Rogers Communications Inc.
Second Quarter 2023 Results
Conference Call Transcript

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Time: **8:00 AM ET**

Speakers:

Tony Staffieri
President and Chief Executive Officer

Glenn Brandt
Chief Financial Officer

Paul Carpino
VP Investor Relations

Operator:
Welcome to the Rogers Communications Inc. Second Quarter 2023 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. (Operator Instructions)

I would now like to turn the conference over to Paul Carpino, Vice President of Investor Relations with Rogers Communications. Please go ahead, Mr. Carpino.

Paul Carpino:
Great, thanks Ariel, and good morning everyone, and thank you for joining us. Today I am here with our President and Chief Executive Officer, Tony Staffieri, and our Chief Financial Officer, Glenn Brandt.

Today's discussion will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's earnings report and in our 2022 annual report regarding the various factors, assumptions and risks that could cause our actual results to differ.

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

Tony Staffieri:
Thank you Paul, and good morning everyone.

I'm pleased to report that Rogers delivered strong results in the second quarter, the seventh consecutive quarter of growth for the Company. These results reflect disciplined execution and healthy momentum in our core businesses against a healthy backdrop. Our country continues to grow at a robust pace led by immigration, and you see we're off to a good start in operating at a new level of scale.

The second quarter represents our first full quarter since closing Shaw, and we are very pleased with the quality of the Shaw assets and our early momentum. They have a robust network, an extensive track record in the west, and an exceptional customer service team. Together we now operate Canada's only national wire line network, passing 9.8 million homes with 4.8 million customers. This

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builds on our Rogers 5G wireless network which supports 11.4 million mobile subscribers, the largest and fastest growing customer base in Canada.

In our industry, scale and quality of assets matters. With Shaw, we have both, and we are already seeing some early successes and wins. We have seen market share gains in the west, including double-digit subscriber growth, and we expect our share in the west to continue to grow in the coming quarters.

Earlier this month, we introduced Rogers internet and TV services in Shaw territory along with bundled services across our channels. The early uptake on these services is encouraging. Although early days, we're encouraged by the strong store traffic as loyal Shaw and Rogers customers look to bundle more services, given our stronger value proposition in the west. I expect this interest will continue as we make good progress on integrating our networks and systems to offer a seamless customer experience.

To support this customer experience, we've extensively trained our frontline teams. Our thousands of frontline employees are now able to see both Rogers and Shaw account information simultaneously. This team includes the repatriation of all Shaw customer care roles back to Canada, making our customer service team 100% Canadian-based.

We've also seen good uptake from the half million Shaw mobile customers upgrading to the Rogers 5G network. Their feedback on the network shift has been very favourable and we believe we will continue to benefit from this going forward. Overall in these first 15 weeks, we are tracking ahead of our integration targets, and we continue to be impressed with the quality and commitment of the Shaw team.

Turning now to the quarter, we delivered strong results. Rogers once again delivered industry-leading growth in wireless. More Canadians continue to choose Rogers, and you see this reflected in our postpaid mobile phone net additions of 170,000, up 39% from one year ago. Year to date, postpaid mobile phone net additions are now at 265,000, up 41% from the first six months of 2022. This performance has been underpinned by two key factors: first, our superior distribution, quality network and wireless value proposition is driving market share growth; second, we continue to execute with discipline and gain a strong share of the population growth opportunities across the entire country. We

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are also seeing double-digit growth in subscribers moving to Rogers Unlimited plans as demand for data continues to soar. Today, more than half of the Rogers postpaid base are on unlimited plans.

Despite rising prices in other sectors, the July StatsCan index shows wireless prices in the country were down 15% year-over-year. At Rogers, we're focused on growing customer data use on our network. Our value proposition is focused on giving more data at lower prices on the country's largest and best network. In fact, the latest study from umlaut, the independent benchmarking organization of Accenture, found Rogers to have the best and most reliable network in Canada. We're extremely proud of these results given our clear focus on network capital allocation and believe it is key to our continued future growth.

In cable, as one national company, we see tremendous opportunity for growth and to provide consumers and businesses with much-needed choice in the west. In the second quarter, cable service revenue and quarterly Adjusted EBITDA doubled to over $2 billion and $1 billion respectively. At the same time, margins continued to expand with the synergy benefits we are starting to see across the cable business. Importantly, we continue to gain momentum on subscriber growth. More to do here, but the fundamentals are headed in the right direction. Overall, I'm pleased with our progress and momentum in Q2.

Let me now turn to our balance sheet and our de-levering initiatives. Given our strong financials, Rogers is already de-leveraging its business driven by Adjusted EBITDA growth, which was up 38% in the quarter. Importantly, we will continue to invest in our network and operational infrastructure. Our debt leverage ratio of 5.1 times improved since closing the transaction. We are targeting a further reduction to a debt leverage ratio of 4.9 times by the end of 2023. We are pacing confidently to achieve our target to reduce leverage by 1.6 times over 36 months, which would get leverage back to pre-acquisition ranges.

