Rogers Communications Inc. Second Quarter 2024 Results Conference Call Transcript

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Time: 8:00 AM ET

Speakers:

Tony Staffieri
President and Chief Executive Officer

Glenn Brandt
Chief Financial Officer

David Naccarato
Director, Investor Relations

Operator:

Welcome to the Rogers Communications Inc. Second Quarter 2024 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, we'll conduct a question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

I would now like to turn the conference over to David Naccarato, Director of Investor Relations, with Rogers Communications. Please go ahead, Mr. Naccarato.

David Naccarato:

Thanks, Gaylene, and good morning, everyone, and thank you for joining us. Today, I'm here with our President and Chief Executive Officer, Tony Staffieri, and our Chief Financial Officer, Glenn Brandt.

Today's discussion will include estimates and other forward-looking information, from which our actual results could differ. Please review the cautionary language in today's earnings report and in our 2023 Annual Report regarding the various factors, assumptions and risks that could cause our actual results to differ.

With that, let me turn it over to Tony to begin.

Tony Staffieri:

Thank you, David, and good morning, everyone.

I'm very pleased to report that Rogers delivered another strong quarter of leading financial and operating results. For 10 straight quarters, we have executed our plan with discipline in a healthy and competitive growing market. Our results speak for themselves. In the second quarter, Wireless service revenue and Adjusted EBITDA were both up a healthy 4% and 6%, respectively. Our focus on efficiency and disciplined market share growth is reflected in our industry-leading loading and industry-leading Wireless margins of 65%.

In Wireless, we led the market with 162,000 mobile phone net additions. This included 112,000 postpaid mobile phone net additions and 50,000 prepaid mobile phone net adds. The increase in prepaid net additions reflects our strategy this quarter to increasingly address the flanker market with our prepaid brand, which has also had a successful value proposition for the new-to-Canada market. This approach allowed us to continue to do well in the flanker category, while at the same time keeping our focus on penetration growth on the Rogers brand, where the majority of our subscriber loading occurred. As a result, and importantly, we continue to post positive ARPU growth, this quarter at 1%.

Overall, we are delivering industry-leading loading, with industry-leading financials in Wireless. This robust performance over the past two-and-a-half years is not an accident. We have a clear plan and we're executing with discipline day after day, week after week, quarter after quarter, and it's underpinned by our robust national distribution network, the value and flexibility of our Rogers 5G plans and our record industry-leading investments to build Canada's largest and most reliable 5G network.

Just this week, two global leaders in network benchmarking reaffirmed our network leadership position. Umlaut once again awarded Rogers Canada's most reliable 5G network, finding that our wireless networks outperformed those of our competitors in reliability, which is increasingly what matters most to our customers. In a separate benchmarking study, Opensignal recognized Rogers for delivering the most reliable wireless services in Canada. Opensignal also named Rogers Canada's fastest and most reliable Internet. The report found we consistently deliver the most reliable experience, the fastest overall download speeds and the best streaming experience in Canada. With a clear strategy, sustained effort and smart investments, we're delivering the most reliable network experience to Canadians.

In Cable, we remain focused on returning to modest growth in the fourth quarter, while maintaining industry-leading financials. Cable revenue was down 2% in the quarter, reflecting a slight sequential improvement from down 3% in the first quarter. Adjusted EBITDA was up an impressive 9% and Cable margins expanded to 57%, a Company and industry best. Our teams continue to work diligently to drive efficiency throughout the business and we are targeting additional improvements throughout this year.

In Internet, we delivered 26,000 net new subscribers, up slightly from one year ago. The environment remains competitive in both the East and West, and we continue to drive growth through enterprise, MDUs and the expansion of our TPIA and 5G home Internet offering. In addition to our Fixed Wireless

Access launch earlier in the year, we've just expanded our TPIA offering in Québec with the launch of TV and Internet services in the province. It's early days, but we see a big opportunity to grow in Québec, just like we do in Southwestern Ontario, where we've also launched.

With Shaw, we doubled our Cable footprint to reach just over 60% of Canadian households. Now, with our Fixed Wireless Access and TPIA network offerings, we're expanding our home product and coverage to reach almost 100% of Canadian households. We see this as an important strategic expansion, as our wireless network covers almost 100% of all Canadians. Our Satellite initiative will also further solidify our coverage leadership.

We also continue to advance our DOCSIS roadmap. We're successfully trialing DOCSIS 4.0 modem technology in select Calgary customer homes using our enhanced Cable plan. This is a global first, and it's delivering 4 gigabits download and 1 gigabit upload speeds at an extremely low cost per home. In the more immediate term, we continue to execute on our plans to return the Cable business back to organic revenue growth by year end. We will pursue this growth in a disciplined and targeted manner.

