Rogers Communications Inc.
First Quarter 2021 Results
Conference Call Transcript

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Speakers:

Joseph Natale
President, Chief Executive Officer

Tony Staffieri
Chief Financial Officer

Paul Carpino
Vice President, Investor Relations

Operator:
Welcome to the Rogers Communications Inc. First Quarter 2021 Results Conference Call.

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:
Thanks, 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 2020 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 to begin.

Joseph Natale:
Thank you, Paul. Good morning, everyone.

This time last year, we were weeks into navigating what we had hoped would be a short-term disruption to our everyday lives. As a business, we'd only started to experience what would result in significant shifts in our economy and consumer behaviors. What transpired over the past year is beyond what any of us could ever have imagined, but as vaccines roll out across the country, we do see the light at the end of the tunnel.

While we continue to navigate a third wave of the pandemic across the country, I'm incredibly proud of our team's ability to pivot and deliver solid results across our business. The changes we have made over the past year have allowed us to quickly adapt our operations and have positioned us well for the long term with new capabilities, including digital solutions for our customers.

Today I'll take you through the highlights of our first quarter, followed by an overview of our continuing ability to deliver for our customers while successfully managing costs. I'll then share some thoughts on how our business is well-positioned to deliver sequential improvements throughout this year, before turning to Tony for more detailed commentary.

Despite varying degrees of lockdowns and openings this past quarter, we continued to see improvements across our business. In wireless, we saw our strongest Q1 loading and postpaid net additions in three years with 44,000 new subscribers. This was a solid result given Q1 is typically a quiet quarter, and although travel restrictions continue to impact roaming revenue in our wireless business, total service revenue was down by only 1%, and we expect soon to lap the overage amount associated with unlimited plans.

We further maintained strong customer retention this quarter, achieving postpaid churn of 0.88%, an additional five basis point improvement year-on-year. Our teams continue to deliver disciplined cost management and focused execution which enabled us to achieve Adjusted EBITDA service margin up 310 basis points from the same period last year.

Consumer sales on digital and non-retail platforms remained strong this quarter. We continued to meet the evolving needs of our customers, accelerating our Digital First plan and self serve capabilities to make it easier to connect. As consumers increasingly adopt digital platforms, we'll continue to leverage the efficiencies we gained to invest in a better customer experience.

A strong digital infrastructure and increased connectivity has become increasingly critical for our businesses across Canada. Recently, according to Cisco, over 70% of small businesses reported that the pandemic has accelerated their need to go digital. To support these businesses in Rogers for Business, we introduced Advantage Mobility and Advantage Security, two new solutions that allow small and medium businesses to strengthen digital capabilities with secure and reliable connectivity at a predictable cost.

We also continue to roll out solutions and investments to bolster connectivity for businesses of all sizes. We were the first national carrier to introduce a managed solution for wireless private networks, enabling large businesses to securely connect devices to their network, prioritize network traffic, control sensitive data, and run business applications.

This past year has illustrated how connectivity can fundamentally change how we live and work, and as such, we remain focused on delivering affordable plans for 5G. Today, we have reached 2.6 million subscribers on our Rogers Infinite u nlimited data plans, a notable increase of about 60% from last year which highlights our clear leadership position in unlimited plans.

To continue to meet demand, we'll continue to invest in Canada's first, largest, most reliable 5G network to build a strong 5G ecosystem for Canada's future to deliver connectivity to bridge the digital divide that exists across our country. As of today, we've delivered 5G connectivity to 173 communities across the country, with more to come, and we recently ranked first for the highest amount of time spent on 5G by Ookla, the global leader in fixed broadband and mobile network testing.

While we light up markets with 5G and develop strong capability for Canada's future, we also remain committed to expanding service and connectivity for underserved communities, including rural and remote regions. Last month, we announced a $300 million agreement alongside federal, provincial, and local governments in Eastern Ontario to bring reliable wireless connectivity to 99% of Eastern Ontario's residents and businesses.

This is the largest wireless public-private partnership in Canadian history. Over the next five years, we will provide connectivity to 113 municipalities and Indigenous communities across Eastern Ontario in a project that has the potential to create more than 3,000 new jobs and as much as $420 million in local economic growth while it brings vital 5G infrastructure to this region.

We're also helping to close the digital divide in Western Canada with the expansion of our wireless network, including 5G connectivity along Highways 16 and 14 in British Columbia. A build of two new towers to Highway 16, known as the Highway of Tears, will provide reliable connectivity to those who live, work, and travel along this critical route. These towers will provide 252 kilometres of new highway cellular coverage, closing key gaps along this corridor and providing continuous coverage and safer communities along all 720 kilometres of northern highway through to Prince George.

