Rogers Communications Inc.
First Quarter 2020 Results
Conference Call Transcript

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Speakers:

Joseph Natale
President, Chief Executive Officer & Director

Tony Staffieri
Chief Financial Officer

Paul Carpino
Vice President, Investor Relations

Operator:
Welcome to the Rogers Communications Inc. First Quarter 2020 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. Following the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, and zero.

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

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, and our Chief Financial Officer, Tony Staffieri.

Today's discussion will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's earnings report and in our 2019 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 Joe.

Joe Natale:
Thank you, Paul, and good morning, everyone. I hope all of you and your families are safe during this unprecedented time.

Our country is in the midst of an incredibly challenging moment in our nation's history where our collective actions and responses are needed to make a difference. It's amazing to think that for the first time in our lives, the phrase, "What can I do to help?" is now relevant and applicable to all 37 million Canadians. We all have a role to play, and that includes the telecom industry, which has stepped up to the challenges of the new demands of our lives imposed by the COVID-19 pandemic.

Our networks provide the foundation for the way we are living today, how we stay in touch, work, learn, stay informed and entertained, and our efforts at Rogers are going beyond our business to new community partnerships to help provide extra help to those who are most vulnerable in this crisis. We are committed to supporting our customers and Canadians through these challenging times, now and into the future.

Despite the meaningful slowdown in business in March, our overall wireless and cable financial results were in line with our expectations going into the quarter, although media felt the pressure associated with the cancellation of all live professional sports. Tony will take you through details momentarily, but let me give you a broader perspective on how we look at the business during this period.

In this environment, near-term monthly and quarterly results are not a reflection of our Company's underlying fundamentals, our financial strength, the quality of our assets, the soundness of our strategy and long-term growth prospects, or the effectiveness of our daily execution. Results in this environment, business and Canadians doing what is essential now for the long term needs of society. People are adjusting their day-to-day behaviors to protect their fellow Canadians and the brave frontline healthcare workers who need our support during this crisis. To us, there is nothing more important, and everyone at Rogers is completely focused on this.

As you know, we are a financially strong company with a long-term focus. We don't run our business on a strictly quarterly basis under normal circumstances, let alone during extreme exogenous events like the one we're dealing with right now. Nations, businesses and people around the world are tackling this challenge together, and we know the current environment will pass. In the meantime, our energy and resources are focused on protecting our employees and customers and ensuring Canadians remain connected.

As you saw in the first quarter, we closed about 90% of our retail stores. The remaining open locations are providing essential services. While this affected our near term business, we believe it's highly inappropriate in this environment to be offering or responding to aggressive promotions that drive foot traffic into stores that put employees and customers at risk.

Let me take a moment to thank our frontline teams that are working hard to deliver essential services to our customers. We are extremely proud and incredibly grateful for what you are doing every day.

While we won't be providing specific financial guidance during this short term period of volatility, you can rest assured that we will be managing the business as responsibly and as efficiently as possible, just as we have consistently demonstrated in the past.

While there will be additional pressure in the coming months as Canadians work together to defeat COVID-19, Rogers is a financially strong company. We provide services that matter more than ever before in people's lives, and we will navigate through this effectively. We are a trusted brand and we have a leadership role to play in Canada. We have total liquidity of $3.8 billion and you can expect strong free cash flow to continue this year. Canadians should feel confident that our world-class networks will be there for them.

Analysts and investors should also continue to feel confident in our Company. We will remain disciplined stewards of capital and continue to manage the Company thoughtfully for the long term as we help our country navigate through the current environment.

Let me spend a few moments shedding some light on how we are operating to protect our teams, customers and communities, and to ensure Canadians remain connected. As I've said, I'm so proud of our teams and how our organization is adapting to new ways of doing business. Our networks have helped power our nation for 60 years, supporting people, communities and businesses. We're working hard to ensure new network usage needs are being met. Throughout the day, home internet usage on average is up over 50%, and our teams have been working hard to manage capacity to meet these rapidly changing needs.

Meeting the new needs of customers has required us to quickly evolve the way we do business. Our teams have stepped up to meet the challenge by coming up with new and innovative ways to serve our customers. About 10% of our retail locations remain open to provide urgent customer support for our wireless services, including support for those providing essential services and for our healthcare heroes who are managing the impossible to keep us safe. We've also adapted our recently launched Pro on the Go service so customers in the GTA and the Greater Vancouver Area can still get a new device delivered and set up within hours using contactless delivery and one-on-one support through the phone or video chat. We will be expanding this to other markets shortly.

In cable, we've launched a series of no-contact self installation programs so customers can activate TV, internet and home phone safely from inside their homes. Our technicians communicate directly with them for guided support through video chat without entering the customer's home.

In terms of customer care, we've undergone a major transition with great success. We have rapidly deployed thousands of work-from-home technology kits to team members over the past month to enable our customer care agents, virtually all of whom are based in Canada, to serve our customers. Customers can still call us, service levels are strong, and our agents can safely answer those calls while working remotely from home. In February, we had 800 care agents answering customer calls from home. We are now nearing 7,000 at-home care agents this week. At first glance, this task seemed insurmountable, but our team's drive and collaboration was second to none.

In our media business, Sportsnet operations were materially upended as every live professional sports league shut down in a matter of days. As we wait for the return of live sports, our teams have been creative in experimenting with unique formats across TV and digital platforms featuring beloved historical games.

Our media teams are doing what it takes to ensure quality news and information continues to pour into homes across the country. Teams are broadcasting from their basements and living rooms because they know Canadians are counting on us to bring trusted sources of news and insights to them every day.

Our engineering and field technicians are also frontline heroes. They are out there working to support healthcare providers, running fibre in parking lots and fields to create new COVID testing sites, bringing more Wi-Fi to hospitals so patients can stay connected with families. We have implemented premium pay for our colleagues who provide these critical and customer-facing roles with the public, and we thank them for their dedication, for their service.