Finally, in Media, top line grew by 7%, led by revenue growth at the Toronto Blue Jays, and Adjusted EBITDA was breakeven. The third quarter is seasonally strong for our Media business and we fully expect Media to return to profitability in the second half of the year. At the same time, we continue to invest in the future and long-term growth. Our landmark content deals with Warner Bros. Discovery and NBCUniversal is part of that investment. Through these deals, we will bring Canadians the most watched lifestyle and entertainment shows on their platform of choice.

Before I turn things over to Glenn, let me say that our teams have worked extremely hard to deliver strong results in a competitive market. Rogers continues to consistently deliver industry-leading financial results and best-in-class customer growth. In the past 10 quarters, we've added an impressive industry-best 1.7 million mobile phone and Internet net additions. More Canadians are choosing Rogers than any other carrier, full stop. We've done this by out-executing our competitors and making strategic record investments to grow our business. I'm proud of our team and I'm confident in our plan to drive continued growth, while maintaining our track record to deliver disciplined financial results.

Let me now turn the call over to Glenn.

Glenn Brandt:
Thank you, Tony, and good morning, everyone. Thank you for joining us.

Rogers' second quarter results reflect another quarter of disciplined, industry-leading growth and strong operating and financial performance. As Tony has said, this marks our tenth consecutive quarter leading the Canadian telecom sector in performance. We are focused and we are determined to meet our commitments. Succinctly, we are consistently doing what we have said we would do.

Wireless service revenue in the quarter grew 4% year-over-year, driven by disciplined execution across all of our sales channels from coast to coast. Our targeted strategy of driving higher value for our customers through feature-rich 5G services from our Rogers premium brand remains critical to driving this growth.

Postpaid mobile phone customer net additions were 112,000 and prepaid net additions were 50,000. We anticipate our total net adds of 162,000 customers will once again lead the industry in market share and subscriber growth, while, very importantly, still leading on financial performance. Through a very active and competitive flanker brand market, Rogers has led across a combination of postpaid and prepaid mobile phone net adds. Our prepaid net adds reflect our commitment to compete across the entire breadth of the market, and our feature-rich 5G service plans remain exclusively available under the Rogers premium brand, which remains core to sustaining our strong margins and leading performance in a growing and competitive market.

Once again, our mobile phone ARPU was up 1% year-over-year, again reflecting our disciplined approach to the market and our emphasis on the premium Rogers brand. In a very competitive market, we remained disciplined in finding a path to leading growth, while emphasizing premium services to protect margins.

Postpaid mobile phone churn in the quarter was 1.07%, a modest increase of 20 basis points year-over-year, further reflecting our balanced, disciplined approach in the growing and very competitive market.

Wireless Adjusted EBITDA was up a strong 6% year-over year and our Adjusted EBITDA margin grew by 160 basis points over the prior year to 65%. This a Company all-time high, reflecting our team's exceptional work on driving cost efficiencies.

Moving to our Cable business, we remain committed to returning our Cable business back to organic revenue growth by the fourth quarter of this year, and this quarter's results reflect those efforts. Cable revenue was down negative 2% year-over-year, a sequential improvement from the negative 3% decline in Q1 and prior quarters. We will continue our drive to overall Cable revenue growth through the second half through a combination of subscriber growth and disciplined pricing.

Cable Adjusted EBITDA was up a very strong 9% year-over-year, reflecting our continued success in driving scale efficiencies and cost synergies. This strong 9% Adjusted EBITDA growth drove a very strong Adjusted EBITDA Cable margin of 57%, up from 51% in the prior year and up from 56% sequentially from the first quarter. We anticipate additional efficiency gains and margin improvements through the second half.

A key element to returning our cable revenue to modest growth in Q4 of this year will be through customer growth, and we are encouraged by our continued improving performance in retail Internet net additions. Internet net additions were 26,000 in the second quarter, a slight increase from one year ago, and consistent with our first quarter performance. This level of loading, combined with our industry-best margin performance, further reflects our balanced approach to driving growth, while maintaining disciplined pricing. This will continue through the second half.

Finally, our Sports & Media revenue was up 7% and Adjusted EBITDA was breakeven. We expect our Sports & Media business to be profitable through the seasonally strong second half and for the full year, driven primarily by revenue growth at the Toronto Blue Jays and Sportsnet. The completed renovations at Rogers Center have been very well received by fans, and while the Blue Jays season has not lived up to expectations through the first half, Sportsnet performance remains very strong, driven, in large part, by the Blue Jays and by the Edmonton Oilers' Stanley Cup run.

At a consolidated level, Q2 total service revenue increased 1% and Adjusted EBITDA was up 6% year-over-year. This drove our consolidated EBITDA margin up by 230 basis points year-over-year to 46%. Free cash flow also remains strong, reaching $666 million in the quarter, which is up 40% from the prior year, reflecting higher Adjusted EBITDA, lower capital expenditures and lower interest on long-term debt. Capital expenditures were $1 billion in the quarter, down $80 million, or 7%, from last year.

