Rogers Communications Inc.
Third Quarter 2020 Results
Conference Call Transcript

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Speakers:

Joe Natale
President, Chief Executive Officer

Tony Staffieri
Chief Financial Officer

Paul Carpino
Vice President, Investor Relations

Operator:

Welcome to the Rogers Communications Third Quarter 2020 Results Conference Call.

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

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

Paul Carpino:

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

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

Before we begin, I want to remind everyone that today's discussion will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's earnings report and in our 2019 Annual Report regarding the various factors, assumptions, and risks that could cause our actual results to differ.

With that, let me turn it over to Joe.

Joseph Natale:

Thanks, Paul, and good morning, everyone.

Let me start by speaking briefly about our third quarter results. Tony will provide additional detail and insight in a few minutes. Next, I will share and update how we are continuing to adapt our business to both meet the needs of our customers and drive operating efficiency, and finally, as Canada's largest 5G provider now covering 130 cities, I'll discuss our 5G rollout and the role our next generation technology plays in driving long-term growth and supporting Canada's future.

First, our results. Rogers delivered significant sequential improvements in Q3 across each of our businesses with a solid performance in customer additions, revenue growth, profitability, and free cash flow. As we've previously noted after Q2, our results during the economic shutdown did not reflect the underlying fundamentals of our Company, nor the long-term growth prospects of our wireless cable or media businesses. This is evident in our Q3 results, which rebounded as demand growth resurfaced, and we pivoted our operating model. Our results show we are managing the environment effectively and our long-term strategy is sound.

In Q2 the overall wireless market declined by more than 80%. In Q3, as our stores reopened and our digital sales capability ramped, we've delivered strong postpaid net additions of 138,000, up 34% from the same period last year. In addition, we delivered 30,000 prepaid net additions. This growth was driven by a number of factors; pent up consumer demand and active back-to-school shopping period, growth in our digital sales and service capabilities, and a continued growth in our 5G ready unlimited plans.

Our Rogers Infinite Unlimited plans grew by 300,000 this quarter to 2.2 million customers. This represents the largest unlimited customer base by far in Canada. Customers now no longer pay overage fees, enjoy worry free data usage, and are well positioned for 5G. Our Infinite base has higher ARPU, lower churn, far better lifetime value with a lower cost to serve, and their data consumption is more than double of that of customers on Legacy plans.

These results are certainly in line with our expectations and create a strong foundation as we grow our ever expanding 5G footprint and iconic 5G devices like the exciting new iPhones arriving in Canada. Despite the competitive intensity in the quarter, our team continues to do a good job of managing churn. Postpaid churn in Q3 came in at 1.1%, a full 10 basis points better than Q3 of last year.

Switching to our cable business, which also improved sequentially from the anomalous lows of Q2, revenue was flat, Adjusted EBITDA grew 2% year-over-year, and despite COVID related delays and adjustments in the home building industry in the condo, rental, and Airbnb market dynamics, we delivered solid operating gains. We are very pleased to report that our DOCSIS and fibre network investments continue to gain recognition.

Earlier this week Ookla, a leader in network testing, recognized Rogers as the internet provider with the fastest speeds in Canada and the best consistent performance nationally.

Switching to Media, with the return of live sports in Q3, our Media business delivered year-over-year revenue growth and significant sequential improvements in EBITDA. This represents a material reversal after this business experienced the most significant impact during the depths of the COVID-19 lockdown. All four major sports and their viewing audiences were back in Q3. Viewing numbers were strong and advertising showed notable improvement from Q2. Advertising across all media was up 18% from a year ago with sports advertising showing even stronger gains. This underscores the essential strength and resilience of live sports above all other Media categories.

Next, I want to highlight some recent business improvements that will play an important role in driving both efficiency and growth into the future. As I mentioned last quarter, COVID-19 fundamentally changed how we operate and greatly accelerated our business transformation plans. We fast tracked initiatives that we had planned, including enhanced TV and Internet self install, stronger digital capability, customer care agents working from home, just to name a few, and launching these changes in record time.

This is more important than ever as customer behaviors and expectations change rapidly. Our ability to be agile and adapt how we serve customers is critical, and it’s a muscle that is developing well at Rogers. This will pay dividends well beyond the period of the pandemic.

In many cases across industries, the move to online shopping is three years ahead of forecasts. Choice matters and multiple sales and service channels matter. Building on our digital gains in the early days of the pandemic, our digital volumes continue to grow even as our stores re-opened.

Digital sales adoption is up materially year-over-year, and we're seeing a healthy mix between digital and bricks-and-mortar retail. This channel mix and the resulting improvement in channel economics allow us to be nimble, meet customer needs, and drive margin improvement.

At the same time, digital service and digital support is up substantially resulting in fewer service calls. Last month, we moved to digital self-serve only for simple transactions, such as making bill payments, changing contact information. Today, nearly all of our top five service transactions are completed digitally.