In our cable business, we delivered consistent improvements as customers and their families continue to work and learn from home, and as customers continue to choose self serve options. Revenue grew by a solid 5% year-over-year, Adjusted EBITDA was up 8%, and margins expanded. Growth has been driven as a result of investments made on our Ignite platform, more customers choosing self install options, and proactive network maintenance, which enables us to alleviate customer issues before they happen. As a result, a material reduction of truck rolls has contributed to our improved performance.

Finally, in Rogers sports and media, we saw improved results with the return of live professional sports broadcasting in Q1. Revenue was up 7%, driven by increased advertising spending as a condensed 17-week NHL broadcasting schedule started to unfold, and while Adjusted EBITDA in our sports and media business continues to operate at a loss, we reported a solid 31% year-over-year improvement. In the coming months, it's expected that the largest pressure on Adjusted EBITDA in this part of our business will continue to be the lack of Toronto Blue Jays home games at the Rogers Centre and associated revenues those games bring in.

The steady improvements delivered across our business this quarter have put us in a strong financial position overall, including $4 billion in liquidity. As we remain focused on delivering sequential improvements each quarter, we also remain focused on making the right long term growth investments. This includes our recent announcement to come together with Shaw to create more choice and competition for businesses, new jobs, and investment in Western Canada, and to accelerate Canada's 5G rollout. We will continue working with the various regulatory bodies as they review this transaction and expect the deal to close in the first half of next year.

Overall, we will work with government to ensure we maintain an environment which allows for continued investment. Last week's decision on mobile virtual network operators recognizes the critical importance of facilities-based competition and provides us with a stronger degree of certainty around future investments. As with any decision, we are studying details of the ruling, but look forward to working with the regulators to ensure investment-based competition is able to continue as we focus on closing the rural digital divide and bringing world-leading connectivity to Canadians.

As we navigate a remarkable time in our industry and our lives, we also remain optimistic about a growth-oriented future, and as such, we continue to make investments in network innovation and digital infrastructure. We will also continue to make investments in our communities across Canada. I'm proud to share that we recently expanded eligibility for our Connected for Success program to provide more access to high speed, low-cost internet programs to those who need it most. The first of its kind is now available to an additional 750,000 households across Ontario, Newfoundland, and New Brunswick, including customers receiving income support, disability benefits, or seniors receiving the Guaranteed Income Supplement.

We continued our investment in the next generation of innovators and leaders this quarter with our 2021 Ted Rogers Community Grants, which went to 42 youth organizations across Canada. These grants will support critical programs for youth in our communities, particularly as they face new challenges brought about by the pandemic. Additionally, we were pleased to partner with the Jays Care Foundation to launch the Rookie League Program. This program will help ensure that 14,000 Canadian youth who face barriers develop important life skills while building confidence, team, and leadership skills.

In summary, our core businesses are operating well. Our long-term investments in closing the digital divide and investing in communities continues, and we are in a strong position to resume growth as the economy recovers and to ensure strategic long-term strength for our Company in the decades ahead.

I'm deeply appreciative to our teams, and how they continue to work innovatively and collaboratively to ensure our customers receive the services they rely on more than ever before.

With that, let me turn the call over to Tony. Tony, over to you.

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

Despite the challenges associated with the ongoing pandemic, each of our businesses continued to recover in Q1. On a consolidated basis, revenue and EBITDA both returned to year-over-year growth with revenue up 2% and Adjusted EBITDA up 4%. In wireless, we delivered strong postpaid net adds and impressive margin improvement despite ongoing pressure in service revenue. Service revenue declined 6% year-on-year driven by the impacts of reduced roaming revenue and continued overage revenue declines. With air travel continuing to be very limited, roaming revenue declined $66 million or 64% from one year ago.

ARPU was $49.09, down 7% from one year ago. Overage revenue declined $24 million or 45% year-on-year, associated with the impacts from our transition to Rogers Infinite Unlimited plans. We are now in the final quarters of the majority of our overage revenue transition, and this puts us well-ahead of our national competitors in terms of preparing our customers for 5G. Importantly, we have now removed the headwinds of unsustainable overage fees to support service revenue growth going forward.

Despite service revenue being down 6%, wireless Adjusted EBITDA only declined 1%. This resulted in continued improvement in Adjusted EBITDA service margin to 63%, reflecting an improvement of 310 basis points from last year. Our efficiency initiatives are gaining traction which should further underpin strong revenue flow through and profitability growth rates as revenue recovers.