Turning to the balance sheet, at June 30, we had $4.3 billion of available liquidity, including $450 million in cash and short-term deposits and $3.9 billion available under our bank credit facilities. Our weighted average interest rate on all borrowings is 4.7%, down from 4.9% at year end, and our weighted average term to maturity is 10 years.

Our 4.7 times debt leverage ratio was flat to Q1 of this year, made more notable in that our Q2 leverage includes our $475 million investment made in the first half for the 38 megahertz spectrum we won at the auction last year, $380 million of which was made in Q2. Absent this $475 million investment, leverage in Q2 would have improved to 4.6 times. We remain focused on reducing leverage through the second half, targeting 4.2 times by year end. Our target is to reduce leverage by roughly half a turn each year, supported by a combination of earnings growth and paying down debt with available free cash flow and proceeds from asset sales.

As we have indicated in prior quarters, we have processes currently underway to sell targeted non-core assets, predominantly real estate assets, worth an estimated $1 billion. These asset sales are taking longer than originally anticipated as a result of continued softness in the market ahead of anticipated interest rate reductions. We remain committed to this initiative; however, we are also focused on ensuring we drive maximum proceeds.

Finally, as you read in our press release this morning, we are reaffirming all of our 2024 guidance range targets. We remain confident in our continued disciplined execution, working to drive cost efficiencies and improved margins, while investing in our growing markets and services. We are focused on driving growth and on de-levering our balance sheet, as reflected in this quarter’s strong results. As I indicated in my opening, and as you heard in Tony’s remarks, we are meeting our commitments, we are doing what we said we would do.

Let me conclude by congratulating and thanking our incredible team of dedicated and proud employees for their leadership. For the tenth consecutive quarter, we have delivered leading performance in a growing and highly competitive marketplace.

Thank you for your time this morning, and with that, Gaylene, can we please commence with the Q&A? Thank you.

Operator:
Certainly. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You'll hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

The first question comes from Drew McReynolds with RBC. Please go ahead.

Drew McReynolds:
Yes, thanks very much, and good morning. Two for me.

First, maybe, Tony or Glenn, with respect to just on the Wireless side and what appears to be continued demand for the Rogers main brand value proposition, can you just give us a little sense of what's driving that particularly, because, obviously, given the ARPU performance, there's demand there and up-tiering still happening? I'm just curious, from a consumer perspective, is it speed, quality of service, data buckets, other premium content that's offered? I would love to get a sense of that.

Then, second, Glenn, good to hear just continued expectation of margin expansion within Cable. It looks like you're probably spending about $1 billion on TV programming costs, which is a relatively big number, and I know Tony had talked about modernizing the TV proposition in consumers' homes for what people actually want to watch. I was just wondering how your expectation is on bringing down those programming costs over time, or, maybe said a different way, optimizing those programming costs just to align with what consumers want to watch. Thank you.

Tony Staffieri:
Thanks for the questions, Drew. I'll start with the first one on Wireless. As you pointed out, and I said in my opening remarks, the majority of our net subscriber additions continue to be on the Rogers brand. A while ago, we set out on a strategy to focus on the Rogers brand and drive growth on Rogers. There are a few things that we're seeing that's contributing to our success there.

First and foremost, it's the network. As I said in the comments, reliability is becoming more and more important, and we were extremely pleased to see Umlaut and Opensignal reaffirm our network performance and best reliability. That is the single biggest driver of churn reduction, as well as new acquisitions.

Secondarily, we continue to lean on our distribution network across the country. It has been extremely effective for us in all the channels, in both large markets, as well as in what we would call smaller markets, as well.

In terms of offerings, on the Rogers brand, we introduced Disney Plus and that's been helpful to it, but the other piece is convenient financing of phones. With the Rogers Mastercard, consumers can finance their acquisition of phones over 48 months and effectively cut their monthly bill in half when it comes to paying for the phone. That's been extremely helpful, as well.

Those are some of the big factors, and then the last one is the power of bundling our Wireless together with our home products, particularly in the West. The ability to now bring more competition to the West has been a good source of growth for us. Alberta and B.C. continue to be our fastest growing markets, with healthy market share, and that's contributed to the overall Rogers loading.

Glenn Brandt:
Then, Drew, on your question on programming costs, we really are just at the start of addressing that category. It's a large category, it's going to take some time. Some of the contracts we have in place run over multiple quarters and some of it is shifting customer presence, but—or customer channel choices, and that takes time. However, we've initiated a program. You saw the Warner deal, where we are now going directly to the studio and buying the programming. That's a start. We are looking to source leading programming that the customers watch, making that available, and making that available at lower margins by cutting out the middleman company and going direct. You saw that. We will continue efforts and opportunities in that vein. This is going to take multiple quarters to fully fill in, but we're at a good start.

Drew McReynolds:
Okay, thanks very much.

Glenn Brandt:

Thanks, Drew.

David Naccarato:

Thanks, Drew. Next question, Gaylene.

Operator:

Yes, the next question is from Vince Valentini with TD Cowen. Please go ahead.