Our Virtual Assistant conversations jumped over 200% since last year and nearly 20% sequentially. We’ve now handled over 5.4 million conversations since the Rogers Virtual Assistant launched 18 months ago. With ongoing improvement through AI technology, we expect this to continue to deflect more calls lowers costs and importantly saving our customers even more time.

In Cable, we continue to see excellent ongoing advancements with the self install capabilities of our Ignite services. Our express self install option delivered via courier makes up a growing percentage of our Ignite installs, eliminating a truck roll entirely. Together with our enhanced self installs where our technicians drop off equipment and provide support for our customers through our Virtual Assistance app, these contactless installs represented 95% of our cable installations in Q3.

When our customers do call us, our technical support agents also use our Virtual Assistance app. With the app, they now solve the majority of issues without needing to book a service appointment. We remain on track to save our customers an estimated 400,000 hours of their time and save us approximately 100,000 service truck rolls this year. This is an example of how our digital capability drives an enhanced customer experience as well as increases the overall efficiencies of our service processes.

In addition to efficiency and cost management opportunities, investing for growth remains a top priority. Investing in networks is a critical part of our long-term and future success. In fact, it’s an immediate imperative as we move to a 5G future. Today, Rogers customers enjoy the best wireless network experience in the country. Umlaut, a global leading in network testing and benchmarking that ranks the performance of typical consumer use cases and tests, test things like network reliability, download and upload speed, call setup time, video streaming stability and quality, has awarded Rogers the best wireless network in Canada for the last two years.

To get to this point has required $30 billion of investments in our wireless network over the past 35 years. This is a scale business, and the importance of scale is more important now than ever as we begin the biggest generational cycle in technology and network capability. 5G will transform industries, fuel innovation across sectors, and drive economic growth in our tech driven recovery. It will reduce the cost of data and fundamentally change how Canadians and businesses connect to the world. 5G technology is engineered to support 1,000 fold traffic increase over the next decade, while the full network’s energy use is expected to be half the current levels.5G is not just about innovation, but also supports a better environmental outcome.

Rogers operates Canada's first and largest 5G network powered by our long-time network partner, Ericsson. We started the rollout in downtown Toronto, Ottawa, Montreal, and Vancouver back in January, and we have since expanded to 130 cities and towns including the first city in Atlantic Canada.

Just last week, coinciding with the announcement of Apple's 5G iPhones, we announced that we doubled the reach of the Rogers 5G network. Today, our 5G network is 10 times bigger than our peers.

5G requires the right infrastructure, the right partners, and investments to be ready to fully capitalize on its potential. We are well-prepared in this regard.

In addition to our network partner, Ericsson, our strategic partnerships to research, incubate, and commercialize 5G solutions extend to campuses across Canada, including the University of British Columbia, The University of Waterloo, and Communitech. These partnerships and investments in digital infrastructure are critical to help Canada not just recover, but rebound from COVID-19. From tech startups, to small and medium sized businesses, to large enterprises, they all need strong networks to unlock growth and unlock productivity.

And of course, none of this great work, and none of these accomplishments during this quarter could have happened without the dedication of our team members. I want to thank our entire team for their incredible effort and commitment they have demonstrated since the start of the pandemic.

During the most complex business environment we have seen in our lifetime, our team has been there for our customers and for our communities. This has also been reflected in our recent Annual Employee Engagement Survey, where we achieved a score of 87% employee engagement. I could not be prouder of the continuous improvement culture that has been built at Rogers, and this will serve us well as we invest in more service and technology innovation, and in rolling out the next generation of wireless and broadband capabilities.

And with that, I'll turn it over to Tony to provide some more details on Q3. Over to you, Tony.

Tony Staffieri:

Thank you, Joe, and good morning, everyone.

Q3 results reflected solid improvements in each of our businesses as the country slowly emerged from the COVID lockdown of the second quarter. Consumers came back to our stores or through our digital channels in healthy numbers to meet their connectivity needs.

Q3 also delivered strong free cash flow and solid margin improvement in both wireless and cable, as we rolled out our efficiency playbook. In Wireless, service revenues declined 9% year-on-year, but improved four points, sequentially, despite roaming revenue still being down over 70% or $90 million from one year ago.

Additionally, we saw a decrease year-over-year of more than $50 million in overage fees as customers continued to shift to Rogers Infinite Unlimited data plans. We are not quite through the full overage transition. On a year-over-year comparison, roaming revenue combined with the overage reduction contributed eight points of our year-over-year revenue decline. Furthermore, transactional fees such as late payment charges and restoral fees continued to be down in Q3 by another $20 million, representing another one point of our decline.

So, in summary, excluding overage, roaming, and a slight decline in one-time fees, our underlying service revenue run rate is now flat year-on-year. Wireless service revenue margins, measured as wireless EBITDA over wireless service revenue grew nicely, up 300 basis points to 66%, compared to the same time last year, reflecting solid operating efficiency improvements. As we transition to full device financing, this measurement helps us understand the quality of our service revenue profile.

