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# Rogers Communications, Inc. (RCI)

Q3 2016 Earnings Call

## CORPORATE PARTICIPANTS

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*Vice President-Investor Relations, Rogers Communications, Inc.*

**Alan Douglas Horn**

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

**Anthony Staffieri**

*Chief Financial Officer, Rogers Communications, Inc.*

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## OTHER PARTICIPANTS

**Drew McReynolds**

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**Simon Flannery**

*Analyst, Morgan Stanley & Co. LLC*

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**Jeff Fan**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Rogers Communications Third Quarter 2016 Results Analyst Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions]

I would like to remind everyone that this conference call is being recorded on Monday, October 17, 2016 at 9:00 AM Eastern time.

And I will now turn the conference over to Ms. Amy Schwalm with the Rogers Communications management team. Please go ahead.

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### Amy Schwalm

*Vice President-Investor Relations, Rogers Communications, Inc.*

Good morning, everyone, and thanks for joining us. I'm here with our Chairman and Interim President and Chief Executive Officer, Alan Horn; and our Chief Financial Officer, Tony Staffieri.

As always, 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 2015 Annual Report regarding the various factors, assumptions and risks that could cause our actual results to differ.

With that, let me turn over the call to Alan to begin.

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### Alan Douglas Horn

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

Thanks, Amy, and good morning, everyone. I'll be brief and then pass it on to Tony to speak to the third quarter results. Earlier this morning, we announced that President and Chief Executive Officer, Guy Laurence, will step down. We also announced that Joe Natale is to be appointed President and CEO as soon as he is in a position to join Rogers. We can't be more specific on the timing at present. Most of you know Joe, and we are delighted that we will have a highly-respected Canadian telecom executive to lead Rogers and to contribute to building its future over the long term. In the interim, I will act as President and CEO. First of all, on behalf of the board, I want to thank Guy for his leadership and significant contributions that he has made to Rogers Communications.

Today, we also announced our third quarter results. It clearly demonstrates that Rogers continues to perform well in the marketplace, and delivered strong operating results in the third quarter. We have a great management team, and these results are a testament to our team's ability to deliver and to the contributions of our 26,000 employees.

So on behalf of the board, we are confident that our employees and our management team will continue to execute the plan and build on our momentum in the coming quarters.

So with that, I'll turn it over to Tony to get into the results.

## Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

Thank you, Alan, and good morning, everyone.

Overall, we're pleased with our performance this quarter. We've consistently said that our fundamental objective has been about returning Rogers to growth. And you can see, we're clearly moving in the right direction. The operating results reflect progress that we haven't seen from the company in a number of years. To be clear, we'll always have work to do, but we have achieved some notable milestones. Our overall revenue growth continues to show solid momentum, posting service revenue growth of 5%. We are improving our ability to translate that into increasing profits with AOP growth of 3% in the quarter. And this will continue to be an important focus for us. Our performance is underpinned by strong subscriber metrics in both Cable and Wireless. We executed exceedingly well across the business, as our operating teams are hitting their stride.

We said we would reaccelerate growth by focusing on Wireless first, and our results this quarter reflect significant traction in our largest segment. We delivered our strongest year-on-year revenue and subscriber growth since 2010. Service revenue growth accelerated to 6% in the quarter, reflecting a combination of higher subscribers and meaningful ARPA and ARPU growth as well. Blended ARPU increased 2%, as we drive growth in our premium value brands.

Postpaid net adds were up almost 50%. We've increased net adds year-on-year for five straight quarters on strong gross additions and consistent improvement in churn. Gross adds of 432,000 in the quarter were the highest ever for Rogers, as well, this is our lowest Q3 churn since 2013 coming in at 1.26%, and the fourth consecutive quarter of year-on-year improvement.

Turning to Cable, our total service unit net adds were positive for the first time in two-and-a-half years, so a key achievement for us as we focus on moving this business back to growth. Internet revenue grew 11%, the fifth quarter in a row with double-digit growth and Internet net adds were the highest we've seen in five years. It's clear we have a competitive advantage with Rogers Ignite and that's not only helping us win Internet customers, it's helping our Cable business win back households overall. 42% of our residential Internet customers are now in plans of 100 megabits per second and higher, and our fastest widely available speed is 250 megabits per second across our entire footprint, well beyond what our competitor can make widely available today. More significantly, about 85% of our footprint is eligible for Ignite Gigabit Internet. We're on track to deliver that service to our entire Cable footprint by the end of this year.

Turning to customer experience, we continue to make good progress here too, especially in self-serve. We have increased self-serve transactions on the Rogers brand by 65% year-on-year. Last year, Rogers was the first in the world to launch customer care through Facebook Messenger. Last month, we announced another global first with Twitter giving customers another self-serve option from which to choose. The new Twitter service gives customers direct access to secure continuous chat with a customer care rep, so they can keep track of the conversation and respond to it at their convenience.