Vince Valentini:

Hi, thank you. Can you hear me okay?

Tony Staffieri:

Yes. Thanks, Vince.

Vince Valentini:

Great. I'm going to ask about prepaid, which is a topic we don't talk about much, but you had a pretty big uptick in prepaid this quarter, and a two-part question.

One, with the change in your deactivation policy last year, is there a new seasonality, perhaps, of people who would come in and out, you know, in-year? Like, maybe there's some seasonality of people coming in in Q2 and those people quickly deactivate in Q3 and Q4. I'm just wondering if there's anything we should think about for modelling, because this was a bit of a surprise to us how high prepaid was this quarter.

The second part, maybe more important, can you give us a little evidence and history on your track record of being able to migrate people from prepaid to postpaid, how successful are you in that, how long did it typically take? If there's any percentage you can give, it would be wonderful, but I don't expect the moon, but any colour you can give would be helpful. Thanks.

Tony Staffieri:

Thanks for the questions, Vince. A couple of items that I'll go through.

This quarter, we decided to leverage our Chatr brand in the flanker space and we're pleased with the results we saw there. The Chatr brand is a low-cost and very simple to activate type of process, and it's particularly well suited for the new-to-Canada, that don't necessarily have a credit history, and so as we leaned on that brand, we found it to be very successful. I should tell you that the average ARPU in prepaid is just under $30, and most of the customers are on autopay, and so they very much look and feel like what I would describe as the flanker category. It's been a very successful entry point into our ecosystem. We continue to focus and do well on the pre to post migration. We don't share numbers on that, but we are extremely successful in migrating those customers to a postpaid brand, and, surprisingly, many will go right from the Chatr prepaid brand right to Rogers brand. That's been very successful for us.

In terms of the seasonality, there is a little bit of seasonal uptick in the second quarter, but that isn't what contributed to the large increase in prepaid subscribers in Q2.

Vince Valentini:
Just to be clear, we shouldn't expect some sort of spike in churn and negative prepaid in Q3 as an offset, this is mostly organic success?

Tony Staffieri:
That's right, Vince. There always is seasonality, as you pointed out, in subsequent quarters, but don't expect a net negative in future quarters. This is organic that we see as long term—as being long-term customers for us.

Vince Valentini:
Great, I'll leave it there. Thanks, Tony.

Tony Staffieri:
Thank you.

David Naccarato:
Thanks, Vince. Next question, please, Gaylene.

Operator:
The next question is from Maher Yaghi with Scotiabank. Please go ahead.

Maher Yaghi:
Great. Thank you for taking my questions. Encouraging results for guys in a competitive market. You have stayed onside in terms of ARPU growth in Wireless, while others have not. How should we think about your ARPU trends in Wireless in the second half? It looks like pricing is finding a bottom here. What are the risks, in your view, when it comes to back-to-school and the dynamics over there to pressure ARPU beyond what we have seen already?

The second question I have is on leverage. Telcos, it's the hardest thing for them to de-lever. Glenn, you mentioned that you had to pay for spectrum in Q2. I know you mentioned that you continue to look for divestitures to occur before the end of the year with that $1 billion of real estate, but any other opportunities beyond that $1 billion of real estate that you can look at, that you don't need necessarily to own, but you can rent, to run the business? Thank you.

Tony Staffieri:
Thanks for the questions, Maher. I'll start with the first one. We continue to focus on not only leading market share, but continuing to drive ARPU growth, and so as we look to the back half of the year, our expectation is we will continue to be on the growth side of ARPU. While there are pressures, as you would expect, we have a number of initiatives that we're driving that we're confident will continue to have solid ARPU growth for us.

As we head into back-to-school, our expectation is, of course, it's going to be competitive, just like it is every year. As we enter the back half, more than half the annual loadings occur, starting with back-to-school. As that kicks off in the coming days and weeks, you can expect us to focus on the Rogers brand in the back-to-school category, together with bundling with our home Internet and, in particular, our 5G Fixed Wireless Access product for Internet. Our focus has been, and will continue to be, on the value proposition beyond just price. Our expectation is to continue to be disciplined on handset financing, and our approach there, we don't see ourselves moving into subsidizing handsets, which one of our competitors is focused on; we have a different value proposition. We're going to focus on 5G and the Rogers brand, as I said.

Glenn Brandt:

Then, Maher, on de-levering, our prime two sources of de-levering, we have well in hand. It's earnings growth and it's free cash flow. Seasonally, most of our free cash flow comes in the second half; in fact, it comes in the last four months of the year. That's seasonally how our free cash flow generally hits through the year. When you look at—we've given guidance of free cash flow around $3 billion, range $2.9 billion to $3.1 billion, so for ease of numbers call it $3 billion. Our cash paid dividends now are somewhere in the range of $700 million and change. That leaves $2.25 billion, roughly, for us to use to invest. Well, $0.5 billion in spectrum this year, so that comes out of available free cash flow. The rest, we will use to pay down debt. Those two, first and foremost, we have in hand, and those are our key drivers in de-levering quarter after quarter, year after year, and you see the impact of that through this quarter and prior quarters.