As you heard Joe speak earlier, our efficiency initiatives, along with the largest base on unlimited plans, underpins this margin expansion. Both postpaid gross and net loading were very strong in Q3. Postpaid net additions of 138,000 were up 34% year-over-year, and gross loading was up 3%.

Unlimited plans were up 300,000 sequentially from Q2, reflecting Canadians embracing the value of unlimited plans. No one in Canada has more customers on unlimited plans then Rogers does, and no one has a bigger 5G network. This positions us very well as the marketplace moves into a 5G world.

Following the significant COVID-driven slowdown in Q2 where the market was down over 80%, we estimate that the overall market may only be down about 5% in Q3, compared to last year. This level of recovery clearly highlights the priority consumers place on Wireless services as well as how effectively our operations are able to respond.

Blended ARPU was down 9% on a year-over-year basis, but up $2 or 4% sequentially to $51.12. The year-over-year decline was largely due to reductions in roaming and overage revenues as I previously mentioned, while sequentially, we benefited from higher volume related fees, fewer concessions, and bigger data plans. With our leading position in unlimited plans, we continue to focus on driving the best long-term ARPU growth as we move into 5G.

We saw significant competition during the quarter, most notably in the flanker brands, and we matched pricing promotions as needed. I think it's important to highlight that the short-term nature of promotions in our industry corresponds to active consumer shopping and are reflective of healthy competition in the market. As you saw in Q2 and Q1 of this year, promotional activity was low as the market was essentially shut down and very quiet.

With this significant upturn in business activity, we were pleased to see that handset costs are no longer a drag on our P&L. Owing to increased MSRPs, more OEM funding, and stronger discipline in handset pricing, we now see accretive margins from handset sales. Overall, the shift to EIP has had a positive effect on the Canadian industry economics. Last year in Q3, equipment margins were negative 2.7%, and today they are positive 1.6%. The reversal in margins is even more stark if you look to equipment margins before the launch of EIP at the beginning of Q3 last year.

Despite the increased competitive intensity and the expected disconnects from some customers dealing with the economic fallout from COVID, churn was lower at 1.1%, compared to 1.2% last year. The improvement reflects the benefit of our growing unlimited plans, which continue to improve the customer experience through no more overages, simple billing, and great value offered by these plans.

Wireless Adjusted EBITDA was down 4% versus last year, but up 19% sequentially from Q2. Unlike Q2, where we booked a $90 million incremental provision for potential bad debt exposure, no additional provision was needed this quarter. The ongoing impact from COVID is still unclear. However, the performance to date, within our bad debt allowance, is currently running better than anticipated, and the $90 million provision previously established continues to provide sufficient coverage as the economy continues to work its way through the COVID environment.

Moving to Cable, service revenue was flat year-over-year, and up three points sequentially, despite the slowdown in the rental and home development markets. As we highlighted last quarter, no price increases are in our Q3 results, as we chose to defer increases earlier this year during the pandemic.

Homes passed and customer relationships each grew year-over-year and sequentially. While Internet and Ignite TV net additions were down, they both recovered from Q2 with Internet net additions up threefold to 16,000 and Ignite TV net additions doubling to 38,000.

On the financial side, the Cable operations performed well on a year-over-year and sequential basis. EBITDA grew 2% year-over-year, and 12% sequentially, and EBITDA margins in Q3 grew to 51.4%, the highest in our history. This improvement was driven by capturing efficiency initiatives throughout our Cable business, lower churn, and the elimination of some of the concessions provided to customers during the extra challenging period in Q2. Additionally, no incremental provisions for bad debt were required.

We continue to be very efficient with our capital spending. Self-install now represent 95% of all installations, and the hardware costs continue to come down. CapEx intensity for Cable was 22%, achieving the target we were initially anticipating to achieve by the end of 2021. As a result, cash margins for Cable were at an all time high of 29%.

In our Media business, we delivered notable improvements in Q3 with a return to revenue growth and profitability. Revenue was up 1% year-over-year and was up 65% sequentially, as live sports returned and advertising started to recover. The pace and size of this improvement demonstrates the attractiveness of sports properties to advertisers, and the significant appetite consumers have for sports broadcasting properties. This improvement was also achieved despite no contributing revenue from Blue Jays home games.

While Adjusted EBITDA in Media was down 32% on a year-over-year basis, we saw a very healthy recovery on a sequential basis. Second quarter EBITDA went from a negative $35 million in Q2 to positive $89 million in Q3, reflecting the improvement in advertising revenue.

On a consolidated basis, total service revenue was down 5% and Adjusted EBITDA was down 4%. If you exclude the impacts of roaming and overage, we would have been flattened revenue and Adjusted EBITDA. Or said another way, in Q2, we had estimated total COVID related impacts in the quarter of $725 million in revenue, and $300 million on Adjusted EBITDA. In, Q3 the estimated impacts were $195 million in revenue, and $80 million in Adjusted EBITDA.