Earlier this month, we announced another innovation, and we think it's going to resonate as well with the customer as Roam Like Home did. We launched the tool that will take the mystery out of understanding wireless data usage giving families full control over the data use in real-time. It's only been two weeks and 85,000 customers have already activated the new tool. Our strategy of putting the customer first is key to our long-term financial growth.

Turning to Media, we delivered double-digit growth in both revenue and AOP. The driver once again is our strong portfolio of sports assets. All season long, the Blue Jays have had more fans in the seats and more viewers watching. It's been great to see the team make another exciting playoff run.

Hockey is not usually a factor in the third quarter, but it was this year thanks to the World Cup of Hockey. The tournament attracted more than 15 million Canadian viewers and helped generate excitement for the NHL season, which is already off to a great start. With our baseball and hockey leadership, Sportsnet continued to be Canada's number one sports media brand for the second year in a row and we're pleased to see the gap is widening.

This year, Sportsnet has had 112 broadcasts over the 1 million viewer mark compared to the next competitor at only 12. And average viewership is [ph] 4% (8:00) higher on Sportsnet than the next competitor; so clearly a compelling product for advertisers and our subscription business.

Across our Media business, we continue to look for areas of growth while eliminating spend in areas that no longer made sense. Last month, we announced the wind-down of shomi and a new strategy for our magazine business that will see us take a major step forward in the shift to digital.

I also wanted to briefly update you on our Enterprise business. In July, we introduced another leapfrog technology, Rogers Unison, to small businesses. While it's early days, I'm pleased to report that sales have exceeded expectations. Our customers are saving at least 40% of what they would spend on a traditional landline.

And just last week, we launched Unison for medium and large businesses. With this service, we're targeting the estimated C\$2 billion-plus telephony business market in Canada. Unison is the latest in a series of leapfrog technologies we will offer to grow our share in the enterprise space.

Turning now to some additional details in our financial results. Consolidated revenue increased 3% driven by strong Wireless service revenue and Media growth of 6% and 13% respectively. In terms of AOP, Wireless AOP grew 1% as we added 37,000 more net additions year-on-year to our postpaid base. We'll accept short-term impacts to margin when we're successfully attracting subscribers at highly accretive values, which is what you see in our Q3 results. We expect the benefits to ARPA, ARPU and AOP to play out in the coming quarters.

In our Cable business, revenue was down 1% on the decline in TV revenue as we responded to various promotions in a highly competitive back-to-school environment. Cable AOP growth of 4% in the third quarter benefited from the shift towards higher margin Internet revenue as well as from lower service and programming costs, partially due to a vendor credit received this quarter.

Moving to overall performance below AOP, our net income was largely impacted by the loss related to the wind-down of our shomi joint venture. In comparison to the same quarter last year, you will recall we recorded an investment income of almost \$60 million, mainly related to the Mobilicity transaction.

Our leverage ratio improved again this quarter to 3.0 compared to 3.1 in Q2. We continue to target further improvement toward our target range of 2.5 or below. CapEx was \$549 million in the quarter. We expect full-year capital spending to be lower than last year. We generated operating cash flow of \$1.2 billion and free cash flow of \$598 million in the quarter. That cash flow supported the payment of \$247 million of dividends.

We maintain our solid investment-grade credit ratings and attractive rates on our outstanding debt. Our hedging strategy provides predictability over the next year, with substantially all of our expected U.S. dollar expenditures for 2017 hedged at an average of 1.33 per U.S. dollar. We remain confident in our ability to achieve our financial guidance for 2016. We're on track to grow revenue and AOP by 1% to 3%. We expect CapEx to be in the range of \$2.3 billion to \$2.4 billion and free cash flow growth of 1% to 3%.

In summary, we delivered a quarter of solid performance and meaningful improvements that sets us up for continued momentum going forward.

So, with that, we'll open the call to any questions on our third quarter results.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And your first question comes from Drew McReynolds of RBC. Please go ahead.

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**Drew McReynolds**

*Analyst, RBC Dominion Securities, Inc.*

Q

Thanks very much. Good morning. Two questions for me. Maybe for you, Alan, just to kind of ask the obvious. Is there anything in addition you could provide us just with respect to the timing of the CEO transition? And could you just speak to any changing course strategically or priorities under Rogers 3.0 that would potentially change in the near term until Joe arrives?

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**Alan Douglas Horn**

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

A

Thanks, Drew. On the first one, I think we, as I said, we can't be more specific on the timing at present. There are obviously some complications resulting from Joe's prior roles and those are things that we're working through, but it will be – we're working hard to get in as soon as possible.