On the asset sales, we will complete asset sales. You're right, real estate, we've got some that's vacant that we can sell, we've got some that we own, that we occupy, and could sell and lease back. The greatest productivity comes from selling assets that you don't need to lease back, but if there are transactions there that make sense on looking at the other, we will, but we've got time and we're certainly not in a fire sale. You saw us pivot at the end of last year, realizing the market was softer than we had expected on the asset sales and we sold the Cogeco shares. We took advantage of an uptick in the market and brought in a significant debt reduction in the tail end of last year. That bought us some time and allowed us some leeway to not fire sale our real estate and non-core asset holdings. We are still focused on driving those sales, though.

Maher Yaghi:

Thank you.

Glenn Brandt:

Thanks, Maher.

David Naccarato:

Thanks, Maher. Next question, Gaylene.

Operator:

The next question is from David Barden with Bank of America. Please go ahead.

Matt Griffiths:
Hi, good morning, and thanks for taking the question. It's Matt sitting in for Dave this morning. Two, if I could.

Just on Wireless, I wanted to just follow up on Drew's question, or the answer to it. I know the focus has been on the Rogers brand with it's improved network quality. Obviously, bundling is something that's happening more and more in the market. Given that, we still see churn ticking up. I wonder how you view that, if you view the churn as a return to normal, or we should see—as this strategy continues to play out, that we should see some churn benefits going forward that we should be modeling in.

Then, just on Cable, obviously, encouraging, the view of growth, or returning to top line growth by year end. Should we factor in some price increases in the back half of the year? I know that there's a whole host of items, including the enterprise segment, TPIA, Fixed Wireless Access, MDUs in the West, but in that mix, are price increases going to play a role in getting that inflection point to positive? Thanks.

Tony Staffieri:
Thanks for the questions, Matt. Let me start on the Wireless side, as you said, just filling in from the response I gave to Drew and the impact on churn longer term. If you look at the quarter, and the last several quarters, there's been heightened churn. It's probably worth dissecting for you that, as we focus on the Rogers brand, what we're seeing is, on that brand, improving churn, and as customers get on the 5G network—and we're very disciplined about 5G being only available on the Rogers brand—and, in particular, as they get to unlimited plans and the simplicity of the billing of it and certainty of the billing, and the performance of the network, those have been good drivers to improved churn and customer loyalty on the Rogers brand. If you look to the overall combined churn, most of that is happening in the flanker category, quite frankly, and so what we are seeing is customers moving around in that space as they are more price-conscious, and we also see some customers going from postpaid to prepaid, given the similarity of the product and some of the advantages that prepaid have for them.

As we look to medium term, we've said that we would expect churn levels to continue to be elevated for those reasons. Long term, as we look out beyond the next three to four quarters, our expectation is we will see churn levels likely decline, but we think it'll be some time before we enter that space. Notwithstanding that, the churn is happening against the backdrop of a continuing growing market, and so while churn is up for the industry overall, gross adds are up significantly and our market share in gross adds continues to be strong, leading, and continues to improve. On a net add basis, we see the market continuing to grow in the, roughly, 4.3% to 4.5% range for the year, overall, for the industry, would be our best estimate, and within that, we expect to continue to lead on market share on net adds.

Glenn Brandt:
Then, Matt, on your question on Cable returning to growth, I won't get into specifics around any marketing strategy, or that, I don't want to preannounce anything, but I would say through this quarter, we've been—you've heard me several times in my prepared comments refer to "disciplined". Part of pricing is not so much the posted price or increases, or that, but being disciplined on some of the discounting that is offered. We've seen a very active market, very competitive market. We are focused and careful on where we lean in and on where we pull back on some of that discounting. You see some of that through the second quarter. You'll continue to see that through the second half of the year. It's block-and-tackle as opposed to any magic bullet of let's simply charge more for services.

Matt Griffiths:
That's great. Thank you so much.

Glenn Brandt:
Thanks, Matt.

David Naccarato:
Thanks, Matt. Next question, please, Gaylene.

Operator:
Certainly. The next question is from Stephanie Price with CIBC. Please go ahead.

Stephanie Price:
Good morning. I had two questions on the Cable business, as well.

Maybe first, I was hoping you could talk about the uptake you're seeing in the Fixed Wireless offerings and how you think about that mix of Fixed Wireless versus TPIA as you move into the 40% of the country where you don't have a Wireline presence?

Then, second, just on Cable margins, obviously very strong in the quarter, and commentary was encouraging about the potential to increase that. Just curious about what other initiatives you have underway and how you think about driving margins from here.

