

# Barclays Global Technology, Media and Telecommunications Conference

## Company Participants

- Anthony Staffieri, Chief Financial Officer
- Joseph M. Natale, President, Chief Executive Officer & Director

## Other Participants

- Kannan Venkateshwar

## Presentation

### **Kannan Venkateshwar** {BIO 15351027 <GO>}

All right. Well, good morning, everyone, and welcome to today's session with Rogers Communication. My name is Kannan Venkateshwar and I cover the North American Cable Telecom and Media Sectors at Barclays. Very happy this morning to have with us Rogers' CEO, Joe Natale; and CFO, Tony Staffieri. Joe and Tony, welcome. Thanks for joining us this morning.

### **Joseph M. Natale** {BIO 6407853 <GO>}

Good morning.

### **Anthony Staffieri** {BIO 6566699 <GO>}

Thanks for having us.

## Questions And Answers

### **Q - Kannan Venkateshwar** {BIO 15351027 <GO>}

(Question And Answer)

And maybe we can start with some of the near-term trends. Obviously, Q3 was great and it seemed like the competitive environment was starting to ramp up again. And you of course have newer device launches, but with the resurgence of COVID cases, how much visibility do you really have into trends this quarter? And could you help us think about how you're approaching the planning process in this environment? So maybe, we could start off with some of the short-term trends.

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**A - Joseph M. Natale** {BIO 6407853 <GO>}

Okay, sure. Why don't I maybe speak to the planning process a little bit and then ask Tony to kind of cover what we're seeing in Q3 and overall, if that's helpful. I think the planning process will give context to where our heads are at and where we're spending our energy. As we stepped into the COVID pandemic, we kind of -- we said there are three key priorities in this business. One is keep our people safe; number two, keep our customers connected, because more than ever they are going to rely on our services; and three, keep a strong focus on investment for the long-term, because there will be opportunities to accelerate the strategy of this business into the long-term.

We really kept an eye on that very thoughtfully through the last many, many months, and if anything, it accelerated some of the things that we have been doing as a company, accelerated some of them in the course of two or three years in terms of effort overall, whether it's digitization of our business, whether it's self-install for the operating efficiencies of the business as a whole. And as a management team, we really have the opportunity to focus more heavily on the material long-term aspects, because one of the elements of the pandemic was a lot of -- more of a noise-free environment. Yes, we spent a lot of time on the here and now issues that were there, and pivoting. But in terms of the big files the ability to squarely focus on the future was absolutely tremendous and I think it played well into that and happy to talk about any of those items.

The simple fact that we were able to launch a 5G network and light it up in over a 130 cities in the middle of the pandemic, I think it is evidence of the fact that we just kept marching and pushing on that front. So that was the mindset. Maybe Tony, talk a bit about some of the comments that we made in the Q3 investor call and what we're seeing in terms of dynamic right now.

**A - Anthony Staffieri** {BIO 6566699 <GO>}

Yeah. As we quickly had to close out Q4, we're seeing a lot of the good solid momentum that we saw in the third quarter. If you look at each of our businesses, on the wireless side, we're seeing good improvements in the revenue trending. We talked about in the third quarter how -- we had a roaming impact of \$90 million and overage impact of 50 million. And as we close out this quarter, those numbers look like they're probably coming in at about \$70 million and \$40 million respectively. So we see good sequential and year-on-year improvements in terms of the year-on-year declines in wireless.

In Q3, you saw good strong margin expansion in our wireless business and you ought to expect to see that again in Q4, so we're pleased with our cost efficiency programs. We're seeing good loadings in the market. The market seems to be very healthy, competitive as you would expect in Q4 and we're pleased with our perception of the market share we have been achieving. And so much like Q3 again good solid performance on the subscriber front.

In terms of the total market size, we don't think total market size is going to be what it was last year in the fourth quarter. Our best guess is, it's probably down 5% to 10% this quarter, always difficult to estimate, but that's our sense. In terms of ARPU expected to be

stable in terms of absolute dollars to where it was in Q3. And so, overall, trending in wireless.

On the cable side there we see good success as well and really pleased with a number of factors there. Revenue momentum continues to improve and we'll see positive revenue growth in the fourth quarter in our cable business. We'll continue to see margin expansion, as you saw in Q3. And so we're pleased with again how we're seeing cost efficiency play out in cable.