But on the second part, which is the more important part is, there will be no change in the direction. I met with the ELT team this morning along with Edward Rogers and the message was clear. The board has complete confidence in the ELT. The direction that's been set and we'll continue to focus on the customer first, customer experience aspects of 3.0. So from that perspective, it's business as usual. And obviously, we have confidence that the team that's in place can keep on delivering.

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**Drew McReynolds**

*Analyst, RBC Dominion Securities, Inc.*

Q

Thanks, Alan.

And Tony, just for you operationally, with respect to the postpaid net additions, obviously, another good quarter of high wireless activity. Can you just speak to some of the key drivers of gross additions, and can you provide us any granularity on the contribution that you had in the quarter from Unison and Wireless Home Phone? Thank you.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Okay. Thanks, Drew.

In terms of, let me start with postpaid market, generally. I think we continue to see a healthy market. You may recall from Q2 that we saw the overall market increase beyond what we would have seen in previous levels. We think, I mean, we'll have to see what everybody reports, but our sense is that we'd probably see a continuation of that overall heightened market size. And so with respect to that, we're pleased with what we think is the relative share that we have. It's been a competitive quarter from a perspective certainly on handset pricing. And so some of the attractive offers we think is fueling some of that growth, other factors as well, but we think that's an important one.

I think overall, we've gotten a lot better in terms of our tactical promotional activity in Wireless and as well in our execution at the channel level. And so all of that has – came together well in the third quarter and some of the big drivers for the postpaid net performance that you'd see.

On your question of Unison, it's still early days. I think you should clarify a couple of things. To the extent that it comes onboard with – without and completely substitutes the landline, those results would be – we intend to include them in our Wireless numbers. But the numbers are extremely small, as I said in my comments, since we launched the product. And so, it didn't have any material impact on our Wireless, either postpaid nets or revenues.

Drew McReynolds

*Analyst, RBC Dominion Securities, Inc.*

Q

Thank you.

**Operator:** And our next question will come from the line of Simon Flannery of Morgan Stanley. Please go ahead.

Simon Flannery

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you very much. Tony, I note that you have made good progress on the leverage side of the equation. Can you just remind us again of how you're thinking about dividend policy and also perhaps in the context of the CEO change, you're still well above the top end of the range. But if you get down to the high 2's early next year, does that put you in a position to perhaps revisit dividend growth? And then, if you can just comment briefly on any – anything on iPhone 7 impact in the quarter, that will be great. Thank you.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Okay. Thanks for the question, Simon. On dividend, my messaging here is going to be consistent with what you've heard in the past. We're focused on growing the business and growing top line and translating that to cash flow growth. And we like the momentum we're seeing, but it's still early days. And so, we'll continue to focus on using the excess cash to pay down debt and improve our leverage as we work our way towards 2.5 times. And so, I would say, it's early days. We're going through the process now of finalizing our plans for 2017. And as we approach the end of the year, we will be reviewing that, as you'd expect, with the board. And so, still early days, but long term, no change in direction in how we're thinking about it.

Simon Flannery

*Analyst, Morgan Stanley & Co. LLC*

Okay. Great. And on the iPhone 7?

Q

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

[ph] We saw on (17:53) the iPhone 7 and it was a good quarter. I think it's doing well. I think it's on par with what we would've seen in terms of last year's volumes, not necessarily with the next phase of the device, and so that piece of it is fine. I think what you saw in the third quarter is the competitive intensity in pricing around the iPhone 6 and iPhone 6s was high and so, what we saw is a disproportionate amount of volumes going to those models instead of the iPhone 7.

A

Simon Flannery

*Analyst, Morgan Stanley & Co. LLC*

Okay. Thank you.

Q

**Operator:** And our next question will come from the line of Aravinda Galappathige of Canaccord Genuity. Please go ahead.

Aravinda Suranimala Galappathige

*Analyst, Canaccord Genuity Corp.*

Good morning. Thanks for taking my question. Just if I may start with a question on the transition. Can you just talk to sort of the reasoning behind the transition at this point? I mean, clearly, the strong quarter – lot of the initiatives that have been put in place appeared to be yielding results at this point. In that backdrop, I just wanted to understand sort of the timing here, was that to do with sort of the contract of Guy Laurence?

Q

Alan Douglas Horn

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

Yeah. I think just as I give a perspective, we looked at some of the context of a Joe Natale who we think is a unique individual in terms of the Canadian telecom landscape, and there's an opportunity with Joe at this time. And timing is never perfect on these things and in terms of various things [ph] lining up (19:34), but we did feel it was important that our organization and employees know what the long-term CEO plan is, and so that was what [indiscernible] (19:46) timing on this. It was the confluence of those two items.