But there is a bigger purpose for corporations and individuals in this environment. It requires doing as much as we can to support our customers and our communities at large. We are not immune to the short term pressures, but we can certainly respond by providing extra support to the best of our abilities. Our customers have chosen us as their communications provider and we take that responsibility very seriously. Here are some of the measures we've brought in through the end of June as part of our Forward Together program.

We've lifted daily usage caps for home internet plans, so customers don't have to worry about overage charges. We're waiving Canadian long distance voice calling fees for homes and small businesses, so customers can check in on loved ones and keep in touch with customers without worrying about extra charges. We're offering a free rotating selection of channels to keep viewers and families entertained with additional hours at home. We've added more flexible payment options and a commitment that customers will remain connected to the service, so nobody has to worry about losing their digital lifeline, and through our commitment to waive Roam Like Home, Fido Roam, and pay-per-use roaming fees from March 16 to April 30 in more than 180 countries, we helped more than 150,000 Canadians stay connected at no additional cost while they made their way home from abroad.

Beyond these customer initiatives, the Rogers team is committed to helping the most vulnerable in our communities that are hit the hardest. Last week, we announced that we're working with the Government of Ontario, local school boards in the province, and Apple to offer iPads with wireless data at no cost to help students in need who don't have the tools for online learning. In addition to this and many local efforts in communities across the country, we've launched three national partnerships with community organizations to help deal with additional crises brought on by COVID-19. We've partnered with Food Banks Canada to donate over 1 million meals and are leveraging the power of our radio and TV assets to reach over 30 million people every week in an awareness campaign to help fill the shelves with food. Our customers and employees have opened up their hearts and their wallets and raised funds for an additional half a million meals.

We're providing smartphones in collaboration with Samsung and offering six months of free wireless service to Big Brothers Big Sisters Canada so vulnerable young people, the littles can stay connected to their mentors and their schoolwork. With domestic violence on the rise, we have partnered with

Women's Shelters of Canada to help make devices and plans available and help raise awareness of sheltersafe.ca's services, available through ads all across our digital and social platforms.

I couldn't be prouder of our team. To a person, each has accepted their leadership role and is committed to just doing the right thing. We are all part of Canada's national fabric that makes our country thrive in good times and survive through times of crisis.

Now like never before, we all appreciate the importance of staying connected. Canadians across the country and governments have recognized that telecommunications is an essential service. We serve as the lifeline that binds our nation together. We take our responsibility seriously and are proud to be working closer than ever with our government partners to support Canadians through this challenging moment, and that won't change. Our networks power the business and the services that are getting Canadians through these difficult times. When we come through the other side, we will still be there for Canadians.

Our shareholders and all of our stakeholders can rely on our resilient networks and our leadership in supporting the inevitable economic recovery. During this crisis and moving forward, our disciplined and balanced approach to capital allocation remains unchanged. Our priority continues to be investing in technology and capabilities that will ensure Canadians remain leaders in the global digital economy over the long term. As we have demonstrated in the past, we will also focus on returning healthy levels of capital to shareholders over the long term through dividends and stock repurchases. Our track record with this balanced model has proven to be effective for both our business and for shareholders alike.

We want our customers and all Canadians to know our entire Rogers team, over 25,000 across the country, our Board, the Rogers family stands shoulder to shoulder with Canadians and Canadian businesses to get through this together and come out stronger together.

Let me now turn the call over to Tony. Tony, will you please provide your comments and some more detail on the quarter? Thank you.

Tony Staffieri:
Thank you Joe, and good morning everyone. Our first quarter results captured the initial stages of the COVID pandemic issues that we experienced as a Company, and as a result in and of themselves are

not reflective in the usual sense of the run rate of our business. In fact, the impacts were only experienced in the last several weeks of the quarter, and we've learned a lot more in the three weeks following our quarter end. As a result, my comments will provide more colour on the first quarter results with a view to how they were impacted specifically in the final month of the quarter, and then I'll expand these comments to include some context on trends we are seeing post quarter end.

Before I do get into some of those details, however, I wanted to take a moment to thank our entire Rogers team for continuing to deliver and doing the right thing for our customers and for each other. While these are difficult times, the attitude of our entire workforce has been inspirational.

I also want to give a big thank you to our entire finance team, who achieved a major milestone in closing our Q1 books all remotely from home this quarter. Even more impressive, they did it in the same time frame they would have completed this task if they were all at the office. Out of necessity, we are all learning creative and innovative ways of working and collaborating to get things done, and as you heard in Joe's remarks, we are seeing this across all lines of our business and these learning will make our organization stronger and more productive going forward, and will no doubt help shape our operating models going forward.

Our operating cadence has changed quickly during this pandemic with widespread store closures, the shifting of thousands of team members to work-from-home, and assisting customers in new ways with their most urgent needs. We've pivoted our operational priorities far beyond traditional operations and sales growth metrics. Our overriding priority was to ensure our customers were being served and our employees were being kept safe. This was a time to ensure we just did the right thing.

With that guiding framework and with the inability to know how the issues relating to the pandemic would unfold, we shifted our overriding financial barometer in this environment to cash flow and balance sheet liquidity. While we entered this crisis with a solid balance sheet, cash flow and liquidity position as a result of our prior capital allocation decisions, we wanted to ensure we remain prudent and prepared on this front so that we could maintain flexibility in our business for whatever comes next. In short, we remain financially strong and are here to meet the needs of Canadians and our customers.

We currently sit with $3.8 billion of available liquidity, the highest in the Company's history. We recently strengthened our position with a successful debt issuance of seven-year funds at an effective yield of

3.7%, and we ended the quarter with a debt leverage ratio at a comfortable 2.7 times. We see our leverage position continuing in the range of 2.5x-3.0x for the next few years, and we believe this is sound and reasonable given the spectrum auctions on the horizon and the continuing downward pressure on interest rates. We ended Q1 with free cash flow of $462 million, up 14% year-over-year.