While these are still notable numbers and there remains significant uncertainty in the coming months and quarters due to the potential impact of a second wave of COVID, our teams are managing the environment very effectively. We invested $504 million in CapEx for the quarter, which was a year-over-year decrease of 23% and reflected a consolidated CI ratio of 14%. The decrease in capital expenditures was driven by deferrals of projects, including Greenfield projects given the pandemic, as well as improvements in Cable CapEx efficiency associated with self-install Internet and Ignite TV.

I think it's important to note that even as our consolidated CapEx spend is down, we're not holding back on key strategic investments. Our CI ratios in our Cable and Wireless businesses affirm our investment leadership in these assets. Today, our entire Cable footprint already enjoys one gig Internet speed, and Ignite TV platform is up over 115%. We have the largest 5G network in the country, with 130 communities already enjoying 5G. The 5G pace is particularly impressive given our rollout started in mid-January.

With the improvements in Adjusted EBITDA and lower CapEx, we generated free cash flow of $868 million this quarter, a 13% increase year-on-year. Our cash tax rate as a percentage of Adjusted EBITDA was 4.6% in the quarter, and should be in that same range for the rest of the year 2020. The Company's liquidity remains very healthy at $5.5 billion available. Additionally, our balance sheet is well structured with long-term maturities and low interest rates on our outstanding debt. Our weighted average interest rate at quarter end was 4.16% with an average term to maturity of 13.2 years.

In terms of an outlook, we won't provide specific guidance, but similar to last quarter, let me share some color as to what we see at this point. In general, we anticipate additional, sequential, financial, and operating improvements in Q4. In Wireless, the current loading environment remains healthy, with competition driven by consumers upgrading phones, and increasing data plans. Whether the industry will repeat the same level of subscriber growth in the traditionally busy Q4 holiday season is difficult to predict at this point, but nevertheless, the industry has recovered well off the depths of Q2.

We believe ARPU in Q4 will improve slightly on a sequential dollar basis compared to Q3, but will remain under pressure year-over-year as we do not anticipate roaming to recover in the near term. However, with a more active market looking to upgrade, as highlighted by our 300,000 sequential increase in unlimited plans, we continue to have the right focus on ARPU drivers, as the underlying fundamentals of these plans remain positive.

In terms of overage revenue, we anticipate Q4 will be down $30 million on a year-over-year basis, given the near-term transition to our unlimited plans. As we continue to work through the near-term overage declines, we do anticipate multiple financial and operational benefits to be reflected in our results as this transition is completed. As we have highlighted in the past, these plans have improved ARPU, lowered churn, and higher customer satisfaction for the consumer, and also drive the simplicity dividend for us in the form of fewer calls to call centers, e-billing, and other areas.

In our Cable business, we expect sequential improvement in revenue, EBITDA, and margins, and loading should continue with a modest sequential improvement in Q4 as housing seem to be improving. Capital intensity in both Wireless and Cable business should continue at around the current Q3 levels.

We have seen significant savings this year, as we continue to benefit from the scale and historical relationships we enjoy with our current vendors and realize ongoing efficiency opportunities in the capital projects we are implementing. As our 5G progress to date shows, we remain as committed as always to investing for growth.

In our Sports and Media business, we will see some sequential declines in revenue and Adjusted EBITDA as some of the key sports transition to late fall and early winter seasons. Our losses for the year are expected to be much less than we anticipated earlier this year, and excluding the Blue Jays, our Media business will be net positive on Adjusted EBITDA.

In terms of cash flow, we anticipate the fourth quarter could remain at approximately the same dollar range as Q3 based on improved Adjusted EBITDA and the continuation of efficient capital spending.

We're very proud of how the Rogers team is navigating the current environment. While there continues to be significant uncertainty in terms of how the ongoing impacts of COVID will influence the Canadian economy through the rest of the year, our Q3 results show we are effectively managing growth opportunities, profitability improvements, operating efficiency, cash flow generation, and disciplined capital investment during this period.

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

Operator:

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

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

Drew McReynolds:

Thanks very much. Good morning. Two for me. First, on the Wireless side, the competitive intensity front. Joe, you alluded to the Wireless market being down about 5% or maybe, Tony, you did, and I believe that was up 4% pre-COVID.

I think there is concern out there in a market that's contracting or expanding less going forward that promotional activity gets too aggressive. So, would love to get updated thoughts here on how you see in this lower growth market balancing acquisition with retention and any changes here in growth versus profitability on the Wireless side.

Then second question somewhat related. Clearly, Rogers leading on unlimited 5G coverage, I believe you had the largest iPhone base among your peers. Seems like you're well-positioned here in 5G enabled handsets, particularly iPhone coming to the Canadian market this quarter. Can you talk to your broad expectations on that setup, but particularly the migration that you're seeing, or you expect to see, to premium tiers as consumers gravitate towards that bigger 5G capability? Thank you.

