Company Name: Rogers Communications
Company Ticker: RCI/B CN
Date: 2018-10-19
Event Description: Q3 2018 Earnings Call

Market Cap: 34,419.79
Current PX: 66.82
YTD Change($): +2.77
YTD Change(%): +4.325

Bloomberg Estimates - EPS
Current Quarter: 1.086
Current Year: 4.228
Bloomberg Estimates - Sales
Current Quarter: 3898.714
Current Year: 15062.824

Q3 2018 Earnings Call

Company Participants

- Glenn Brandt, Senior Vice President, Corporate Development, Investor Relations and Treasury
- Joseph Natale, President, Chief Executive Officer and Director
- Tony Staffieri, Chief Financial Officer

Other Participants

- David Barden, Analyst
- Vince Valentini, Analyst
- Jeff Fan, Analyst
- Drew McReynolds, Analyst
- Simon Flannery, Analyst
- Maher Yaghi, Analyst
- Aravinda Galappatthige, Analyst
- Richard Choe, Analyst
- Sanford Lee, Analyst
- David McFadgen, Analyst

Presentation

Operator

Good day and welcome to the Rogers Communications Third Quarter 2018 Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Glenn Brandt. Please go ahead, sir.

Glenn Brandt, Senior Vice President, Corporate Development, Investor Relations and Treasury

Thank you, Simon. Good morning, everyone and thank you for joining us. I'm here with our President and Chief Executive Officer, Joe Natale; and our Chief Financial Officer, Tony Staffieri. 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 2017 Annual Report regarding the various factors, assumptions and risks that could cause our actual results to differ.

And with that, let me turn it over to Joe to begin.

Joseph Natale, President, Chief Executive Officer and Director

Thank you, Glenn and good morning everyone. I'm pleased to share our third results with you. Let's start with our financials. Overall, we delivered a strong third quarter with total revenue growth of 3% and adjusted EBITDA growth of 8%. Given our robust year-to-date results, we are raising our full-year adjusted EBITDA and free cash flow guidance. Let me offer some highlights across our business.

In wireless, we delivered another strong quarter. We continued to reduce postpaid churn delivering robust Q3 postpaid churn since 2009. We continued our strong ARPU growth, an attractive high quality net additions. The team executed strong price discipline adding the right customers with the right long-term economics. We continue to see a strong, positive trajectory on lifetime value.

In cable, we reported solid results during one of the most intensely competitive back-to-school periods. We increased total service unit net additions by 5,000 over last year. We also added 35,000 Internet net additions, that's 6,000 more than last year and our best result since 2016. Despite the aggressive approach from our main competitor, we are pleased with our market share gains in footprint. In media, we grew adjusted EBITDA while revenue was down year-over-year and our margins were up over 300 basis points.

Overall, we've made terrific progress, it reflects our relentless focus on delivering consistent and sustained performance in our core business. More broadly, the macroeconomic environment continues to be stable and we see strong growth prospects in cable, wireless and media. We have a strong team, the right strategic priorities and solid momentum on our side. I'm proud of what the team has accomplished and the growth prospects ahead.

One of our key strategic priorities is to drive meaningful improvement in our customers end-to-end experience, it starts with serving and supporting our customers in their channel of choice. We are driving continuous improvement by fixing customer processes and addressing moments of truth while ensuring we have the right tools and resources to serve our customers and our efforts are paying off. We are seeing a healthy increase in digital adoption driven by our focused investments in our digital platform. We are building customer awareness of our digital options and giving customers a reasons to move to digital with features like Fido XTRA.

In the last year, we have doubled our digital sales and service activities making it easier for customers to upgrade their device, change their plan or activate a new line. In the call center, we are reducing call volumes. We are giving customers more self-serve options and addressing top call drivers including hardware upgrades, data usage and promotion expiry. More than ever, we are proactively reaching out with targeted communications that offers, delivering a better, more personalized experience. We're also giving customers more control over their data through our smartphone app, helping to avoid unexpected charges and to improve service.

In cable, our proactive network maintenance program let us monitor, identify and fix issues in our network before our customers call. This has prevented 15,000 truck rolls [ph] in the third quarter alone. We also continue to offer self-install, emanating over a quarter of a million installation truck rolls this year. Cost efficiency is a natural outcome as we drive complexity out of the customer experience. As I've said before, customer service improvement and cost savings go hand in hand. As a result, hugely wireless margins have improved by 150 basis points and cable by 100 basis points.

Our efforts to build a customer first culture are taking hold and you see this reflected in customer churn. We will continue to drive improvement to wireless churn in sustained and consistent way over time. We're also making well-timed strategic investments to bring our customers the best networks, technologies and services of the future.

Last month, we announced the multi-year, multi-million-dollar partnership with UBC to build a made-in-Canada 5G ecosystem. Current estimates suggest 5G will deliver 500 times more connected devices than 4G. We are firmly focused on developing the best applications, relevant in use cases, so Canada truly benefits from 5G. Through the UBC partnership, we will co-develop 5G applications to drive R&D in Canada. We will have 5G ready equipment and infrastructure up and running on that UPC campus in the first half of 2019. The UBC campus offers a real urban community that will become a proving ground for how we deploy 5G across Canada.