Our de-levering efforts will be further supported by our plans to sell $1 billion of non-core assets within the next 12 months. Given our scale and financial performance, we believe these targets are fully achievable.

Finally, let me touch on our upgraded guidance for 2023. Earlier today, we increased our full year guidance for free cash flow and Adjusted EBITDA. These increases are driven by strong execution in

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our underlying businesses and the confidence we have in our cost synergy plan. Collectively, the quality of our now combined Shaw and Rogers assets, the strength of our underlying business momentum, and the confidence we have in the growth opportunities position us well for near and long term growth.

I would like to thank the entire Rogers team from coast to coast for their continued commitment to our customers. I'm very proud of our team's accomplishments and our performance in the second quarter.

With that, I will turn the call over to Glenn.

Glenn Brandt:
Thanks Tony, and good morning everyone. Thank you for sharing your time with us this morning.

Rogers second quarter results reflect continued sector-leading operational and financial performance, driven by strong execution by the Rogers team which now includes the integration of our former Shaw Communications employees making us stronger. As well, our second quarter results incorporate for the first time a full quarter of Shaw's financial results.

In wireless, our second quarter service revenue was up a very healthy 7%. This growth has been driven by sustained and consistent sector-leading growth in our mobile phone subscribers, combined with careful management of our pricing plans. Postpaid mobile phone customers grew an impressive 170,000 net additions in the quarter, reflecting a 39% increase from our prior year's second quarter as Canadians continue to choose Rogers more than any other wireless carrier. For seven consecutive quarters now, Rogers has led wireless market share growth and delivered healthy financial results in a strong wireless market. Through the first half of 2023, we have added 265,000 net wireless customer additions year to date, and 622,000 net wireless customer additions over the past 12 months, far outpacing our peers and reflecting a 6% increase in the customer base over that period. To be very clear, that's the organic growth over and above the half million mobile customers we've added with the Shaw acquisition.

Our postpaid mobile phone churn performance remained healthy at under 1%, coming in at 0.87% for the quarter. Wireless ARPU for the quarter was $56.79, down 3% from last year as we welcomed Shaw mobile customers from Western Canada into our subscriber base. These subscribers are on discounted

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but high value bundled wireless and wire line plans and remain a key priority in our integration with Shaw. Excluding the impact of these discounted customers, the underlying wireless ARPU across all brands remained consistent year over year.

Wireless Adjusted EBITDA was up a solid 9% and Adjusted EBITDA service margin came in at 64%, a solid increase of 120 basis points from last year. This increased margin reflects the strength and quality of our service revenue growth driven by leading market share and stable ARPU, combined with our continued emphasis on cost efficiency.

Moving to our wire line internet and cable business, with the closing of the Shaw transaction, we have doubled the size of our wire line business on every key measure, including revenue, Adjusted EBITDA, homes passed, and wire line customers. Total revenue for Q2 was up 93% to just over $2 billion, reflecting approximately $1 billion of new revenue related to our acquisition of Shaw. Adjusted EBITDA was up 97% to just over $1 billion this quarter, and margins were 51% or a full 100 basis points higher than a year ago, reflecting the integration of Shaw and our continued drive for synergies and other cost efficiencies across cable.

From a KPI standpoint, internet loading was 25,000 with positive contributions coming from both the east and west. Video net additions reflected a strong turnaround performance in the quarter with positive net additions of 12,000. As well, ARPA grew by an impressive 5% to $139.68, reflecting prudent attention to pricing plans while driving positive customer net additions. We are just getting started on our integration efforts to grow this business through improved execution, increased network investment, and leveraging our national wire line reach together with our world-class 5G wireless network to capture market share and enhance bundling opportunities from coast to coast.

Moving to our sports and media business, our assets and results continue to stand out relative to our peers with positive revenue growth and sustained profitability. Sports and media revenue was up 4% for the quarter driven by higher sports-related revenue, primarily at the Toronto Blue Jays. Despite 4% higher expenses primarily associated with player payroll, sports and media Adjusted EBITDA grew year-over-year and was positive at $4 million.
On a consolidated basis, Q2 service revenue grew by 32% to just over $4.5 billion, while Adjusted EBITDA was up 38% to approximately $2.2 billion. This EBITDA represents a strong start on driving the integration with Shaw, reflecting early success on cost synergies and improved margins.

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During the quarter, Rogers continued to invest in networks for Canadians. Capital expenditures were $1.08 billion or up 39% in the quarter, reflecting added capital expenditures from the Shaw transaction and continued investment in both wireless and wire line networks to drive growth. Despite the higher CapEx, after-tax free cash flow was $476 million, up 38% year-over-year reflecting strong flow through.