And then finally, in terms of CapEx, that continues to be in check and expect capital intensity for cable to sit around 22% much like you saw in the third quarter. So very good cash margin growth. We expect that to be again similar to what you saw in Q3. In terms of the market, the cable side of it, quieter than what we're seeing in wireless, especially as we headed back into COVID lockdown in much of our territory. And we didn't do anything to stimulate the market either, and so, it's been fairly disciplined in terms of pricing on the cable side, and somewhat slow on the subscriber front.

Finally in media, without much sports happening, we expect our business to be flat in terms of EBITDA performance relative to Q3. So in absolute dollars, about the same level of EBITDA. And then finally, cash flow for the year, we're probably going to end up in line with the guidance we provided earlier in the year. Maybe a touch up or down there's a few investments in 5G, we're really pushing hard to get done before the end of the year. But it isn't going to be a material impact to a strong cash flow of position.

#### **Q - Kannan Venkateshwar** {BIO 15351027 <GO>}

Got it. And maybe we can parse through some of these in a bit more detail as we talk through the session. But maybe to talk a little bit more about the year itself. It's been a strange year overall. Volumes have been down quite a bit, but given of course is also down and as you mentioned just now I mean promotions looks like it's a competitive market on the wireless side and of course student volumes and immigration has been affected. So when you look at longer term trends, what does the growth algorithm look like for you? How do you expect the macro environment versus penetration or churn to impact you going forward, when you look at a slightly longer term horizon?

#### **A - Anthony Staffieri** {BIO 6566699 <GO>}

We believe that the long-term fundamentals of this industry are still completely intact and there's great growth opportunities. Some of them have been paused, because of COVID, but they will resume and they underpin the Canadian economy as a whole. You mentioned one of them for example, immigration. Immigration next year is scheduled to be 400,000 new Canadians, 1.2 million over next three years, which is up 25% from what it was in 2019, and that's a growth driver.

The penetration rates to you comment sits at around 90% versus the U.S. at roughly 1.20, 1.21. There's no structural reason why we shouldn't be climbing that penetration curve in the same manner. The adoption of two handsets, the business on the personal headset is one or two notches behind the U.S. momentum on the front that adoption is still

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happening, that penetration is still happening in Canada. And that will continue and resume in the full extent of things.

Foreign students haven't really been here this year. Foreign students make up an increasing part of the population in Canada as a whole. And then overall, in terms of data consumption, data still sits at about 2.5 gig per month in terms of wireless data consumption. The U.S. sits at around 8, and parts of Asia around 25 or more and we'll continue to climb that ladder over time, especially as 5G becomes the main focus of the -- main capability overall in the country.

I think as well, there's another element I would add because of COVID, because of the pandemic. In the last eight or nine months, there have been new behaviors formed. New behaviors formed for consumers, whether it's work from home or do things on their phone type behaviors, and more than ever those behaviors I think will take root. And there's not a study that has shown that acceleration of digital lifestyle has accelerated greatly anywhere from two to 10 years in terms of behavior.

We believe the vast majority of that will remain intact and will propel that kind of lifestyle going forward. And our networks have held up very well as a result. So we think that will also help. And then there's the big longer term price around the 5G industrial opportunities that have been talked about a bit, but really haven't come to fruition yet. Whether it's around low-latency capabilities, whether it's around network slicing, et cetera, software-defined networks and they'll be sort of the next layer on this thing as we move forward.

So we're feeling very bullish around the growth opportunities coming out of the COVID period. And roaming has been suppressed. Roaming is a big part of our portfolio. It's our belief that as people feel it's safe again to travel as in the back stated et cetera, there will be massive surge in terms of travel once again is our view both for pleasure and for work travel, and that will resume as well. So that's our thinking on the growth prospects, both long-term and more medium term.

**Q - Kannan Venkateshwar** {BIO 15351027 <GO>}

Got it. And Joe, I mean I wanted to put you in a little bit of a support. You've been in the industry for a long time, earlier at Telus, now at Rogers, and also you have been an advisory capacities at different points in your career. When you look at the industry, it's been commoditized in terms of the product and the infrastructure, and this has led to different kinds of responses in different parts of the world. And the major operating differences across operators in Canada and even around the world have been driven to a certain extent by balance sheet capacity to some extent. Could you talk a bit about what you've noticed in terms of the biggest drivers of these differences across different players in the industry? And what kind of an opportunity does this create for Rogers going forward?