We also just announced plans to launch LTE-M in Ontario as part of our 5G roadmap. LTE-M is a network upgrade that powers the next-generation of IoT capabilities. LTE-M will support customers lower bandwidth, lower cost devices, extended coverage and improved battery life. It will support fleet tracking, smart meters, home automation and smart city sensors. LTE-M will also enable customer applications such as wearables, monitoring and tracking solutions. All these efforts build on our comprehensive partnership with Ericsson, North America's 5G partner of choice.

On the residential front, we continue to make steady progress on Ignite TV. We launched the service and preliminary feedback from customers has been very positive. While it is early days, lignite TV is driving positive ARPA and improved early lifecycle churn. Later this month, we will start our employee trial in Atlantic Canada.

Ignite TV truly delivers an unmatched entertainment experience for our customers. It offers a great (inaudible) note, cloud PVR and deep integration with all forms of entertainment from Netflix and YouTube to interactive sports scores and statistics. We will soon integrate Amazon Prime as well. This is a constantly evolving roadmap backed by a strong team of 10,000 engineers that is virtually impossible to replicate. But this is just a start, we're well on our way to bringing Canadians the world's best-connected home roadmap. I look forward to sharing more details in the coming quarters.

In closing, like to thank our entire team for their incredible commitment to our customers and to our organization. I am proud to share that we're recently named one of Canada's 50 Most Engaged Workplaces. This recognition reflects the culture we are building, building to deliver for our customers and to make Rogers a destination for top talents.

Let me now turn it over to Tony. Tony, over to you.

Tony Staffieri, Chief Financial Officer

Thank you, Joe and good morning, everyone. I'm pleased to share some additional highlights from our strong performance this quarter. We continue to show steady growth in our service revenue while driving efficiency deeper and deeper into the company, which is resulting in meaningful margin expansion.

On a consolidated basis, we reported total revenue growth of 3% and adjusted EBITDA growth of 8%. This reflects margin improvement of 180 basis points compared to the prior year, while delivering solid operational metrics across the business. For 2018, we had set a full-year goal of 100 to 200 basis point margin expansion improvement compared to 2016. We're tracking well ahead of that goal and to-date achieved cumulative margin expansion of 270 basis points.

Looking at our wireless business, we reported strong service revenue growth of 5%, which reflected a combination of meaningful subscriber growth and ARPU growth. Our continuing ARPU growth is being driven by our disciplined approach to translating the increase in consumer demand for data along with our focus on base management. This quarter, we saw growth of 3% in blended ARPU and 4% in blended ABPU or average billing per user. We're tracking towards our goal of delivering full year growth of 2% to 4% on blended ARPU and 3% to 5% on blended ABPU with year-to-date growth of 3% and 4% respectively.

Along with strong ARPU and ABPU growth, we also reported a 124,000 postpaid net subscriber additions. Our commitment to improving the customer experience has resulted in churn of 1.09%, which is a 7 basis point improvement year-on-year. On adjusted EBITDA for wireless, we reported growth of 8%. Wireless margins continue to expand this quarter by 90 basis points. We remain disciplined and focused on the longer-term growth of our business by balancing subscriber growth with the right economic value.

Turning to our cable business, we grew revenue and adjusted EBITDA by 1% and 4% respectively. Internet results continue to be the largest contributor to our growth and the positive trend in our Internet business remains very strong. Internet revenue now represents 55% of our cable business and we expect the strength of our products increased going forward as Internet becomes the key anchor in the household. Our ability to offer Ignite gigabit Internet across our entire cable footprint continues to attract customers. This quarter, we reported 35,000 net subscriber additions in Internet along with 8% revenue growth.

Similar to our wireless business, we continue to expand our margins in cable. This quarter, even with increased marketing spend on awareness of our ignite TV platform, we expanded margins impressively by 160 basis points over the prior year. In the fullness of time, we fully expect to realize further meaningful margin expansion but expect some fluctuations in the short term due to the timing of initiatives and increased costs related to the transition over to our Ignite TV platform.

In media, revenue declined year-on-year, largely due to Blue Jays but our continued discipline around cost across our other media assets has resulted in adjusted EBITDA growth of 20% in the quarter.

Turning back now to our consolidated figures, I'll now go through some additional details on our financials. The strength of our adjusted EBITDA growth enabled us to continue to make investments in our network and generated free cash flow of 550 million, this is an increase of 5% compared to the prior year while delivering substantial dividends of $247 million to shareholders this quarter.

Given our ongoing uplift to the network across both our cable and wireless businesses, overall capital intensity came in at 18.6%. Over the long term, we expect cable capital intensity to decline significantly as the penetration of Ignite TV reaches our entire base and we move off with legacy set-top boxes. In the near term, we forward no splitting to realize more efficient per home economics and continue to drive our nose closer and closer to our customers.

With our hybrid fiber-coaxial network, we're able to plan and be strategic around our fiber investments. These investments will be made gradually as consumer demand reaches the long runway ahead of coax cable, which is not for this foreseeable future. All of our notes are fed with fiber and we're able to deliver what our customers need not only today but well into the future, including for 5G. We remain committed to capital efficiency and ensuring appropriate returns on our existing assets.

