Rogers Communications Inc.
Fourth Quarter 2019 Results
Conference Call Transcript

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Speakers:

Joseph Natale
President, Chief Executive Officer & Director

Anthony Staffieri
Chief Financial Officer

Jorge Fernandes
Chief Technology Officer

Paul Carpino
Vice President, Investor Relations

Paul Carpino:
Thank you, Ariel. Good morning, everyone, and thank you for joining us.

Today I'm here with our President and Chief Executive Officer, Joe Natale, our Chief Financial Officer, Tony Staffieri, and our Chief Technology Information Officer, Jorge Fernandes.

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 reports and in our 2018 Annual Report regarding various factors, assumptions, and risks that could cause our actual results to differ.

With that, let me turn it over to Joe.

Joseph Natale:
Thank you, Paul, and good morning, everyone.

This morning we released our 2019 fourth quarter and full-year results, along with our 2020 guidance. Let me start with some comments on the overall year, followed by the fourth quarter. In 2019 we took significant steps to position Rogers for long-term growth and success. On the strategic front we led the industry with the launch of unlimited data; we accelerated the rollout of Ignite TV; we laid the critical foundation for 5G; we drove solid growth in our B2B segment; we repositioned media for the future. We also made meaningful progress on the customer experience front. We improved service levels, grew digital adoption, increased the critical customer metrics' likelihood to recommend, and reduced our overall cost to surf.

From a culture perspective, we hit a record 85% in employee engagement, exceeding global best-in-class by five points. Proudly, we were named one of Canada's Most Admired Corporate Cultures. Overall, we made some standard progress on our strategic priorities.

In terms of financials for the full year, we continued to deliver cash flow and EBITDA growth. If you put aside the impact of our unlimited transition, we continued to grow the key underlying fundamentals of the business.

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Turning to the fourth quarter, financials came in as expected and subscriber metrics were very strong. In Wireless, we delivered stable financials and saw strong underlying growth. We added 131,000 postpaid net subscribers and grew our Infinite base to 1.4 million. Overall, the rate of Infinite adoption continues to exceed our expectations. It is very clear we have a compelling value proposition that resonates with Canadians.

As a reminder, we led the industry with the launch of unlimited data and equipment financing to achieve three objectives. One, stimulate data use and get ready for 5G by driving affordability; two, drive a step change in the customer experience and reduce the cost to surf; and, three, reduce the cost of acquisition and retention. We're seeing good momentum on all three fronts. I remain incredibly proud of our team for the leadership and their disciplined execution of these plans.

In Cable we delivered solid financials in the fourth quarter, driven by Internet and the adoption of Ignite TV. Internet remains the cornerstone of our Cable business, and we continue to deliver strong and steady growth in revenue and continued and sustained growth in penetration. We ended the year with 325,000 subscribers on Ignite TV and completed the rollout of the service to our entire Cable footprint, as an exclusive product for our cable footprint. In 2019, we significantly enhanced our product roadmap. We launched global best-in-class Wi-Fi hub technology, introduced self-install, added Amazon Prime and Sportsnet NOW with more streaming services to come.

Looking ahead to 2020 in our Cable strategy, we are even more excited about our product roadmap. It includes more connected home technologies, video entertainment flexibility, along with popular content and OTT integration.

Finally, we continue to return capital to shareholders, maintain the strength of our balance sheet, and delivered on our capital allocation priorities. We returned $1.7 billion in cash to shareholders through dividends and share buybacks, an almost 70% increase over last year. We delivered industry-leading total shareholder returns of 36% over the past three years.

This morning we released our 2020 outlook. It reflects our continued plan transition to unlimited data with no overage fees. As we highlighted last quarter, our results will be muted in the first half of the year, but we will return to growth in the second half. Fundamentally, it is about improving our trajectory as the year progresses.

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Looking ahead to our Wireless strategy, 2020 begins the rollout of 5G. Thirty-five years ago we were the first to launch wireless services in Canada, and we are proud to bring this new important technology to Canadians on Canada's only national network. Last week we announced the start of our 5G rollout, bringing it to downtown Vancouver, Toronto, Ottawa, and Montréal, so it is ready when 5G devices become available this year. We just finished testing Canada's first 5G device from Samsung which will become available in March. We will further expand our 5G network to over 20 more markets this year.

Our 5G network will initially use 2.5-gigahertz spectrum and expand to use 600-megahertz spectrum later this year. Last year we secured 80% of the available 600-megahertz spectrum in every single province and territory. This premium 5G spectrum provides great propagation across long distances and through dense urban environments, creating more consistent coverage in remote areas and smart cities. We will also start deploying dynamic spectrum sharing technology, which will allow 4G spectrum to be used for 5G.

Earlier this month we became the exclusive Canadian member of the new 5G Future Forum, a 5G and mobile edge computing alliance that includes Verizon, Vodafone, Telstra, Korea Telecom, and América Móvil. The global alliance will create a common framework for 5G applications across the Americas, Asia-Pacific, and Europe.
Over the next several years, 5G will start to transform businesses and industries with increased speed and capacity, more efficient use of spectrum, improved battery life, and lower latency. But 5G is more than just speed. Over time, 5G will support a massive increase in the number of connected devices. These devices will require near instantaneous connections for smart cities, for remote patient health healthcare, robotics, drive-less vehicles, virtual reality, and gaming. 5G will touch every industry and transform our world unlike any other wireless technology.