In terms of our first quarter results, I'd summarize the COVID impacts to our financials and our business as falling into a few key themes. In wireless, our revenues were impacted by the rapid decline in roaming activity and related revenue drop, as well as the impacts of some customer supportive initiatives such as free long distance calling. As well, subscriber activity substantially slowed in wireless with much fewer new customer activations, but conversely churn dropping dramatically. This lower volume translated to material reductions in handset investments, thereby adding to our overall wireless net cash flow growth.

Our business revenues were much more stable and continue to see strong internet performance as speed and reliability became essential in a work-from-home environment. The impacts of growing unemployment rates did not surface in the quarter in terms of planned downgrades, but I'll have more comments on this factor in a few moments. We have moved our cable operations to 100% self install, and this cash savings will show more materially in future quarters, again assisting in maintaining cash flow stability overall for our cable business.

Our media business saw the most immediate impacts of the pandemic in our Q1 results as sporting events were suspended. These declines were offset to a limited extent by suspended content rights costs and player salaries. Our capital expenditure programs only slightly declined in the final few weeks of March as a result of lower volumes and slowed ability to get work done.

Our results in Q2 will see more material impacts from these items, but we remain confident in our financial strength and ability to efficiently manage the business during this transitional COVID pandemic period.

Along with the immediate health issues relating to the pandemic and the more direct and immediate impacts to our financials, we're also paying close attention to the direction of macroeconomic indices and their potential impact to us and the industry. In particular, with elevating unemployment levels, we anticipate bad debt costs could increase in the second half of the year. In addition, we are seeing the early signs of customers looking to downsize their packages with us in both wireless and cable as they right-size their spend to their new cash flow realities. We expect this volume will pick up depending on the depth and duration of the economic downturn and will ultimately impact recurring ARPUs and revenue. All of these items, as well as others that may arise, are difficult to estimate at this time, and as a result we are withdrawing our annual guidance that was originally provided in January.

Turning now to some specific numbers in Q1, in wireless service revenue declined 2% year-on-year. The slight increase in year-over-year decline and compared to Q4 was specifically as a result of COVID impacts experienced in the month of March. As expected, revenue continued to be impacted by the reduction in overage revenue associated with the transition to our Infinite Unlimited plans. We saw about a $40 million reduction in year-over-year overage revenue in the first quarter and currently have over 1.6 million customers on these unlimited plans.

During March, we saw a sharp decline in roaming volumes, both inbound and outbound, as international travel significantly scaled down. As well, we also offered free roaming and free long distance to ensure Canadians could stay connected at a time when speaking with family, friends and customers was never more important. Revenue from these programs was approximately 15% lower than the same period last year and amounted to $14 million in the quarter. Excluding these specifically identifiable COVID impacts, our wireless service revenue would have otherwise declined 0.8% year-over-year, the same as Q4.

The COVID pandemic also caused the subscriber market to essentially halt during most of March, an otherwise high volume month in the quarter. Postpaid gross additions were down a notable 13% for the quarter and down more dramatically in the final weeks of March. Shopping malls were closed and we shut down over 90% of our retail stores for all but emergency services, as this was essential to protect our employees and customers. In this environment, we chose not to engage in pricing incentives that would encourage customer traffic to stores or stimulate loading. We just did the right thing and did not match many promotional activities that occurred in the last month of the quarter.
Conversely, churn dropped dramatically in the month of March. We posted 0.93% churn for the quarter, but again churn was even lower in the last few weeks of the quarter. As a result of the market essentially being frozen with no or very limited growth in March, we posted net postpaid subscriber losses of 6,000. This wasn't a normal result and due solely to the COVID-related decision to

substantially wind down competitive offer activities in the final weeks of the quarter. We don't view any subscriber metric during this period as being meaningful to any long-term franchise value of our wireless business.

Notwithstanding the softness in revenue, wireless EBITDA still grew 1% this quarter, up from negative 3% in Q4 once normalized for the lease accounting impact. This was primarily driven by lower call centre volumes, lower handset subsidies, ongoing efficiencies from our transition to unlimited plans, and some naturally lower expenses associated with the overall business environment.

On the handset subsidy front, you saw that we eliminated all subsidy plans from our offerings, moving to a full installment plan financing model early in the quarter. Prior to COVID, we saw notable improvements in the amount of handset discounting being offered. Combined with the drastic reduction of handset volumes in March, our total net handset costs on a cash basis was down 19%, or about $90 million year-over-year.

Let me now turn to cable. Before getting into the financial specifics, I want to spend a moment to highlight two additional KPI metrics we are providing to replace some metrics that have become much less relevant in how we manage the business. We have removed the revenue split by cable product and introduced metrics at the household level: the number of customer relationships added in the quarter, household penetration rates, and household cable ARPA, or average revenue per account. This change aligns our reporting to how our team manages the business. Our focus in cable is to maximize the penetration of all homes and businesses past, as well as the revenue and margin per household. For competitive reasons, we won't be disclosing the margin per household.

We have eliminated the reporting of revenue by product as the allocations have increasingly become more arbitrary as we focus on multi-product households at bundled prices and as technologies amongst our products migrate to all IP-based offerings. These new metrics will also give more meaningful

information going forward in terms of network penetration and monetization of our connectivity at the household level.

Cable revenue was approximately flat compared to Q1 last year while adjusted EBITDA grew by 2%. While these are solid results in the current environment, our cable business also felt some COVID-related impacts in Q1. Similar to offering support programs to help our wireless customers, we are also helping our internet customers with capped data plans by eliminating data overage charges and providing access to certain free premium video content to TV customers. This impacted revenues by less than 0.5% in the quarter.