We ended the quarter with a debt leverage ratio of 2.5 times, materially lower than 2.8 times we reported a year ago. The improvement is due to both higher adjusted EBITDA and lower net debt. Our balance sheet remains healthy with a solid investment grade credit ratings, stable outlooks, and attractive rates on our outstanding debt. The management of our balance sheet comes down to the quality of our assets and ensuring we're prepared for the future. While we're pleased with the improvement as we head into our optimal leverage ratio range, we reiterate that we're focused on the fundamentals of the business and we'll revisit long-term sustainable dividend growth at the right time.

For the year, with a solid progress we've made on the fundamentals and strong execution, we're raising our outlook for 2018 adjusted EBITDA growth to a range of 7% to 9% from our original range 5% to 7%. We're also increasing our free cash flow guidance to 5% to 7% from the original 3% to 5% guidance range.

In conclusion, we are extremely pleased with our performance in the steady growth that we have demonstrated this year. The even stronger guidance reflects our confidence in our execution on the sustainable growth along with our ability to deliver on the fundamentals.

With that, I'll ask the operator open the lines for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) We'll now take our first question from as Dave Barden from Bank of America. Please go ahead, your line is open.

David Barden, Analyst

Hey, guys. Thanks so much for taking the questions. I guess, I had a few if I could. The first one was, Joe, with respect to the Ignite TV rollout, you highlighted the higher ARPU and lower churn kind of early characteristics. Could you talk about the profitability characteristics, net of the kind of variable cost that comes along with that product at the margin. And does that kind of inform Tony, some of your comments about margin might be kind of moving around a little bit in the cable business?

And then the second, kind of related question is, did you guys concept that 100 to 200 basis point margin expansion goal over a two-year period which you guys have kind of blown through pretty nicely. Can you kind of maybe set a bar at the margin now to look out maybe a year or two years forward. What do you think the incremental cost savings opportunities might look like? Thank so much.

Joseph Natale, President, Chief Executive Officer and Director

Thanks, Dave. Why don't I take the first one, then Tony give you the second question. On the Ignite TV, first of all, we are pleased with the results so far in Ignite. It is early days, and we launched the product externally in July. The goal really being too really harden a broader service experience. The platform is working very well, just making sure that the processes around order and billing installation and customer support are really having great shape and they're shaping up very, very well as a result of that effort.

We do believe that the long-term profitability, in fact, the long-term cash prospects of that business are very strong. If you take a look at it just probably for a second. Number one, in terms of overall installation effort on the front end, it's a very much more simplified product to implement as a whole. And if you look at the CPE requirements and the installation costs, we've talked about that before with legacy TV we're running over about a $1,000, $1,100 [ph] for full Implementation. With Ignite TV, that's closer to the $400 range and there's still opportunity to kind of compress that over the fullness of time.

Add to it the fact that it's much easier to discover content for our customers and we believe that's why we're seeing even in the very early stages strong ARPA uplift as customers have an easier time finding content and navigating through content and therefore, we think a much easier time consuming content. We'll continue to find other ways of packaging and merchandising content in the fullness of time, which I think, will help again with the economics of the business. We're pleased with an overall, early days, more to come on that point, Dave.

Tony Staffieri, Chief Financial Officer

Picking up on Joe's comments, Dave, from a total cash flow perspective, we see opportunities both in terms of margin, but particularly in terms of reduced capital intensity for cable going forward. Joe has talked about -- just talked about some of the opportunities of materially reducing our capital intensity from where it is now as the launch of Ignite TV continues.

From a margin perspective, we see good opportunity to not only continue to grow ARPU's but accelerate ARPUs and ARPA in particular. And then on a margin basis, we see the opportunity to expand margins. I don't want to get too far ahead of ourselves in terms of what that means. But with the product, we've taken the opportunity to simplify a lot of our processes and improve the customer experience and as a result, that is dropping out costs and you see some of that coming through already. But more to come.

My comments in terms of lumpiness of margins was met more in terms of the very near term as we continue to expand, you can expect some lumpiness and costs like awareness advertising, for example. And so, think about it in that context. But longer term, we continue to be very optimistic about the cash flow opportunities.

David Barden, Analyst

All right. Super, helpful. Thanks, guys. Congrats on a great quarter.

Glenn Brandt, Senior Vice President, Corporate Development, Investor Relations and Treasury

Thanks.

Operator

(Operator Instructions) We'll now take our next question from Vince Valentini from TD Securities. Please go ahead, your line is open.

Vince Valentini, Analyst

Thanks very much. Your wireless ARPU or ABPU, which you want to focus on, clearly trending better than your peers in the industry. So far this year it is 3% range, let's call it 3 times higher than what the other two incumbents are doing. Is this a temporary thing in your mind, I mean, the industry grows really at 1% or lower and you won't be able to sustain this 3% or so range for much longer. So we're we looking to 2019, should we have level set expectations that your ARPU growth should be in the 0.5% or 1% same as Bell and Telus? Or do you think you're still doing things with base management that will carry on beyond this year.

Joseph Natale, President, Chief Executive Officer and Director

Thanks, Vince. First of all, it's -- I don't think it's appropriate for us to give ARPU guidance in the longer term. But I would say to you that we still see the fundamental growth and base management opportunities there in our business. Appetite for data continues with our customers, any given cycle there are customers that are arriving at our doorstep and customers that are leaving and looking very careful to make sure that we do a great job of managing that base and finding opportunities to focus on life time value.