As you know, Rogers has partnered with Ericsson, North America's 5G partner of choice. We have established key partnerships to research, incubate, and commercialize Made in Canada 5G technology. This includes R&D partnerships with the University of British Columbia, the University of Waterloo, and Communitech. It includes collaboration with government and industry through Ryerson University and ENCQOR 5G. These relationships are not only advancing 5G, they are attracting young talent who want to shape Canada's 5G roadmap with us.

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Investment is the lifeblood of wireless networks. Investing in 5G is not only critical to Canada's digital economy, it is critical to Canada's global competitiveness. The race to 5G is not with other companies, it is with other countries. Over the past 35 years, we've invested over $30 billion to bring Canadians the best wireless networks in the world. We invested because we have the right public policy, the right regulation to spur investment and spur innovation.

In 2020 alone, we plan to spend almost $3 billion in capital to build Canada's communications infrastructure. This capital and this investment is at risk. We do not have the right regulation. As we enter the world of 5G, regulatory certainty is critical to investment. We need regulation that encourages investment and fuels innovation. Punitive regulation will slow or, worse, stall 5G deployment. An expansion of world connectivity will happen at a snail's pace, if at all.

Ultimately, it is about balancing affordability with investment, striking the right balance is key to Canada's digital future. The Government has shown they can effectively achieve this balance, and they must do it again for Canada.

Looking ahead, we're well-positioned to drive long-term growth, deliver the most advanced networks, and dramatically improve our customers' experience.
With that, let me turn it over to Tony. Tony, over to you.

Anthony Staffieri:
Thank you, Joe, and good morning, everyone.

Overall, we're pleased with the momentum with which we exited fourth quarter of 2019, particularly on the subscriber front. We had strong subscriber metrics in both our Wireless and Cable offering, driven by the continued transition associated with our unlimited data Infinite plans. Customers continue to embrace these plans and the revenue improvement ARPU lift and efficiency benefits associated with these plans should contribute to healthy financial growth in the second half of 2020.

I will provide more colour on our guidance for 2021 momentarily, but let me give you a quick recap of the quarter. In Wireless, service revenue decreased 1% year-on-year, driven by a reduction in blended ARPU as a result of reduction in overage fees. Importantly, however, the year-over-year rate of decline

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in ARPU in the fourth quarter is already starting to improve compared to Q3 as overage declines slowed and more customers came in on Infinite plans.

Gross and net postpaid subscriber additions, as well as subscriber adoption of our Infinite plans were strong in Q4. Net postpaid loading was up a healthy 17% as we added 131,000 postpaid subscribers. This robust growth was driven by an active market where Rogers clearly benefited from the appeal of our Infinite and Fido plans, our extensive distribution channels, and our leading wireless national network. Churn was up three basis points from last year and, again, better trending than the 11 basis point increase we saw in Q3, and better than we expected going into the quarter.

I do want to draw your attention to an adjustment we made to our postpaid base in the quarter. Effective October 1 we reduced our postpaid subscriber base by 53,000 subs to remove a low ARPU public service customer that is in the process of migrating to another service provider. This adjustment had very minimal impact in the quarter to churn and net additions. On blended ARPU, our year-over-year decline was 1.6%, including these subscribers, and was a decline of 1.2% when removed.

Equipment revenue was up 7% this quarter, benefiting from higher postpaid gross additions and a shift in the product mix to higher value devices.
While the fourth quarter remained a competitive period, it's important to note that price plans for Infinite have remained stable since launch, and subsidies on a per unit subscriber continue to decline year-on-year, albeit, at rates still well below our expectations when we first launched Equipment Installment plans back in July.

For the full year, our overall subsidy expense is down on a full-year basis, as well as in Q4. In 2020, we anticipate further declines in our subsidies as our value propositions for customers continues to shift to unlimited data plan offerings and zero interest rates on our Equipment financing.

Despite the ongoing reduction in overage revenue, Wireless Adjusted EBITDA grew 4%, or flat year-on-year when excluding the lease accounting impact. We remain very encouraged by the faster uptake of our unlimited Infinite plans, and we continue to expect further operational and financial benefits from these plans as we complete the migration.

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Offering customers simple unlimited plans paired with 0% device financing is healthy for our industry as we improve our cost structure, lower the cost for consumers, and, ultimately, have happier customers with a lower propensity to churn. As important, this transformation will better position us for sustainable long-term growth in a 5G world where data usage will be materially higher. Ultimately, usage growth will not only drive growth for our industry but continue to drive down the cost per gig for our customers.

Turning to Cable, revenue was flat compared to the prior-year fourth quarter and Adjusted EBITDA grew by 2%. Our Internet offering performed strongly and continues to be a key driver for our Cable business. Internet revenue grew 7% this quarter, reflecting the movement of Internet customers to higher speed tiers and a larger Internet subscriber base. In Q4 we reported 27,000 net Internet subscriber additions, 2,000 more than the prior-year fourth quarter. This reflects the 18th consecutive quarter of increasing penetration rates. In addition, Internet ARPU grew year-over-year. We are in a strong position to meet customer demand for faster speeds and higher data with our ability to offer Ignite gigabit Internet across our entire Cable footprint.