In Q1, we reported 17,000 internet subscriber net additions, 3,000 more than the first quarter last year, and internet penetration increased 90 basis points. Ignite TV has also performed solidly in this challenging environment, adding 91,000 subscribers to reach a base of 417,000, more than four and a half times higher than one year ago. In addition, we reported 2,000 new customer relationships in the quarter with ARPA of $129, slightly below last year, and our penetration now sits at 55.8% of homes passed.

EBITDA margins were 47%, up 100 basis points year-on-year, and cable CapEx intensity declined further to 25.8%. As Joe noted, we launched self installs in internet and Ignite TV in March, which should help both of these metrics going forward.

In media, the COVID pandemic had a more dominant impact on revenue but less so on EBITDA. Revenue was 12% lower year-on-year. This was driven by lower advertising revenue associated with the suspension of live TV broadcasting for all sports, the postponement of Blue Jays games in late March, and the sale of our publishing business in 2019. Despite the large decline in media revenue, EBITDA was down only 1%, due primarily to not incurring the significant broadcasting rights costs for NHL and NBA live programming, lower Blue Jays salaries, and a one-time impact relating to player salaries in the prior year's first quarter.

Moving to consolidated results, total service revenue was down 3% and adjusted EBITDA was flat. We invested $593 million in CapEx for the quarter, which was a year-over-year decrease of 4% and reflected a CI ratio of 17.4%. The decrease in capital expenditures was largely driven by the continued improvements in cable CapEx efficiency and by the initial stages of slowed CapEx spending as a result of COVID. We expect CapEx for the year to come in well below the guidance range we'd previously provided. It is too early to provide more specific guidance at this point, but we will continue to focus our cap ex spend on network coverage and capacity.

We generated free cash flow of $462 million this quarter, an increase of 14%. The notable increase this quarter was a result of lower capital spending and lower cash tax payments.

Our cash tax rate as a percentage of Adjusted EBITDA was 7% in the quarter and should be in that same range for 2020. As I've already noted, even with the current pressures associated with the impact of COVID, we expect strong free cash flow to continue. Additionally, our balance sheet is well structured with long term maturities and low interest rates on our outstanding debt. Our weighted average interest rate at quarter end was 4.24% with average term to maturity of 13.5 years.

In terms of an outlook, we've withdrawn guidance because it's too difficult in the short term to predict the various combination of factors that could impact our financials; however, here is a snapshot of how we are trending on some key forecast variables.

In wireless, ARPU will continue to be impacted by declines in roaming revenue. In the last 30 days, roaming volume has declined 80%, and this will translate to a loss of roaming revenue of $80 million in Q2. Although our pacing of migrations to our Infinite Unlimited plan has slowed recently, we will continue to experience the overage year-on-year declines from previous migrations. This is expected to be approximately $50 million in Q2. We are seeing increasing numbers of customers looking to downgrade their wireless price plans, and this will have a downward pressure on ARPU as early as Q2.

As you would expect, we do not anticipate the subscriber market to reactivate in any material way until the public is allowed to safely return to malls and our stores. While the market was previously growing at approximately 4% on an annual basis, this lack of subscriber growth rate will impact our revenue growth. As a result, postpaid nets will continue to be down on a year-on-year basis and churn will continue to decline.

Conversely, handset cash expenditures will continue to come down meaningfully in this environment. Last year, we spend $2 billion on handsets. In Q1, handset expenditures were down 25% and down 60% in the last few weeks of March on a year-on-year basis. This will yield material cash savings that have already started.

In both our cable and wireless businesses, we have given customers the opportunity to extend bill payment terms if needed. While our receivables metrics have not yet been impacted by these extended terms, we do anticipate that cash collections on A/R may start to slow in Q2. We are starting to see early increases in number of calls relating to bill payments and expect this will increase as unemployment rises and persists and business customers continue to be impacted. This will likely show up in rising bad debt costs in the back half of the year, but again, difficult to predict the quantum at this early stage.

We continue to see positive demand for our internet offerings, particularly as in-home bandwidth and reliability takes precedence in a work-from-home environment. In this business, we are seeing subtle improvements in internet ARPUs and household ARPA; however, this is being offset by an increasing level of calls to our agents as some customers look to reduce their monthly bills, similar to what we see in wireless. On balance, we see household ARPA being negative impacted as early as Q2.

Notably, in moving to 100% self install on our internet and TV products, we are seeing significant improvements in OpEx and CapEx-related installation and upgrade costs. Our current assisted self installation approach reduces our costs by 30% compared to traditional technician-enabled installations, and this savings will get higher as we move to full self install models at a later time. Capital intensity for our cable business continued its steady downward trajectory to 26% in Q1. This was largely the result of our targeted efforts to drive more efficiency in cable CapEx. However, reduced volumes and self installation, together with delays on certain projects, will drive this lower in Q2 and for the rest of the year.

Our media business will likely continue to incur losses in the near term as the start-up of live sporting events continues to be delayed. While reduced content costs offset some of the revenue loss, certain of the fixed costs will cause us to be EBITDA negative for a period of time.

To summarize, while we expect the revenue impacts on our industry to be much milder than other industries and do anticipate offsetting costs and cash flow savings naturally arising, we will see shorter term pressure on our financial results during this period. As I stated at the top, overall cash flow and liquidity is strong and will be our focus during these times. While we don’t foresee major issues on that front, we will continue to ensure we are prepared for the various scenarios that may unfold.

We do not see any reason to cut or reduce our dividend. We continue to have a low payout ratio as a percentage of foreseeable cash flow, so no action is needed at this time.

On balance, we're pleased with our results and how the Company is operating in this environment. Our culture at Rogers is about doing the right thing. We're proud of the corporate social responsibility actions we've taken to support our customers, keep our nation operating digitally, and protecting the safety of our employees and customers. We entered this crisis from a position of strength, and you can count on us to maintain our disciplined financial stewardship as we help Canadians navigate through this period.