Joseph Natale:

Hi, Drew. It's Joe. We saw quite a bit of price aggression in Q3, to your first question. Our views of market was down, call it 10% or 15%, or down to the level of 10% to 15% of the previous year in Q2, so down radically in Q2. In Q3 it bounced back. We will see what everyone reports what it looks like, but we believe it was maybe five percentage points off of last year or roughly the same as last year.

So, I think when the market opened up again, everyone said, okay, game on, game on, and we saw a lot of competition in the flanker brand. In the flanker brands, we were not the aggressor, just to be absolutely clear. We saw a lot of competition in the flanker brand as the market kind of woke up again. And when the market is active, it does create froth, it does create opportunity for loading overall. Our view has always been to balance volume with profitability as a whole, but we will always be there in the market and always be present in the market.

Overall, when it comes to the opportunities for customers to transact, and we've kind of timed our store openings and timed our capability around digital ramping up, etc., as the market kind of came to fruition. But don't forget, we also have some tools at our disposal around overall growth. I mean, the unlimited plans are one of those tools or opportunities around profitability.

The average unlimited customer is giving us about $20 plus of increased ARPU compared to the Legacy base. So, there are levers and things happening to take advantage of the volume and get, the nets. At the same time, we have capabilities to drive people up the tier of different price plans into unlimited, and even from pre to post along the way, so that the profitability is part of the balancing act as well.

We're not overly worried about that balance as a whole. You add to that the handset discipline that Tony talked about in the beginning, we're saying, equipment margins, positive equipment margin probably for the first time in the history of the industry as a whole. So, it's the nature of the game is changing, but there's still a square focus on growth versus profitability, as I described.

On your second question, we're really pleased with how well we're positioned for the future. It's not by accident that we've got the largest 5G network in the country. As we were upgrading to 4G LTE events, we had 5G squarely in mind. As we picked Ericsson for our partner, we did so because of their capability and readiness to do a software upgrade from LTE advanced to 5G, and you saw that come to fruition in a very short period of time from January to now with 130 cities.

We're very pleased with our growth in unlimited. Unlimited at 2.2 million customers, we believe is the largest, unlimited base by far in Canada and the 5G is only available on those plans as a whole. So, that's sort of also not by accident that we've connected the dots on that point as well.

As it relates to the new iPhone, we're quite excited about the new iPhone. We've seen very robust pre orders. Bear in mind that over half of our base is on an iPhone, so it's a very significant part of our day-to-day business, and we believe we have the largest iPhone base in Canada.

So, you kind of add that together and you say we're ready to go as it relates to 5G in the future, we're ready to go as we move from a marketplace of scarcity of data to a marketplace of abundance of data, and that's where the market is going. The market is going to abundance of data, and 5G will enable that capability, and we're ready for it as a shift happens. That's why we launched unlimited a year ago. That's why we took the pain around the overage melt through the course of last year, so that we're well-prepared for this moment in time of what's going to transpire into the future.

Drew McReynolds:

Thank you.

Paul Carpino:

Thanks, Drew. Next question, Ariel?

Operator:

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

Vince Valentini:

Hi, thanks. Bit of a different variation on Drew's question. You mentioned the equipment margins being positive, and obviously, EIP is starting to have a positive impact, and that's great. Can you talk about the impact to your ARPU from the lower equipment subsidies? Tony, is that something that's starting to show up in your numbers and maybe a bit of the reason why you bounced back to over 51 in ARPU versus 49 in the second quarter?

Then just to follow up, you haven't mentioned Cogeco at all, so I'll just throw it in there. If there's anything you can say as an update. There's a lot of market speculation that you're considering selling all of your CCA and CGO shares if they continue to refuse to sell to you. So, if you can say anything publicly about that, I think it would help a lot of people. Thanks.

Joseph Natale:

Why don't I answer the second question first, Tony, and then throw it to you. Vince, thanks for the questions. Let me say this on Cogeco. Altice and Rogers have put forward what we believe is a very compelling offer, one that materially benefits all shareholders and all stakeholders. The offer expires on November 18. I don't think it's fair to provide any other comments on dynamics of the situation, the dynamics of the offer.

If it's not accepted, we would do what you would expect us to do, would review our capital allocation priorities with our Board, as part of our normal course of planning and strategic priority setting, and we come back to the investment community what our thoughts and plans are around that capital allocation. I think that's pretty much all I'm going to say about Cogeco today, and really want to focus the energy and intention on the hard work of the quarter and what the team has delivered, but I thank you for asking the questions. I'm sure people have been wondering about that, Vince.

Tony Staffieri:

Vince, on the first part of your question on equipment margins, the sequential improvement in ARPU, from Q2 to Q3, was predominantly as a result of improvements in the three categories that I mentioned earlier. Overage revenue in terms of the amount that it was down as a proportion of service revenue came down a little bit. Roaming revenue, while still down quite a bit year-on-year, bounced back a little bit. It was down 70% year-on-year, compared to down 95% in Q2.