A

Aravinda Suranimala Galappathige

*Analyst, Canaccord Genuity Corp.*

Great. Thank you. And just a quick operational question for Tony. Clearly, from a market perspective, it does appear that we're kind of heading towards sort of a high – higher COA sort of a phase, regardless of the double cohort. Can you just talk to that and how that could kind of affect margins down the road, or do you feel like the strength that you're seeing in ARPU would offset that on a go-forward basis?

Q

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

Aravinda, I think it's fair to say that our COA is up. I would say, what you're seeing generally in the market is a pivoting of promotional activity towards handset subsidies as opposed to MSF-type discounts, and so that's

A



naturally increased COA. I think you should take some comfort in that. On the flip side, it's driving strong ARPU in as an example, and so what we see is a really good mix of premium brands. So this quarter, in particular, we're pleased with the split that we saw between the Rogers brand the other ones, and so while it is a higher cost, it is driving higher returns as well for us.

Aravinda Suranimala Galappathige

*Analyst, Canaccord Genuity Corp.*

Q

Great. Thank you. I will pass the line.

**Operator:** And your next question comes from Jeff Fan of Scotiabank. Please go ahead.

Jeff Fan

*Analyst, Scotiabank*

Q

Thanks. Good morning. This is a question for Alan. I think over the years, one debated issue is, I guess professional management whether there is no right answer, but wondering would this change of CEO – is there a change in how the board or how you think about that for Rogers? And then I have a follow-up on the operations.

Alan Douglas Horn

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

A

No, I – Jeff, I think the view of the board and controlling shareholders has been that we should have the best management possible at RCI, and that continues to be the case. Obviously, being a controlled company. We are looking to the management to take a long-term view in terms of germinating long-term growth for the company. And I think that's what we saw in Joe, in terms of his track record. So, I think this is absolutely consistent with the view of the board and the controlling shareholder that we should have the absolutely best management possible.

Jeff Fan

*Analyst, Scotiabank*

Q

Great. And just on the operations, there is a few things that – a couple of things in particular that the company was pushing hard on, one is the Gigabit Internet services. Wondering if you can just tell us a little bit about whether things are on track and whether you are still hoping to hit the target going into 2017 in terms of your footprint and the strategy and push along that front? And then secondly, just on the IP video service, if you can just give us a little bit of an update there in terms of the introduction later this year or early next year?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Sure. Thanks, Jeff. I'll take that one. A couple of things, on Gigabit Internet, so that's proceeding on track. We intend – we've said we were going to have that done and cover our entire footprint with Gigabit Internet by end of year and we're on track for that. At the end of – or as of today, I should say, we are 85% complete in terms of that coverage. So, we have good coverage of it today and things are moving well there.

As I talked about in my opening comments, the demand for the higher speeds is certainly there, 42% of our base is sitting at 100-megabits speeds or higher. And obviously, you see a disproportionate amount of new additions coming in at 100-megabits or 250-megabits today. So, I think our focus on Internet and our competitive advantage there continues to prove well for us and you saw that in the third quarter, and we think that continues to play out. And then as we augment our cable offering with Internet TV, then that will be an added bonus. Right now, we continue to be focused on getting the product ready. As you heard previously, when the product is ready, we'll

launch and we won't do it before we think it's ready. And so, we are focused on getting that ready and no change on that.

Jeff Fan

*Analyst, Scotiabank*

Q

Great. Thank you.

**Operator:** And your next question will come from the line of Maher Yaghi of Desjardins Securities. Please go ahead.

Maher Yaghi

*Analyst, Desjardins Securities, Inc.*

Q

Yes. Thank you for taking my question. Just wanted to – in a TELUS information circular, they – it's mentioned that there is a two-year non-compete restriction after termination. Can you confirm that this is what applies in this case or you see it differently? And the second question I had is on the Cable side. You had a pretty good result in terms of EBITDA growth. However, you mention in MD&A that some of the cost – the cost decline was due to a vendor credit received in the quarter. Can you quantify that, please?

Alan Douglas Horn

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

A

Okay. Just on the first one, I don't think I can or should comment on a [ph] TELUS' information circular today (25:50). We're working hard on the issue of the timing for Joe to join Rogers. And I think that's [ph] what we're focused on it. (26:00) On the second?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

On the Cable side, a good improvement in AOP year-on-year, you saw that growth of 4%. As I noted, there was a one-time vendor credit that we received. If you're to think about – generally in the revenue line, Cable has been about a breakeven business and as the shift moves more to Internet and Internet making a bigger portion of that, then you see that margin flow through. And so, I think if you were to normalize our third quarter results on Cable and what you might expect to see going forward, I think you ought to expect AOP growth in Cable normalized in the 1% to 2% range compared to the 4% that you saw there.