Cable margins expanded by another 100 basis points this quarter due to continued focus on efficiencies and product mix shift to higher margin Internet. EBITDA margins were 50.4% and Cable CapEx intensity was 29%, down significantly from the 43% in Q4 2018. As reflected in these results, we continue to make excellent progress towards our goal of 20% to 22% Cable capital intensity and 25% cash margins by the end of 2021.

Moving to Media, revenue was 2% lower year-on-year, largely as a result of the sale of our Publishing business. Excluding the impact of the sale of Publishing, Media revenue would've increased by 1% this quarter. Media EBITDA was down 45% due to lower revenue and higher programming costs during the quarter. On a consolidated basis, we reported a slight decline in revenue and Adjusted EBITDA growth of 1%. We invested $791 million in CapEx for the quarter, which decreased 4% year-over-year. The decrease in capital expenditures was largely driven by our Cable business as we overlap our Ignite TV ramp up. Lower customer premise (phonetic 16:32) equipment purchases, and network investments we had pulled forward to realize economies of scale.

CapEx intensity in Wireless was 14%. During the quarter, we continued augmenting our existing LT network with our Erickson 5G-ready technology investments. We're also working on deploying our 600-megahertz spectrum, along with other bands, to expand our 5G coverage.

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Rogers is excited to be leading Canada's 5G charge. As Joe has highlighted, the significant investments we're making are critical to the successful deployment of 5G and essential to keeping Canadians competitive on a global scale. Our commitment to generate strong free cash flow and return significant capital to shareholders remains strong, even during this heightened investment cycle and launch of our Infinite plans. We generated free cash flow of $497 million this quarter, an increase of 6%. The notable increase this quarter was a result of higher Adjusted EBITDA, along with capital efficiencies in Cable.

Our cash tax rate as a percentage of Adjusted EBITDA was 4% in the quarter and 6% for the year, and we anticipate our cash tax rate to remain in the 6% range for Fiscal 2020. We returned cash to shareholders through dividend payments of $256 million, and repurchased $357 million in Class B Non-Voting shares in the quarter. For the full year, we will return $1.7 billion to our shareholders with more than $1 billion in dividends and $655 million in share buybacks. In 2019, our capital return to shareholders was almost 70% higher than 2018.

Our debt leverage ratio at the end of Q4 was 2.9 times, reflecting a 40 basis point increase compared to the end of 2018. As we mentioned in previous quarters, IFRS 16 lease accounting drove 20 basis points of the increase and the completion of our 600-megahertz spectrum purchase added 30 basis points. EBITDA growth during the year helped drive leverage down by 10 basis points.

With a healthy business and strong free cash flow, we expect to continue reducing our leverage over time, moving closer to 2.5 times in the future. However, given the current low interest rate environment, we expect to do so at a steady, natural pace. We have liquidity of $2.5 billion at the end of the quarter and have solid investment-grade credit ratings with a stable outlook.

Additionally, our balance sheet is well-positioned with long-term maturities and low interest rates on our outstanding debt. Our weighted average interest rate at year-end was 4.3% with average term-to-maturities of 14.1 years.

Let me move on to our 2020 guidance. In October of 2019 we updated our 2019 financial outlook to reflect the accelerated adoption of Rogers Infinite plans. There were three key items we highlighted then. The first was that the majority of overage revenue was going to be eliminated in four to six

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quarters versus the six to eight quarter timeframe we had originally estimated in July. The second key item was that the second half of 2019 and first half of 2020 would share similar growth dynamics in terms of year-over-year ARPU and revenue declines. The third was that this accelerated adoption rate also meant that we would realize the cost and revenue benefits of these plans sooner.

For our 2020 outlook, we are reiterating the dynamics we highlighted back in October, and we've built our outlook accordingly. Starting with revenue, we expect Service revenue growth for the full year to be between positive 2% and negative 2%. Previously, we provided total revenue guidance, including Hardware revenue. Given the hardware dependency of this metric, together with the non-cash impact of IFRS accounting and Equipment Installment plans, we have transitioned this guidance metric to Service revenue, which is a more meaningful metric for the business.

For EBITDA we anticipate delivering between flat to up to 2% year-on-year growth. As already mentioned, we anticipate the first half of 2020 to reflect negative year-over-year growth in both of these metrics, but in the second half of the year, we continue to anticipate these numbers to resume year-over-year growth. The second half improvements reflect the benefit of ARPU improvements, greater cost efficiency associated with our unlimited plans, as well as other cost productivity initiatives.

Capital expenditures are expected to be in the $2.7 billion to $2.9 billion range. However, as Joe has noted, our investment program could be reduced meaningfully if any regulatory decision proves to be unsupported to making these investments.

Finally, for free cash flow we expect solid growth of 2% to 4%.

Twenty-twenty will be an exciting year for Rogers. Overage revenue will become less than 1% of our Wireless Service revenue, device subsidy cost will be reduced, customers will have simpler and robust data plans, and data usage will grow as we drive forward with our 5G network. These are all healthy signs of a strong and highly competitive Canadian wireless industry. We embrace the leadership role we have as Canada's largest wireless Company and look forward to providing our customers with the best network performance and best customer experience in our industry.