Tony Staffieri:
Thanks for the questions, Stephanie. Since launching Fixed Wireless Access—we launched it nationally with a focus and attempt to index towards areas where we don't have a Cable footprint, namely, Québec and Southwestern Ontario, certain parts of it, and we're very pleased with the success of the product, the appeal of the product. Consumers and businesses find it very simple to buy and get up and running, literally, within seconds. The product is doing well, not only in those markets, but nationally, as well. We're finding that certain segments, including students entering Canada and new-to-Canada, that are still finding themselves somewhat mobile in terms of where they're going to be living, have an affinity to the product, because it's convenient and it is mobile for them. Fixed Wireless Access is doing well.

Relative to TPIA, we just launched that. As I've talked about before, we purchased Comwave to give us the platform back in the fourth quarter, and we wanted to relaunch the product that would include not only Rogers Internet on TPIA, but the full suite of products that we offer, and, in particular, the entertainment product, Rogers Xfinity.

It's still early days, and comparing it to is somewhat difficult just given the different timeline. We see a different use for each of them, depending on the customer's needs in terms of bandwidth that they're looking for. Generally, within a home where there are multiple users, entertainment happening at the same time as video calls, etc., our view right now is that TPIA would be the better solution, but as we deploy network slicing, the potential for Fixed Wireless Access use cases continues to increase, as well. So, we'll offer both and we'll let the market decide what fits the customer needs best.

Glenn Brandt:
Then, Stephanie, on your question on Cable margins and what other initiatives we're looking at, I'm encouraged by the question. Given that we're one year into post-acquisition of Shaw and you're asking whether or not we've filled in or still have more opportunity. We still have more opportunity, but I'm very pleased with the progress we've made to date on integrating the people and working through the people cost side of things, but there are still some very large initiatives and large opportunities.

We are still fully engaged on the systems integration and some of the improvements that come from that. Our ERP systems, that work remains underway. That will help drive some efficiencies in the boring operations side of things. That really helps to provide customer service improvements, as well as pulling some cost efficiencies out—or cost inefficiencies out.

We are still working on vendor negotiations. Some of those contracts we had in place were multi-year. We've worked through a significant portion of them, but there are still more, and we are now twice the scale on the Wireline side of things, and so that helps on providing future years' opportunities as we lean in on those contracts. We have not yet fully—we're at the start. We haven't yet fully filled the Wireline or fibre backhaul replacing microwave backhaul, that's really early days. The construction is underway, but lightening up on our microwave backhaul for our Wireless cell sites, that, we will fill in over the next few years, providing opportunity for lowering microwave costs.

Then, finally, we're really just getting started on the Media content costs, and you saw and heard my earlier answer on some of those efforts with the Warner deal and going direct to studios. That is a balance between finding lower cost ways of sourcing the content, as well as gearing the content delivery to customers with what they actually watch, rather than "here's a full slate of channels," many of which never get tuned in.

We still have several initiatives that we will fill in, not just over the next few quarters, but over the next few years. Still lots of opportunities.

Stephanie Price:
Thank you.

Glenn Brandt:
Thank you.

David Naccarato:
Thanks, Stephanie. Next question, Gaylene.

Operator:
The next question is from Tim Casey with BMO. Please go ahead.

Tim Casey:

Thanks. Good morning. Tony, could you talk a little bit about what you've—the progression of what you've seen in terms of competitive pricing in the Wireless market and how you're thinking about how it's going to play out through back-to-school, particularly with respect to last year? Obviously, there will be back-to-school promotional activity, but I think the market would be very interested to hear and investors would be very interested to hear what your take is the trajectory of pricing offers out there as we go into the seasonal period this year.

Tony Staffieri:

Thanks for the question, Tim. It's always hard to predict the market dynamics. We have a plan of what we intend to do. As we kick off the season with back-to-school, as I said in my earlier comments, our focus will be—continue to be—on the Rogers brand and continue to be on bundling, and a few other things that you would expect to be relevant to students, and the addition of a second, third or fourth line to the plan, and we'll work our distribution channels to effectively compete during that season.

In terms of—and maybe your question is, you know, how do we think it'll compare to last year. We had four robust competitors in the marketplace last year and we have the same competitors in the marketplace this year. Our expectation is it's going to be competitive, at least on par with last year, in terms of pricing dynamics and promotional offers. We'll just have to see what the competition does and we'll respond accordingly. But, at a very macro level, our expectation is it's probably not going to be that different than the prior year.

Tim Casey:

Okay, thanks, Tony, and just on the bundling environment, any changes you're seeing there with respect to competitive intensity? Maybe if you could talk a little bit about what you're seeing in Ontario with what you're seeing out West on that dynamic.

Tony Staffieri:

It's important to set out that the bundled customer is still not the majority of customers across the entire nation, and that's true not only for us, but the industry overall, and so bundling has a lot of appeal beyond just the bundled discount, but it's still, frankly, early days in terms of bundling. As I said, it has some convenience, and part of the appeal of Fixed Wireless Access is you can walk out of the store with a phone, as well as home Internet, that's just ready to go, and so it's a simple, easy process. But, in terms of the trend we're seeing in bundling between East and West, it's about the same. I would say there's probably a bit more inertia in the West, only because we haven't been able to offer the bundled product previously prior to closing Shaw, and so having an alternative out West has given us a bit of an advantage, and so we're seeing it slightly higher in the West, but longer term, we expect the use case to be the same across the nation.