Our cable business continues to deliver strong results. Revenue increased 5% driven by an increase in ARPA, more customers transitioning to our Ignite internet and TV offerings, and the result of disciplined promotional activity. Homes passed and customer relationships each grew year-over-year and sequentially.

Despite operating in a full pandemic environment this quarter versus Q1 last year, we still achieved increases with internet net additions of 14,000 and Ignite TV net additions of 58,000. ARPA also grew on a year-over-year basis. This revenue growth driver in addition to continued improvement in cost efficiencies resulted in Adjusted EBITDA increasing 8% year-over-year. This gave rise to a margin of 47.7% this quarter, up 110 basis points from last year.

We continue to see improvements in capital spending efficiency with self-install remaining at about 90% of all installations as well as ongoing improvements in hardware costs. Cable capital intensity was 21%, down from 26% in Q1 last year, and as a result, cash margins for cable were at 27% this quarter.

Moving to our media business, this segment continues to be materially affected by the pandemic as well. While results remain volatile and well off the levels when compared to the pre-pandemic period, we continue to improve versus pandemic lows seen last year. Revenue was $440 million, up 7% from last year as advertising continued its gradual pick-up given the increase in live sports programming. Adjusted EBITDA was still negative $59 million, but a 31% improvement from last year.

The return of the Blue Jays to the Rogers Centre remains the largest factor in terms of driving revenue and EBITDA improvement going forward. We don’t have anything new to update in this regard but look forward to their future return when we can keep fans, employees, and team members and their families safe.

On a consolidated basis, total service revenue was down 1% and Adjusted EBITDA was up 4%. If you exclude the impacts of roaming and data overage, we would have been up 2% in service revenue and up 10% in Adjusted EBITDA. COVID-19 impacts in Q1 were still notable with estimated impacts of $110 million in revenue and $70 million in Adjusted EBITDA.

Capital expenditures in Q1 were $484 million, down 18% year-over-year, reflecting a CapEx intensity of 13.9%. This run rate is well below what we anticipate in 2021. While we have not given CapEx guidance for this year, we continue to anticipate our capital intensity for the full year to be in the 12% to 14% range for wireless and approximately 22% for cable as we accelerate investments in our 5G and broadband networks.

As discussed last quarter, cash income taxes increased this quarter and were $325 million, reflecting the timing of tax payments associated with customers moving towards installment plans for their handsets. As a result, our cash tax rate as a percentage of Adjusted EBITDA was 23% in the quarter, but we will see our cash taxes drop to approximately 10% of Adjusted EBITDA in the coming quarters.

Free cash flow for Q1 was $394 million, down 15% from a year ago primarily driven by the increased cash taxes. In terms of financial strength, we ended the quarter with $4 billion of available liquidity. Our weighted average cost of borrowings was 4.02% as at March 31, and our weighted average term to maturity was 13.7 years.

With a strong balance sheet and disciplined financial track record, we are well-positioned to pursue our previously announced Shaw acquisition. As we noted in our announcement, the cash component of this transaction is estimated at $19 billion on closing, and we have secured all necessary short-term financing required to close this transaction. On closing, our leverage ratio is expected to be just over five times debt to EBITDA; however, we expect our leverage to quickly move to under 3.5 times within 36 months of close as we expect the transaction to yield substantial synergy benefits in excess of $1 billion realized within the first two years of close.

Turning to our outlook for Q2. We continue to hold off on providing annual guidance at this time as the COVID-related conditions that led to the withdrawal of our guidance back in April of 2020, particularly the resumption in roaming and the resumption of in-stadium revenues for the Jays continues today. That said, we'll continue our approach of providing the quarterly transparency we have provided since the pandemic commenced in Q1 last year.

The second quarter of last year reflected the most significant impacts associated with the pandemic. While the country remains in a significantly restricted environment, we have adapted well to operating in the COVID-19 era, and we anticipate our Q2 results will reflect continued year-over-year improvements across our businesses.

In our Wireless business, we continue to operate with notable restrictions on our traditional retail distribution channels; however, we continue to see a positive loading environment as seen in Q1 as a result of our diversified channel mix. We believe service revenues should return to growth in Q2 as roaming should have some year-on-year improvement, and we expect ARPU to be flat on a year-on-year basis which is similar to Q1 levels on an absolute dollar basis.

Based on current transition levels to Unlimited, we expect Q2 to be the last quarter in which overage revenue declines will materially impact our year-on-year service revenue and ARPU measurements. As we have highlighted in the past, underpinning these unlimited plans are better ARPU opportunities, lower churn, better cost structure, and improved customer satisfaction. Additionally in Q2, we continue to anticipate strong wireless margins, although year-on-year growth rates will be flat to slightly positive.