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

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Operator:
Thank you. 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 will 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. We will pause for a moment as callers join the queue.

Our first question comes from Vince Valentini of TD Securities.

Vince Valentini:
Yes. Thanks very much.

Can I start with Wireless ARPU and overage? If my math is correct, you would've been plus-one instead of minus-one on ARPU growth without the overage. That points to about $40 million. Tony, correct me if I'm wrong on that. That would be a bit lower than the $50 million you talked about in Q3, so that means—is that math correct and does that mean there could be lumpiness and seasonality from quarter-to-quarter because obviously you had more customers on unlimited plans in Q4 than you did in Q3, but, yet, the amount of loss seems to have come down a bit? If you can clarify that first.

Then, secondly, with this CapEx guidance, I want to make sure I'm clear. The reduction in Cable you're talking about by the end of 2021, doesn't look like a lot of that is baked into your guidance range for 2020. Are you expecting most of that decline from, call it, 29% down to 20% to 22% to happen next year and not in 2020?

Then last related to that as well, just to clarify how you phrased it, is the $2.9 billion an aspirational high-end CapEx number that only is possible if we have a perfect regulatory world this year in terms of no MVNOs at all, no implementation of those lower TPIA rates? If there's anything negative on the regulatory front you'd be less than $2.9 billion? Thanks.

Anthony Staffieri:
Thanks, Vince.

I'll start with the first question, which related to the overage decline in the fourth quarter. Your math is roughly correct. In the third quarter we disclosed that we had overage decline of about $50 million. In

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the fourth quarter we had slightly less than that, a little more than the $40 million that you're quoting, but we saw a slight year-on-year decline. Notwithstanding the fact that we had more customers come onto the Infinite plans, keep in mind that Q3 is a seasonally high quarter with respect to overage revenues. What you had in the fourth quarter is the combination of the seasonal decline offset by the increase number of customers on the Infinite plans.

With respect to your second question on CapEx, the range we provided of $2.7 billion to $2.9 billion reflects our intent to continue to reduce Cable capital intensity this year. In 2019 you saw us come down to 29% for the full year and we're pleased with the progress that we made on that, and so you should continue to expect Cable capital intensity to decline further in 2020. It'll be good, meaningful progress and then we expect it to decline again so that our exit rate, by end of 2021, is in the 20% to 22% capital intensity range.

In terms of regulatory impact, the range we provide of $2.7 billion to $2.9 billion is based on the fundamentals we've always talked about, Wireless capital intensity in the 14% range; Cable, we talked about coming down; and then a few other items related to corporate initiatives. The range we provided was intended to give us a bit of flexibility for a number of factors, including the timing of some of the 5G investments, but also the migration and pace of and quantum of migration of customers to Ignite TV. We wanted to give ourselves a bit of flexibility for that.

The complete range we provided of $2.7 billion to $2.9 billion is based on our current regulatory outlook. So, to the extent that regulatory decisions in the year were adverse or negative to what currently exists, we could very well see an investment range of less than $2.7 billion or the bottom end of our CapEx range.

Vince Valentini:
Excellent. Thank you.

Operator:
Our next question comes from Simon Flannery of Morgan Stanley.

Landon Park:
Good morning. This is Landon Park on for Simon.

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I was wondering if you could just walk through some of the levers at your disposable, given the fact that your revenue guidance has a wider range than your EBITDA guidance, and what you might be able to do if revenues do trend to one extreme or the other. Then, secondly, I was wondering if you could talk a bit more about the performance uplift we should expect on your low-band 5G versus what we would've seen on a low-band 4G network. Do you have any specific expectations on the timing of DSS in devices and availability of that technology?

Joseph Natale:
Okay. Why don't I take the first one, Landon, and then I'm going to ask Jorge to comment on the low-band 5G performance, comparing it to 4G. On the first one, if you look at our guidance, we took it from a perspective of putting forward a conservative set of financial guidance points. We gave ourselves a wide berth on the revenue front just to make sure that we had the understanding and the opportunity to kind of manage through whatever competitive dynamic might happen in the marketplace as we work through some pretty substantive changes that are happening. The move to unlimited, the move to equipment financing, these will all have a broader impact on the market.

Rest assured that we are squarely focused on growing EBITDA and expanding margins in the business. We've had a history of driving good margin expansion. I you recall, between 2017 and 2018, over the two-year period, we expanded margins by 200 basis points. We've got a series of opportunities in our cost playbook and cost discipline ideas that will continue to drive that trajectory and, therefore, provide great support with respect to the EBITDA guidance we put forward and the ability to kind of manage any sort of ups and downs in the marketplace.

Also, bear in mind that part of the reason to go to unlimited is to drive the simplicity dividend. If you look at unlimited, we're already seeing, in the other underlying numbers, a strong cost efficiency payback as a whole. I'll give you a few sort of specific thoughts on that.

We talked about the underlying ARPU being strong when you adjust for the overage decline, but if you look at likelihood to recommend, it's very strong for our Infinite base, and churn is materially lower so that drives very good lifetime value economics. The propensity of the call is far lower as a whole and, therefore, we're seeing less activity in our call centres with our Infinite base. These will all be things that translate through to better cost efficiency.