Let me now turn the call back to the Operator to commence with our Q&A.

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 are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. To join the question queue, please press star, then one now.

Our first question comes from Vince Valentini of TD Securities.

Vince Valentini:
Thanks very much, guys, and congrats for all the hard work you're doing to help your employees and society through this.

A couple questions on costs. The $90 million reduction in your cash costs for equipment subsidies in Q1, Tony, can you talk to us a little bit about how much of that translated into an EBITDA benefit, and under IFRS-15 with the more significant reductions in Q2, will we see a quarter of that or 40% of that benefit EBITDA in 2020, or does it really get stretched out over two years?

Tony Staffieri:
Thanks for the question, Vince. It's a combination of both factors, actually. We saw $90 million in Q1, as you said. The volumes of handsets that we see today are running 50% to 60% lower year-on-year. You're going to see two aspects. Some of it will flow through right away. Under IFRS accounting as we

allocate some of the total contract revenues to hardware revenue, you'll see some of that in better margins in Q2. You saw some of that in Q1. Expect to see slightly more in Q2, so of the handsets that are being sold and offered, there is much less of a discount than you would have seen previously. That's a continuation of trend that we saw in January-February and comes together with installment financing, and that piece of it seems to be going well.

The second piece of it will be seen over 24 months of the contract term, and so that one is a lot harder to predict, but all of that to say is between those two items, the number will be higher in Q2.

Vince Valentini:
Okay, thanks. Just a couple other quick cost ones. I'll throw them both out there. One, I'm not quite I understand your Blue Jays salaries comment. Is that just saying that you had planned to have lower salaries this year versus last year and that showed up, or are you saying that the players are actually not being paid when the games aren't happening?

Then the last one, can you just confirm there was no bad debt allowance in Q1? You're not taking any reserves for trying to predict what bad debt might be at this time, it's going to wait until the second half? That's it for me, thanks.

Tony Staffieri:
Okay, on both of those, Vince, in terms of Blue Jays player salary costs, that's correct - the players aren't paid if there aren't games, except for a very small amount that I'd put in the category as immaterial. Those are costs that are suspended, if you will, until games are actually played.

The second piece of your question, we did not increase our bad debt allowance in Q1 as we go through our typical processes of quarter-end estimation. We didn't see and continue to see very limited defaults in collections, and so we are calling out a potential risk that may arise in the second half, we think likely will arise as unemployment continues to rise and the period seems more extended than we might have originally thought, and so you should expect to see that likely increasing in Q2.

Vince Valentini:
Thank you.

Paul Carpino:

Thanks, Vince. Next question, Ariel?

Operator:

Our next question comes from Jeff Fan of Scotiabank. Please go ahead.

Jeff Fan:

Thank you, good morning. Hope everyone is doing well on the call. I have a question on the internet side, and then maybe a post-pandemic question.

On the internet side, I guess one of the great things about DOCSYS is that you've been able to expand your network very quickly to 1 Gig service across your footprint. Wondering what you're seeing in the market today in terms of demand, I guess couple that with your ability to self install 100% now. Are you seeing your service demand pick up as a result of the ability to offer that 1 Gig across your footprint on a more consistent basis? That's the first question on internet.

The second question is just looking—trying to look beyond, I guess, the pandemic a little bit. Some of your revenue streams related to—on the wireless side or even on the internet side, related to overage and roaming, are obviously all coming off. Do you think on a more, I guess at a high level, that structure of pricing is something that will remain? I guess I'm asking because Rogers was obviously a leader in shifting everyone over to unlimited. Wondering if there is any opportunities post-pandemic to wean yourself off of some of these revenue streams. Thanks.

Joe Natale:

Thanks, Jeff, good questions. Let me start with internet.

I look at the internet demand in two ways. Let me just talk about the current demands and I'll talk about DOCSYS and the advantage. In terms of current demand, as I said, we're seeing—when we first started looking at network load in early March or so, we saw internet demand go up 20%, 30% on average. In the last two weeks, we've been seeing a 60% year-on-year increase in internet demand from customers in terms of households in general, and the network has fared very well. The team has done a very good job of adding capacity in the moment, whether it's reallocating some of the RF spectrum in our DOCSYS network, whether it's looking at different ways of changing the payloads coming on the network, etc. They've done a really good job of tuning it and it's performing very, very well given the increased load. To put that in perspective, that's about two years of growth, as I said, that's happened really in the last number of weeks.

In terms of adds, we're not out there promoting or stimulating in the market, for all the reasons we've talked about. We're trying to find the time when it's both appropriate and worthwhile to try to stimulate demand. We don't think that's right now. But we are seeing unsolicited demand come through for people that are at home, using their network more than ever for working at home. The top payloads right now are Netflix is number one and then all forms of video conferencing are number two, whether it's Zoom, Facetime, Skype, Webex, etc., and then number three would be YouTube and general social media surfing that goes on. That's created that sense of demand and the need for speed as families are home and kids are online has stimulated the market from that perspective. We're seeing activity both in terms of customers wanting to upgrade a speed tier, but also customers that are, for whatever reason, unhappy with their current provider and looking to make a switch to our capability. As you said, rightfully, we are operating a 1 gigabit per second speed profile across our 4.4 million homes and businesses, and therefore we have that flexibility to do that and the capacity to do that, based on the work that's been done.

The self-serve ability really has made a difference. We visit about 6,000 homes a day and virtually 100% of them now are such that we do whatever work might have to be done outside and then guide the customer through the installation inside, and it's working very well and customers are really happy for it. In some extreme emergency cases, we do have people that—on a volunteer basis, that wear full protective gear and go into locations where there is no choice but to go inside - it could be a nursing home, it could be a shelter, it could be places like that, but that is the exception versus the rule.