Finally, we also returned $252 million in dividends to shareholders this quarter and we declared a $0.50 per share dividend on July 25, 2023. In the third quarter, we intend to amend our dividend reinvestment program, or DRIP to provide for a small discount on the dividend reinvestment share price and to allow for the nominal issuance of treasury shares for the settlement of the DRIP dividends.

Turning to the balance sheet, at June 30 we had $5.1 billion of available liquidity, including approximately $0.4 billion in cash and cash equivalents and a combined $4.8 billion available under our revolving bank credit and other facilities. Our weighted average cost of all borrowings was 4.8% at June 30 and our weighted average term to maturity was 9.9 years - that's down slightly from earlier maturities as a result of the impact from the Shaw transaction. Nonetheless, at 10 years and with a weighted average cost of borrowing below 5%, we are very comfortable with our financial position.

Our adjusted debt leverage ratio at quarter end was 5.1 times - that's improved by 0.1 times from leverage at the transaction close. Notably, this leverage is calculated using a full 12-month trailing Adjusted EBITDA of $8.7 billion for Rogers and Shaw combined, as if the Shaw transaction had closed July 1, 2022.

Effective this quarter, we have made a relatively minor adjustment in calculating adjusted net debt to better reflect the hedged value of our U.S. dollar denominated debt at the hedged FX rate. We previously included the full value of our net debt derivative assets without adjustment, which also included the valuation of our interest coupon obligations. The coupon obligations are recorded on our income statements through finance costs, rather than as part of the principal repayment on our balance sheet for U.S. dollar denominated debt, and so we believe this change and this presentation more accurately reflects the economic obligations on this debt.
To meet our stated objective of returning our debt leverage ratio to approximately 3.5 times within 36 months of closing the Shaw transaction, we intend to manage the decrease in our debt leverage ratio through combined operational synergies, organic growth in Adjusted EBITDA, and debt repayment as applicable. For the nearer term, our target to further reduce leverage by at least 0.2 times to 4.9 times

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by the end of calendar 2023 remains unchanged. To further support the de-levering process, we anticipate we will sell up to approximately $1 billion of non-core assets over the next 12 months, primarily consisting of surplus real estate.

Reflecting our continued strong execution through the first half of 2023, growing markets across all business lines and expanded footprint in the west, we have increased our full year 2023 guidance ranges for free cash flow and Adjusted EBITDA. We have increased our Adjusted EBITDA growth outlook to 33% to 36%, up from the prior 31% to 35% outlook, and with a half-year's results now complete and a very solid start for cost synergies from the Shaw transaction in hand, we have increased our 2023 free cash flow outlook to between $2.2 billion and $2.5 billion, up from the prior $2.0 billion to $2.2 billion outlook.

We are reaffirming our anticipated 2023 capital expenditures outlook, which remains unchanged in the $3.7 billion to $3.9 billion range, and we are reaffirming our 2023 service revenue growth outlook of 26% to 30%. The increases in our outlook for free cash flow and Adjusted EBITDA are driven by strong operational results, organic growth, and our continued push to drive cost efficiency throughout the operations. In addition, the increased guidance outlook also reflects the Company's confidence in realizing at least $200 million of cost synergies in 2023 and annualized cost synergies of at least $600 million within the first 12 months of the Shaw acquisition.

The Company's integration with Shaw is proceeding well and ahead of plan, and Q2's results reflect approximately $48 million of cost synergies having been identified and realized in quarter, or roughly 25% of the $200 million synergies expected to be realized in calendar 2023.

In summary, our second quarter results reflect the start of a new era for Rogers and for the telecom industry in Canada. We are just at the start of capturing the efficiency, synergies and revenue growth opportunities from the combination of these two iconic companies. We are encouraged by our early success and very excited for what's ahead. As I've heard Ted say many times before, the best is yet to come.

Thank you for your interest and attention this morning, and with that Ariel, can you please commence with the Q&A? Thank you.

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Operator:

Certainly. We will now begin the question-and-answer session. (Operator instructions)

Our first question comes from Vince Valentini of TD Securities. Please go ahead.

Vince Valentini:

Yes, thanks very much. I have a two-pronged question coming out of the CRTC decision on Monday related to the arbitration on the MVNO rate. First off, do you have any updated thoughts on how this could impact the competitiveness of Freedom Mobile and Quebecor, or do you have any incremental concerns coming out of that decision about what they might do in the market, especially as we head into back-to-school season? Maybe just your comments on the wireless competition environment.

The second prong to it is, do you see any read-throughs here to other decisions? I mean, this seems like a one-off file where it wasn't the CRTC setting a rate, they were just picking one of the two rates that was proposed to them, and obviously the MVNO regime is a temporary regime as opposed to TPIA, that's more permanent, so your thoughts just on the broader implications potentially of the way they worded that MVNO decision. Thank you.