I think fundamentally, the industry continues to grow and really the onus is on us to continue making sure that we drive affordability for our customers at the same time drive economic value for our business. We don't believe that the industry growth opportunity, the behavior around people consuming data more and more over time doubling every 24 months or so. And then the opportunity for us in base management is substantial and we believe there is still opportunity for us therefore in ARPU growth.

Vince Valentini, Analyst

Thanks.

Operator

Thank you. We'll now take our next question from Jeff Fan from Scotiabank. Please go ahead. Your line is open.

Jeff Fan, Analyst

Thanks, good morning. I Just want to focus on subscriber loading on wireless for a second, particularly on gross adds. So this quarter, it looks like it was down a little bit from last year and you had great churn numbers, so the net continues to be very stable. But I wonder, if you'd any comments just what's going on in the market and what your observations are because gross adds have been growing and the market has been growing and you guys were growing in the last few quarters. I was wondering, if there's anything that's happening there on gross loading?

And then just a quick follow-up on CapEx. What I was wondering if you were -- you feel like you're spending at the right pace. And then just very quickly, on cable, I think, Tony, you mentioned or Joe, you mentioned about maybe sunsetting the legacy cable service. Wondering if there's any timing that you can put around that? Thanks.

Joseph Natale, President, Chief Executive Officer and Director

Okay. First of all, on wireless, Jeff, we are very pleased with our wireless results in Q3. We really believe it is a trifecta for us. A very strong high-quality net adds with strong life time value, strong ARPU at 3%, ABPU at 4% and churn, churn improved by 7 basis points on top of the 10 basis points that churn improved Q3 last year, so 17 basis points in subsequent Q3's.

In terms of the growth in the marketplace, we still continue to see the market growing. We exited last year 2017, at 5% market growth, we saw about 6% market growth in the first half of this year. We really pushed the team to be disciplined in terms of price in the marketplace, focusing on high quality net adds and we're very pleased with the result that came out of that. We don't see any change to market growth penetration prospects. At the end of the day, we still think that there is an opportunity to work our way towards US levels of penetration, as you know Canada sits at about 87% wireless penetration, the US sits at about 120%. I think, we'll continue to see that march towards 120 over the fullness of time. How will it be reflected each and every quarter? It's kind of hard to say until everyone reports and we see all the results, and we look back and say, okay, what was the growth like this quarter. But the macro conditions for continued growth in the sector we believe are still there.

On the wireless CapEX front, we do believe that we're making the right investments. We do believe that we've got the right plans in place, as we've said in the past, we made the move to 4.5G, later in the cycle. I think it's done well for us. It's done well for us, because not only have we been able to implement the latest technology that is truly 5G ready in terms of 4.5G capability. But the unit cost price points have been much stronger than they were at the beginning of the cycle.

And therefore, we're enjoying much better economics in terms of -- on the unit cost of delivering a gig. You want to look at that, which way we look at it. What is the cost to deliver a gig. And therefore, we're doing, I think, a very good job of managing those unit costs. I do believe, that you'll see consistent wireless CapEx intensity from us. And we think, we had the right levels to sustain the investment we're going to make in 5G in the years ahead. So we don't see any sort of erratic surprises or the changes on that front in the short and medium term.

On the cable side, we -- our goal has been to grow Ignite TV at a thoughtful pace, at a pace that drives the quality and capability in the marketplace around the service experience. That reinforce the fact that Ignite TV is a premium brand, you will see at some point in the future, I won't say exactly when, at some point in the future you will see us stop sell legacy TV and then really kind of drive further efforts in getting the both OpEx and CapEx efficiencies of that move.

As you can imagine, having various vintages of TV set-top boxes and home gateways drives complexity in the field for our people and going to an all-IP network and going to a passive hybrid fiber coax network as a whole, we will also continue to see strong OpEx and CapEx savings for us. The good thing for us is that we can make those changes including adding capacity on a success basis. And go back to what Tony said a few minutes ago, we have -- had a 1 gigabit capability across our footprint for a very long time and it served us well in terms of the market and that's why you continue to see Internet penetration growth, 13 straight quarters in the Internet penetration growth.

In a lot of ways, our main competitors playing catch up with our fiber investment because of the capability you have for a long time in the marketplace. But we do look forward to those opportunities because our focus on margin expansion and CapEx efficiency improvement are not stopping this year, we've got a whole playbook on both those fronts, some of them shorter-term in duration and some of them longer-term that will come with the full migration to Ignite TV in the platform as a whole. So more come on that front as we feel comfortable, competitively and specifically telling you more about that we will, but rest assured that those plans are very specific and very definite in nature.

Jeff Fan, Analyst

Thanks, Joe.

Operator

Thank you. We'll now take our next question from Drew McReynolds from RBC, please go ahead your line is open.

Drew McReynolds, Analyst

Yeah, thanks. Thanks very much. Maybe for you, Joe. First, just on a competitive environment in Ontario, we know it's always been competitive. It sounds like it was extremely competitive and you still certainly managed through that well. And can you just talk a little bit more on both cable and wireless competition and kind of expectation as we get into a seasonally competitive Q4?

And then second question, just on the iPhone upgrade cycle versus prior years. Is there anything, now that you're seeing that's unusual in terms of the -- the upgrade dynamics as we've seen it to-date at least. Thank you.