Then there was other fees that I referred to in terms of setup or restoral fees or late payment charges, so each of those sort of had more of an impact sequentially. You are right, as you point out, with better equipment margins and reduced subsidies, over time, we'll see positive impact to ARPU through the way the accounting allocation works between the service revenue and equipment revenue, but it's very small still today, since we launched it in earnest in Q3 of last year.

Volumes in Q1 and Q2 have been relatively light on a year-over-year basis. There hasn't been enough in the base to cause that movement in ARPU, but volumes continue at a healthy pace, then we should expect, particularly by Q1, to see that equipment margin help the service revenue ARPU as well.

Vince Valentini:

Thank you, guys.

Paul Carpino:

Thanks, Vince. Next question, Ariel?

Operator:

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

Tim Casey:

Thanks, good morning. Couple from me. One, can you just talk about the sustainability as you see it on the Wireless side? Obviously, so many moving parts in terms of shutdown and re-open, but also, less immigration, less foreign students, and still you posted a very strong number. I'm just wondering how sustainable you think that trend is.

And could you talk a little bit about the progression through the quarter? Just wondering if September was a particularly strong month because the public comments you made earlier in September, I thought were a little more cautious than the numbers that came out today. I'm just wondering if September finished very strong. Thanks.

Joseph Natale:

Hi, Tim. Thanks for the questions. Let me start with the second question first. Starting in late June, the market kind of woke up. People felt more comfortable going to malls and shopping. We opened up stores, and we saw this incredible pent up demand hit, and the question we kept asking ourselves is how much of this is pent up demand, and how much of this is sort of seasonal ramp?

And if you saw any sort of moderate view from us earlier in the quarter through some of the conference discussions, it's really because we weren't quite sure how much of it was pent up demand versus seasonal demand. What we did see is that the volumes and the activity persisted throughout the whole quarter. Right from the starter's pistol, right to the finish, there was volume week in and week out.

For us, even as the stores opened, we saw our digital volume continue to build and do well. Clearly, before the stores opening, it was largely all digital and direct volume, except for a handful of stores we kept opened for health workers, etc., and seeing both those things continue on the right path was encouraging. As we kind of marched into Q4, the early part of Q4, showing, as Tony mentioned in his commentary, still lots of activity in the marketplace.

I think what it underscores is that connectivity is an important part of life as a whole and mobile connectivity, matters; matters, whether you're out and about, it matters whether you're in your car, and matters whether you're at home, and people enjoy having connectivity in their pocket or within arm's reach all the time. So, I think we're seeing the essential nature of the services we provide as a whole.

In terms of sustainability, I think it's really a first derivative of the economy. Right now, what we're seeing is that, listen to the banks and credit card balances are declining. Tony talked about our bad debt performance. People are paying their bills. So, the general health of the economy looks quite good right now.

The question everybody's asking is, we're in the middle of stage two of COVID, and what will this play out like? What I do know is that we're ready, really ready, in terms of however this might go, in terms of people's propensity to want to visit a store and not visit a store, shop online, let a technician in their home, or not let a technician in their home. We've got all modalities fully functioning and well polished, and we're ready to transact in whatever means of mechanism that's out there, and so far, we're seeing a very healthy focus on Wireless.

You're right in terms of temporary visitors to Canada and foreign students, those volumes are down, and when they do come back, we do very well in that market, it will be even more accretive to the overall volume opportunity that's there for the Roger's team as a whole. I'll pause there and leave it at that.

Tim Casey:

Thanks, Joe.

Joseph Natale:

Thanks, Tim.

Paul Carpino:

Thank you, Tim. Next question, Ariel?

Operator:

Our next question comes from David Barden of BOA Merrill Lynch. Please go ahead.

Matt Griffith:

Hi, good morning, guys. It's Matt sitting in for David. Thanks for taking the question. I just wanted to touch on the Wireless margins and get your views. I understand what's been driving it to date. There's the efficiency gains that you're getting, there's the accretive margins on equipment, but I wanted to look ahead and get your thoughts on how sustainable you think those components are going forward, and what you think the trajectory is, as we look into maybe next year on what those service margins in Wireless should be.

And then just quickly on Cable CapEx intensity, it sounds like you're claiming victory, and saying you've achieved your previous target of the 22% capital intensity. Since those goals have been advanced, is there any more progression that we should see past 2022 now, or is this kind of a steady-state from here on out? Thanks.

Tony Staffieri:

Thanks for the question, Matt. On both of them, I don't want to get too far ahead of ourselves in terms of looking out into 2021, but what I can say, a couple things on Wireless margins, we continue to execute on our playbook, and we're really pleased with the progress we made in Q3. We'll continue to execute that for Q4, and so we do see good prospect for continued margin expansion on a year-over-year basis.

As we head into 2021, it will depend on a number of factors and probably that's all I'll say about '21, but they are enduring, and they're fundamental in nature, and as Joe talked about, and we've pivoted several, and maybe many, of our operating models, capturing digital in a much more fundamental way, not only at the customer level, but if you think about our back office, and those transactions. And so, there's fundamental shift in the cost structure going on, and we do see it as enduring. So, as you look to Q4, expectation of continued margin expansion in Wireless.

