



Rogers Communications Inc. Second Quarter 2022 Results Conference Call Transcript

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Time: 8:00 AM ET

Speakers: **Tony Staffieri**
President and Chief Executive Officer

Glenn Brandt
Chief Financial Officer

Paul Carpino
Vice President, Investor Relations

Operator:

Welcome to the Rogers Communications Inc. Second Quarter 2022 Results Conference Call.

Following the presentation, we'll conduct a question-and-answer session.

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

Paul Carpino:

Thanks, Ariel. Good morning, everyone, and thank you for joining us.

Today, I'm here with our President and Chief Executive Officer, Tony Staffieri, and our Chief Financial Officer, Glenn Brandt.

Today's discussion will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's earnings report and in our 2021 annual report regarding the various factors, assumptions and risks that could cause our actual results to differ.

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

Tony Staffieri:

Thank you, Paul, and good morning, everyone.

Our results for the second quarter demonstrated strong, growing momentum across each of our businesses. As our economy and our markets continue to expand, our teams executed well in capturing an increasing share of this growth and converting it into meaningful financials for each of our wireless, cable and media businesses.

Our drivers of top-line growth centered on a few main factors, namely the return of travel as well as market share gains in our wireless business, the expansion of our footprint into new areas while

capturing a growing penetration rate in our Cable business, and the return of fans to the Rogers Center, together with meaningful growth in advertising revenues for our media business.

Our network outage just after quarter end was a major disappointment to all of us at Rogers. Network quality and reliability have been a core foundation of our Company and this isolated, albeit significant outage, had a major impact on our customers. Changes are already underway to address not only the root cause of the outage, but more importantly, to ensure we emerge from the incident with more strength and resiliency that is truly industry-leading.

As I've stated publicly in recent days, we can and will do better, and I am committed to ensure we make the necessary changes to earn back the trust and confidence of our customers and Canadians.

Our improvements will include changes to our network architecture that will separate our Wireless and Wireline networks for better redundancy; better partitioning of our network to reduce the risk of a national spreading of an outage; changes to our internal processes on how we plan, control, and execute network upgrades; and importantly, a fail-safe method of ensuring communications for emergency and essential services work all the time, irrespective of any one carrier's outage.

In terms of financial impact of the outage, the estimated cost of the customer credits we will issue in the third quarter will be about \$150 million and will be reflected in those results. As well, the investments in our network will mean a reprioritization of projects within our consolidated capital envelope to ensure the needed network improvements get done as quickly as possible. I am confident we are doing the right things for our customers to rebound from the outage, and we will need to step up our efforts as we head into the busy back-to-school and fall season.

Our Q2 results emphasize the strength of our assets, which delivered with better execution by our teams. In Wireless, our renewed, focused efforts are producing results, and this has allowed us to capitalize on growing share during the increased market activity we are seeing in Canada.

Service revenue, and Adjusted EBITDA both increased 11% this quarter, driven by higher roaming revenue and a larger mobile phone subscriber base as the economy continued to grow. Underpinning this recovery were strong KPIs across the board in the areas of quality smartphone loading, churn

performance and ARPU growth. Postpaid mobile phone net ads were 122,000, up 62,000 from last year. Our efforts to drive better execution specifically in phone loading were also reflected in our prepaid net addition gains where we saw 55,000 net new subscribers compared to a loss of 28,000 one year ago. Our strong distribution network, excellent churn performance, growth in immigration, and overall better execution has driven these disproportionate share gains.

Additionally, with more people returning to the office, we are seeing greater demand for our unlimited plans which provide the extensive data buckets and speeds needed to support video and other business applications being used in a hybrid work model. In fact, data usage is up 40% per subscriber compared to the same period last year.

Q1 postpaid mobile phone churn improved by 8 basis points to an impressive 0.68%. This reflected the best customer loyalty performance in the Company's history. Our teams have worked hard to earn this loyalty by delivering the service and value our customers expect.

Everyone at Rogers recognizes to maintain this performance we will have to work very hard to earn back the trust and confidence of our customers following our network outage but we're committed to do so.

Finally, the mobile phone ARPU was a solid \$58.83, up 6% from one year ago. Clearly we are seeing Canadians embrace the return of travel and our roaming revenue in Q2 has recovered to 130% of the roaming revenue we saw in Q2 of 2019.

Additionally, our loading on the Rogers popular unlimited plans is also contributing to better our ARPU dynamics

In Cable, we delivered another quarter of sequential improvements in our growth. Revenue grew 3% this quarter and Adjusted EBITDA increased by 6%, reflecting a 100% flow through rate of incremental revenue. Of particular note, Adjusted EBITDA has benefited from the significant improvements in efficiency we have prioritized in 2022 relative to the prior year. This includes better managing of expenses and delivering improved operating efficiencies

Beyond improving our financials, our team has been focused on leading growth in our cable and internet products, and their progress is reflected in our results. For example, retail internet leading was 26,000, almost double from the same period last year, and importantly, the gains have been driven by leading on the Rogers brand. Additionally, we delivered the fourth consecutive quarter of positive video leading as well.