Joseph Natale, President, Chief Executive Officer and Director

Great. Thanks, Drew. In terms of the competitive nature of our business, I think, it's fair to say, it's as competitively intense as it's ever been and frankly, across all areas of our business. Gone are the days where the cable business was less competitive than the wireless business frankly, both are actually competitive.

And in the residential business over back-to-school there are a lot of people that are looking to hookup their service, it's more of an Internet-only kind of marketplace during the back-to-school period, you think about students having kids, myself in the University, I know exactly how the type of dynamic that's out there with respect to wanting for a simple Internet service and wanting a low price. So I think, it creates a lot more intensity over that particular period of time.

We feel we're well prepared for both the cable business, competitive intensity, we've got a great product, we got a great team and we got a roadmap, that is quite exciting beyond just cable TV, if you look at the connected home where it's going. And we've got a team which is very much focused on execution. On the wireless front, look it's a very competitive market and Canada has been for many, many years. Wireless is a shopper category, every time there is brand new device that comes out, customers look up and say, hey, maybe I want that device and so the intensity begins.

Yeah, we're very proud of the fact that we've got the best distribution in the country, we're proud of the fact that good momentum on the wireless front. And we have a focus around sales and marketing that is respectful of the competitive dynamics but also looking very carefully and specifically at base management and a lifetime value as a whole. So I'll leave it at that in terms of the competitive intensity.

In terms of iPhone upgrades, we're very excited about the iPhone XR, we're taking preorders for that phone, in fact, starting today. The only dynamic that's different, I guess you can say is that, yes, this year we have a double-pronged iPhone launch with the more affordable device going second. The last launch was the other way around with a more affordable device going first. So of course, with every iPhone launch, there is a bit of a different nuanced dynamic in the marketplace. We're pleased with what we've seen so far from the iPhone XS and XS Max and we're prepared for Q4 in our channels and across our business for what will be another busy season and a very exciting season for the Rogers organization.

Drew McReynolds, Analyst

Thanks very much, Joe.

Joseph Natale, President, Chief Executive Officer and Director

Thanks, Drew.

Operator

Thank you. We will now take our next question from Simon Flannery from Morgan Stanley. Please go ahead, your line is open.

Simon Flannery, Analyst

Okay, thanks very much. Good morning. Coming back to the five key comments about UBC. Can you just talk a little bit about what you think you need in terms of spectrum and in terms of infrastructure. There's obviously millimeter wave auctions kicking off here next month. And then a lot of action in the kind of 3.5 or so gigahertz band. Do you think you have what you need for 5G or what would you like to have to be able to compete? Is it -- and what about bands you're trialing with UBC? Thanks.

Joseph Natale, President, Chief Executive Officer and Director

Simon, if you stand back and look at 5G overall, there are a few things that are fundamentally important to 5G. One, you've hit on which is spectrum. Spectrum is very important. We have a strong base of 3500 megahertz spectrum today, there is a 3500 auction coming up in 2020. And that will become, I believe, the first tranche of important spectrum for the future of 5G. And then hopefully, will lead millimeter wave opportunities for us soon thereafter, so that spectrum is important part of 5G.

The second thing that's very important around 5G are the economic use cases. We all busy postulating where there might be strong used cases for 5G. At this point they really are a series of trials and PowerPoint presentations. We're working hard to make sure we combine good environments where we can test the reality of some of these use cases, hence the UBC R&D [ph] collaboration. UBC's got a great engineering group, very much focused on co-developing some of these ideas and applications with us and proving out both the technological and the economic use cases.

It also helps with the third factor, the third factor is, in 5G we need access and attachment rights, access to poll, access to (inaudible), access to -- call it real estate rights, if you want to call that. And on that front, that's going to be a challenge for the industry as a whole. It requires cooperation across all levels of government, federal, provincial and municipal. It requires changes to the Telecom Act and making sure that everyone has access to various polls and capabilities and (inaudible) brace ways to kind of integrate this infrastructure.

One good thing about UBC campus, it's a city within a city and the university actually runs that city, and has responsibility for all the services that supports 65,000 students in their community. So we view that as a very attractive place to try, not just the technological ideas but also the ability to have sort of unfettered access to the infrastructure. So that we can actually bring to life those ideas in a meaningful way. And so, stand-back, those are the three things. Spectrum is really important. We're going to be pushing hard on that front and making sure that, we do everything on a power to expand the availability and create a wider portion of 3500 spectrum for the industry as a whole.

Number two is working hard with municipalities and landlords and partners across the country and all levels of government trying to get the right attachment rights and make sure that we can economically deliver on the 5G promise, because if we're paying users rent for various capabilities in different parts of the country, then those are costs that we have to bear and they will be (inaudible) in the customer in end. So it's important that we get economic rights that makes sense.

The third thing is proving the use cases, and making sure that we really sift through the absolute plethora of ideas and opportunities around 5G and fix the focus few that we really believe our right for Canada and our right for the industries and the businesses that are most important to trading industry and really go after those, will largely be a B2B play -- a vertically focused play. And therefore, it's important to make the right bets. The worst thing that we can all do in 5G, would be to just kind of sprint across the landscape with a spattering of ideas in every area and really kind of achieve little excellence in any of them. So we are going to be very focused in that area.