Maher Yaghi

*Analyst, Desjardins Securities, Inc.*

Q

Okay. So, if – so, when we look at your outlook for 2016, if we look at the fourth quarter and assume a more normalized cost reduction due to the switch in the mix, you still see the guidance of 1% to 3% as doable?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

We do, Maher. I think if you were to look at – I don't want to get ahead of ourselves and talk too much about the fourth quarter – but I think if you look through each of the business segments, the momentum is there. We continue to see Wireless performing well. As I said, some of the net additions that we saw in Q3 will translate to continued performance at both the revenue and ARPU – ARPA lines into Q4. And then as you move to Cable, I've just talked about that. And then, of course, in Media, we're entering what looks to be a good start of the NHL, but we also have the baseball season that continues to do well.

And then, finally, on business, we're starting to see traction there. And so, I think overall what you're seeing is a continuation – I'd expect to see that continuation of momentum into the fourth quarter. And so, with that, as I said, we're reiterating that we are on track to meet our guidance targets that we set out earlier this year.

**Maher Yaghi**

*Analyst, Desjardins Securities, Inc.*

Q

Okay. Thank you.

**Operator:** And our next question comes from the line of Phillip Huang of Barclays Capital. Please go ahead.

**Phillip Huang**

*Analyst, Barclays Capital Canada, Inc.*

Q

Hi, thanks. Good morning. Maybe first question for Alan. Just a question regarding the transition period in total. Joe officially joins Rogers. Just given the team that Guy has put in place over the last few years, I was wondering to the extent that you can comment, any process that you guys might have put in place in order to mitigate any potential increase in execution risk during this sort of transition phase. And then I have a follow-up for Tony on the operations side as well.

**Alan Douglas Horn**

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

A

As I mentioned, our view is, we've got a great management team, and the team has been delivering. I've met with them this morning and got the commitment that the team is focused, and [ph] will have their (29:37) teams focused on delivering the results for Q4 and beyond, if necessary in terms of the transition. And so that's the focus there. These guys are professionals as to the point before. And [indiscernible] (29:53) to deliver the results for shareholders.

**Phillip Huang**

*Analyst, Barclays Capital Canada, Inc.*

Q

Great.

**Anthony Staffieri**

*Chief Financial Officer, Rogers Communications, Inc.*

A

Hope you had an operational question.

**Phillip Huang**

*Analyst, Barclays Capital Canada, Inc.*

Q

Yes. And then, on the operation side, I was wondering because as you mentioned, there is – you guys are focused on building some more self-serve initiatives in order to help lower churn over time and also to lower costs as well as a benefit of that. I was wondering, to what extent are the costs this quarter related to those initiatives as opposed to just the seasonal increase in COA and COR?

**Anthony Staffieri**

*Chief Financial Officer, Rogers Communications, Inc.*

A

I think, Phil, if I understand your question in both – when you look at our – and I'll focus on Wireless and Cable, if you look at those margins, those are inclusive of a customer service cost. And so, with the self-serve options

increasing, we see a decline in call center volumes, which is probably single biggest driver of cost. And so in the quarter, calls into the call center were down almost 10%, came in actually at 9%. And so, we continue to see that coming down. And some of these other options, as you move to self-serve, sometimes have some initial start-up cost, if you will, that end up being OpEx. But I would say, overall, you see productivity improvements continuing to feather in, but there really isn't any lumpiness in the third quarter that I would highlight or call out.

Phillip Huang

*Analyst, Barclays Capital Canada, Inc.*

Q

I see. Okay. And then maybe one last one if I could squeeze in on the Cable side. Certainly very strong momentum on the broadband, I was wondering if this is kind of like the new normal for the next several quarters just given the momentum that you're seeing in terms of upgrades to higher-speed plans. Thanks.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

So, few things on that. Keep in mind the third quarter is relatively busy in terms of volumes because of the back-to-school, and so you see that and we have that every year in terms of seasonality. We do think in terms of the momentum given prior to Q3, we continue to see good volumes and it continues to ramp even as we head into Q4. We're seeing good traction with the Internet. And as I mentioned, it's doing a good job of pulling the whole household as well, and so we like the traction that we're seeing on household metrics as well.

Phillip Huang

*Analyst, Barclays Capital Canada, Inc.*

Q

Great. Thanks very much.

**Operator:** Your next question will come from the line of Vince Valentini of TD Securities. Please go ahead.

Vince Valentini

*Analyst, TD Securities, Inc.*

Q

Yeah. Thanks very much. First, Tony, I don't think you answered Drew's question earlier just on the Wireless Home Phone, if there was any material net adds that came from that source this quarter.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Okay. Sorry, Vince, I missed that question. I would say on Wireless Home Phone, it's a very small part of the total number. And this quarter, Wireless Home Phone actually was a smaller number than you would have seen in last quarter, so it was not an impact in the quarter.