I'm very proud of the team's improved execution in our cable results. This improvement was needed as we fell behind our peers over the past couple of years, but their hard work is starting to pay off. These better results also put us in a good position for when we come together with Shaw once regulatory approval has been received. In the meantime, we know we have more work to do and will continue to make additional investment in our selling channels, improvements in our call center performance and providing a better digital experience for our customers.

Finally, in Media. I'm very happy to report our team has returned the business back to profitability, a full quarter ahead of schedule. Revenue grew 21%, primarily as a result of the return of home games for our Toronto Blue Jays at the Rogers Center, as well as higher advertising revenue at our Sportsnet channels. Our Media business experienced severe and extended impacts to its operations during the pandemic period, but we believe the worst is over and expect continued profitability in the second half of the year.

Finally, let me touch on the Shaw transaction. We have extended the outside date for completion with Shaw to the end of this year. We believe that the Rogers, Shaw, and Quebecor agreement addresses the concerns raised by the Commissioner of Competition and Minister Champagne. We will continue to engage with Competition Bureau and ISED to highlight the significant benefits the merger will bring to Canadians and obtain the outstanding approvals. While we do this, we continue to work through the competition tribunal process.

Rogers, Shaw, and Quebecor are committed to seeing this transaction through to completion. The three companies have put together a competitive and commercially sustainable remedy that will create a strong Canadian fourth carrier with proven operations in multiple provinces that will reach over 80% of the Canadian population. Rogers, Shaw, and Quebecor look forward to securing the outstanding

regulatory approvals to deliver significant benefits to Canadian consumers, businesses, and the economy.

In summary, our Q2 results reflect the quality of our asset base built over our 60-year history, as well as the dedication by the Rogers team to improve execution and restore our performance after a few very difficult years. We have reinvigorated our organization with an experienced, hands-on executive team who have given their teams the leadership, clarity, and accountability to do their jobs well, and we are excited with the opportunities ahead.

Let me now turn the call over to Glenn who will provide a few more details on the quarter.

Glenn Brandt:

Thank you, Tony, and good morning, everyone.

I'm glad to be with you this morning. Rogers second quarter results reflect the benefit of a recovering economy through the second quarter together with the continued commitment by our teams to drive better and more consistent operating and financial performance across each of our businesses.

In Wireless, service revenue was up 11% year-over-year. We are seeing the benefits from higher roaming revenue as global travel recovers; a larger postpaid and prepaid subscriber base, and an overall increase in market activity as Canadians return to being more mobile. This has included domestic activity such as return to office and school as well as the resumption of travel and more immigration and an increase in foreign students.

Our second quarter KPIs also reflect the hard work and investments our teams have made over the past year in improving customer service levels and driving sales and operating performance. We delivered postpaid mobile phone net customer editions of 122,000 in the quarter, roughly doubling the 60,000 from one year ago. This was driven by strong base management strategies, benefiting from very low postpaid mobile phone churn, and by providing customers with value and flexible plan offerings, all against the backdrop of a growing and competitive marketplace. These drivers also contributed to growth in our prepaid mobile phone base where we added 55,000 prepaid subs compared to negative loading one year ago.

Our postpaid mobile phone churn through the quarter was very strong at 0.68%, an 8 basis point improvement year-over-year. With continued increases in travel activity by Canadians, ARPU is also recovering and was up 6% for the quarter to \$58.83. Given the pent-up demand by Canadians to resume traveling, Q2 roaming revenue is now at 130 % of the second quarter pre-pandemic levels of 2019. Additionally, further customer migration towards the Rogers Infinite Unlimited plans has also contributed to improvements in ARPU.

Finally, Wireless Adjusted EBITDA was also up 11% year-over-year, driven by the flow-through of Service revenue growth and the Adjusted EBITDA service margin remained a strong 62% in the second quarter.

In our Cable business, total Cable revenue was up 3% year-over-year and Adjusted EBITDA was up 6% in the second quarter. Cable service revenue benefited from a modest price increase across our internet base announced last fall, while Cable Adjusted EBITDA increased by 6% primarily as a result of improved cost efficiencies along with the higher service revenue. This gave rise to a Cable Adjusted EBITDA margin of 50%, which is up 140 basis points from the prior year.

On a Product basis, our teams are executing on more effective sales and marketing strategies in our Cable and Internet business. We delivered 26,000 retail Internet net customer additions in the second quarter compared to 14,000 last year, as customers have responded well to a more energized sales effort and have embraced the value of our Ignite platform.