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As we launch equipment financing and make it the primary way of getting a device on the Rogers brand and the Fido brand, it will continue to drive better efficiencies on that front. Our assumption in our guidance is that equipment subsidies will largely be as they were last year, so anything that comes along in terms of improved equipment subsidies is goodness to the overall plan that we have in place for our business. We see these as big opportunities, and we have our eyes fairly, squarely focused on driving the cost margin that will, in turn, allow us to create better affordability for our customers so there could be greater adoption and penetration of our services, and also to free up cash to invest in the future of this business. That's the virtuous cycle that we are after.

Jorge?

Landon Park:
Thank you, Joe.

Jorge Fernandes:
On the performance of the 5G low-band, as we've explained before, our spectrum strategy is based on a combination of the low-band spectrum primarily for coverage, the mid-bands for coverage and capacity, and then over time high-band millimetre wave for deployment in areas where we have high density of users. The issue for low-band spectrum is not so much about an immediate greater performance than 4G, it's more about providing an equivalent coverage footprint than 4G at relatively low cost given that the site footprint is already there. The real benefit over time comes when the 5G standalone core becomes available; at that point we'll be able to combine both the new capabilities of 5G, namely around IoT capacity and low latency with a very wide available coverage. That's the key.

On the dynamic spectrum sharing, we're currently testing the technology. It'll be available later this year. Obviously, that will give us greater flexibility. As, of course, the 5G handset growth happens, we will have the flexibility to manage spectrum across 4G and 5G and use our current and future spectrum assets in a more efficient way.

Landon Park:
Thank you. Do you expect DSS to be in devices this year?

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Jorge Fernandes:
Yes. Yes, we do.

Landon Park:
Okay. Great. Thank you very much.

Paul Carpino:
Thanks, Landon. Next question, Ariel?

Operator:
Our next question comes from Tim Casey of BMO.
Tim Casey:
Thanks. I'm sorry if you went over this already, Joe, but could you talk a little bit about the uptick in Q4 of subscribers to Infinite and how you think that will progress through next year? Just a clarification. The sub-count adjustment you made, can you flesh that out for us, Tony, because as I know you had removed some of the Federal contract, I believe it was last year, that was going over to a competitor. How should we think about the adjustment this year in respect of the 131,000 postpaid ads you posted? Thanks.

Joseph Natale:
Tim, we're very pleased with the adoption of Infinite in Q4, and it exceeded our expectations. I think we're thinking maybe closer to 1.3 and a bit. Coming out at 1.4, again, was ahead of expectations. The way to look at it is we see that continuing to ramp, if you will, through the first half of the year and then get to more of a steady-state place in the second half of the year is the way I would kind of look at it as a whole.

The mix we're seeing is still in the same range I talked about last time, 60% of people adopting Infinite are upgraders and 40% are downgraders, spending less or rate optimizing, if you will. But the vast majority of the transition to Infinite will be done by July 1 is our current production, and after that it'll be kind of steady-state price plan changes, new customers going along, pre to post-migrations, people migrating from Fido to Rogers, all those sorts of things that are kind of a normal course of business.

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All say again as I said to Landon just a minute ago, we're really happy with the underlying economics of what we're seeing. It's playing out exactly as we had hoped. The underlying recurring ARPU is strong when you take into account the mix I talked about. The churn benefits are material, and the impact in terms of cost to serve, cost to support is far better. All kind of held up by likelihood to recommend, which at the end of the day is a very key metric in terms of customer's desire to stay with us over the long run.

The next big sort of focus is working the equipment subsidy side of the equation. As we've said before, there's a big there. We have some of the biggest subsidies of any country in the world, and often our price gets confused between what is inherently the subsidy burn-off or the leasing of the device compared to the underlying rate of service plan. Our goal is to make things more clear and simple for our customers and distinguish those two items. All along the way, we think we have an opportunity to drive better overall economics and, again, use that money for driving affordability and investing in 5G and in the future as a whole.

That's kind of the tale of the tape over the last little while. The volume of calls that we're taking right now to go to Infinite or discuss Infinite are outweighing the lessening of the support calls for the base, and that's sort of—those lines will really begin to cross in the middle of the year, but you can imagine that the volume of activity has been substantial. If you look at the volume of activity around price plan changes or customers asking about this, we're seeing three to four times the regular volume of normal increase around rates and plans and things of that nature. That's kind of the tax we're playing in the short term.

As the lines cross, we'll see the goodness come to the surface. We're seeing that underlying the metrics right now as we kind of evolve this transition.

Anthony Staffieri:

On the second part of your question, Tim, as I said, we made the adjustment for 53,000 customers. It was a Provincial Government contract. They were looking for pricing at extremely low ARPUs that economically didn't make sense for us, and so that business is transferring to another service provider. In terms of the transition during the fourth quarter, the number was very small, literally a few thousand, and so it had negligible impact on our net postpaid subscriber reported number, as well as on our churn number. In terms of the impact to the base, as I said, the year-on-year growth rate was impacted by 40

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basis points as a result of that adjustment. We wanted to follow the same type of approach we did for the Government of Canada, as you highlighted, and wanted to avoid the distortion that it would provide in our metrics going forward, particularly given the low ARPU that we were talking about for this. As I said, the economics just didn't work for us. The lifetime value was negative and dilutive to our business, and so we think we made the right decision on that.

Landon Park:
Thank you.