**A - Joseph M. Natale** {BIO 6407853 <GO>}

Sure. I think to your comment, the -- if you look back at the history of our industry, if you look back at who have been the winners and the losers along the way, it all kind of correlates back to one point and that is, how good a job you do around capital allocation. This is a game of capital allocation in the long-term, always has always will be. And therefore, it's important to have freedom of choice around capital allocation, the ability to make moves when it's to make that move and do so in the context of right technology, the right advancement in terms of the next G of wireless, right M&A opportunity, et cetera.

At the heart of that, to your point is the strength of the balance sheet, really matters; really, really matters. I believe we have the strongest balance sheet in the industry. When you take a look at liquidity of \$5 billion, you take a look at our debt leverage, our average term to maturity is around 11 years. Our average cost of debt is around 4%, our dividend payout ratio sits at below 50%. So it's having that dry powder to take advantage of the opportunities in the disciplined way. And one thing you can rely on us as an organization is we're very disciplined in that capital execution and capital investment, whether it's on a unit cost perspective or the big moves that maybe become available to us down the road.

I also believe that there are some assets that drive the operating difference to your question, but don't sit on the balance sheet. They're very important assets that are becoming even more important in the future of this industry. One, first and foremost is the customer base, is the customer base. And the customer base not just because there's a source of lifetime value, but in our business given that we've got a wireless -- we're the largest wireless player in Canada, we're the largest cable operator in Canada, we have advantages within those areas because of capital allocation wireless. Wireless, we've got the only national network, we got the best spectrum position and we've done well so far on 5G spectrum having 80% of the 600 megahertz spectrum that's out there. On cable, we have DOCSIS across our entire footprint and we've also made great investments in fiber, where needed in that footprint as well. And we've got the best video platform on top of that.

And then the media business, we've got sports. Sports is probably the most attractive part of media; period. Media is going through its own metamorphosis. But that customer base -- going back to the point, the customer base is increasingly important. If I were to say to you that in the U.S. context we would be an amalgam of Verizon, Comcast, ESPN and MSG, that customer base creates an opportunity around customer insights that is yet to be fully leveraged. Customer insight and ability to understand customer behaviors, desires and market to that base in clever and thoughtful ways in this data driven world more than ever.

So you couple our distribution advantage. And other factor, I think that is a factor across the globe, distribution matters. And in countries where distribution has been let go, I think they'll regret it. They are read heading over the keys the distribution in some parts of the world. So we have the best distribution advantage of the physical sense. And now the key is to create the distribution advantage from a precision marketing, customer insights sense and couple that two together.

And I would say, in terms of operating criteria, the thing that's a huge asset that's not in the balance sheet is the depth and capability of the leadership team in the culture of the

organization. Culture matters more than ever and it's an asset that often gets overlooked and not talked about. I would tell you the thing that I admire most about the culture in this organization, now having been here coming on four years is the entrepreneurial spirit is alive and well. In an organization that's going through change, industry is going through change and wanted to make that pivot. And what we've proven through COVID is the entrepreneurial spirit was something we could lean on and they tremendous change happen in a small period of time. I think that bodes well in terms of operating conditions for the years ahead.

So I'll pause there, but I think those are the things that I believe are at the heart of differentiation in the future of this industry. And there's lots of growth opportunities still. To use the baseball analogy, we're not in the ninth inning of this industry, if anything we're in the third or fourth inning, we're at the precipice of the next big opportunity that sits. No different then. We started on the precipice of 3G and said to ourselves, what are we going to do with all this data, right? We started in the precipice of 2G and said, do I really want to email from my phone and these sound like ridiculous comments right now, right. But we're sitting on the precipice of 5G and saying, well I do all this stuff and I think in the fullness of time we will.

#### **Q - Kannan Venkateshwar** {BIO 15351027 <GO>}

I guess, to expand on that a little bit more, I mean, there's been a lot of hype around 5G around the world of course. And then some Asian markets where the roll out is further along, I mean, monetization hasn't matched the hype and even in the U.S. now we are starting to see that 5G is more about competing more aggressively on handsets or price than anything else. And to your point on distribution, it does seem like it's becoming an advantage, but it's an advantage in the sense that you can up-sell other products like this Disney+ or something on those lines on top of your wireless layer and that seems to be another approach people are saying. So when you look at 5G, is this a cost and capital intensity reduction opportunity or is this a revenue opportunity? How do you see this playing out the coming years?