Tony Staffieri:

Thanks for the question, Vince. We received the CRTC's decision at the end of day on Monday, and we're reviewing it. As you would expect, we're considering next steps including potential appeals, and so there is not a lot I want to say on this call for obvious reasons. What I will say, in the overall scheme of things, we're not going to be distracted and are going to continue to manage our business and investments accordingly. I come back to at a macro level, we announced today we're increasing guidance, and that's after a very thoughtful review of all the risks and in particular opportunities in front of us, and so you ought to think about the decision in the context of the overall business that we have in front of us in the back half of the year.

I will say, Vince, I did see your note and I think you got it right, and I'll just leave it at that.

Vince Valentini:

Thank you.

Paul Carpino:

Thanks Vince. Next question, Ariel.

Operator:

Our next question comes from Sebastiano Petti of JP Morgan. Please go ahead.

Sebastiano Petti:

Hi, thanks for taking the question. Just wanted to circle back on the wireless ARPU. I think, Glenn, in your prepared remarks, you mentioned excluding the impact of the discounted customers, ARPU remained consistent, I believe was the term, year-over-year. Just any update or how should we be thinking about the puts and takes on an organic underlying basis in wireless ARPU for the balance of the year? Obviously we have the 3Q impact from the network outage, but how should the team—how should we think about it over the next couple of quarters here as you are integrating Shaw as well?

Glenn Brandt:

Yes, I think—thank you, Sebastiano, for the question. I think when we look at ARPU, you can see from the growth in service revenue and the growth in our margin, our network customer additions are coming in at strong ARPU levels and contributions. I expect that to continue through Q3. As you've acknowledged in your question, we're flat year-over-year in Q2 on ARPU when you pull out the impact of the Shaw customers coming in. There was a little bit lighter roaming revenue on a year-over-year basis in Q2 in terms of growth. Everything I'm seeing and hearing reported in the media is that the travel season in the third quarter is expected to be strong, and so I would anticipate that to roll through in Q3 roaming as well with the busier travel season.

I think overall, the trending that you've seen through the first half of the year, I expect to continue. Adjust of course for the credits that we had through Q3, but other than that, I anticipate continued strong market share, strong revenue contributions coming from those new customers added in the third quarter as well as the customers that we've been adding over the last seven quarters. So, I think those trends will continue into the third quarter.

Sebastiano Petti:

Great, and then just a quick follow-up as well, just thinking about the synergies. Integration efforts pacing ahead - you know, $48 million of hard dollar synergy realization thus far in the second quarter.

Obviously, we've danced around this several times over the last couple quarters, but is there conservatism baked into that synergy guide? Obviously, it's great to see the overall outlook improved, which implies better organic trends, but as we're thinking about the integration efforts and the synergy realization within the balance of 2023, is there any puts and takes or any—you know, I think Tony described it as hiccups that perhaps might be baked into that, that we should be thinking about? Any dis-synergies? Thank you.

Glenn Brandt:

Thank you. No, I think we're three, or I guess now four months into post-close driving the synergies. I'm a cautious individual. We're a little bit ahead of plan but four months isn't something to start pinning trends on, so we're being conservative perhaps, but I think if you look at that $48 million, the synergies identified in quarter and realized in quarter in Q2, those are sustained synergies. Those will carry on, we'll build on them through Q3 and Q4. We're reaffirming the guidance around the $600 million run rate within the first 12 months. I anticipate achieving that in early 2024.

I'm comfortable with where we're pacing, I'm comfortable that we're a little bit ahead of plan and we're not letting up on it, so no, don't read anything more into it than we're satisfied with where we are and driving to build on that.

Sebastiano Petti:

Thanks again.

Glenn Brandt:

Thank you Sebastiano.

Paul Carpino:

Thanks Sebastiano. Next question, Ariel.

Operator:

Our next question comes from Tim Casey of BMO. Please go ahead.

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Tim Casey:

Yes, thanks. You alluded in your comments that you're encouraged by what you've seen out west. I know it's early days, but could you talk a little bit about what you're hearing and seeing from Shaw customers and your ability to retain them, and as well migrate them up into better plans or things of that nature?

Tony Staffieri:

Thanks for the question, Tim. A couple things. One is, as I said in my comments, we are very encouraged by the quality of the asset we're seeing. I'll talk about the wire line side of it in the first instance. What we're seeing is a very good quality network, and I'll come back to some of the initial pre-closing thoughts around lack of investment. What I can tell you is the Shaw team had continued to invest robustly in the quality of the network, not just in node segmentation but more importantly in mid high-split contributes to terrific network performance on internet and resiliency, so what you see is a portfolio of cable customers with extremely solid and low churn, and so we're very encouraged by that and it's clear to us the work we need to do around cable network, which is more about expanding the network, as I've talked about before, particularly around recently developed areas that we think are opportunities in terms of homes passed and the penetration within that footprint, so very pleased with the quality of the network.

What we're seeing as a result of that, and given the brand of the Rogers 5G network in the west, is very good uptick in interest, and this is all organically in the first 90 to 120 days, when you include the month of July, of interest of customers walking into our stores, Shaw stores which are now fully branded as Rogers stores, looking for the bundle. That was good to see and we were very encouraged, and as I've said, that was without us necessarily promoting and exciting the base in doing that. It was all happening organically. The willingness of the customer to bundle is, early days but as I said, very encouraging.