Paul Carpino:
Thanks, Tim. Next question, Ariel?

Operator:
Our next question comes from Maher Yaghi of Desjardins.

Maher Yaghi:
Thanks for taking my question.

I'm trying to get my head around the guidance. I'm sorry to get back on that topic again, but when I look at your exiting results for Q4 on EBITDA with plus-1%, you're counting for EBITDA for 2020 to between 0% and 2%, so middle ground is 1%. Why should we see continued degradation in EBITDA growth in the first half when a lot of the pain—well, some pain—already has materialized in Q3 and Q4 and affected your EBITDA growth? I'm trying to just figure out what's the cause of the increased pressure on the EBITDA growth in the first half.

I guess inside that guidance, what's your assumption on subsidies? Are you continuing to assume that the subsidy model will continue in 2020 or some relief is in there to get you to your guidance? I have a follow-up question on Wireless, please.

Anthony Staffieri:
Okay. I'll start with those two, Maher. In terms of our performance for the fourth quarter, we reported Adjusted EBITDA growth of 1%. It's important to keep in mind that that 1% is inclusive of the IFRS lease accounting impact year-on-year, which we've said is about three points of impact year-on-year.

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You ought to think about it, as we go into each of the quarters in 2020, the lease accounting impact will be an apples-to-apples in terms of the year-on-year, and you can remove that three-point adjustment. In the fourth quarter, that 1% equates to an IFRS adjusted number for lease of negative 2%. That's the important factor to keep in mind for the first half of 2020.

In terms of our outlook for subsidy, as Joe mentioned, by the end of this month and into the first week in February, we've announced that we will retire the subsidy plans and move to all Equipment Installment plans. We think that's the right approach for the customer and, as part of that, we think we'll continue to see reductions in subsidy costs as the value proposition focuses on the connectivity rates in the plans and unlimited, and worry-free overage plans in Fido.

In terms of our outlook in our plan, we haven't necessarily relied on that to happen in order for us to hit our EBITDA guidance. We think that's a big opportunity for the industry, and we'll need to see how the competitive dynamics play out, but we are primarily focused on other cost playbook initiatives in order to be within our guidance range on EBITDA.

Maher Yaghi:
I'm with you, Tony, on the IFRS 16 impact, but when you look at your 2019 guidance of 3% to 5% and removing that impact of IFRS 16, you're basically calling for the same kind of EBITDA growth in 2020 versus 2019. Again, I'm going back to trying to figure out—you guys talked about the second half improvement and the gain that you expect to get from the launch of unlimited and the cost-benefit. So, from the guidance that you're giving in 2020, it doesn't seem like we're at the point to begin to benefit from that transition, so when is that benefit going to be fully reflected as we're looking at 2021 now?

Anthony Staffieri:
A couple of things just to level set. For the full-year 2019, we had flat revenue and EBITDA growth of 4%. Adjusting for lease we had EBITDA growth of 1% for the full year. As we saw it play out, it was really a tale of two stories in 2019, first half and second half, and what you saw in the second half was declining topline and declining EBITDA, and compared to what you saw in the first half of 2019. So, we're reiterating the same type of approach for 2020 in reverse; we'll continue to see a drag on topline, as well as EBITDA for the first half of the year, and then we expect to see growth in the back half. We want to be cautious about how we see that growth. It'll depend on a number of dynamics, and in particular, competitive dynamics in the marketplace in what is a very busy period.

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We think our guidance appropriately reflects the type of quarterly and first half, back half skew that we've previously talked about.

Maher Yaghi:

Okay. On Wireless, you had a nice quarter in terms of loading postpaid customers. I guess there was a lot of subsidies, there were a lot of gift cards going around in the first fourth quarter. I would've thought your ARPU would've been more affected than what it showed up the results. Can you talk a little bit about the quality of the customers you're getting, and how that ARPU number came out to where it was showing some improvement sequentially?

Anthony Staffieri:

Sure. A couple of things, Maher, to be helpful on that. First of all, I'll start with the quality of the customers coming in. We were very pleased with the lifetime value, as well as the ARPU in. If you were to look at—one of the things I've talked about before is we look at ARPU in, and it's up year-on-year. When I say ARPU I mean IFRS ARPU. Obviously, ABPU is up as we have more device attached rates, but, meaningfully, ARPU is up year-on-year and the lifetime value of the customers coming in is up significantly.

We're very pleased with the mix of customers that made up not only the postpaid nets but also the gross additions that we had in the Wireless business. Q4 was, as always, extremely competitive, but what we did see, when you step back and look at all-in promotional subsidy and promotional costs for the quarter, they were actually down year-on-year on a cash basis. You saw some of that bleed into our fourth quarter, if you were to look at equipment net equipment subsidy costs, they were down slightly year-on-year. As you know, as a result of the amortization over the life of the contract, you'll see more of that bleed in, but if you step back and look at the economic cash basis, it was down year-on-year; again, less than we would have targeted back in July, but notwithstanding that, still on a positive trajectory as we head into 2020.

Maher Yaghi:

Okay. Thank you.

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Paul Carpino:

Okay. Thanks, Maher. Next question, Ariel?

Operator:

Our next question comes from Jeff Fan of Scotiabank.

Jeff Fan:

Thank you. Good morning.