In our Cable business, we expect strong results to continue in Q2 with year-over-year growth in revenue, Adjusted EBITDA, and Adjusted EBITDA margins as we benefit from efficiency gains and higher revenue. Additionally, CapEx intensity is expected to be approximately 22%, down from 25% in Q2 last year as benefits from self install and Ignite TV platform continue.

In our sports and media business, we expect advertising to continue to grow slightly from this quarter's levels and reflect meaningful year-over-year improvements from the low point in Q2 last year; however, EBITDA will be down year-on-year as we capture the corresponding rights fees for our sporting programs as well as the Jays player salaries.

In terms of CapEx, we will see an acceleration in our spend this quarter and will likely see capital intensity levels of approximately 22% for Cable and 17% for Wireless. On cash taxes, we will start to see a more normalized tax rate after the $325 million cash tax installment in the first quarter, and we expect our cash tax rate to be approximately $175 million in Q2 and continue to work its way down to more traditional rates in the coming quarters. As a result of the higher CapEx and taxes in Q2, free cash flow will be down on a year-over-year basis.

I hope this extensive quarterly transparency gives you some good insight on the business as we continue to manage the pandemic impacts. However, as our Q1 results show, we are executing extremely well and effectively managing all aspects of the things we can control. Our underlying fundamentals continue to improve and position us well as we eventually move out of this pandemic.

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

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

Drew McReynolds:
Yes, thanks very much. Good morning.

First, maybe a bigger picture question here. Good loading this quarter, and it sounds like the momentum in activity out there continues in Q2. Joe or Tony, can you comment on what's driving the market expansion or the market activity, and particularly on the postpaid side of it?

Secondly, on operating leverage, Tony, you've commented in the past few quarters that certainly you see a little bit more potential flow-through here as the top line recovers, should it play out that way through the rest of the year. Is there any change to that view? Lastly, maybe one back for you, Joe, on the digital execution, it sounds like a lot of progress has been made in the last year. Where are you on further progress in that digital journey? Is most of your capability in place, or is there still much more to do on the digital side? Thank you.

Joseph Natale:

Sure, thank you Drew. Thanks for the questions. Let me take the first one and the third one, and I'll ask Tony to speak to the leverage question.

In terms of the market growth, I think it's a combination of things we saw in Q1. We saw the market open up a little bit as restrictions were lifted partway through the quarter, around that sort of end of February time frame. That's one. Second, some pent-up demand from last year as people were kind of working through what their thinking was around getting a new phone, getting an upgraded plan, etc. Given the on again, off again restrictions around COVID, a number of customers just didn't feel as comfortable getting out there and doing their thing.

I think with that, in relation to your third question, is we got a lot better at digital execution over the course of last year, and my view on that, Drew, is that that's sort of like painting the Golden Gate Bridge; by the time you think you're finished, it's time to start again. Digital execution will be a never-ending journey for this organization. I'm very proud of the things we accomplished last year; the ability to order online and have pro-on-the-go deliver to wherever you want, the ability to order online and have curbside pick-up, etc., and all kinds of abilities to make price plan changes and conduct business online through the app, etc. That will be an ongoing piece of our work.

You couple with that some of our capabilities with respect to the data analytics and running both sales and marketing functions, as well as the service function through data analytics, the ability to look into the data deeply and see which customers might deserve some outreach and how to best orchestrate that outreach, and what particular next action makes the most sense for that customer. Our degree of understanding and investment in AI and analytics has gone up substantially in the last 12 months, with more to come.

It's also happening on the service front. We've got a lot more ability to look deep into customer devices and the network and understand, for example, in someone's home whether the Wi-Fi pods are working well, whether there's an issue with respect to a particular errant device in the home, and therefore proactively look at driving a better experience in our cable business as an example.

Those things will continue. We've got a great team on that front. We've invested heavily over the last number of years with the right tools and platforms, and we've become a destination for strong talent in that area. That's something that—you know, years ago, digital was adjunct to the business. I would say that today, digital is becoming core, in fact is core to the business and is a fundamental platform on how we operate both in terms of marketing and sales, but also in terms of customer support and service. I hope that helps.

Tony Staffieri:

Drew, on your question of operating leverage, it really is reflective—you know, as we look forward, reflective of what we have done on our fixed cost structure and margin expansion, and how we see that playing out. Traditionally when you think about flow through, to use the term you mentioned, of being at 50% to 55%, sometimes 60% in the wireless space, our expectation in the near term is that flow through rate should be slightly higher than that, owing to the work we have done on our fixed costs.