On the Shaw mobile customers, we've been actively moving them up to our 5G network and ideally getting them onto higher price plans, and I would say that migration has been going extremely well. As you would expect, they very much welcome the opportunity to get onto the Rogers 5G network and the quality of that network, particularly in BC and Alberta.

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Tim Casey:
Is it worth calling out in terms of your early subscriber performance any dramatic changes in terms of regional strengths, or is—I guess what I'm getting at, is Ontario still the main growth driver or are you seeing already any shift out west?

Tony Staffieri:
The growth comes from across the country, but I would say we continue to perform strongly in Ontario. But importantly, what we have seen is a very good shift in market share in the west, particularly if you look at BC and Alberta. What I can tell you, without getting into too many details on a regional basis, is that our market share gains on a net add perspective is up double digit in terms of points in each of BC and Alberta, and that's for a number of reasons that I just talked about in terms of not just the bundling opportunities but as we focus on new to Canada, the primary areas are clearly focused in Vancouver and Toronto as the major destination markets. Those are two strongholds that we do particularly well in that segment, and so we're pleased with the share that we're getting on new to Canada, and that's distributed amongst those two, so we're pleased with the results we're seeing there.

Again, just to reiterate, it's happening in all the key markets, and we continue to be focused in managing our business in that way.

Tim Casey:
Thank you.

Paul Carpino:
Thanks Tim. Next question, Ariel.

Operator:
Our next question comes from Dave Barden of Bank of America Merrill Lynch. Please go ahead.

Matt Griffiths:
Good morning guys, it's Matt sitting in for Dave. Thanks for taking the question.

First on the wireless net add performance, obviously very strong in the quarter. I was wondering if you could give some, like, additional colour on the split between—you know, I think you alluded to doing

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well with new Canadians, so this is between kind of net adds that are new to the market versus your ability to win those who are switching, and maybe if you could provide some colour among the—in the past, you've talked about those three buckets where you're going to be focusing your synergy efforts, you know, people, contracts and content. I was wondering if you could kind of give us an update on where the early dollars are coming from and where we should see maybe an uptick as we move through the year. Thanks.

Tony Staffieri:
I'll start with the first part of your question and Glenn will talk to the synergy realization part of your question.

In terms of the wireless loadings that you see and the strong performance there, it's really attributable to a number of factors. If you were to look at the segments, I'd start at a very macro level, we continue to see population growth in this country, leading amongst the developed countries, and so we're very focused on the share we get there, and that continues to be majority share and very strong share performance. We aren't seeing anything change there, and as you would expect, that's a good part of the growth in the industry.

If you were to look at last quarter, now that everyone's reported, what you saw was a continuation of postpaid mobile base for the country that is growing in and around 5%, depending on what you include or exclude, which is very healthy and a continuation of what we saw in 2022. As we look to the second quarter, our sense is the market continues to grow at that size, so it's a very healthy pace. Again, immigration is part of it, but the continuation of penetration rates in Canada, which lag the U.S. still, is the second growth opportunity for us, and so we continue to focus on both of those in terms of segments.

If you were to look at new to the category, of course you can't build a business just based on new to the category, and so as you would expect, we continue to do well on not only the porting of customers amongst the players in Canada, but that's combined with a continuation of low churn overall. While it's up slightly year over year, that's just really attributable to the competitive dynamics that we've been playing in and are doing well in. So, it's a combination of all those factors, Matt.

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Glenn Brandt:

Then Matt, on your question on synergies, those three buckets that you highlighted, those remain the broad categories across which we're driving the synergies. It's early days. I would say that we've realized the efficiencies across third party vendor spend, as well as early efforts on removing the duplication and driving efficiencies across our in-house operations, and so that—I don't want to give any more clarity or granularity to the $48 million. We're four months in, three months reflected in these results, and more to come.

Matt Griffiths:

Thanks so much.

Paul Carpino:

Thanks Matt. Next question, Ariel.

Operator:

Our next question comes from Drew McReynolds of RBC. Please go ahead.

Drew McReynolds:

Yes, thanks very much, and thanks for taking my questions. Two housekeeping, and then a little bit of a bigger picture, maybe for you Glenn, on the housekeeping. Working capital, just outlook for the year, just if you can give us a little bit of help on that one as well as the cash tax rate. Then on the bigger picture one, we've obviously seen a lot of increase in monthly data that's available to Canadians right across all the pricing umbrellas. Can you comment on where we stand on data usage per month and whether we're at the point where just there's so much data offered on a monthly basis that it's less incentive for migration as it once was? Maybe that's not the case, but if you could just provide an update there, that'd be great.