A couple of clarifications and then maybe a broader question. Clarification regarding the Service revenue. This quarter saw a bit of an improvement from last quarter, last quarter was down minus 1.6%, it was down only 1% this quarter. Tony, based on your comment, as we look out to 2020, are you expecting that first half, given the seasonality of overage and other factors, that it will be worse than the minus 1% and gets worse before it gets better on the inflection? Maybe just help us out in clarifying that.

The second clarification is just regarding the subsidies. You're planning to move subsidies out of your system, but you haven't included it in your guidance. It sounds like you're not assuming that your competitors will just simply follow. So, for your contract asset, which I guess picks up the subsidies, are you assuming that's going to be roughly similar to 2019 as what you would likely see in 2020?

Then just on a broader question, as you kind of look at the competitive environment, what we've seen in the last quarter, the last nine months or so, and then looking out to 2020, are there any plans to maybe consider altering your reporting to blend your post and prepaid subscribers and report phone just to kind of shift the focus away from pure loading and focus more on maybe the financials and Service revenue, etc.? I want to get your thoughts there. Thanks.

Joseph Natale:

Okay. I'll start with the first one, Jeff. As you've highlighted, we had a bit of an improvement in the trajectory of Service revenue, and so we were pleased with that. As we look to the first half of 2020, you should expect about the same as what you saw in the fourth quarter. Q3 was a decline of almost 2% and it improved in the fourth quarter. As we look to the first half, as I said, it'll be, we think, about the same as we saw in Q4.

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I want to be careful that we don't start to slide into quarterly guidance, but at the same time we want to be very helpful in terms of first half and second half, and so hopefully that will help you.

In terms of the subsidy, two things to highlight: one is moving away from the subsidy model construct to installment plan isn't necessarily by itself about reducing the promotional discount, if you will, it's about making it simpler for the consumer, so we're much more transparent in what the connectivity rate plan is versus what the cost of the handset is. Simplicity and transparency is really the focus there.
At the same time, we have and will continue to reduce the amount of promotional discount that's inherent in the device pricing, that's true whether it's on the old subsidy rate plans or whether on installment plans. That is going to be highly market-driven. We'll need to do what we need to do to be competitive in the marketplace and so we'll see how that plays out. As I said, in the fourth quarter we saw a bit of a decline year-on-year and so within our plans for 2020 we've assumed a very modest decline. I would describe it as not terribly significant to achieving our results. Our cost playbook is really centred around other factors, and so that could be an incremental opportunity, depending on how it plays out in the marketplace.

Anthony Staffieri:
Then finally on your last question with respect to reporting and whether our focus goes back to some of the fundamentals, let me start with, first and foremost, our fundamental we start with is always revenue, EBITDA, and cash. I mean, that's really what we focus on. Every quarter what we look at is revenue share, and how we've performed on revenue share. But for the overage decline, I think what you would've seen is a very healthy track record of capturing leading share of revenue share and EBITDA growth share. Those are going to continue to be fundamental key-first principles.

In terms of secondary leading metrics, I don't get too far ahead of ourselves in terms of what we will provide at the end of Q1, but I think there're merits to having some, what I would describe, minor modifications, but still more to come on that front.

Joseph Natale:
Let me just add one comment, Jeff. I mean, if you look at what drives the underlying economics of our business—as Tony said, revenue, EBITDA, cash flow—those core economics and share of revenue, it's a combination of things, as you know. There are gross additions that come into our business, roughly 1.6 million postpaid gross ads last year; there are deactivations, roughly 1.2 million

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deactivations; and then as much as one-third to one-half of our base is going through either a price plan change or a retention activity. The quality of each of those transactions is what really drives the fundamentals of our business.

The quality of what comes in, what goes out, and the interactions throughout the course of the year-round retentions and adjustment is really what drives the fundamentals of revenue growth, EBITDA growth, and cash flow growth. We'll continue to kind of point to the quality of those items. Increasingly, pure net ads are only a small part of the story when you look at the broader picture of all the activity that goes on every single day.

Jeff Fan:
That's great. Thanks for the colour.

Paul Carpino:
Great. Thanks, Jeff. Ariel, we have time for two more questions, please.

Operator:
Certainly. Our next question comes from Drew McReynolds of RBC.

Drew McReynolds:
Thanks very much. Good morning. Two housekeeping, or maybe three housekeeping items for me. On Rogers Media, can you just speak to the dynamic of the higher programming costs in the quarter; is that something that we'll see for 2020 and how should we overall be modeling Rogers Media?

Second question on the Cable EBITDA margins, certainly still continue to go in the right direction. Wondering if, Tony, you can just comment on the drivers of that going forward in terms of further margin expansion with respect to either mix or certainly additional cost efficiencies.

Then, lastly, just on the capital return side of the equation, can you just fine tune some comments in and around how you see the buyback and with respect to dividend growth. I don't think anyone was certainly expecting growth, another increase today, but just what needs to come together to resume some dividend growth in the future? Thank you.