In Video, we added 21,000 net customer additions across both our Legacy and Ignite products which compares to 4,000 Video losses one year ago. Total customer relationships also increased in the quarter to just over 2.6 million, up 2% year-over-year.

Moving to our Media business. We have seen solid improvements in both revenue and profitability. Revenue grew 21% due to higher Toronto Blue Jays revenue, primarily as a result of the return of home games to the Rogers Centre, as well as higher advertising revenue at Sportsnet. Importantly, our Media business also returned to profitability with Adjusted EBITDA of \$2 million compared to negative \$75 million in the second quarter of last year.

At a consolidated level, total revenue for the second quarter was up 8% and total service revenue was up 10%. Adjusted EBITDA increased 16% and Adjusted EBITDA margin increased by 280 basis points to 41%.

Capital expenditures in the second quarter were \$778 million or 8% higher than last year with capital intensity of 20% which was flat to last year.

Free cash flow was \$344 million, reflecting a 14 % year-over-year improvement despite the higher CapEx spending.

Cash income taxes paid decreased this quarter by \$30 million or 17%, which is really just due to the timing of installment payments.

Turning to the balance sheet. We exited the quarter with a debt leverage ratio of 3.2 times. That's down from 3.4 times at our 2021 year-end and reflects the solid Adjusted EBITDA performance.

Our total weighted average cost of borrowings at June 30, 2022 now stands at 4.26% and our weighted average term to maturity is 12.3 years compared to 3.95% and 11.6 years respectively at December 31, 2021. As a reminder, these averages include the bond financing we put in place in March 2022 to fund the Shaw transaction as we seek regulatory approval.

Overall, our better results and financial stability reflect a Rogers team that has positioned the Company well to deliver more consistent results.

In terms of our outlook, you saw in our press release this morning that we are confirming our 2022 full-year outlook that was provided with our March quarter. This includes the one-time impact of the estimated \$150 million in five-day service credits and related customer costs associated with the network outage, which will flow through both our wireless and cable businesses in the third quarter.

For the third quarter, our Wireless and Cable financials will be impacted by the network outage, and by the related one-time customer service credit, but we expect customer additions will normalize through the third and fourth quarters and will recover more in line with our first half trending in the fourth quarter.

For Wireless, on a year-over-year basis, we anticipate third quarter service revenue growth will remain positive, moderating in the low-to-mid single digit range as a result of the impacts of the service credits. Adjusted EBITDA will be flat to slightly lower than the prior year due to the flow through impact of the service credits.

In Cable, we anticipate approximately mid-single digit decline in revenue and EBITDA for the third quarter, again, as a result of the impact and flow-through of the five-day service credits.

In our Media business, we anticipate revenue will grow year-over-year in the high single digit range and that Adjusted EBITDA will remain positive and show continued, strong improvement.

Finally, on cash taxes, we expect our cash taxes will be approximately \$190 million, up 8% from the third quarter of 2021.

In closing, our Q2 results reflect how hard the Company has worked to improve its operational and financial performance. We have work to do to gain back customer confidence from our July outage, but we have a strong balance sheet, a very committed team, and sound fundamentals to achieve this objective.

Thank you. Let me now turn this back over to Ariel to commence with the Q&A.

Operator:

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

Vince Valentini:

Thanks very much and congrats on the strong second quarter. Two questions, if I could. One on roaming, the 130% is a bit surprising. I don't think we're anywhere near back to 100% of travel volumes for people, especially on the business side. Can you give us any sense of where the new goal post should be? A lot of people were expecting more roaming revenue growth in 2023 and I don't want you to leave the impression that that won't happen anymore. Is 150% or 170% of where you were in 2019 a better end point now given higher subscribers and rate changes?

The second question, just on the Q3 guidance and the full-year guidance. Appreciate the color, but can you confirm that unchanged guidance for the full year factors in what you're seeing on the customer side as well? The \$150 million is clear in terms of credits, but I assume there has to be some kind of impact to churn and sub add, at least temporarily, that you've already seen. Can you talk about what you've seen in the past couple weeks in terms of subs and just confirm that, despite those headwinds, you're still confident in the guidance? Thanks.

Glenn Brandt:

Thank you, Vince. It's Glenn. Let me start with the roaming question and then I'll let Tony take the second question around customers.

On roaming we've seen a strong recovery underway in the consumer segment, still recovery to come in the business segment. Many of us are still looking to return to office, let alone return to business travel and so more to come in that. But on the consumer side, we're seeing roaming traffic roughly three quarters of where we were pre-pandemic. We haven't seen a full recovery yet on volumes and that's flowing through to the levels you see at the 130%.