And that's similar for the Cable side as well, although your question was more in the context of CI. I think a couple of things. One, is the Cable CI, we had a concerted effort to try to get Cable CI in the 20% to 22% range by the end of Q4 2021. And through necessity, in part we were able to, again, pivot to better operating models that fundamentally gave us the opportunity to reverse, reduce the CapEx spend and capitalize on efficiency.

So, I think for the next little while, you can expect Cable capital intensity to sit in and around 22%. Depending on volumes, you may see a little bit of a creep in Q4, but as we head into next year, the next wave of—or ongoing wave of cost efficiency should continue to keep it in check in the broader 20% to 22% that we had been targeting. Thank you, Matt.

Matt Griffith:

Great, thanks.

Paul Carpino:

Thanks, Matt. 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 of follow ups to start with. With respect to the overage numbers, Tony, thanks for providing that yet again, as well as the outlook. I know that in the past you talked about sort of getting to that target of around 1% of service revenues. Is there sort of a timeline there that—I forget what the previous timeline was, but I was wondering if there's sort of an updated timeline given sort of the downswing you're seeing in overage and the rate of decline?

Then secondly, on the cost, I mean, certainly the Wireless OpEx, the other OpEx decline of 13%, definitely impressive. I think, Joe, you've talked about a lot of the drivers there, including the sort of the digital touch points, which a lot of them sound sustainable. So, just to kind of follow up on your previous comments, how can we think about the sustainability of sort of that downswing? Should we think of those cost reductions and see maybe two thirds of that being sustainable beyond sort of the current COVID conditions?

Lastly, big picture question on the regulatory environment. It seems like there is a sort of a change of heart, at least on the wireline side of things. I was wondering if you sort of translate that to the overall conditions, even for wireless sort of easing in particular, given the pricing and the competitive environment we're seeing today? Thank you.

Joseph Natale:

Yes, why don't you start on the overage question. Maybe, Tony, talk a bit about where we started in June of last year, and how this sort of evolved?

Tony Staffieri:

Yes, Aravinda, you may recall, as we launched unlimited, and we progressed in rolling it out, in the early days, it exceeded our expectations. You may recall, by third quarter, when we had our call in October, we were already at a million subscribers and at that pace, our projections were by this period we'd probably be at about 2.8 million subscribers. So, we had an initial run rate that we talked about taking six to eight quarters to run off the overage.

Given the early demand, we had shortened that to four to six quarters. So by about this time, we thought we'd be over it, over the, what I would call overage hump, if you will. We ended, we're sitting today at about 2.2, and so, while the demand for unlimited is robust, it’s trailing compared to what our heightened expectations were at this time last year. Still healthy, but because of COVID it slowed down a little bit, and we talked about that in Q2. So, the drag on overage is probably back to the six to eight quarters that we had originally estimated.

So, the expectation is probably, be about Q2 of next year before we're fully over it, and it's no longer a drag on ARPU. To put some numbers to it by the end of the year, we think we'll have left about $75 million of overage. So, in the overall context of our Wireless revenue, you can see it ends up being a much smaller amount. We'll keep you updated and be very transparent on where that's heading.

Second part of your question were costs in Wireless. Sure, Joe, why don’t you take that?

Joseph Natale:

Yes, I'll take, just cost overall, in terms of the, Aravinda, I think it was more of all the cost improvements as a whole, are they sustainable. COVID didn't create brand new cost initiatives. COVID actually accelerated the ones that we had in motion already, and I just went through a mental list of all of them from the benefits of self installing Cable. We were at 5% full technician install; we're probably running about 10% right now, we think that's completely steady-state, where 90% of the installation will happen through either full self install, or the drop and go approach, as I just discussed in my opening remarks.

The digital support and service will continue to ramp. Digital in our business historically have been sort of 10% of the sales mix overall. It has been closer to about 40% in the last, while it's not sort of an “or”, it's a bit of an “and”. We worked hard to create this sort of order online and pick up in store, order online and pick up curbside and store. So, we created all these modalities that leveraged the power of our physical distribution and digital capability. So, therefore, we can swing in those directions. You add to it pro on the go, which allows you to order online or call in to order and have someone bring it to your home or bring it to wherever you might be.

So, I think the key is choice, above all else. With that choice comes not just economics in terms of the cost of fulfillment, but the channel economics are fundamentally different between third-party, between store, between the channel I just described, etc., and they're very encouraging to see that channel mix move in our favor from that perspective, that's not going away. In terms of work from home for our care team, it's working very well, and although we might not remain at 100% work from home, I could see us in a place where it's 50-50 or something of that nature.

So, the vast majority of the cost improvements are things that are enduring, and will continue to pay dividends, and we'll continue to invest in all of them. I talked about Virtual Assistant in my opening comments; we'll continue to invest in that capability as well. So, my view is that I'm expecting not less, but more as we go forward on that front.