In the short term, as I mentioned in my scripted comments, you may not see the margin expansion that you saw over the last three to four quarters as our expectation is as things open up, there are some upfront costs related, for example, to our store distribution channels, and so some of those heightened expenditures we have taken into account at expenditures, etc., and so while we continue to see good, solid margins, the magnitude of year-on-year expansion in the near term will be less than you've seen looking backwards, but notwithstanding that, you'll see very good flow through going forward.

Joseph Natale:

Just one more comment, Drew, just going back to your first question, the other anticipation we all have is around growth in the market with respect to new Canadians. Our estimate says that in any given year, especially given our current stance from our government around immigration, we're expecting 400,000-plus new Canadians to arrive here permanently, roughly another 400,000 that are coming on work visas, plus on top of that foreign students, so these are all sort of upside factors that have yet to play into the marketplace on top of the latent demand and excitement around getting a new device that has been a holdover from last year. There's some things that are present in the market and other things we're anticipating in the market as part of the recovery on top of the roaming and everything else that Tony's talked about.

Drew McReynolds:

Okay, got it. Thank you both.

Paul Carpino:

Thanks, Drew. Next question, Ariel?

Operator:

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

Jeff Fan:

Thanks, good morning. A couple of questions.

First, just on the transaction, on the Shaw transaction, I think I heard you say that the closing is expected in the first half. I think at the time when the deal was announced back in March, you said it was going to be a year. Is there a change in that timing, or is that just a more general timeframe that you want to give to the street? Then more importantly on the integration, I know it's still early but wondering if you can talk a little bit about the planning around the integration and the team that you may be putting together in preparation of that integration, so you can hit the ground running in about a year's time.

Then just finally, just for this year, when we think about ARPU trajectory for the second half, how should we think about this because vaccination rates are going up in Canada. I know cases are still going up in some parts of the country, but vaccination rates are going up. How do we think about how vaccination rates tie back to how you think about ARPU trajectory for the second half? If you can just help us think about that a little bit. Thanks.

Joseph Natale:

Thanks, Jeff. Why don't I start on your two questions with respect to Shaw, and then ask Tony to talk about ARPU in the second half and the correlation to pandemic recovery and vaccination.

First of all, our view on timing hasn't changed. We've said generally it's in about a year's time, and that hasn't changed. Of course, we can't be specific, we don't know how that's going to play out, but that's generally our view and nothing has changed to move us from that view.

In terms of integration, I think it's important to understand the companies continue to operate as two separate companies until the deal is approved. There is a governance structure that we outlined in the purchase agreement that allows for high level discussion during this regulatory approval cycle, and we've started that process. We've started that process of high-level discussion and vetting some of the key items that we're allowed to talk about.

In the meantime, we've struck an integration team with dedicated full-time people, led by one of our senior leaders with functions across all aspects of our business, and there is a work plan that involves a number of very specific work streams on all the different topics you might imagine. Our goal is to have a fully detailed integration plan in the next six to nine months, an integration plan that allows us to hit the ground running the minute we get approval, that looks at exactly how we will drive the synergies, exactly the operating structure, exactly what we plan to do with different parts of the organization, etc., to the extent that we can unravel that during this period of operating as two separate companies, but we feel we have the right structure.

It will be led by our team directly, and we're going to be working through it over the course of the next many months. As we have something more specific to say around it, of course we'll provide commentary to the investment community, but right now, really, it's an exercise in taking the synergies that we have talked about, that were part of the deal in the beginning, and fleshing them out and making sure that we've got every one of them bagged and tagged and part of an execution plan with accountabilities.

There are a number of people in our organization that have spent a lot of time inside mergers and integrations. I've got a long history in that area, our CFO Tony Staffieri has a long history in that area, a number of our executives do as well, so we feel we've got the experience and the battle scars, frankly, from driving these sorts of efforts.

I would reinforce, as I said last time on the call, that job one is the core business, and part of the reason for having a dedicated team on this is that the dedicated team will spend all their energy on the integration with the right leadership support from a number of our executives while the 99.9% of the Company focuses on our goals, our financial plans, and coming out of COVID with the momentum that you saw in Q1, etc.

That's sort of where we're at with respect to the integration. Maybe Tony can talk about ARPU and our views on it.

Tony Staffieri:
Jeff, to answer your question in terms of how we see the vaccination rollout impacting ARPU, ultimately, we equate vaccination with increasing the safety and comfort of individuals, both on the consumer side and the business side, to move outside of the home. We equate outside of the home to increased usage. We do know that as soon as we come out of lockdowns, and we particularly saw it last summer, there's a huge spike in usage on our traffic, and so ultimately that is the driver of ARPU. As individuals use more, they then see the more obvious need for something like an unlimited plan or moving up in tiers.