Tony Staffieri:

Which with respect to the second part of your question on our outlook for Q3 and the full year. Since the outage of July 8, we did see an impact on our subscriber results, but we're encouraged by the patience our customers have shown, and we're seeing very good trending on a daily basis. As we look to the back half of the quarter, and keep in mind, in back to school and as we close out the quarter, we still have, commencing in about mid-August, 80% of the quarters' activity ahead of us. Based on the trending we are seeing, as I said, we are encouraged with the trending that's there and have confidence in our ability to maintain the full-year guidance.

Vince Valentini:

Fair enough. Thanks.

Operator:

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

Maher Yaghi:

Thank you for taking my questions. Good morning, guys, and congratulations on the results. Strong momentum seen here. Can you discuss a little bit the wireless market beyond the fact that you have more activity by consumers or recovering economy? How do you feel about your own market share gains you did in in Q2 here on post paid versus the level of activity, overall, in the market?

Going into the second half, where do you think—are you seeing any initial impact from a declining or slowing economy? We've seen results early coming in from the U.S., such as AT&T discussing some weakness on the consumer side in terms of payments, in terms of delayed payments. Are you seeing any of those so far here in Canada? Thank you.

Tony Staffieri:

Sure. Thanks for the question, Maher. In terms of Wireless growth, I'll start with what's driving the market. One of the biggest drivers is certainly the immigration students returning and that's all helpful to the growth in the marketplace. On a year-over-year basis we expect the market will probably be, if not at 5%, over 5% growth for Q2. In addition to that, we're seeing good increases in penetration rates, second phones and third phones continue to come along nicely. That's contributing to the increased size of the market as well.

Our execution, in terms of shares, has really been about focus. We've always had a very strong distribution network and as things continue to open up fully in the second quarter we're pleased with the way those distribution channels behaved and performed.

In terms of the slowing economy. We believe that in large part because of what we're seeing as continued immigration and students to Canada, we haven't seen the impact of a slowing economy yet, and again, are optimistic that it's probably going to be moderated because of those immigration levels, but we'll have to see how that plays out. We are not, to date, seeing any deterioration in performance on our receivables and customer accounts.

Maher Yaghi:

Thank you. Thank you, Tony, and if I can maybe have a follow-up on the outside date change that you did for the Shaw transaction. You are doing smaller increments when it comes to changing the outside

date. Any read through from this significant increase in the outside date change on how we should, as investors, interpret your view on the timing of closing the transaction?

Tony Staffieri:

You should think about our extension of the outside date to the end of the year, which is after the tribunal process, as really reflecting the commitment that we and Shaw have to getting this transaction done and now, with the sale of Freedom Mobile to Quebecor, the commitment that Quebecor has to getting this transaction done. Amongst all three parties, we're committed to seeing this through and wanted to set a date that made it clear that we have that commitment.

Maher Yaghi:

Thank you very much.

Paul Carpino:

Thanks, Maher. Next question, Ariel.

Operator:

Our next question comes from David Barton of Bank of America. Please go ahead.

Matt:

Hi guys, Matt sitting in for Dave. Thanks so much for taking the question and congrats on the strong quarter. I just wanted to ask a follow-up to the economy question. It's good to hear no impact on the consumers yet, but it seems like costs haven't seen an impact yet, so I was just wondering if you could comment on the inflationary pressures you may be seeing and maybe if you can add some color along the lines of how much your cost might be exposed to inflation, or conversely, how much are locked in, and you're protected from it?

Then separately, looking at the Shaw transaction, the outside date matches the financing redemption date. Are there contingencies in place that investors could be aware of that, along the flexibility of what can happen with minor delays past the current anticipated outside date? Thanks.

Glenn Brandt:

Thank you, Matt. On the inflation question. We see some pressure as we work with vendors and have been managing for a couple years now both price pressures as a result of supply issues coming from COVID, as well as just length of delivery on the supply. We've been managing that for a couple years now. Not really seeing any additional pressure right now. In fact, we're starting to see some of those (inaudible). As well, we've been working hard through that in preparing for the Shaw acquisition as well as just, in terms of looking at our own performance and results on some efficiency measures across the organization, trying to address if and when the economy turned and we were facing inflation pressures, that we could build in a little bit of a buffer. That seems to be helping us to manage so far.

We're not seeing an undue amount of pressure coming from the vendors which is what you see reflected in the expanding margins across both Wireless and Cable. Then within Media, again, with the recovery of our revenues, with the Blue Jays back, the revenue resurgence that we've seen from that and the ad pick up from the sports-related advertisers has helped buffer anything there.