In terms of the regulatory environment, we've never had a better relationship with our regulator and with government and both the administrative leadership levels of government or at the political level of government. I think the fact that the service we offer has become a lifeline, in every respect of the word, I think is a very useful platform from which to build greater trust and greater collaboration. Most of the conversations as of late have been around how do we bridge the gap around rural connectivity? How do we do more for the 10% or 15% of Canadians that aren't online or don't have great ability to get online because of broadband connectivity issues in rural Canada?

That's a great conversation to have from the same side of the table looking at how do we build Canada's future through 5G fixed wireless, through expansion of the footprint, and the like. Add to that the results of the Edelman Trust score that I quoted I think a couple of quarters ago. Our industry is up 19 points in terms of trust, and I just think it just creates the foundation for a whole different dialogue and narrative with the government more focused on collaboration than the past. Hope that's helpful, Aravinda.

Aravinda Galappatthige:

Absolutely. Thank you.

Paul Carpino:

Thanks, Aravinda. Ariel, next question, please?

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 my question. Just going back to Wireless and the channel mix, are you at all rethinking the retail store footprint or even the office footprint and as you mentioned working from home, and a footprint or even the office footprint, and as you mentioned working from home in a post-COVID environment, and any savings there?

Second, on the Shaw Mobile launch, have you seen a material impact on competitive activity, particularly in Shaw's Wireline footprint? Thank you.

Joseph Natale:

Thanks, Diego. On the storefront, we have a great physical distribution advantage. We intend to keep it and to grow it. We think the one-two punch is physical distribution and online capability and creating customer journeys and modalities that integrate the two. I talked to just briefly about the fact that we're doing a lot with a combination of order online, pick up in store, or order online and have pro on the go, like in the store increasingly is a place to go experience the technology and the capability of 5G and our Ignite roadmap, etc. So, we're a big believer in physical distribution. We believe in the integration of the two.

As it relates to office space, we'll see as we decide what the working environment is coming out of COVID. A lot of our people are very comfortable working from home. I think that 100% work from home in perpetuity is not the right answer for our organization. I think it depends on the role; it depends on the type of work that people are doing. The more they're working on complex tasks, transformational tasks across organizations and different groups and departments, you can't replace face-to-face on that front.

However, there are many people that enjoy the benefit of supporting our customers through our care operations working from home, and there, we already had roughly 800 agents working from home permanently before COVID. They would come into the office every few weeks just to stay connected, get some training, kind of culture days, if we can call them that, etc. So, we'll find that sort of hybrid mix in areas where it makes sense. Certainly, it will mean less office real estate versus more, but how much less, we're not sure right now overall.

Then in terms of Shaw Mobile, no question, it created competitive intensity in Western Canada. We fared well in that intensity over the course of the quarter and our brand stood up well, and our value proposition stood up well, and we're pleased with the outcome.

Diego Barajas:

Great. Thank you.

Paul Carpino:

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

Operator:

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

David McFadgen:

Thanks for squeezing me in. Two questions. Just on the Cable business, you talked about your expectations for a sequential improvement in revenue EBITDA and EBITDA margin going into the fourth quarter. You previously had stated that the EBITDA margin was a record for Rogers. So, I'm just wondering, is there a theoretical cap for the EBITDA margin for Cable, or are you just saying that this can continue to improve as people do more self installs, and you can continue to put through price increases into the market?

Then secondly, on the Media business, in the past, you've talked about the fact that you thought EBITDA would be negative for Media if there wasn't any home games for the Jays, and there weren't any home games in the quarter, but yet you delivered a nice, positive EBITDA in the quarter, so just wondering what changed. Thanks.

Joseph Natale:

Thanks, David, for both questions. I’m going to start with Cable. As we go into Q4, I'll reiterate that we are looking at sequential improvements in top line. That will have a very healthy flow through rate to EBITDA, and so that will be a natural margin lift for us.

We also have the cost programs that will continue to reduce cost year-on-year, and that will be the sort of the second, what I would call, margin expansion piece of it. Then the third is, don't forget the mix shift impact that is a natural driver of margin expansion as more of the revenue comes from Internet, which carries very little ongoing variable costs compared to video. That helps margin as well, and so it's all three of those factors that were in play in Q3 and will be in play in Q4.

I don't want to sort of predict the overall margins and where they might cap out at. We'll just keeping driving on all three of those factors and continue to have sequential and year-on-year improvements.

Then in Media, the factor that was a good outcome for us was higher advertising revenue during the sporting events. We were somewhat worried that the duplication or triplication of sporting events at the same time would dampen the amount of ad revenue we'd be able to generate, but it came in quite nicely across all the sports franchises. It was good upside that that we hadn't totally expected, but that's what contributed to that positive upside in Q3. Thanks for the questions, David.

David McFadgen:

Okay, thank you.

Paul Carpino:

Great. Thanks, David.

Thanks, everyone, for joining us on the call, and we will talk to you soon.

Operator:

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