I do think that, more than ever, there's an essential nature to the home internet connection. We just did some customer insights work and people's confidence in home internet and the importance now is roughly on par with drugstores and pharmacies in terms of how they look at home internet, and that's a remarkable lift from where it was even a few short months ago.

I hope that helps to add colour. Recognize also that most of our channel activity in cable happens in the field, as opposed to in the stores, so the stores have more of an impact on the wireless business, less so on the cable business.

Paul Carpino:
Great, thank you, Jeff. Next question, Ariel? Sorry Joe, go ahead.

Joe Natale:
Well, there's another part of the question. Sorry, Paul, post-pandemic. I think, Jeff, you had a question post-pandemic around some of the constructs around price plans and will they change.

We decided last June that some of the constructs in the business were ripe for change. It was time to make the move towards unlimited. It was time to make the move towards overage protection on Fido. Our views have not changed, and I do think as there are certain behaviors that are being set right now with consumers in general, some of them will stick. Some of those behaviors are very positive, we believe, for the future of the industry from a productivity point of view and from our relationship with stakeholders and government as a whole.

We're going to look at each one of these on a case-by-case basis. I do think that, as we said last year, overage will continue to diminish until it becomes immaterial, for that matter, over the course of time, as more and more people move to Infinite. We have stepped back from stimulating the market in terms of promotional activity for all the reasons that we talked about, so therefore you've seen some of the Infinite migration continue but really slow in terms of pace as a whole.

I think the roaming constructs will remain intact once people feel comfortable again traveling. I think that getting on an airplane and traveling will be one of the last steps in terms of resumption of the economy. Personally, I believe that's one of the very last steps, and that's probably the furthest out in terms of resumption as a whole. But we're seeing good resiliency in the core subscriber business. Any challenges we face will really be a reflection of the economy in terms of unemployment or business defaults.

Jeff Fan:
Thanks, Joe, for the colour.

Paul Carpino:
Next question, Ariel?

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

Drew McReynolds:
Yes, thanks. Thanks very much. Good morning. Two relatively high level questions for me.

First, maybe for you, Tony, in terms of visibility, and not just on the 2020 outlook but more specifically in terms of getting back to a little bit more normal where you shift gears from the pivot you rightfully did to serve customers and society, back to focusing on KPIs, do you have any sense when that visibility or what kind of milestones or things you'd be looking for at this point? Would they come in Q2, Q3? Maybe very high level, just comment on what you're looking for on that front.

Secondly, maybe for you, Joe, on the 5G deployment road map, you've been very active out of the gate here in 2020 on initiatives. Wondering how all of this, at this point, to your knowledge, impacts your 5G plans as you go forward here. Thank you.

Tony Staffieri:
Okay, Drew, why don't I start with the first part of your question. As I've said, we focus on overriding cash flow because the short term impacts are difficult. I think the two pieces we'd look to, one is when will people be able to be out and about, malls open up, and have confidence to be out there shopping, etc. For our wireless business, that's going to be a key factor in terms of that market starting to resume in terms of subscriber volumes and growth.

Then the second piece of it is as well, even on our cable business, that they're comfortable looking at alternatives and have time to consider best internet, best TV and things like that, and so we think that's going to be a while in terms of whenever that happens.

But the second piece of it is equally important, which is when do the macroeconomic factors like unemployment rates and our government's assistance programs, how long do those go for, how deep is it, and those will have an enduring impact for a while. Our business is a momentum business and so even after those happen, it will take a while for that momentum to start picking up again, so we don't see it as something that happens in the very short term but rather it's going to take many months and probably several quarters, but that's what we'd look to as the key factors that will get the momentum in our business going again.

Joe Natale:

Drew, on the 5G question, the last few weeks we've sat down and looked at all of our capital projects and initiatives that we had on the go or we were about to start. We categorized them into three buckets or three flavours, if you will. One was capital that is volume oriented, where volumes right now are changing. For example, we think there will be a bunch of new homes added to the footprint, to our footprint in the very near term. These are subdivisions that were just about to have people move into the homes, but housing starts have fallen off and there will be a diminishment in terms of housing starts as a result. We typically have been adding 60,000 to 80,000 homes a year to our footprint, so there's volume oriented things that we are adapting or shifting.

Number two is initiatives where there is or isn't permission; in other words, if we've worked very hard to get a building permit to put up a tower, to do something, and we can still do it, then we're doing it. If we still require that permission, given a lot of building departments are closed, that are a lot of road work is not happening, etc., then of course that capital won't be spent.

The third category, which gets to 5G, is what are the strategic priorities that still make sense to go after, that we believe it's still possible to get it done efficiently, effectively, and that is still reasonably tied to the expectation of revenue or return. The last thing we want to do is put capital in the ground and have it lay fallow for a long time. We think in the case of 5G, and we were first out of the gate, we've got a great partnership with Ericsson that's working very, very well, we launched four cities around 5G and we have a plan to keep going for the rest of the year. Whether we do 20 or 15 or 10 cities is going to depend on the point around permission and keeping our good or strong run rate going with the contractors and their ability to get the work done. But we do think 5G is an important strategic plank for us as an organization. We do believe that it still has all the benefits that we've talked about in terms of efficiency in delivering a bandwidth and spectrum efficiency, in terms of enabling capabilities down the road, and therefore we think it will be money well spent.

We also do believe there may be a point in time where there are opportunities to do some of these projects on a better unit cost basis as different suppliers or organizations are looking to shore up the work for their businesses and therefore are willing to make a better deal, for lack of a better word, in deploying their technology or deploying their resources, so 5G is important in a few other areas like that.

We also look at this as an opportunity to do some things that we were already doing, and given the fact there's a bunch of things we can't do and that capital will not be spent, it will help support our cash and liquidity position that Tony talked about, but there are some smaller things around digital evolution, etc., that we can double down on through this period.