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Anthony Staffieri:

Hey, Drew, a couple of things. I'll start with the Media portion of it. As you know, it's always a bit lumpy in Media in terms of timing of programming costs vis-à-vis the revenue profile, and so there's never perfect matching with any month or quarter. As you look to 2020, you ought to think about Media as good solid growth. We've always talked about growth in Media on a more consistent basis in the 2% range, and that continues to be our outlook for Media, and you should expect margins and, therefore, EBITDA growth to be somewhat more consistent, again, with some of the numbers you would've seen throughout 2019, when you exclude the impact of Publishing. Again, topline growth together with EBITDA growth and some modest margin expansion in Media.

On the second piece of it—I'll come back to margin, I just needed some clarification, but on capital return, again, we reiterate that we're committed to cash return model. We think from a balance sheet perspective, we sit at a comfortable place in terms of liquidity, leverage at 2.9 is a little more elevated, but we comfortably burn that off in the normal course of our operations and growth. With that, in 2019 you saw so some pretty healthy cash returns of $655 million through share buybacks, in addition to the dividends.

As we look to 2020, there're three factors that are top of mind for us, as you would expect, and one is the timing and pacing of our cash flow growth. You can expect us to toggle it with that. We've talked about the first half of the year being more muted in terms of growth.

The second piece of it relates to the upcoming spectrum option, and so we'll need to get further clarity on the timing of that and how we think about timing and quantum of share buybacks.

The third is—somewhat related to that—is how we're naturally burning off our debt leverage ratio as well. Those are sort of the three factors we think about in that.

Then on your second part on margin expansion, I'm not sure I got the question, if it related to all businesses or…

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Drew McReynolds:
Just the Cable one, Tony.

Anthony Staffieri:
Yes. On the Cable one, two things, we expect—and as Joe said, over the last several years we've seen very good margin expansion on Cable and it's really been on two fronts; one is the indexing of more subscribers and, therefore, revenue to Internet, which is naturally a higher margin business, together with some cost efficiency things that we've continually been able to focus on. As we look to 2020, we see continued improvements in EBITDA margins. Certainly, at the cash margin level, I've talked about CapEx intensity continuing to move down for Cable, and that'll contribute to, we think, a pretty good Cable cash margin expansion in 2020.

Joseph Natale:
Bear in mind, Drew, we're going through another transition in Cable. We're going through the migration to Ignite and we ended the year with 325,000 Ignite customers, and we also decided to stop sell our legacy solution. We also, as I mentioned in my comments upfront, launched self-install. We're trying to work our way through that transition with a lower CapEx CPE footprint given the inherent deficiencies of the new solution versus our legacy; dramatically different CPE footprint in terms of cost.

We believe there's good opportunity on the self-install front. We know that other peers of ours who've launched similar product are seeing good success on that front and just getting to that same level is of great inherent benefit to us. We're kind working that calculus at the same time as just driving the overall performance of the business. Once we're in the steady-state with respect to the Ignite transition we'll have worked our way through that, and that's good news on many fronts.

Drew McReynolds:
Thank you.

Paul Carpino:
All right. Thanks, Drew. Last call, Ariel.

Drew McReynolds:
Certainly. Our final question comes from Richard Choe of JP Morgan.

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Richard Choe:

Hi. Thank you. Wireless loadings were solid; Service revenue kind of came in better; and Broadband revenue came in better. The only kind of weakness was on the Video side, but guidance is for minus 2% to plus 2% for Service revenue. That seems pretty wide given the way the trends are pointing to. Is there something we're missing there?

Anthony Staffieri:

Richard, on the revenue side, a couple of things. As we continue to make the transition to unlimited, still a number of moving dynamics for us and, frankly, for the industry in terms of what may play out on the competitive front. On the Cable side we see a good path to continued growth in 2020. But it's really the former that we wanted to leave ourselves room to make sure that we have the flexibility to do what we need to do in the marketplace in the short term to have the right long-term result. Notwithstanding the fact that we've provided what you've describe as a fairly broad range on Service revenue, I think the key point that we're trying to make in guidance is we will land EBITDA within the someone narrow range that we provided. I think that's really the important point that we'd like you to walk away with.

Richard Choe:

Great. One quick follow-up; there's been some, I guess, thoughts of a big upgrade cycle coming. How much leeway have you provided yourself for your EBITDA guidance for the year?

Anthony Staffieri:

When you talk about the upgrade cycle, I don't know if you're referring to perhaps a 5G migration or—can you just clarify that, Richard, what you're referring to?

Richard Choe:

A 5G iPhone cycle.

Anthony Staffieri:

Yes. I think, look, there's a couple of things on that. It's not unlike what we saw from 3G to 4G in Canada. We sort of think about the migration as happening in normal course. We might see a bit of heightened activity, depending on the utility value for the customers, but that's something that'll play

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out. I would say we factored in some heightened activity, but our expectation is it's not going to be something substantial in terms of when you look at it as a percentage of our total base in 2020.

Richard Choe:
Great. Thank you.

Joseph Natale:
Bear in mind, Richard, that the iPhone 11 was a very successful device and, therefore, the inherent activity and the subsidies around that high-volume device are a part of the 2019 numbers that we're comparing against, and we'll look carefully at what comes out of the device ecosystem. That will determine, along with 5G capability, the extent of that. But I think we've provided sufficient headroom for ourselves to function well in that particular launch.

Paul Carpino:
Great. Thanks, Richard. Thanks for joining us on the call today, and please feel free to call IR with any follow-up questions. Thank you.

Joseph Natale:
Thank you.

Operator:
This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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