Simon Flannery, Analyst

Okay, (inaudible). Thank you.

Operator

Thank you. We'll now take our next question from Maher Yaghi from Desjardins. Please go ahead, your line is open.

Maher Yaghi, Analyst

Thank you for taking my question. I wanted to just, maybe first question on Internet loading, strong results compared to last year. Is it -- wanted to just know if there is a bit more wholesaling activity going on in the third quarter of this year versus last year, because the only reason I'm asking is the revenue generation from the subscribers were sequentially slightly down quarter-over-quarter versus last year. So just wanted to know, if wholesaling was more successful this year than last year or it's mostly the competitive profile on pricing that's affecting the revenue line?

And on the follow-up just on 5G, Joe, you talked a lot on that and thanks for that. And -- but I wanted to just ask you a question that is on many people's minds is, is the timing difference between the cost that will be put to use to create this 5G environment and the timing of when the revenue generation will come from these new -- new cases, might be longer in time basically between the revenue and the cost, and the technological advancements we had previously, in 3G and 4G. And would that create a bit more pressure on -- on the balance sheet?

Joseph Natale, President, Chief Executive Officer and Director

Okay. Why don't I start with some comments maybe broadly about Internet loading. Tony, ask you to comment on the wholesale question around that and internet ARPU as well. So first of all, Maher, thank you for your questions. We are pleased with, what we are seeing overall in our cable business, revenue was up 1%, EBITDA was up 4% and the footprint of 4.4 million homes, we grew internet additions by 6,000 to 35,000 overall. We did see Internet revenue go up 8% as a whole, which we think is a very strong number and penetration is still very strong, continues to grow, like I said, for 13 straight quarters in a row. Maybe, Tony you can comment on the wholesale question and anything else you wanted add to that, please.

Tony Staffieri, Chief Financial Officer

Maher, a couple of comments, in terms of the sequential pieces that you see, it's really the year-on-year, that's more relevant, Q3 is highlighted by the back-to-school season and so you got a different dynamic than you would have seen in Q2. And as Joe said, good performance on a year-on-year basis and bigger than when you look at that performance relative to homes passed. And as we said before, we continue to improve our penetration rates consistently every quarter on a year-on-year basis. And so in the third quarter, it was even above one point of penetration improvement. So we're pleased with that.

In terms of where they're coming from and the impact of wholesale, I describe wholesale as one very small in the overall metrics. But importantly, relatively flat. So it really wasn't a factor on a year-on-year or even on a sequential basis. So I describe it as non-impacting. Hopefully that answers your question.

Maher Yaghi, Analyst

Yes, thank you.

Joseph Natale, President, Chief Executive Officer and Director

On 5G, Maher, there is one important part of 5G that doesn't get a lot of airtime or attention because we're all focused on the kind of exciting use cases. But frankly, the most exciting economic use case is the ability to deliver network capacity, especially in densely populated areas at a lower per gig unit cost and that's where the -- there is a level of energy going on right now in 5G, you're seeing it in building out small cells, you're seeing in densely populated areas, in arenas and in places where there are lot of people coming together using their smartphones in a very intense way.

So I think, that is the best and most important and proven economic use case that will be the first thing out of the gate. I think, it will help to kind of create good economics and therefore, create some air cover, if you will for some of the other use cases that will have a bit of a J-curve, bit of a J-curve of investment. The thing is that the use cases that will have a J-curve of investment will not require, I believe, massive CapEx investment, there will be places where we can create overlay capabilities, if you want to call them that, build applications, et cetera.

And then as the market penetration grows from those ideas, then we will see the revenue come and the ability to actually continue to make further investments. Bear in mind that 5G is an overlay to a strong 4.5G network, it's a very important point. We're not ripping or replacing 4G like some other previous generations changes of technology. It is truly an overlay. And also bear in mind that 3.5 gig frequencies can be added to existing high-band networks. So we've got the opportunity to kind of integrate this in the seamless evolutionary way.

The next generation radios will support existing frequencies and support 4.5G and 5G. So we're getting economies of scale and scope, with the latest radio technology because of our movement, again in the later part of 4.5G cycle, we can take advantage of these economies in a much more meaningful way and therefore, we think, we're well positioned. We won't see that kind of gap between investment and financial return that has been around with some of the previous technologies and we've all made the jump to 4G. It took a while for smartphone adoption to catch-up and the rest of it. It's a bit of a different game with 5G. Hope that helps.

Maher Yaghi, Analyst

Great. Thank you, Joe. Thank you.

Operator

Thank you. We'll now take our next question from our Aravinda Galappatthige from Canaccord Genuity. Go ahead please, your line is open.

Aravinda Galappatthige, Analyst

Good morning, guys. Thanks for taking my questions. Two from me, please. The first one on cable, I wanted to get a sense, Joe, of the traction you're getting on the SME side and the enterprise side in general, I know that remains an opportunity for you as incrementally as (inaudible) growth in profitability on the cable side.