Glenn Brandt:

Thank you Drew. On the working capital, we're working through the impact of rolling in Shaw, and so you're going to see the usual seasonal measures going through our working capital from quarter to quarter. I don't anticipate that to have a material impact on our debt or our leverage. I do anticipate that quarter after quarter, we will see de-levering as the quarters go by increasing in terms of actual debt

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repayment, but then the de-levering particularly being driven by earnings growth, and you've seen that already in the first quarter.

There's not really anything to call out on working capital with the size of our balance sheet, the size of our investment and the size of our free cash flow. It's all manageable within that envelope, so unless there's anything particular you want me to look at, we're managing inventory levels, we're managing receivable levels, we're not seeing any undue pressure from economic pressures or anything within our receivable base. Our experience around credit collections and bad debt reserves remains stable, and so nothing to call out there.

Then on cash tax rate, on a base of $8.5 billion of annualized EBITDA, you see a free cash flow—a tax rate of roughly 6% on that base, so if you run the math, you'll see that comes in and around a half billion dollars or so. Use that as a broad measure for you, that should help you with the modeling.

Tony Staffieri:
The second part of your question, Drew, in terms of what we're seeing in data usage, it continues to grow at even faster pace. The average usage is now sitting at just under 10 gigs per month, so it's very healthy usage, growing at a pace of in and around 50% year-on-year, so very healthy clip. Notwithstanding some of the promotional data buckets you see, we just look at what the customers are telling us, and as I said in my opening comments, they continue to flock to the unlimited plans and the value that offers, and we saw in just this quarter alone double-digit growth rates in the number of customers coming onto the unlimited plans.

In the quarter, you would have seen that we launched on 5G the capped plan, which offers great value and a healthy data bucket size, and for a certain segment, that's a great value proposition to move from a flanker into the 5G network, and it's done what we expected it to do in terms of up-selling from lower ARPU plans with very minimal downshifting. The attractiveness of the worry-free unlimited continues to be compelling, and that's what we're seeing customers do, Drew.

Drew McReynolds:
That's great colour, thank you.

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Paul Carpino:
Thanks Drew. Next question, Ariel.

Operator:
Our next question comes from Maher Yaghi of Scotiabank. Please go ahead.

Maher Yaghi:
Thank you for taking my question. Maybe I'll start with just a quick housekeeping question and then I'll follow up with my real question. On the housekeeping, can you help us understand what the organic EBITDA growth was for wireless and cable? Maybe cable is easier to calculate, but just help us understand organic excluding the Shaw mobile customer acquisition there.

The question I wanted to ask you is on churn - we saw an increase in churn happening in the quarter year-on-year and sequentially, but more importantly year-on-year, so probably a lot of things going on with the Freedom—sorry, with the Shaw mobile customer acquisition. Can you help us understand what drove the increase and what your expectations are going forward?

One last thing I wanted to mention - thank you for highlighting or talking about the de-leveraging process. It's a point that comes up a lot in discussion with investors. You talked about the divestiture of about $1 billion of assets. Can you help us understand what's in there and the timeline? Thank you.

Glenn Brandt:
Thank you Maher. On the organic EBITDA growth, the wireless EBITDA growth of 9%, that really is very predominantly organic. There is some impact that comes in from rolling in the half million Shaw customers, Shaw mobile customers, and so you can reflect that, and that's a portion of the 9%. The increment on that is probably in the range of 3% or 4%, max, and then the rest of it is organic, so think of it in the range of 5% or 6% growth on wireless without the addition of that Shaw mobile business coming in.

Within cable, I think we're looking at growth of probably somewhere in the low single digit range within cable when you work through the roll-in of the acquisition. So, cable is up year-over-year as a result of

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driving the efficiencies, even prior to the acquisition, on EBITDA notwithstanding the revenue decline on the top line, but then—you know, that gives you an idea of where the level of growth is on wire line.

On the deleveraging for the billion dollars, that's predominantly surplus real estate. It's, I think, a it's timeframe of somewhere over the next 6 to 12 months in terms of striking deals. Some of those will close quickly, some of those may take a little more time to close, but it's very predominantly real estate. We have some additional business operations, which I'm not prepared to announce, that we're looking at whether or not they are—there's an opportunity there, but nothing particularly material, certainly, in terms of our EBITDA. I don't want you to turn your attention to our sports and media assets or our sports franchises and start thinking about those. These really are assets that we simply don't need for the core operations of the business.

Tony Staffieri:
Maher, on your question about churn, if we look at churn in the second quarter, it's up slightly year-on-year, but frankly it's not inconsistent with what you would have seen over pretty much almost the last year. I think what you're seeing play out against a very healthy growing market is, as we all look to capitalize on that growing market, that there is healthy competition for existing customers, and so that's driving it up slightly. It continues to be well under 1%, so it isn't anything that we're concerned about; in fact, given the success we're seeing in the port markets, we see it as an opportunity.