#### **A - Joseph M. Natale** {BIO 6407853 <GO>}

I think it's a great question. It's one we spend a lot of time talking about at our leadership table. First, I would say, our mindset is not to hype 5G. 5G is an evolution that will bring great benefit to the industry. But it's a multi-dimensional evolution. When we think back to 1, 2 and 3G there were other monolithic evolutions, there was a particular capability that came. 5G, I think will have layers to it and we've alluded to a couple of layers. I think of it, and I said to my team, think of it as a layered cake, a four layer layered cake.

The first layer is the one that we've just talked about, and that is there's unit cost improvement opportunity. The ability to deploy spectrum aggregation technologies, massive MIMO technologies will lead to the ability to deliver bandwidth at a lower unit cost, and therefore, will enable a different market, enable a higher data consumption market, et cetera, and also deliver at a lower cost per gig. That's fundamental to the operating performance and the cash margin performance of the industry as is meant to grow over all.

The second thing, I think is around data availability and consumption. It is not just about the technology is creating the market characteristics that enable more data consumption as a whole. The reason we went after unlimited is because we were blocking the most important part of the market, the premium end of the market because of a data orig regime, that was blocking data consumption appetite of the market. By making the move to unlimited, at the same time driving hard on 5G, we have an opportunity to take customer consumption from 2.5 gig to 5 gig to 8 gig to 10 gig all the way to some of the consumption levels we're seeing in Asia and with that will come further opportunity. But the only 10% or 20% of the Canadian market that's on unlimited. There's still sort of lots of room to grow on that front as a whole and 5G with the right data plan construct around will enable that.

Thirdly, I think fixed wireless is a great opportunity in especially a country like ours. Canada is 35 million people or so spread across five time zones and once you get past the dense urban centers and the suburban markets, there is a whole underserved area of a country. And some combination of fixed wireless, other technologies will be the answer there. And so we believe that fixed wireless will play an important role in increasing footprint, increasing penetration, and the technology and the economics of fixed wireless in 5G are far better, than they were historically overall.

And then lastly is where the hype is. Lastly, they call it the industrial part of 5G that everyone loves to talk about. And really what's happening in that part is in the enterprise space is we have some new tools on the table, brand new tools we never had. We have low latency, we have 5 millisecond latency unheard of in terms of our networks. We have edge computing in terms of think of our cell towers as data centers -- cloud data centers, so we have edge computing. We have the ability to do things like network slicing or software-defined networks. So as a bunch of tools out there and people are starting to imagine what they can do with those tools. And yes, they can virtualize certain things, they can create certain industrial capabilities in manufacturing, in mining, in transportation, in smart cities and we tend to spend a lot of time talking about that stuff.

It's happening, but I think it's going to be the one that will take the longest time to take roots, that requires specialized partnerships with application of platform providers, with universities doing development work in some of those areas and really picking your lane, picking a vertical industry lane to go after in that last chunk of it. But, the first three layers of the cake have huge economic opportunity before we get to the fourth layer. And I think this will play over the years to come, it's not a sort of one and done in the next two years. I think this is a the next three, four, five, six years of evolution across all four of those layers is the way we look at it as a company.

#### **Q - Kannan Venkateshwar** {BIO 15351027 <GO>}

Got it. That's great. And, I mean, you guys moved the market in a slightly different direction when you went unlimited. And with unlimited I guess you to lose control of one of the pricing dimensions, which is obviously data volume. But long -- and to some extent that could constrain your pricing power or pricing ability and pricing becomes a function of external dimensions that you don't control. So things like adding Disney and Netflix or something else in terms of applications. So now that you're in this unlimited pricing environment, is it fair to say that ARPU growth over the longer term may be structurally

lower versus the best, even if you are able to upgrade a bigger proportion of your base overtime to unlimited? And that pricing power also adds incremental costs like say adding other applications onto your service?