And secondly, on the wireless front, I guess, connected to the early ARPU questions, you know, we're starting to see that very large data buckets being offered, I'm talking about the 10 gig size buckets that are being offered fairly often nowadays on a promotional basis in the mid-70s. I'm curious as to how that plays into the medium-term ARPU growth picture. If you look at it headline-wise, obviously 75 is a lot higher than your average ARPU. But much depends on what phase of your subs that are taking up those promotions. So just wanted to get your thoughts on that and how that -- what that says about the house of the pricing growth on a longer term basis of the industry. I'll leave it there. Thanks.

Joseph Natale, President, Chief Executive Officer and Director

Okay, thank you, Aravinda. Thanks for your questions. On the small and medium side, overall, we're doing very well in very small business and think of that as sort of 10 employees and below. We're seeing good growth in that area across capabilities that we have with wireline services both cable and related kind of value-added services, everything from point of sale capability, et cetera. We think it's a big opportunity because we still have a very small percentage of the market in that area.

In the medium business space, I think, there is also opportunity. There it requires leveraging some of the technologies and platforms from enterprise but making them more shrink-wrapped and easy to configure and deploy in the market. So as we work on that piece of it as well, then we'll have opportunities to grow penetration in the medium-sized market as well as the small business. It will take time for this to show up in our results, but we feel very bullish around the opportunity. We look no further to the market share of our peers in Canada and the US, whether they're cable peers or telecom peers. We are under-indexed in this area. And it is job one for our enterprise team to go after this opportunity. So more to come on that front. It's still upside for us.

On wireless ARPU, it's a great question. There's no question that there's a huge appetite for data among our customer base and there will be promotions that come and go through every period. It's just a normal course of our business because of the strong appetite that customers do have for bigger data buckets. The key for us is to make sure that we can deliver better unit costs and monetize that data growth in a better way. So that means, we're looking across our business both OpEx and CapEx to make sure that the margin on a gig reflects the appetite of the base to want bigger data buckets.

In terms of the ARPU impact of that, we continue to focus on driving a strategy where we increase ARPU across different sections of the base, based on my -- go back to my comments earlier on base management. I think, there's an opportunity to both increase data consumption, monetize it better and then have a second value-based approach to making sure that we manage the best of our abilities to grow ARPU in the process. So this is something that's been going on for a long time. This is not something that's new and what you're seeing is just the fact that there's promotional intensity in wireless from time-to-time with bigger data buckets.

Aravinda Galappatthige, Analyst

Great. Thank you.

Joseph Natale, President, Chief Executive Officer and Director

Thank you, Aravinda.

Operator

We will now take our next question from Richard Choe from J.P. Morgan. Please go ahead, your line is open.

Richard Choe, Analyst

Great. Just wanted to follow up. Given the nice margin improvement and guidance range, how should we think about the dividend potential increase and maybe CapEx going forward? What should we be considering in terms of the margin increase versus the dividend?

Joseph Natale, President, Chief Executive Officer and Director

Sure, in terms of the dividend, I'll reaffirm what we said in the past. We're playing the long game and Tony referred to, we're playing the long game. This is all about sustainable long-term dividend growth. And there's nothing new to report on that front overall. Tony, do you want to talk about CapEx?

Tony Staffieri, Chief Financial Officer

Sure, on capital entity, Richard or CapEx overall, again don't want to overreach into long-term guidance. But I think in terms of some of the pieces of it, we've been fairly consistent on wireless capital intensity, see the range we're at now as somewhere in the 12% to 14% range as the ongoing capital intensity for wireless, which we think makes sense.

And then on the cable side, we intend and you will see in the fullness of time, capital intensity come down over the long-term to peer levels. And so there's nothing new to report there either.

Richard Choe, Analyst

Great. Thank you.

Joseph Natale, President, Chief Executive Officer and Director

Thanks, Rich.

Operator

Thank you. We'll now take our next question from Sanford Lee from Macquarie. Please go ahead. Your line is open.

Sanford Lee, Analyst

Hi, and thanks. First off guys, congratulations on the solid quarter and guidance range. My question relates to the Telco fixed wireless Internet solutions that have been rolling out. Now the same technology has opened up another 800,000 to a million targeted broadband homes. So do you see this as a critical threat today or is it something that's still maybe a couple of years away as far as having a material impact on Rogers cable?

Joseph Natale, President, Chief Executive Officer and Director

Well, we're seeing the comments as you are, Sanford, coming from both Verizon, AT&T around their trialing and experimentation with fixed wireless. I'll tell you, we firmly believe that a hybrid fiber and coax network has a lot of longevity. It has really strong compelling economics. What I'd say to you is that, if the economic case on fixed wireless and the technological reliability is proven on a global basis or on a very specific scale basis, then we will still look at it and find opportunities integrated into our network. We really look at it as our mandate is to deliver strong, reliable bandwidth and capability to our customers.

And we are in a business where in some cases that's fiber, in some cases that's fiber and coax, and some cases that might be fixed wireless for the last mile. It's still right now very expensive solution and it's also something that will take time to really prove reliability. We don't believe that the technology is really ready right now to challenge coax and fiber. Therefore, we're going to maintain our current course of speed.

Sanford Lee, Analyst

Okay. And if I could ask one quick one on the wireless ARPU. So obviously, your growth haven't seen the slowdown in growth as your peers. And part of it, it is attributed to the positive impact by removing the shared service contract from the base. However, like you said, there have been the point available to all these three data gigabyte offers. Do you think that's going to impact it going forward or are you still offset -- able to offset it with the higher tier plans?