Vince Valentini

*Analyst, TD Securities, Inc.*

Q

Excellent. And my real question was the upgrade activity, so you said in the release they were down 5% year-over-year. Should that imply that retention costs would have been down, or similar sort of 5%? And when we look forward to Q4, should we bake into our expectations that you may have more iPhone 7 supply, and there may be a bit more of a mix of upgrade activity versus COA for new subs, if a lot of your existing subs can finally get an iPhone 7?

**Anthony Staffieri***Chief Financial Officer, Rogers Communications, Inc.*

A

Yeah. So, a couple of things. I would say, when you look at retention cost, while the volumes are down 5%, the cost per hub was up year-on-year, sort of commensurate with what you see in the COA as – as a principle, we – our existing customers get roughly the same offers that are out there in the marketplace. And so, overall, on retention spending as a percentage of network revenue, it stayed flat to what you saw in previous quarters. So, that piece of it on balance continues to stay in check.

Second part of your question on the iPhone 7, I would say the supply constraints have largely been around a specific model or color of the iPhone 7, and that's been constrained across the board. And so as that continues to come in – I don't know what impact it will have on volumes, we'll just have to wait to see, tough to guess. Not a lot more color I can provide on that one, Vince.

**Vince Valentini***Analyst, TD Securities, Inc.*

Q

Thanks very much.

**Operator:** And your next question will come from the line of Adam Shine of National Bank Financial. Please go ahead.

**Adam Shine***Analyst, National Bank Financial, Inc. (Broker)*

Q

Thanks a lot. Good morning. I'll do one again for Alan and one for Tony. So, Alan, when Guy was first hired, I had the impression that it might for, let's call it, a three-year tenure, and then things were looking as though it might be a fourth or a fifth year dynamic. Should we be thinking about this as a tenure cut short or potentially as one that was destined to run its three-year course, albeit arguably six-year shy of that three-year mark?

**Alan Douglas Horn***Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

A

No, I think it – just going back to the previous comments that you should look at this as the opportunity to secure the services in due course of Joe Natale and that's a unique situation. And that's the one that we moved on, let's say, had the knock-on effects in terms of this, in terms of the longer term plan for the CEO. So, it wasn't related to the items you mentioned.

**Adam Shine***Analyst, National Bank Financial, Inc. (Broker)*

Q

Okay. If I flip over to Tony. Tony, one item we haven't talked about, but it's certainly something that I think arguably would have helped you along in terms of some of this momentum we've seen in the Q3 and that is some of the pricing moves. Certainly ones that we've heard about since mid-June in the context of a very basic triple offer at C\$100 for a 24-month period. Can you just speak to that? Obviously that's one of the elements in your overall toolkit that's helping you succeed here. But maybe speak to pricing and some of the aggressiveness in the market.

**Anthony Staffieri***Chief Financial Officer, Rogers Communications, Inc.*

A

Sure, Adam. And when you say that, it sounds like your triple play is specifically talking about the Cable side, so I'll...

Adam Shine

*Analyst, National Bank Financial, Inc. (Broker)*

Yeah, yeah.

Q

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

I'll have my comments on that. And I would we've always seen competitive intensity kind of go in and out of the market on that. As you'd expect, back-to-school with the height and size of the market that happens then. It was a competitive marketplace and we competed with triple-plays that you saw in the marketplace. And so, I highlight though, a lot of that is limited time in terms of promotional offers. But having said that, the promotional activity is predominantly centered around more so the TV product than Internet. One of the things we like is the pricing. And if you've been looking at Internet ARPU, it continues to move well. And so, we like what we're seeing on Internet pricing, but it's important to highlight, that is really being pulled forward by the up-tier demand that we're seeing. And so as customers want a better product that's just generally moving that piece of it up, and as I said, the – we like what we're seeing from an ARPU perspective there.

A

Adam Shine

*Analyst, National Bank Financial, Inc. (Broker)*

Thanks a lot. If I can just throw in one more. Just on the context of the C\$190 million write-down, obviously, C\$140 million of that was well-telegraphed in the context of shomi and maybe there were a few other filler elements, but did anything else maybe stand out worth noting in terms of the C\$50 million extra?

Q

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

Yeah, Adam, there were a few items on our balance sheet that we went through the process of disposing of. And so, they ended up some with small gains and some with losses and so it's really a cumulation of a number of items that are included in there. And so, other than shomi, there isn't one that I would necessarily call out.

A

Adam Shine

*Analyst, National Bank Financial, Inc. (Broker)*

Great. Thanks for that, Tony.

Q

**Operator:** Your next question will come from the line of Greg MacDonald of Macquarie. Please go ahead.

Greg MacDonald

*Analyst, Macquarie Capital Markets Canada Ltd.*

Thanks. Welcome back, Alan. Nostalgic to hear your voice again. I'm going to ask a strategic question as well. Is it fair to say that the strategic changes necessary to address the customer service challenges have largely been made?