We see the catalyst to be very strong and the correlation to be strong in terms of usage, and therefore, customers moving up in plans, but secondarily, it means opening up of our retail distributions, and that continues to be a very strong channel to have strong upgrades and up-sell in terms of tiers, given the one-on-one human experience and advice that our agents can provide. That's really at the core of it, is driving that usage and the need for higher tiers.

Jeff Fan:
Okay. Thank you both.

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

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

Aravinda Galappatthige:
Good morning. Thanks for taking my questions. A couple from me.

Obviously on the cable side, very strong results, 5% revenue growth, 8% EBITDA. There appears to be a trend in the industry where you're seeing this cycle of upgrades, obviously largely due to the work-from-home conditions. Can you just talk to that cycle and the trends that you've seen at Rogers and how you see that sustainability as you think about a post-pandemic or post-lockdown period, how that will play out, will that cycle kind of sustain itself a little bit and spill over?

Then, secondly, with respect to CapEx, we've seen the telco counterparts have announced some increases and expansions that take their CapEx up. I was wondering, I know you've given fairly clear guidance in '21, on the cable side are you fairly comfortable with the current trajectory and the current levels? Then lastly, if I may, any sort of learnings from the outage from a couple of days ago that you can share? Thank you.

Joseph Natale:
Thanks, Aravinda. Tony, why don't you take the…

Tony Staffieri:
Yes, sure.

Yes, Aravinda, I think if I understood your first question, what we did see during the pandemic is very obvious but clear demand for bandwidth, and in particular very high bandwidth as you had multiple members of the family either working from home or doing schoolwork from home, etc., so we clearly saw that in our tiering. If you were to look at the proportion of customers that now sit above 100 MB, it is clearly the vast majority in our customer base.

How we see this playing out post-pandemic, two things. One, if you were to look at most of what's out there in terms of media and leading thought on workplace environment going forward, most seems to coalesce around a probable mix, so to the extent that there is still some work from home, we think at those times when individuals are working from home, they're going to demand the best connectivity possible still. Two, strong bandwidth, strong reliability is something that when you need it, even though it may be more infrequent, you're not willing to sacrifice and move down to something less, so we see the risk of migrations down as being a small risk, and we continue to see the opportunity for up-sell to be more on the stronger side.

We're fairly confident about the demand for our product, particularly with respect to the higher speeds going forward. As you know, we have ubiquitously 1 Gig available across our entire footprint, and that's soon to be 1.5 Gigs, so from a product standpoint, we're quite comfortable in terms of the product advantage we have there.

Your second question relates to CapEx and whether or not—I think you're asking how we see it for this year and in particular into next year, and whether we're comfortable with CapEx levels on the cable side. I think a few things we'd say there.

One is we continue to charge forward, and have been over the last several years, on network in both wireless and cable. I think you see it on the wireless side in terms of the 5G leadership we have, and so I don't think there's—there shouldn't be any doubt in anyone's mind about our ability to continue to lead on that front and have the right CapEx investment dollars there. We've always said we'd be in the 12% to 14% range on wireless capital intensity, and that's still the thinking. In some quarters, just as I said in Q2, you may see it spike up as we make hay on some of our projects, and you'll see in Q2 it's 17%, so we'll continue to do the right thing in wireless, and you'll see the results of that.

Then on the cable side, I think it's important to highlight that in cable, while the 21%, 22% capital intensity is way down from where we have been, that has not at all been at the expense of network investment. Quite the contrary, we've ramped up the proportion of spend and the absolute dollar spend that goes into cable network. What you are seeing are efficiency gains and prioritization of things in cable that have come down. A great example of efficiency gains would be on the CPE side, where with our Ignite platform CPE costs continue to come down nicely, and you see that.

Going forward, I don't want to get too far ahead of ourselves in terms of long-term view of cable CapEx, but we continue to see roughly in the low 20s as the right percentage for us. I think it's important to keep in mind the advantage we sit with today. Coax and DOCSIS still continues to deliver a very powerful solution for what we call the last mile, and so we have not had to, nor will we have to, put material dollars in order to lead in the marketplace in terms of network performance ubiquitously. Over time, we'll continue on node segmentation, and we have been doing that, and you can expect us to continue to do that, and that's all within the capital intensities we've talked about.

I hope that helps.