Turning to your question around the extension of the outside date and the year-end timeline for our special mandatory redemption on the bonds that we issued in March. We have a number of strategies open to us and plenty of runway and time to manage that. We also remain confident that there is plenty of time between now and year-end to close the transaction and to use those bonds to fund the acquisition. In the event that it doesn't prove to be possible and we get to the year-end, then we have a few different avenues we could go. We could seek alternate funding through a bank group, we could seek to extend the SMR, we could seek to access the capital markets. Any one of those are open to us. First and foremost, our intention is to close the transaction within 2022 and we're confident we should be able to do so

Matt:

Thank you so much.

Paul Carpino:

Thanks, Matt . Next question Ariel.

Operator:

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

Drew McReynolds:

Thanks very much. Good morning and great to see the results here. That question was my question, so I'll move on here. Two from me. Just first, just in terms of what you're learning on the outage and certainly the government's scrutiny of the outage, is there any change in general network approach here in terms of how you architect or where you network share? Has there been any thinking there versus your previous position?

Then second question, just on fixed wireless. Where is Rogers in terms of expanding that footprint, if there's still some expansion to go and presumably there is a percentage of your internet loading that comes from that? If you're willing to quantify that, that'd be great, but just wondering where you are in that expansion trajectory. Thank you.

Tony Staffieri:

Thanks for the questions, Drew. With respect to the outage and the impact on how we think about the network. I think there's probably four key points that are worth highlighting. I touched on them in my upfront comments, and clearly, as we focus on two things: the resiliency and redundancy of our network is one category, and the second is what are the procedures in place for the telecom industry more generally for emergency calls, and I'll come back to that one.

With respect to our network, there's really three main points to think about, and one is, today, much like all carriers around the world, we have a common IP core gateway for Wireless and Wireline and the strategy goes back some time in terms of doing that to capitalize on efficiencies. As we provide services, particularly in the enterprise small business sector, the importance of redundancy is ever more clear coming out of the July 8 outage. We're going to proceed to separate, physically separate the Wireless and Wireline networks for our core gateways so that we prevent an outage that would impact our entire system. We've disclosed that we estimate the cost of doing that will be about \$250 million. That will be over several years. The Shaw transaction will help in part reduce that cost, but importantly, reduce the timeline. As we work to the closing of that, that will be an important benefit of the transaction in terms of redundancy.

The second thing we're focused on is greater partitioning of our network. If we have an outage in a particular area, for whatever reason, it does not spread to our entire national network. We had what I would describe as firewalls in place to prevent that, but they failed and so very quickly we're going to ring-fence our network on a more localized basis very quickly.

The third area relates to our internal processes for creating, reviewing and executing codes. You would have seen, and if you didn't see it, our CRTC filing was very clear and transparent on the cause of the code, on the cause of the outage, and it started with a coding error and then spread to a hardware failure as a result of data overload. That first instance of coding failure, we just can't have. We're making changes so that we quickly improve the accuracy and reliability of our coding to prevent any errors in the first instance. Then of course, better processes to capture those and uncover them in subsequent reviews.

Then on top of that we are working as an industry under the memorandum of understanding that Minister Champagne has requested and that has a few parts but the most important is a fail-safe measure for emergency calls. As an industry we had worked on a solution but what we found was while many 911 calls did switch over, many did not, and that's unacceptable. We're working on a much more resilient way of ensuring that those emergency calls transfer over to an alternate network 100% of the time. We're confident we have a solution that we're targeting that is going to work and we're on track to have that MOU completed within the 60-day window that the Minister requested.

In terms of your second question on fixed Wireless access. That is something we've recently entered into in a much more aggressive way. We do see a very good size of market for fixed Wireless access, and I would say it's still early days for us in executing that. As you look to our subscriber results, fixed wireless access are very small in the numbers, frankly not material, and so it still continues to be a growth opportunity for us and more to come on that one.

Drew McReynolds:

That's good. Thank you.

Paul Carpino:

Thanks, Drew. Next question, Ariel.

Operator:

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

Sebastiano Petti:

Hi, thanks for taking the question. I just want to follow up on the inflation that you're seeing here and then you call out in the press release that the Bank of Canada's talked about a potential recession in the next six to 12 months. While you're not necessarily seeing the inflationary pressures now, can you update us perhaps on some of the conversations you're having with your business partners or some of your customers on the enterprise and as in B side? What, if any, impact you seeing there? Are they also benefiting from the improvement in just overall market activity, immigration flows, etc.?

Glenn Brandt:

I think we're seeing through the first half of the year, Sebastiano, I think we've seen a strengthening from the recovery of coming out of COVID and we're still seeing some of that build. Return to office here is still underway, across the country, in various stages. As we move through the summer and come in the other side of Labor Day, I suspect will see that more in earnest. Certainly, we all see the media reports of the impact of gas prices on home wallets and spending and the impact of that on pressures within businesses in terms of demands on wages and what have you. We'll see that roll through I suspect somewhat through the second half of the year. Some of that will roll into 2023 as companies, many of us look to increases at the start of the year as opposed to through the year, and so there's probably going to be a bit of a staged effect on that across businesses.