Q

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

Is that the one that you wanted Greg specifically, Alan or I to take or...

A

**Greg MacDonald***Analyst, Macquarie Capital Markets Canada Ltd.*

Q

Yeah, yeah, either would be fine. I'm just kind of – I'm looking at the list of strategic imperatives right now. Where does customer service stand? It looks like the numbers are getting better, it looks like churn is coming down. So I'm looking for some input – insight on that.

**Alan Douglas Horn***Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

A

[indiscernible] (39:29). I don't think there's any change in strategic direction there at all. I think the focus on the customer, the customer-first approach is one that we believe at Rogers is a requirement in this business and it will be a focus and will continue to be a focus. I think it's one of those things that it's always a journey that you – if you ever think if you've got to a perfection, you [indiscernible] (39:57) in the face pretty quickly. So I think we've got still, as Tony said, lots of challenges there. But – and it's clearly still one of the main focuses of this company.

**Anthony Staffieri***Chief Financial Officer, Rogers Communications, Inc.*

A

Certainly, I'd add that, Greg, I'd add – and as we've said in the opening comments, we said we would have sustainable growth and a key ingredient to that is focusing on the customer. And that's long-term, we think, key to building a business.

**Greg MacDonald***Analyst, Macquarie Capital Markets Canada Ltd.*

Q

Yeah. And I'm recognizing that you referenced that, Tony, you described the business as growing the business which implies an offensive approach as opposed to defensive. Both are options in a market that is – that's maturing. Maybe you could just help out by saying what are the top two or three strategic imperatives today because I'm getting the sense that customer service is something that was very, very important two years ago, three years ago. You've done a lot as a company to address that. Are there other issues that have kind of percolated to the top of the strategic list?

**Anthony Staffieri***Chief Financial Officer, Rogers Communications, Inc.*

A

Greg, I would say there's a couple of things you'd touch on in your comments. In both Cable and Wireless, the size of the market continues to grow and in both of those markets, the consumers have choice and so it's competitive. And in order to compete in both of those markets and get what we think is our fair share, we've got to have a number of things covered up, certainly in terms of the product, the pricing. But customer experience is always going to be a key part of it.

And so, I think if you just think about the fundamentals of those businesses, those really aren't going to change. And so on the Wireless side, clearly maintaining a strong network is going to be key to that as well as a number of other items and on Cable, as we've said, it's really more and more going to be focused around Internet, augmented by a compelling video product and that hasn't changed. And on Media, we think that having the right content is going to be key to Media in long-term. And we've said that right content for Canada and for us is Sports. And that's what we're focused on as well as some of the other businesses in there. And we'll continue to migrate those as the market evolves. Like you saw in publishing, for example, as we move that business to the digital age.

Greg MacDonald

*Analyst, Macquarie Capital Markets Canada Ltd.*

Q

Okay. So I think what I'm hearing is, you don't want us to draw any conclusions on changing strategic imperatives. It remains what it has been for the past year or two years, right?

Alan Douglas Horn

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

A

No, I think that that clearly is the message. You look at the items in Roger 3.0, you know the customer experience, the innovation, network leadership, investing in people, being a strong Canadian growth company, they continue to be the strategic imperatives. And it is the management team that's been delivering on those that are [ph] strong players (43:13).

Greg MacDonald

*Analyst, Macquarie Capital Markets Canada Ltd.*

Q

Got it. Okay. Thanks, guys.

**Operator:** Our next question comes from the line of Michael Rollins of Citi. Please go ahead.

Q

Hi. Thank you. This is Adam Ilkowitz sitting in for Mike. First question to continue to talk about the CEO transition. Unfortunately, when you do have a CEO transition where the CEO is known and available, we usually like to see perhaps a transition period where the old CEO hands off to the new CEO. Can you kind of step through what happened in this situation that unfortunately wasn't able to see that take place?

Alan Douglas Horn

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

A

I think on CEO transition side, generally, I think it tends to be unique, tends to be peculiar to the circumstances. I think sometimes, transitions work; sometimes they don't. I think in this case, it was just the actual [ph] fact (44:12) situation meant that this was the way this transition had to take place. I don't think – as I said, I don't think there's a one-size-fits-all for a CEO transition.

Q

Sure. And then just a follow-up to that. Joe obviously comes with a lot of history and a lot of good experiences that we've seen him do through the industry. Assuming he comes on when he does, is he free to revise strategy when he does come on or has he stated perhaps privately that he would like to continue the path of Rogers 3.0 as it currently stands?