David Naccarato:
Thanks, Tim. Next question, please, Gaylene.

Operator:
The next question is from Batya Levi with UBS. Please go ahead.

Batya Levi:
Great, thank you. Can you provide a little bit more colour on the drivers of Wireless ARPU growth going forward, do you think that the lower mix of flanker brand in there is still a driver, and how should we think about accounting for Disney Plus add-on, does that also driver better ARPU? Thank you.

Tony Staffieri:
Thanks, Batya, for the question. As I said earlier, our expectation is to continue to focus on not only leading market share, but leading ARPU growth, as well, and so there are things we focus on there. One is focusing on the Rogers brand and base management. Glenn referred to it earlier. It's basic blocking and tackling, of looking at a customer set and is there a value proposition relative to the plan that they're on now, proactively outreaching the customers. It's things like that. In base management, we like what we see in up-tiering customers on the Rogers brand and customers on either the Fido and, as I referenced earlier, on the Chatr brand and up-tiering them to the 5G network and the Rogers brand. That's, in and of itself, the single biggest driver of continued expansion.

The second area is roaming and coming up with roaming alternatives and packages that give the customer more certainty, and at the same time gives us more consistency in that type of revenue. As we introduce some of those plans in market, we expect that to have a favourable impact on ARPU, as well.

Beyond that, I really don't want to get into too many of our marketing plans for competitive reasons, other than those are probably two of the items that are going to be most significant, but, frankly, most basic.

Batya Levi:
Got it. Thank you.

David Naccarato:
Thanks, Batya. Next question, Gaylene.

Operator:
The next question is from Jerome Dubreuil with Desjardins. Please go ahead.

Jerome Dubreuil:
Hi, good morning, and thanks for taking my questions.

The first one is on TPIA in Québec. You're putting emphasis on the strategic move there. Interesting, given your relatively large coverage of the country on the Fixed side of the question, and we're just ahead of the CRTC decision. Obviously, your Comwave acquisition hinted towards that, but if you could remind us of your regulatory view on TPIA and how you see this evolve?

Then, second question on EBITDA growth, regarding guidance. If my math is good, we need to see a bit of an acceleration in terms of EBITDA growth versus what we've been seeing in the second quarter. If you can discuss what will be the drivers for accelerated EBITDA growth in the second half versus the second quarter? Thanks.

Tony Staffieri:
I'll start with the first one, Jerome, in terms of our views on TPIA. We've been consistent on point. We need a regulatory framework and environment that continues to encourage facilities-based investment. That's critical to having networks, and growing networks, across the nation. It's important to facilitate rural connectivity, and it's an agenda that we all share. First and foremost, having wholesale rates, if we are going to have a wholesale regime, which we do, and the government seems committed to it, then we need to ensure that the rates reflect full costs. That's point one.

The second point is if we are going to have a wholesale regulatory regime, then it needs to be fair and consistent across all networks. Those are our views on that.

As I said in my earlier comments, as we look to some of the markets where we don't have homes passed, customers are looking for solutions to bundle with their Wireless product, and so this is an opportunity for us to expand into those markets and offer those bundled solutions.

Glenn Brandt:
Then, on your second question, Jerome, on the EBITDA growth through the first half of the year, if you take 2023—and this is true if you go back in prior years, a larger portion of our annual EBITDA is earned in the second half of the year. If you look at last year, 45% of our annual EBITDA was earned in the first half. If you factor in the fact that Q1 didn't include Shaw and you pull that in, it goes up by one or two points to 47% of the year's EBITDA earned in the first half, just over half then in the second half. I expect that pattern will bear out again this year. Media is very, very strongly seasonal in the second half, and so that's part of the driver. Media is not a significant part of the consolidated EBITDA, maybe, in percentage terms, but almost the entire amount of EBITDA earned by Media comes in the last four to six months of the year. The baseball season and the NHL season both are heavy second half-related. I'm confident that we will bear out those patterns in the second half. I'm very confident with the guidance we've given.

Jerome Dubreuil:
Thank you.

Glenn Brandt:
Thank you, Jerome.

David Naccarato:
Thanks, Jerome. Gaylene, we have time for two more questions.

Operator:
Thank you. The next question is from Aravinda Galappatthige with Canaccord Genuity. Please go ahead.

Aravinda Galappatthige:
Good morning. Thanks for taking my questions. I just had a clarification on the Wireless service revenue growth trajectory. The 3.5%, that's possibly still going to be sector-leading given the competitive conditions in the market, but previously, pro forma, you were well north of 5%, and I suspect even north of 6%. I was, perhaps, maybe a little bit surprised by that trajectory sequentially. Even if you look at the sequential numbers, Q2 seasonally, normally, gets an uptick in terms of Wireless service revenues from Q1. Apart from what we already know in terms of the pricing pressures, was there any item that needs to be called out, whether it's roaming or other fees that played a role there?