We're not seeing or hearing anything particularly notable beyond those broad trends in talking with our customers. I think all of us are watching carefully to see what's happening with our overall costs, whether it's from the capital markets, from wage pressures or input pressures. The input pressures we've all been managing in terms of source of supply and price on input costs for the last two and a half years, if anything, some of that might be tempering a little bit as we come further out from COVID.

Tony Staffieri:

It's worth adding that what we have seen in past slowdowns is, for our industry, more of an impact on the Enterprise business side. That is still a growth opportunity for us and are very much under

penetrated in that segment of the market relative to our competitors and so structurally from an exposure standpoint we stand much less exposed to that impact of an economic downturn.

Sebastiano Petti:

Then I think in the press release—thanks for that, guys. In the press release, I think you call out just how you continue to pursue the divestiture of the deal and the definitive agreement documents are progressing, obviously a key area of focus as it pertains to the broader overall transaction and obviously you announced today that you're committed to the deal. Any update on that? Obviously something that's topical for investors as it pertains to the deal. Any color on that. Thanks again.

Tony Staffieri:

Sabastinano, in terms of the deal, there's not a lot more to say other than what we have disclosed. We've extended the outside date. We continue to work with Quebecor on the definitive agreements. As you would expect, it's a large deal. It's close to \$3 billion and contains quite a few complexities as we work through that, and we're committed to that deal. We believe our partner is as well. We'll work through the bureau process. The next process is the key step, I would say, is the tribunal, but as I've said in the opening remarks, we'll continue to engage with them. Let's see if there's an opportunity to meet their requirements and concerns sooner but we'll just continue on with the process.

Sebastiano Petti:

That's great. Thank you.

Paul Carpino:

Thanks, Sebastiano. Our next question, Ariel.

Operator:

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

Diego:

Hi guys, thanks for taking the question. This is Diego filling in. You've noted that you expect customer trends to normalize as we get in to the back half of the quarter. I'm just wondering, what are you doing, some of the specific actions that you're taking to retain customers given the network outage? Is there a

proactive customer outreach, other offers or actions that you're taking besides the service credits and are some of your competitors being aggressive on this front? Then maybe you can touch on the differences you're seeing on Wireless versus Cable. That'd be helpful.

Tony Staffieri:

Thanks for the questions, Diego. Let me start with a couple of things. The activity we have seen is calling in into our call center on the customer credits and as we've publicly disclosed, those are going to be automatically applied to bills in the third quarter, and we've disclosed the estimated cost of that. In terms of subscriber activity, both in terms of gross ads and churn, as I mentioned earlier, we certainly saw an impact in the early days following July 8, but we're very much encouraged by the improvements we're seeing each sequential day on those metrics that really get at the customer sentiment over our entire customer base. I would say we're seeing it equally in terms of Cable and Wireless. Both continue to improve well in that.

In terms of what we're seeing in the Marketplace, in terms of offers. As we enter into the back-to-school period, what we are seeing is the usual, a pick up in competitive intensity that's not dissimilar to prior years. We haven't seen anything that is noteworthy in terms of market dynamics, other than what you would expect to see.

Diego:

That's helpful, and then I had a separate question. We just heard Xplornet announce that Xplornet Mobile, that they'll be shutting down their wireless service, noting how slow the MVNO regulatory framework has moved. Can you just provide what's the latest you've heard from regulators on that front? Obviously you have your own agreement with Quebecor and them. But can you just touch on how that policy is moving along and any opportunities that you see there?

Tony Staffieri:

In terms of the MVNO construct in Canada, that was announced a little while ago by our Canadian government. The construct is in place, it's well understood and that's really a question more for Quebecor on how they intend to avail themselves of that MVNO regime. I think based on public statements they've made, they intend to be an aggressive competitor in the Wireless space, at a minimum, through the acquisition of Freedom in at least four provinces, and as I said, covering almost

90% of the population. I think the evidence there is that they do intend to avail themselves of that regime. But as I said, that's a question more for Quebecor and then specifically as it relates to Xplornet for them.

Diego:

Great. Thank you. That's helpful.

Paul Carpino:

Thanks, Diego. Next question, Ariel.

Operator:

Our next question comes from Jerome Dubreuil of Desjardin. Please go ahead.

Jerome Dubreuil:

Yes, thanks for taking my question. I echo the comments, congrats on the great results despite the maybe more uncertain economy. Let's keep talking about this Quebecor deal a bit here. I think it's fair to expect changes in the competitive dynamics going forward. What would you say are the main attributes that you have that could help you withstand the change in the competitive dynamics in Wireless after the Shaw potentially—Shaw transaction is closed? Thanks.