Joseph Natale:
Aravinda, thank you for the opportunity to address the intermittent wireless service issues experienced by many of our customers earlier this week after the recent software upgrade. It led to congestion and service impacts for many customers across the country. I'm deeply disappointed that our customers

had to experience that problem. Our team is deeply disappointed. We worked very hard to earn the trust of our customers, and we're going to work very hard to earn it back.

Despite all the testing that we did with respect to the software upgrade, it simply caused the problems, and it took us a while to recover. The problem really started in the middle of the night on Monday, where we started seeing intermittent failure, intermittent connectivity, inability for customers to connect, and for the better part of about 16 hours before we could get things back to normal. Our team worked diligently to restore the service as quickly as we possibly could.

You have my commitment, and you have the commitment of Ericsson. I've had a number of conversations with their CEO in the last few days, that we're not just going to get to the bottom of this but work very hard to make sure it doesn't happen again. Connectivity more than ever is an important part of what we all have learned to rely on, and at the heart of it, it's about trust, and we've worked very hard to earn that trust, as I've said, and we're going to work very hard to regain that trust with customers that had a difficult time during that period on Monday.

Thanks for the question, Aravinda.

Aravinda Galappatthige:
Thank you.

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

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

Diego Barajas:
Hi, good morning. This is Diego Barajas filling in for Simon. Thank you for taking the questions.

Similar to the cable upgrade question, can you unpack some of the drivers behind 5% revenue growth and 4% growth ARPA, maybe the balance of pricing increases versus upgrades this quarter? Then on the MVNO decision, just curious to get your initial thoughts on the decision and also your view on the inclusion of the lower cost plans. Thank you.

Tony Staffieri:
Diego, thanks for the question. I'll take the first one and then Joe will respond to the MVNO part of your question.

In terms of the ARPA and what's contributed to the growth, but more generally, I think your question was the 5% revenue growth, four points of that was really the ARPA growth and the other point is increase in subscribers over the course of the last year. With respect to increase in subscribers, as the pandemic eases up, we fully expect volumes to improve as well and the ability to upgrade our customers to the Ignite platform. The pace at which we do that will improve, and that comes with accretive ARPA for us, and so we're quite optimistic in terms of both the volume side as well as that contributing to ARPA growth, as I said, as the pandemic eases up.

In terms of the 4% ARPA growth, it's made up of two primary things, and you've touched on them. Last year, we did introduce a price increase and that is certainly helping the year-on-year comparisons, but importantly, we've gotten a lot better at managing promotional discounting and driving that discipline within our channels so that customers are more comfortable in terms of paying for the value that they're getting and the reasons for it. That seems to be working nicely, and so as I said in my scripted comments, as we look to Q2 and frankly beyond Q2, we continue to expect to see very good ARPA improvements on the back of those items, but also up-tiering, as I mentioned, as customers move to the Ignite platform.

Joseph Natale:
Diego, in terms of the wireless review outcome and decision that came last week, first of all, I believe the MVNO decision provides certainty for our industry, and we can proceed with investments, knowing that the government is supportive of facilities-based competition and a facilities-based approach to our market. We've been waiting for that decision for a while, and the degree of certainty is very, very helpful and underscores that investment matters and underscores that we are looking to build a capability in Canada that allows investment to reach far into rural Canada, that allows investment to continue to allow leadership on a global basis.

Canadian wireless networks across the board have been the top performing in the world for the last many, many years, we've ranked number one and number two, historically. I think this decision underscores the fact that investment matters and that that facilities-based approach to the regulation environment matters.

We're going to keep reviewing to understand some of the nuances in the ruling, and we look forward to a very healthy dialogue with the CRTC on that front as we kind of unpack some of the very specific decisions and comments that are in there. As I've said before, we're committed to working with regulators. Our goal is the same; fair, free enterprise investment-based competition in an industry that continues to evolve and lead globally and continues to create affordability options for all Canadians, and on the comment of your rate plans, we're committed to the affordability options, and we'll look at those rate plans and see how to best articulate them in our channels and in our marketing as we go forward and work closely with the CRTC on those items.

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

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

Jerome Dubreuil:
Yes, thank you. Good morning. Congratulations on the results.

Maybe you can comment a bit more on the MVNO decision. First, how confident are you that the mechanism set for pricing could work and have a fair pricing going forward, and also does that provide a read-through on the decision for wholesale internet? Then a second question regarding media revenue. Obviously, you mentioned the stadium attendance restrictions, but stronger than expected results this quarter on that front. Can you maybe explain the higher sports-related revenues since we also had the NHL in Q1 last year?

Joseph Natale:
Sure, I'll take the MVNO question, Jerome, and maybe Tony take the media sports question as a whole.