**A - Joseph M. Natale** {BIO 6407853 <GO>}

I'll really let Tony to jump in on this question. We think, first of all that ARPU growth has still room -- headroom in terms of driving a greater share of the digital lifestyle wallet. It's a question of how do we think about what people actually buying from us in the future and not just tonnage, but what else are they buying from us. And now I'll just pause there and give Tony a chance to convey some of the thinking that we have.

**A - Anthony Staffieri** {BIO 6566699 <GO>}

Yeah. in the Canadian industry, generally, if you look at our ARPU is somewhat in line with our major competitors sitting at about \$51. The entry point to unlimited continues to be \$65 to \$75 range. And as Joe referenced earlier, it's still very nascent in terms of penetration. Roughly, we estimate 10% to 15% of the subscriber base are on unlimited plans today. And so there's still quite a bit of adoption of unlimited, there's still quite a bit of data usage growth that needs to happen.

Joe talked, earlier about Canadian consumption still being in the 2 to 3 gigs per month compared to other countries and in particular, the U.S. And so, all those, if you will, use cases in terms of video that you see in the U.S. markets and to some extent, we have done those in Canada and continue to do them to spur usage growth that still needs to happen in our markets. And so we see quite a bit of headroom for ARPU growth for those various reasons.

And then once we get to data consumption that is in the 10, 20, 30 gigs per month, we then see the opportunity much like you've seen in other markets including the U.S. to start differentiate based on levels of service front of the line access on the network tethering and a number of other factors that within our market still a lot for room to price differentiate.

So for all those reasons, we still think we're very bullish on the opportunity for ARPU growth in the Canadian context, but it'll probably happen post-COVID and the resumption of growth in a robust way we sort of see not happening necessarily in the first half of 2021, but more likely in the back half of 2021, and then continuing on beyond that.

**Q - Kannan Venkateshwar** {BIO 15351027 <GO>}

Got it. Just kind of couple of minutes left, so maybe we could touch on the cable business a little bit. You guys did mention early in the session that the competitive environment there is a lot more stable at this point in time. But, if you could provide us with some kind of an update on your cost efficiencies and the ability to expand margins from where we are today over the medium term? And also, if you could touch a bit on the capital intensity trend through '21 and beyond, that would be helpful?

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**A - Joseph M. Natale** {BIO 6407853 <GO>}

Go ahead Tony.

**A - Anthony Staffieri** {BIO 6566699 <GO>}

Sure, I'll take that one. We're very bullish, as I referenced earlier, on the opportunities for financial improvements in our cable business. We talked earlier about the top line growth, but we are seeing very solid cost efficiencies come in. And you saw margin expansion in Q3, I mentioned you'll see it again in Q4, and that's coupled with a very good improvement plan on our capital intensity for cable. It wasn't that long ago our cash margins for cable -- our cable business were less than 5%. We had targeted to be above 25% by the fourth quarter of 2021 and you're saying that we're tracking well ahead of that, so very pleased with that.

And there's a couple of things that are we're highlighting within that capital intensity. We continue to accelerate our footprint coverage. And so you'll likely see more homes past coming on board in '21 relative to 2020. We continue to accelerate and increase our node segmentation and implementation of fiber throughout our network. And that's offset with decreasing installation costs, self-serve has been a huge capital savings for us, and frankly, an experience the customers seem to enjoy much more than the traditional technician installs. Our CPE costs continue to come down.

And then finally, equipment costs throughout the network continue to come down as well. And so all of those factors have been at play to keep our capital intensity in cable likely in the 20% to 22% range throughout 2021, and that should lead to continue cash margins in the 30% range for '21 as well.

**Q - Kannan Venkateshwar** {BIO 15351027 <GO>}

Got it. Unfortunately, that's all the time we have for this morning, but Joe, Tony, this is great. Thanks so much for joining us this morning. That was very good, very useful to get some context on near term as well as long term trends. So thank you.

**A - Joseph M. Natale** {BIO 6407853 <GO>}

Thank you for hosting us and look forward to seeing you in person at some point soon. And happy to take any other investor questions whenever you get an opportunity. All the best for the rest of the conference.

**Q - Kannan Venkateshwar** {BIO 15351027 <GO>}

Thank you, guys.

**A - Anthony Staffieri** {BIO 6566699 <GO>}

Thank you, Kannan.

**A - Joseph M. Natale** {BIO 6407853 <GO>}

Thanks, Kannan.

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