You know, our approach is to make sure on balance, we're doing the right thing in terms of churn of our customers, but ultimately it's how we're doing in the net ad market that we hold ourselves accountable to, and that continues to be leading in the industry and we'll continue to focus on that formula.

Maher Yaghi:
Thank you.

Paul Carpino:
Thanks Maher. Next question, Ariel.

Operator:
Our next question comes from Aravinda Galappatthige of Canaccord Genuity. Please go ahead.

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Aravinda Galappatthige:

Good morning. Thanks for taking my questions. I'll just start where you left off there on wireless churn. Obviously not surprising to see an uptick there, but I wanted to get your thoughts on the impact you feel that your more aggressive and more—I guess more focused bundling strategies would have on wireless churn going forward. Obviously on one hand, you have the competitive environment pushing that up, but to what extent do you think that your assets in terms of wire line and wireless bundling would assist that?

I have one more after that.

Tony Staffieri:

Well as you would expect, Aravinda, the approach on bundling is giving customers a very simple value proposition that is going to give them internet solution in and outside of the home, or in and outside of the business on a combined basis. If we continue to do our job right in having the best, most reliable network, then what we do see in our base is customers that are choosing to bundle have a much lower churn. As you would expect intuitively, the direction is to continue to make it a compelling value proposition, make sure it's backed up with the right network performance, the right customer service, and that will continue to drive down churn in both wireless and wire line. That is the direction of travel and the thesis, and it's playing out in our execution.

Aravinda Galappatthige:

Thank you, and just on the synergies, as you sort of integrate the assets, you talked about the integration going ahead of expectations. Is there anything incremental on the CapEx side—I'm not looking for numbers, obviously, at this stage, but is there anything incremental in terms of savings on the CapEx side that you feel you could unearth as you integrate these assets?

Glenn Brandt:

Thanks Aravinda. I think yes, we will see efficiencies on the CapEx side, just as we do on the OpEx side. I don't want you to think of that as being a source of cutting back on our investing in our network infrastructure. That's what's going to drive revenue growth as we improve and grow our footprint and our coverage, both wire line and wireless, and so think of that as we can do more with what we're investing rather than looking to try and pare back, either on the guidance we've given or as you move your modeling out.

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But yes, we will see efficiencies on the combined spend. We're a larger buyer, and we are already seeing the effects of that in the orders we make. We get more certain supply and we get them at better prices.

Tony Staffieri:

I'll add to that, when you take that question, Aravinda, with some of the others on the call, we're squarely focused on the cost synergies, whether it's OpEx or CapEx, but we haven't lost sight of the thesis of the Shaw acquisition, which is on the revenue side one-plus-one, how do we make that three. We have not started to talk about or show you in our results the revenue synergy upsides that we see, but that's something we continue to be focused on. More to come on that, but the synergies that you're seeing are net of the investments we're making to ensure we capitalize on that revenue upside.

Aravinda Galappatthige:

Thank you.

Paul Carpino:

Thanks Aravinda. Next question, Ariel.

Operator:

Our next question comes from Stephanie Price of CIBC. Please go ahead.

Stephanie Price:

Good morning. I had two questions as well. My first is on internet subs, which were solid in the quarter. Just wondering if you can talk through what you're seeing in the market, if there's any particular areas you'd call out, and any colour on west versus east performance within cable.

Tony Staffieri:

I'll start with that, Stephanie. What we are seeing is the beginning of the size of the market continuing to grow, so what's contributed to the healthy wireless growth in terms of size of market and new to Canada category, that's translating as fast as homes can be built to an uptick in homes passed. When you combine that with some of the things we're focused on in terms of getting our penetration up in both east and west, what you see with the 25,000 internet net ads in the second quarter is the beginning of that pacing of focus on increasing penetration. Early days in a growing market, so we like

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what we see. We continue to see an uptick in the speeds that customers are looking for, which plays to our sweet spot given that we have ubiquitous competitive advantage across the entire footprint now in both the east and the west, 100% of one gig or more of speed, and so that's starting to play well also.

In terms of the relative performance, it's on both—I talked earlier about wireless uptick in the west, but what we saw in the first 90 days in Q2 is a return to growth of penetration in what was the Shaw cable territory, and so we're seeing the improvements come on both from a geographical perspective.

Stephanie Price:
Thank you, and then on the wireless side, just hoping you could talk a bit about your thoughts on sustainability of service revenue growth as we head into the second half. Just curious how you're thinking about the more competitive back-to-school and holiday periods here.

Tony Staffieri:
As we look to the back half, starting with back to school, we fully expect, not unlike any other year, that it's going to have healthy competition not only amongst the four players but amongst the multiple brands that each of us have, and so we're prepared for and—you know, we have our plans in terms of what we expect to do, and so we fully expect it's going to be a healthy backdrop for more competition.