Tony Staffieri, Chief Financial Officer

Sanford, on the ARPU, as I said in my opening comments, I think for the full year based on an IFRS 15 adjusted basis, we saw full year ARPU growth of 2% to 4% and that captures the impact of the Government of Canada contract, which we said would be one point and it declines over time as those customers move off of our network. And so we don't see anything that is materially going to change the trajectory of ARPU. And as Joe talked about, the fundamentals in the industry continue to be there and in our execution and capturing that growth continues to perform well. So nothing that we see would suggest that's coming off the trajectory.

Sanford Lee, Analyst

Great, thanks. And congrats on another solid quarter.

Joseph Natale, President, Chief Executive Officer and Director

Thank you.

Operator

Thank you. We'll now take our next question from Dave McFadgenfrom Cormark. Please go ahead, your line is open.

David McFadgen, Analyst

Thank you for taking my question. Just a question on the wireless EBITDA growth. Joe, you talked about reducing call volumes in the wireless business. I was just wondering where you stand with respect to that because I know you have a target there and you like to bring that down. I'm just wondering if that is having much of an impact on reducing the cost in the business or is there still a lot of room there to take out cost on the call center?

Joseph Natale, President, Chief Executive Officer and Director

I still believe there is good opportunity on that front, Dave. As I mentioned in my opening comments, digital adoption continues to grow. We saw that double from this time a year ago and we still have a lot of opportunity on that front. A combination of -- of increasing digital business penetration and adoption. And then also, we're working hard to take complexity out of our call center. In Q3 alone, we remediated some 100 different customer service processes and took complexity out of what our frontline teams have to deal with. And what that'll do is continue to drive call volumes down. We think this is a opportunity to chip away at that for the next number of years frankly.

At the same time, what it does do is, it leaves our agents to really spend the time they need to spend with our customers on the most important conversations, not dealing with a particular error or lack of clarity and et cetera. Our goal, as you've heard me say before is to be clear, simple and fair with our customers. And that is showing up in everything that -- that we are doing. It's showing up in how we're improving processes, how we're driving digital adoption and we continue to make investments in the smartphone apps that allow our customers across all brands to interact with us and that will continue to have opportunity for us in the very long term.

David McFadgen, Analyst

Well, if I can just follow-up or maybe push a little bit more, I think you are targeting maybe a $50 million reduction in expense on the call center. I was just wondering where you stood with that and exactly what percentage of call volumes are down?

Joseph Natale, President, Chief Executive Officer and Director

We continue to drive improvement in call volume. I'm not going to get into the specifics of the numbers or the dollars for a whole bunch of reasons, Dave. But suffice it to say that improvements continue year-over-year and you see it reflected in our margin expansion as being a key driver of that margin expansion.

David McFadgen, Analyst

Okay, all right. Thank you.

Joseph Natale, President, Chief Executive Officer and Director

Thank you.

Operator

Ladies and gentlemen. We have additional time for one more question. And our last question will come from Drew McReynolds from RBC. Please go ahead, your line is open.

Drew McReynolds, Analyst

Thanks very much. I appreciate that you fitting me on the follow-up here. Joe, just back to, yes, kind of 5G related IOT. Two questions on this. You put an announcement about your LTE-M network in Ontario that you're building out now. Does that mean at some point presumably, you shut down your 2G network, which is my understanding that's handling a lot of your M2M business? And does that add an extra layer of cost savings into the equation at some point?

And then secondly, I know you don't want to quantify your M2M revenue contribution, but just can you directionally comment on how it's been building over the last two or three years? Is this something that you wait for 5G and then this thing takes off? Is it a little bit more exciting right now than what I just characterized? Thank you.

Joseph Natale, President, Chief Executive Officer and Director

Great, Drew. Let me start from the end and work my way back. We are the market leader as it relates to machine-to-machine in terms of having the best share of the overall opportunities to market. It goes back to the fact that originally, we were a sole GSM provider in the early days of modems for machine-to-machine and we've maintained that lead through the move to LTE, et cetera. We continue to see steady growth in that business as a whole. Bear in mind, it is still a very small percentage of the total wireless revenue. We believe it'll accelerate as we grow capabilities.

You heard me say earlier that, we believe that 5G will bring 500x, the number of devices and that's reflective of the fact that machine-to-machine will take on even greater proportion of the business opportunity for us as a whole. Yes, whenever you have multiple technology layers and multiple networks there's always cost reduction as you decommission a network and repurpose a spectrum et cetera. In the scheme of things, given the bandwidth consumption of machine-to-machine on 2G, it will produce some benefits in savings for us, but it's not of a material nature and size in terms of the overall cost reduction opportunities. It'll be helpful to us but it's not like we're turning down a big broad network. It is a layer on the 2G network.

Drew McReynolds, Analyst

Thank you very much.

Joseph Natale, President, Chief Executive Officer and Director

Thank you for the question.

Operator

Ladies and gentlemen, this concludes the Q&A session for today's conference. I would now like to turn the conference back to our host for any additional or closing remarks.

Joseph Natale, President, Chief Executive Officer and Director

Thank you, Simon. I think with that, we'll close the call. Thank you, everyone for joining us this morning and for your interest in Rogers. Thank you.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.