Tony Staffieri:

Thanks for the question, Jerome. We've thrived on competition. That's how we built this Company over our 60-year history, and we welcome competition. Today, as we look to each of our markets, we have at least four Wireless competitors in each of those markets. In addition, on the cable front, there's a wholesale regime, it's referred to as TPIA, and we compete with resellers in the Cable markets and there's competitive intensity there as well. We have operated with that competition over many years and our performance in Q2 reflected that competitive environment.

With a purchase of the assets, we fully expect Quebecor to be fully engaged, and that's why we think they would be a terrific buyer of those assets. They get up every day thinking about Cable and Wireless and so are well-suited to be the owners of those assets and continue to ensure the competitive intensity across all of the markets in Canada.

In terms of what our value proposition will be, it won't change, we will focus in Wireless on our network, and we've talked about the things we will do there, combined with superior customer service. Then added to that, the strength of our distribution channels. Those are really the fundamentals and there are other items, but for the sake of brevity, those would really be the three main ones.

In our Cable business, it's really going to revolve around product superiority. We have the Ignite platform that we, post Shaw, will launch nationally, and that includes not only a terrific video platform but smart home monitoring that's about to be improved as well. Importantly, a very competitive and leading internet product. You would have seen earlier in the quarter we announced trials where we have symmetrical 8 GB of speed up and down in our network. We introduced a new product where we have already in market 2.5 gigs of speed symmetrical on an all-fiber network and you'll continue to see more of that. It'll be product superiority combined with continued improvements we have made and will continue to make with respect to our service; faster service, more reliability on service, kind of things we're focused on there. I think the fundamentals aren't going to change, and we think that will be the right formula to continue to compete.

Jerome Dubreuil:

Great. Thank you.

Paul Carpino:

Thanks, Jerome. Next question, Ariel.

Operator:

Our next question comes from Aravinda Galappathige of Canaccord Genuity. Please go ahead.

Aravinda Galappathige:

Good morning. Thanks for taking my questions. I just wanted to go back to the impact on the sub ads from the outage. Thanks for the comments you've already made, but was wondering if you can dissect a little bit how the impact set is broken down between gross adds as opposed to churn and then obviously Wireless versus Wireline as well.

Then secondly, a separate question related to the network and your 5G initiatives. You were the first—you'd announced early in the year that you were the first to set up a standalone commercialized 5G network. What are you thinking of in terms of milestones on that front for the next, let's call it 12 months? Thanks.

Tony Staffieri:

Thank you, Aravinda, for the question. I'll start with the second part of it in terms of the 5G initiative. A few quarters ago we talked about the heightened investment we would do in network and putting aside the investments we're going to put into the outage, we continue to aggressively expand on our 5G initiative and so the key milestones, what you recently saw was the deployment of the 3,500 spectrum as soon as it became available. We're looking forward to the 3,800-megahertz spectrum auction so that we can quickly deploy that on a national basis. What you should expect to see is further penetration of that spectrum, what we call mid-range, mid-band spectrum of 3,500 more nationally. We did quite well in the last spectrum option and we're working aggressively to deploy that. You should look to our rate of deployment on that.

Secondarily, the densification of our network, both in terms of macro and small cells, and over time you'll continue to see a ramping up of the pacing of that densification.

Glenn Brandt:

Good morning, Aravinda. On your question around the impact of the outage on gross adds, I am not going to be able to give you maybe the granularity that you're asking on or looking for. What I would tell you is we have made sure that we've invested in our call centre staff so that we have folks on hand to take the calls. We have seen those call volumes settle off some as we move through the ensuing weeks, as we've dealt with the rush of calls in the early days, and also, frankly, as we've announced the five-day service credit and the automatic nature of that, that has settled off some of the call volumes that we saw in the very early days following the outage.

In terms of day-to-day activity, we are finding that in stores and for our reps, that they are seeing some wins as well as we obviously have seen some churn; again, more pronounced in the early days. We have seen that settle off some and are anticipating, as we move through July and move in towards

some of the campaigns around back to school, that that will help move past the traffic that we saw in the earlier days and the churn that we saw in the earlier days.

There are a couple different things going on that we anticipate will help temper that. We've been quick to respond with customers on the five-day service credit and on retention for our customers as they call in. That is helping. There's not really much more to put to it than that.

Aravinda Galappathige:

All right, thank you so much.

Tony Staffieri:

Thank you.

Paul Carpino:

Thanks, Aravinda. Ariel, we have time for two more questions.

Operator:

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

Stephanie Price:

Hi, good morning, thanks for taking my questions. The first one on the Cable side. Margins were up 140 basis points year-over-year. I was hoping you could talk about the efficiencies that you're putting in place and how much of these efficiencies are Shaw related in the expectation of the close of the transaction?