Having said that, we expect to continue to perform well on two fronts, not only the subscriber share front across all categories, everything from prepaid to the premium, which we continue to score well on in terms of leading share and we're pleased with that, and our expectation is we will continue to do that as we lean on what is our competitive advantage, which in wireless really comes down to network and distribution, are the two, and when you combine with a value proposition that resonates, and that's what we'll always keep bobbing and weaving to make sure we get it right for the customer for that moment in time. That's what we're focused on, so we expect to continue to have strong share performance in the back half of the year.

On the ARPU side, as Glenn outlined, we have stable ARPU on a year-on-year basis when you take out the noise, and our expectation is that will continue with even a slight increase as we look to the back half of the year in that underlying subscription ARPU. That's the way we're thinking about it, and so you put the two of those together in terms of subs and ARPU, mostly on subs, we continue to see healthy growth for us in the back half of the year, and that's really what weighs into the increased

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guidance that you saw us put out this morning. It's all part of that view and confidence that we have in the performance.

Stephanie Price:
Great, thank you very much.

Paul Carpino:
Thanks Stephanie. Ariel, we have time for two more questions.

Operator:
Certainly. Our next question comes from Jerome Dubreuil of Desjardins. Please go ahead.

Jerome Dubreuil:
Yes, thanks for taking my questions. First one is on the increased competition in wireless. With your lowered price for the entry plan on the Rogers brand, just wondering if you can share the percentage of upgrades versus downgrades that you have been seeing in that particular plan since the beginning of May.

Tony Staffieri:
I think, Jerome, I'll answer the question by starting off where you started in terms of increased competition. I don't know—I've been watching some of the comments on the industry here in Canada, and I wouldn't describe it as heightened competition at all. It's always been healthy competition. I think each of us are doing different moves on what we want to do and how we want to get share, and our focus, and we've been very consistent over at least the last year, we're on a brand consolidation strategy and we're focused on making sure that when you look at the Rogers brand, we have the premium unlimited plans, but how do we widen that and give customers in the flanker category, whether it's with us or with others, an opportunity to get onto a 5G network at an entry point that really hits the sweet spot, as we've said in the past, between the $45 to $65 entry point.

What we're seeing is, you know, as I said earlier, what we wanted to see on that, so I'm not going to share the specific stats on that for competitive reasons, but as I said, the vast majority are either net new to that category from our competitors, or new to Canada, as I said, but a healthy uptick from the

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Fido brand with very minimal marginal, I'd almost put it in the category of immaterial downgrades from the unlimited plan, so the impact is having exactly what we expected it to be.

But, I do want to deflate this notion or concept that somehow the market has lost its way here in Canada. It continues to be healthy and you don't maintain stable ARPU unless that's not the case. I'll just leave it at that, Jerome.

Jerome Dubreuil:
Interesting, thanks. Then second question for me would just be a clarification on the $1 billion non-core assets. I guess I already know the answer, I just want to be sure that this doesn't include anything in terms of macro towers.

Glenn Brandt:
No, it does not.

Jerome Dubreuil:
Great, thank you.

Glenn Brandt:
Thank you Jerome.

Tony Staffieri:
Thanks Jerome.

Paul Carpino:
Thanks Jerome. Final question, Ariel.

Operator:
Our final question comes from David McFadgen of Cormark Securities. Please go ahead.

David McFadgen:
Thanks for squeezing me in. Two questions. When I look at the video net additions, it seems to imply that Shaw's video losses have been erased, or maybe they're in neutral. Just

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wondering if you could comment on that, and what would be driving that because they've traditionally been—Shaw's traditionally been losing subs every quarter on them on the cable video side.

Then secondly, when you talk about a billion in asset sales, are you contemplating sale-leasebacks, which would have an implication for EBITDA, or is this purely redundant real estate? Thanks.

Glenn Brandt:
Maybe if I could start with that one first, because it's a quick, short easy answer - this is not financial engineering, these are straight sales of surplus assets, particularly in the real estate side, that we don't need. So no, any comments I make around de-levering and raising proceeds, financial engineering like sale-leaseback doesn't help me, so these are straight sales.

Tony Staffieri:
On the first part of the question, David, in terms of what we're seeing on the video side of things, I talked about internet in the west but it's really about bundling wireless internet and video, and so it's early days but we are, I once again reiterate, very encouraged by the loyalty and commitment and interest that consumers have shown on a bundling value proposition in the west, and as I said, that's without really exciting the market. We wanted to be very paced and measured about it until we had a more seamless customer experience, so that when they called in or walked into our store, we would have the ability to see their combined bills from both a Rogers and Shaw perspective. That only launched on Canada Day, and so what you see happening in Q2 really is organic, so that's why I reiterate we're very pleased and encouraged by that propensity of the consumer, and you're seeing it internet and video - I should have mentioned that as well.

Thank you David.

David McFadgen:
Okay, all right. Thanks so much, guys.

Paul Carpino:
Thanks everyone for joining us, and if there is any additional questions, please feel free to reach out to us.

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Tony Staffieri:

Thanks all.

Glenn Brandt:

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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