Alan Douglas Horn

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

A

Well, I think the – obviously, the CEO is the [indiscernible] (45:00) approval by the – or recommend the strategy for approval by the board and that will be the same situation here. I think Joe's experience has been focused on operational excellence, has been focused on customer experience. And I think that's – those were the areas that



we see him being focused on here. And as I said from an overall strategic perspective, the items that I went through before, in terms of 3.0 still appear are the strategic imperatives of the company. And I'm sure...

Q

Thank you.

Alan Douglas Horn

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

...Joe will have some modifications possibly, but that's the direction we're in.

A

Q

Sure. And then, Tony, in the quarter, Media had a very strong profitability and obviously, helped by the World Cup of Hockey. Can you kind of piece through how much the quarter was impacted by the World Cup? And obviously, the profitability is stable at these levels. Is this where you are hoping that the circa 15% AOP margins, is that what Media is attempting to deliver from here?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

So a couple things I'd probably help clarify for you. Third quarter is generally not a big hockey impact. What you see in the third quarter is really as a result of the Jays. And so as we continue to see, in the third quarter, the improvements in not only attendance and all that brings in terms of revenue, but also viewership and the associated revenue with that. And so that's what you're largely seeing in the third quarter.

A

World Cup of Hockey is certainly something that came through in September, but it's secondary to the performance of the Jays for the full quarter and so that's that piece of it. In terms of Media overall, we continue to balance the portfolio in terms of where we want to invest and take out costs.

Generally, it's a relatively low CapEx business. And so we continue to see longer-term prospects for growth there and that'll translate generally to margins, as you've seen in the past, of 10% to 15%. But I think the overall key metrics is the return on investment that we see in there and that continues to improve.

Q

Thank you so much.

**Operator:** Ladies and gentlemen, we have time for two additional questions today, the first of which comes from David McFadgen of Cormark Securities. Please go ahead, sir.

David McFadgen

*Analyst, Cormark Securities, Inc.*

Thank you. I have a question on the Wireless business. So on the Q2 call, you indicated that you expected the Wireless service margin to, for 2016, to be comparable to 2015. So given the results here today, that doesn't look like that will be achieved, maybe that's just a reflection of the [ph] credit (48:00) environment increasing COA. So,

Q

I was wondering if you can give us an outlook on the margin. Do you expect that will go back to 2015 and 2017? Are we just in a more competitive market going forward?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

David, on the margins, again, I want to make sure that we're not getting ahead of ourselves and don't want to provide too much forward-looking. But I think if you get a sense of the impact on Wireless margins, I think as you look at that business for a full year, I would reiterate I wouldn't expect a lot of change in what you see in Wireless margins and would probably leave it at that.

David McFadgen

*Analyst, Cormark Securities, Inc.*

Q

Okay. And then just one follow-up, if I may. Is Guy Laurence's severance reflected in the Q3 restructuring or will that come in in Q4?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

No, it's not reflected in Q3 and so that's the short answer to your question.

David McFadgen

*Analyst, Cormark Securities, Inc.*

Q

All right. Okay, thank you.

**Operator:** And your final question will come from the line of Rob Goff of Echelon Wealth Partners. Please go ahead.

Rob Goff

*Analyst, Echelon Wealth Partners, Inc.*

Q

Good morning and thank you for taking my questions. It would actually be two questions on two outperforming units. The first one on the Wireless postpaid adds. Could you talk to the trending in device per account? And then secondly, on the outperformance of the broadband, could you talk to the year-over-year impact of SME or wholesale demand?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Sure. Rob, so on the Wireless postpaid, you had a specific question on connected user per account. And so, as we measure ARPA and – that's up as you would expect. And so we continue to see that come in nicely and clearly, the Share Everything construct is having the effect that you would expect it to have. And so that continues to move up and so that's that piece of it.

In terms of broadband, we're seeing good growth across all segments including enterprise and in particular on the SME side and so that's moving well and that's incorporated in the numbers. Our numbers do include wholesale, although I would say, it's obviously a very small part of it and not a contributor to the net add growth that you saw in the quarter. So that's how you should think about the wholesale piece of it.

Rob Goff

*Analyst, Echebn Wealth Partners, Inc.*

Q

Thanks. And, Tony, actually the Wireless question wasn't so much about ARPA, but just rather what sort of trending you're seeing in device per account? Are you seeing increased iPad demand coming through or if there are any trends there?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Yeah. As I said, device per account is up. So it continues to move up and it's largely the Share Everything unless I continue to misunderstand your question, it's the Share Everything that's driving that. So Add-a-line is steadily moving up and it's a trend we've seen for many quarters.

Rob Goff

*Analyst, Echebn Wealth Partners, Inc.*

Q

Okay. Thank you.

**Operator:** Ladies and gentlemen, our question-and-answer session has now come to a close. This concludes today's conference. Thank you for your participation. You may now disconnect your lines.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

Thank you everyone.

Alan Douglas Horn

*Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.*

Thanks.

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