on that you want to get in at all. Anybody in the audience?

Okay. Just looking at the wire line, a mature business that appears to have a very long tail and a very high margin. So, what are your thoughts on the current competitive dynamic and really can we count on that business to have a very – as I said, a very long tail given threats to cord cutting, cord shaving, over the top. Just your general views on the health of the Cable side, for instance?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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Well, to pick up, we just finished Wireless and our leadership in Wireless is the – and everything we've talked about is, I would say, one leg of the stool of our value proposition. We're just as excited about the Cable side of it as well, and I'll talk about it from a customer solution and a financial standpoint as well.

Several years ago, we made the decision to make sure we had a competitive advantage and could execute on that competitive advantage with Internet, and we're extremely pleased with how that's playing out in the market. So, notwithstanding competitive environment we're in, our technology continues to perform extremely well in the market. Our ability to offer 1 gig of speed ubiquitously across the entire footprint, combined with our execution, what you've seen is consistently for 3.5 years we've increased our Internet penetration every quarter. And that's really been the cornerstone and is the cornerstone of our Cable business.

We also made the strategic decision to move to the Comcast suite of products and platform, and we launched the IP version of Ignite over a year ago now and we've got over 200,000 customers on the platform. Extremely pleased with the way that's playing out. It's the IP version. And the product has been a terrific bridge between conventional cable viewing, as well as OTT app watching. As some of you may know, it includes Netflix and YouTube today, it's about to include Amazon Prime. We just launched the inclusion of the Zone Sports app in it together with Sportsnet NOW app, and there'll be more to come in the fourth quarter as well. So it's been a terrific product that way.

If you were to look at customer metrics surrounding it, things like ARPA, higher than legacy by a good margin. If you were to look at churn metrics within it, also very strong. And so, we like what we see there and we're now at a point where we will stop-sell legacy in October. And so, we're moving fully to this platform. So, it's been working extremely well.

And then as an adjunct to that, and as part of the Connected Home strategy, we've launched our version of xFi, the app which is termed Infinite Wi-Fi Hub, and that's doing extremely well together with the extender pods that are easy to install and lend themselves very easily your self-install. And the next one is the Connected Home which is the equivalent of our Smart Home Monitoring and that moving into the next generation. So it's a pretty exciting road map of products that resonate well in the market and, again, really continue to help bolster our cornerstone which is Internet.

And so, on top of all that, the financials you see are very good, strong margins that continue to expand in our Cable business. But what we're really excited about is the progress we're making on capital intensity decline. We ended last year at just over 36% capital intensity. First half of this year, you saw down 29%, and that's probably what you're going to see for the rest of this year. And so, we talked about exiting 2021 with a capital intensity of 20% to 22%. And I'm pleased to say that we're on track and probably ahead of that target. We don't want to get too far ahead of ourselves, but clearly the road map to get to Cable cash margins in excess of 25% is very much on track and within reach.

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That's fabulous. So the CapEx comment leads me to my final question towards free cash flow. Obviously, a great free cash flow profile already and improving with the CapEx help there. And notwithstanding you've got some auctions to take up some of the balance sheet coming forward. But what are the priorities with respect to dividends? You grew the dividend a couple of quarters ago after a few years of having it flat. How do you see the company views a dividend growth notwithstanding still some elements of spending required?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

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Our principles on capital allocation haven't changed. We continue to be focused on, first and foremost, having a business that deliver sustainable, long-term cash flow growth. And then with that, the principles are returning cash to shareholders in the form that makes most sense. When you look at our balance sheet debt, we sit in a very comfortable position. You would have seen a few weeks ago commentary from the rating agencies reiterating their comfort, not only with our level but even at heightened levels of leverage of 3.2 or 3.3 being quite acceptable.

And so I think our natural momentum continues to cause our leverage to decline relatively quickly. And so, managing debt is not really an issue for us. We're extremely comfortable where our balance sheet sits with respect to debt, especially in this interest rate environment. And so, what you have seen us do at the right time is increase dividends, and we'll continue to look at it for the right time – at the right time, I should say, augmented by share buybacks. And you saw us do that in the first half of the year, and you'll continue to see us do that at the right time. And so, think about cash return model is still being important. And the form of it may lean more towards share buybacks, but at the right time we'll sort of think about the right balance between dividend increases and buybacks.

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That's great. It takes us to the end of time. So thanks very much, Tony. It's great to speak with you again.

Anthony Staffieri

Chief Financial Officer, Rogers Communications, Inc.

Thank you very much.