As I just said around the decision last week, first of all to your second question, it's really hard to understand whether there's any read through on the decision. The TPIA decision, Third Party Internet Access decision, is one that's still pending, and really, we're just waiting to hear what comes back from that decision, and therefore I don't think there's anything we can read through from that perspective as a whole.

In terms of the rates that have been put forward, I think the message is loud and clear; let's continue to provide affordability options for Canadians, and we've been doing exactly that. We've been doing exactly that as we've created rate plans through our Chatr, our Fido and our Rogers brands that create different affordability options and capabilities for Canadians. I think there's a way to work these affordability rate plans into the equation. What you've seen from us on the wire line side and the cable side is indicative of that.

I said in my remarks that we were one of the first to launch the Connected for Success program back in 2012 that provides affordable internet for Canadians that are in subsidized rent to income-geared homes, disability, services around the Guaranteed Income Supplement. We just amped that up to reach about 750,000 Canadians through that program, and their internet rate plans start at about $10. It's something we intend on driving forward across the west as we include Shaw in that footprint post the approval process, and we're just going to keep looking for affordability options. We're completely aligned with the government from that perspective as well, and we'll work through the details with the CRTC to see exactly how these are well positioned in the marketplace.

Tony Staffieri:
Jerome, on the second part of your question in terms of media revenue, I think a couple things. One is clearly Sportsnet is the biggest impact in terms of those year-on-year numbers, so what you saw in the first quarter were generally more NHL games than you would have had last year. While we had a season last year, the concentrated schedule provided for more games, but importantly, it's interesting that the viewership on the games this year and the format, the Canada on Canada format, seems to have elicited much higher viewership, which we're pleased to see. Both of those have factored into—with revenues numbers we were quite pleased with overall. That's really the driving factor on that.

Jerome Dubreuil:

Thank you. That’s helpful.

Paul Carpino:

Thanks, Jerome. Ariel, we have time for one more question.

Operator:

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

Sebastiano Petti:

Thank you. Thanks for taking the question.

Just had a quick follow-up on, Tony, your comment. Can you just provide perhaps a little bit more colour on your comment about continuing to anticipate strong wireless margins, although year-on-year growth rates will be flat to slightly positive? Is that on a—you know, you’re thinking about relative to the first quarter, or are we thinking about relative to 2Q20? Maybe just a little bit of colour there would be great.

Tony Staffieri:

Sure. The comment with respect to margins is twofold.

One, what you have seen is very good in terms of what I would describe absolute margins in wireless over the last several quarters, and it’s been on a very good trajectory in terms of improvements. You see that year-on-year as well, and so I am sort of—you know, when you look at the 310 basis point improvement year-on-year in Q1, just want to be careful that we don’t get too far ahead of ourselves and continue to expect to see that type of margin expansion as we start to lap some of the cost initiatives that, frankly, started in Q2 of last year, in part out of necessity.

The amount of expansion, particularly in the next few quarters, will just be more muted, A, because we’re lapping and, as I said, there are some costs as things open up that we tend to incur in terms of, as I said, store costs, training, and just general things as we ramp up that are more one-time in nature. So continued good margins, but the year-on-year pacing will just slow down a bit over the next few quarters in wireless.

Sebastiano Petti:
Okay, that makes sense. Then a quick follow-up.

I think in the past, Tony, as well, you've talked about getting to that 30% kind of cash margin in cable. You provided some colour on where you expect CapEx to kind of come in, obviously impact the drivers of EBITDA margin expansion as well. As we're thinking about that 30% cash margin, is that something we should be expecting or moving closer towards as we get into 2022 and beyond? Any changes to perhaps your previous expectations around that? Thank you.

Tony Staffieri:
In terms of our cable cash margins, we continue to target 30% or better as what we describe, our interim threshold or target. You would have seen in Q3, Q4 cash margins being in the 29% range. Because of the seasonality, you saw it come down a little bit in Q1, but for the current year in '21, we continue to see, I would say, cash margins in the 28% to 30% range for this year, so it isn't something we're pushing out to next year. It will have some ebbs and flows, and again some of the pandemic related expenses may impact that on the margin, but that 30% beacon is still what we're focused on and headed towards this year.

Sebastiano Petti:
Thanks again.

Paul Carpino:
Thanks, Sebastiano.
Thanks, everyone, for listening in. Our AGM is being held today at 11:00 am, and if you'd like to access our remarks, Joe's remarks, you can get there through our Investor Relations site. Thanks again, and if you have any follow-ups, please reach out to Investor Relations.

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