I mean, these are good choices to be able to make. As we said, yes, we'll feel the revenue and resulting EBITDA pressure that we can manage through a series of ideas and initiatives, but we have the ability to reprioritize the capital based on strategic value and permission.

Drew McReynolds:
Thank you.

Joe Natale:
I hope that helps.
Drew McReynolds:
It does, thank you.

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

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

Tim Casey:
Thanks, good morning. One for Tony—or I guess two for Tony, probably. Tony, can you help us understand what the baseline for bad debt expense would be and how, if you increase that, that will

work through reported EBITDA and also cash flow, just what the puts and takes there will be as you work it through?

Then just a clarification, the roaming impact you cited for the quarter, for Q2, is that all Roam Like Home, and would that number be a decent quarterly run rate? Business travel may be down in the summer but vacations are up. Do they offset, or does that number seasonally peak at other periods of the year? Thanks.

Tony Staffieri:
Great, thanks for the question, Tim. In terms of putting bad debt into context, we typically run run Allowance for Doubtful account at about 3.8% of accounts receivable on a normalized basis*. We see the bad debt, if we had to put fence posts on it, we think somewhere between $50 million to possibly up to $250 million as the outer post of it. While it's significant in the overall scheme of things, it's not drastic, and we do see it as a one-time item as opposed to something that will continue.

But again, it's early days and we're only seeing very small inklings of it, even today, so it's something we're watching closely. Some of those numbers I gave you are really just to provide the context around it. While it's a risk, it's not an unmanageable risk.
The second question you had was on—sorry Tim, go ahead?

Tim Casey:
That's directly on EBITDA, Tony? That flows directly through the income statement?

Tony Staffieri:
That's correct.

Tim Casey:
Okay, thanks.

**This sentence has been modified for accuracy*

Tony Staffieri:
The second question you had was—well, let me expand on that. I think the accounting for that separately in terms of whether it's an EBITDA or one-time item, we'll decide at the right time how we account for it but it will be transparent, but that's the number that ultimately impacts cash flow, Tim.

The second piece of it, of your question related to roaming, let me give you a bit of context on that and colour. When we talk about roaming, it's both inbound and outbound roaming that we see a reduction of. Our total roaming revenue is slightly less than the total overage revenue we talked about, about a year ago, so it'd run around, on an annual basis, roughly $400 million. The $80 million that we talked about for Q2, it is typically a seasonally higher period and we see that coming down by $80 million, or roughly 80% in Q2. That would include folks that pay under the per use, Roam Like Home, or they may still not be on Roam Like Home and they just pay roaming charges on a per-use basis, so that combines both numbers as well as, as I said, the inbound roaming volume that is coming down.

Tim Casey:
Thank you, Tony.

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

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

Maher Yaghi:
Yes, thank you for taking my question. I wanted to ask you on your cable business related to SMBs and enterprise. We talked a lot about bad debt, etc., but can you maybe talk a little bit about what you have seen so far in terms of collection and maybe a reduction in services related to enterprise customers in your cable business, knowing that it's not a big exposure for you, but still, maybe it's interesting to know what's going on there.

Maybe a bigger picture type question related to the spectrum auctions that are coming up. Given all the efforts you guys are doing to continue to support Canadians with their demand for connectivity, but still facing quite a bit of pressure on the revenue and EBITDA, would you say at this point would be a better thing to push out the spectrum auction that is coming up late this year or early next year?

Just on the free cash flow, when you say you continue to expect strong free cash flow, is that a qualitative assessment that it will be positive in terms of growth year-on-year? Is that what you are meaning by that?

Joe Natale:
Thanks, Maher. Why don't I take the first two questions on the B2B sector and spectrum auctions, and Tony, I'd ask you to frame up the free cash flow for Maher.

On Rogers for Business, our enterprise business, you're correct, Maher, in that it is a more smallish part of our business relatively speaking. We're under-indexed against our peers in that sector as a whole, and in some cases materially so if you look at proportion of revenue coming from that sector. Right now, the most difficult part of the enterprise business is in Alberta, and there it's a very small part of our business in the enterprise sector. Think of it as mid-single digits in terms of proportion of revenue and mostly wireless in nature.

We are starting to see more phone calls coming from the business sector. I would say it's coming more from main street stores, single operators who can't open up their shop and therefore are suspending their services, and we've created some disconnect mechanism so they can suspend but keep it active and alive, so we don't actually lose the customer or force a change in customer but we actually turn it back on again relatively easily when the economy begins to resume as a whole. We feel that we're in a good position on a relative basis with respect to exposure to the sector, and that given our mix based on SIC or industry codes, if you look at it that way, we've done an analysis based on which industries are most affected, least affected in the short to medium term, and as you know, it's quite a range. We feel we also have a good mix that we can manage our way through overall.

I think it'd be remiss to say that there are also some areas of growth, albeit smaller, that we're seeing in the middle of this right now. Wi-Fi connectivity to the healthcare sector, internet connectivity, we've got a team that is just busy, working day and night to add that capability, and those are often customers that are long tenured in nature once you get the first piece of business on that front.

Then of course as we support government with phone lines and bandwidth, given all the various programs that they are enacting, it's also creating some opportunities for us to add telecommunication network services to all orders of government.

On the spectrum auction, we've been waiting a while for this mid-band spectrum. It is important to 5G. As you've heard me say in the past, 5G is a bit of a three-pack of spectrum. We need the low frequency 600 megahertz spectrum, where we did very well - we got 80% of the available spectrum in the market. We need the mid-frequency spectrum that's coming up in the next auction, and then of course at some point the millimetre wave. We would like to proceed with this auction. We think we know exactly what we need and we think we have the headroom to proceed with it.