Secondly, just a bigger picture question on longer term cost reduction, maybe for Tony. How do you see the prospect of larger cost rationalization in the industry when you think about GenAI, when you think about the broad opportunities for the telecom sector to manage their margins as you face tighter service revenue conditions, possibly like we see right now? Just wanted your thoughts on that, as well. Thanks.

Glenn Brandt:
Thank you, Aravinda. On your questions around Wireless revenue growth, I'm pleased with the growth we've had; we always look for more, but in a very competitive market where I think we've heard significant concerns expressed from the outside, we've held to our plan, we've held to our discipline on pricing, on price discounting, on going after market share, while still protecting our margins and our revenue growth. We are lapping strong performance in the prior year and still posting good growth this year. You're right, the 4% we posted in Q2 is down sequentially, maybe, from where we were in Q1 by a point, but we've driven 4% revenue growth and 6% EBITDA growth. I'm, I wouldn't say satisfied or pleased, but certainly those are strong results given the very competitive market that we're operating in, and where we can find opportunities to upgrade customer service plans, to move customers up to the premium brand, we are leaning in on those. Data loading continues to grow by roughly 30% year-over-year, and we are looking to those trends to move customers into higher service plans, moving them into 5G service, and what have you.

On roaming, those trends really have largely been fully ingested. We will look to try and find some opportunities, as Tony mentioned, on making roaming more convenient for customers going forward, but I don't expect those to have a material impact on future revenue.

Tony Staffieri:
On the second part of your question, Aravinda, on cost reductions, do we continue to see opportunities, and the short answer is absolutely. We will continue to seek efficiency improvements, and the tools that are increasingly becoming available are going to greatly assist. You mentioned AI. We're being very thoughtful and selective about the tools that we will, in most cases, license from larger players that have solutions that are ready to go, and we see that being able to take out a bit of cost, not only in our customer interactions, but also in many of our back office and network operations. Those tools are already being implemented with really good early success on it.

The second big part of it is just transacting digitally. As an industry, overall, but particularly in Canada, it's probably fair to say that it's still a significant minority of transactions that happen digitally, and we know that consumers and businesses are looking for alternatives that are easier and quicker to transact. As we improve our digital capabilities, our expectation is the customer is going to have a much better experience at a significantly lower cost. We'll continue to invest in those areas, and you'll see some of it in our CapEx, but also in OpEx, as we license many of these platforms, but, nonetheless, with that, it'll be within the CapEx envelope we have and within our goal to continue to expand margins.

Continued opportunities for sure, Aravinda.

Aravinda Galappatthige:
Thank you.

David Naccarato:
Thanks, Aravinda. Gaylene, we have time for one more question.

Operator:
Thank you. The final question is from David McFadgen with Cormark Securities. Please go ahead.

David McFadgen:
Great, thanks for squeezing me in. When I look at the Wireless business, your other operating costs in the quarter were down 3% year-over-year, and I was just wondering, is there something unusual in the quarter, or could we expect this result to continue in future quarters?

Then, on the Cable side of the business, we saw an uptick in the video losses, and I was just wondering, is this a new run rate? In your written commentary, you called out Satellite losses as being a factor which drove the Cable revenue down a little bit. You don't disclose your Satellite subs, so I was just wondering, would you be able to disclose the magnitude of the Satellite losses in the quarter and the Satellite sub base at the end of Q2? Thanks.

Glenn Brandt:
Thank you, David. On your question on Wireless and other operating costs being down, again, it's just a general emphasis we have on finding efficiencies and driving out costs, and so I wouldn't point to any one thing, other than we are looking to drive scale efficiencies in Cable, and just overall efficiencies across the board in Wireless, Media and head office costs. I won't put any more granularity than that to it.

Then, within Cable, Satellite, we don't disclose specifics, but it's no secret that Satellite is a mature business. If I were to put any magnitude on it, the negative 2% overall revenue decline you see in Cable, a significant portion of that, a vast overweight portion of that is driven by Satellite. Absent Satellite, that negative 2% would have been substantially lower.

David McFadgen:
Than, just on the video losses out of Satellite, it ticked up in the quarter. Is that a new run rate? I'm just wondering about that.

Glenn Brandt:
No, I think it's likely more seasonal than anything.

David McFadgen:
Okay, all right. Thanks.

Glenn Brandt:
Thank you.

David Naccarato:

Thanks, David, and thanks, all, for joining us on our 2Q call. The IR team will be around if you have any follow-ups, and, Gaylene, I'll pass it over to you to close out the call.

Operator:

Thank you. This concludes the question-and-answer session and brings to a close today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

Tony Staffieri:

Thank you, all.