Then, for my second question, just post the outage, Rogers talked about spending \$10 billion over three years to build and strengthen the network. What can you comment on what that encompasses and how much that's expected to be incremental? Thank you.

Glenn Brandt:

Sure. Thank you, Stephanie, and good morning. On the increase in the gross margins, it really is mixed. We still have some significant work to come and progress to come on driving some of the

synergies that we've identified, but you're right in asking. We have started that work in earnest, identifying some of the cost areas, whether it's on content, on people costs, just general administrative costs through all of our business units, but particularly within our Cable unit as that's the one that is going to be most affected with the Shaw acquisition. Robert coming in as a new head of the business unit has come in with an eye to driving a strong sales culture, as well as a strong performance culture. Really, you see that across the entire ELT and so some of these efforts would have been in place regardless of having the Shaw transaction.

However, the Shaw transaction will certainly transform our connected home business by bringing it national and some of these efficiencies are to drive better margins, some of the efforts underway are to create some headroom or identify those opportunities for creating headroom, for bringing in leadership and employees from the Shaw base.

Then on the content side, that is another one of our large categories. Again, some of those efforts would have been underway regardless of Shaw. However, it's no secret as to the size that we will have once we come together with Shaw in terms of subscribers, and certainly that will factor in for driving additional synergies going forward as we work with programmers and acquiring content.

Then on the capital expenditures, the \$10 billion estimate that we've made or forecast, we've made for the improvements in our spend. That's a large envelope that every year we prioritize what we are going to work on and every year job one really is to ensure that we have resilience and redundancy across our networks. The outage has identified that we have some more work there to do around processes and investment. We have already started looking at and implementing some of those changes but that that \$10 billion number is ample envelope with which we can direct our investing.

Our networks are very strong, very well-built well-designed networks. It's not that they are in need of a wholesale change. They're not. They are leading edge technology. On the Wireless side, we have the largest individual portfolio of spectrum. We will continue to invest in spectrum. We will continue to invest in large and small cell sites. On the Wireline side we continue to expand our footprint with fibre and so it's more determining our processes and the separation of our networks just to help build on the resilience. That will be within that \$10 billion envelope and the \$250 million to separate our Wireless and Wireline. Again, we will find priorities around that to find the capital for it.

Stephanie Price:

Thank you very much.

Glenn Brandt:

Thank you.

Paul Carpino:

Thanks, Stephanie. Ariel, last question, please.

Operator:

Our final question comes from David McFadden of Cormac Securities. Please go ahead.

David McFadden:

Hello. Great. Thanks for fitting me in. A couple of questions. When I look at the Wireless ARPU growth, 6%, obviously quite strong and you've called out roaming as the primary factor. But I was wondering if you could give us a breakdown between how much of that 6% is roaming and how much is just from people moving up to higher priced data buckets, or just increased sub growth because obviously we're seeing a big resurgence in travel and that's positively impacting roaming revenue but sooner or later we're going to get into an environment where the roaming revenue growth settles down. I'm just wondering what the ARPU growth might look like then.

Then the second question would be on the \$150 million customer credits. How much of that will be flowing through Wireless and how much will flow through Cable? Because when I look at your results for the first half in Cable, obviously quite strong. I was just wondering, assuming or excluding the impact from the outage, would it be reasonable to think that Cable EBITDA growth could continue in the 5% range for the balance of the year? Thanks.

Glenn Brandt:

Thank you, David, for the questions. On the ARPU growth, it's split roughly half and half across the roaming revenue impact, and then broadly across customer impacts, whether it's trading up in plans. We also, as you saw in the quarter, we have added significantly to our customer base. Obviously

that provides revenue growth as well. It's subscriber growth. It's moving more of those subscribers to our premium plan or Rogers brand. Then travel is roughly half of the of the overall increase in ARPU.

On the \$150 million service credits, if you roughly used a proportion of revenues, that would give you a pretty good approximation as to how they will impact our Cable and Wireless business.

David McFadden:

Okay. Then just lastly, I just want to reconfirm some comments made earlier on this call. Is it going to take a couple of years before you actually affect the separation of the Wireless and Wireline networks, or can it be accomplished sooner than that?

Tony Staffieri:

David, we expect that would be in the 12-month to 36-month time frame. As I said, the completion of the Shaw transaction would cut that time approximately in half and so that'll be an added benefit is we look to improve redundancy.

David McFadden:

Okay. All right, thank you.

Tony Staffieri:

Thank you, David.

Paul Carpino:

Great. Thanks, David. Thank you, everyone, for joining us and if you have any follow-ups, please give us a call.

Glenn Brandt:

Thank you, all.

Tony Staffieri:

Thank you.



Operator:

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