The fact of the matter is that even if the auction starts in December, it won't finish until the new year, and it might be delayed, we don't know. We don't know if it will be delayed or not. Then the question comes down to when are the auction proceeds payable, and right now given the tone, level of cooperation, discussions with government, there is some flexibility on some of that stuff from a timing point of view. I'm not going to say that's going to happen, but I think there's some flexibility on some of these fronts, as we've seen with other spectrum fees and trying to smooth out cash flow for different sectors. But we would like the auction to proceed.

I'll throw it to Tony on the cash flow point, Tony, so you can help illuminate on that point.

Tony Staffieri:
Maher, a couple comments on free cash flow. I think I'd start summarizing the impacts to free cash flow. I've talked about—we've talked about the impacts we see in each of our business on the revenue side, and they will vary from cable probably being the least impacted to media having the most significant impact, and so we—and that part is difficult to predict.

Some of the costs will naturally come down. It won't be one-to-one with respect to revenue, but on a business that generally has a 50% to 60% flow through rate, you probably should expect to see that on the other side, so there will be an EBITDA impact as well.

The way we've defined free cash flow, it's Adjusted EBITDA less some of the big cash items, the largest one being CapEx, and based on the trending we're seeing, we expect CapEx to come materially down from the original guidance range we provided, one, because of lower volumes on some things that get capitalized, like installation, the unit costs coming down, but also the pacing of work. It's just a lot more difficult to execute. Getting permits from cites and things like that is much more difficult, but also combined with our focus on what's more essential right now given the environment we're in. We expect CapEx to, as I said, come down.

When you net those out, on balance, based on what we see now, there's probably a good probability that we'll deliver free cash flow not materially off of the previous guidance that we provided, but then again, there's still quite a few moving pieces, but that's as far as we can see right now.

We don't include working capital adjustments, and in particular the various account movements related to lower handset volumes, and so that will be an additional cash flow help, if you will, to the extent that that market continues to be stagnant or soft on a year-on-year basis, so that will provide additional free cash flow depending on the definition that you're using.

Hopefully that provides good context on how we're seeing it.

Maher Yaghi:
It definitely does, thank you, guys.

Paul Carpino:
Thank you, Maher. Can we take our last question, Ariel, please?

Operator:
Certainly. Our final question comes from David Barden of Bank of America Merrill Lynch. Please go ahead.

Matthew:
Thanks for taking the question. It's Matthew sitting in for David. Just two quick ones, if I could. To start off with, just on wireless, you mentioned, if I understood correctly, that you're seeing some downgrade in the service packages that people have. I was wondering if you were able to put some colour to that comment. Are you seeing that, do you think, mostly because people are at home and they're offloading

to Wi-Fi, or is this the beginning signs of perhaps some financial distress that that group of customers is facing?

Then the other thing that I wanted to ask is obviously the self install has been a positive and something that you were pursuing even before this pandemic changed everyone's way of living. I was wondering if the acceleration of self install has changed your previous outlook for achieving 25% cash margins in the cable business, I believe it was by the end of 2021 previously, if you think now looking past this crisis that that might be accelerated or be able to achieve earlier? Just your thoughts would be helpful, thanks.

Tony Staffieri:
Matt, why don't I start with a couple of those. First off, I'll start with the second question on self install. The acceleration of that has—and moving to 100% self install is quite promising in terms of the customer experience, but also in terms of the cost reduction. Today we're on a model that we would describe as assisted self install, where the tech is close by and helps the customer inside. That model will evolve over time, over the longer term to something that is a complete self install, and so it will for

sure help OpEx a little bit, but materially it's going to help CapEx on the cable CI side in the longer term.

In the near term, I've talked about the reduction being a 30% cost reduction, but the bigger factor is the lower volumes that we're seeing in the short term in terms of migrations to different tiers, as well as new activations in the market. For a while, that's going to be the bigger factor that's going to reduce cable CapEx, but in the fullness of time we expect that volume to come back.

All those factors combined, could it lead to an earlier achievement of the 25% cable cash margins? It could, but I'd caution on the EBITDA side of it, while we see some good prospects for cost reductions, revenue may be pressured by some of the factors relating to downward tier migrations, and so the net of those is difficult to predict. There's a good prospect that we could achieve it earlier - all the ingredients seem to be there, but there's still quite a few variables that are difficult to predict, and so I don't want to call that out too soon.

The first part of your question is whether or not, in terms of some of the tier migrations that we're seeing on the wireless side, what the root cause of those are. As Joe said, when you look at actual usage, certainly on the home front, it's up. Notably, 50% to 60%, 60% are some of the more recent stats over the last week or two on a year-on-year basis. On the wireless side, we're seeing usage being somewhat flat to slightly down, and so I wouldn't think about it as something that is reducing materially the utility value of wireless, so we don't see that as a likely cause of that migration.

We think what we're starting to see is the very early signs of potential broader economic impacts, and again, I don't want to overstate it. The number of calls we're getting on this is extremely small. We're just being intuitive on it, and we know over the longer term and having seen cycles in this industry, that higher unemployment and difficulties in the enterprise side, in particular around small businesses, are going to lead to downgrade migrations, so we're being proactive on that front and calling out that potential risk.

Hope that helps, Matt.

Matthew:
It does, thank you so much.

Joe Natale:
The only thing I would add, Matt, is that fundamentally we are a barometer of the economy with respect to unemployment and business losses, and that's the biggest thing that will drive that phenomenon. I don't think we're getting some sort of fundamental switching behavior. We know that people are relying on both wire line and wireless services more than ever, and if you add them both together, it's still up dramatically year-over-year, including voice services that have peaked to record highs.

Matthew:
Great, thank you.

Paul Carpino:
Great, thank you, Matt. Thank you, everyone, for joining us today. We will be following up as needed.

Just a reminder that our annual general meeting is this morning as well. You can listen to Joe's remarks shortly after 11:00 am, and we will make those remarks available on our website as well.

Thanks for joining us, and everyone stay safe as well. Thank you.

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