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Rogers Communications, Inc. (RCI)

Q4 2016 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Rogers Communications Q4 2016 Results Analyst Teleconference. At this time, all participants are in listen-only mode. Following the presentation, we'll conduct a question-and-answer session and instructions will be provided at that time for you to queue up for questions. [Operator Instructions]

I would like to remind everyone that this conference call is being recorded on Thursday, January 26, 2017 at 8 AM Eastern time.

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

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 it over to Alan to begin.

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

Okay. Thanks, Amy, and good morning everyone. Thanks for joining us and thanks for all your support. I'll be brief then I'll pass it on to Tony to speak in more detail.

So, earlier this morning we released our Q4 results and 2017 guidance. Our results reflect strong continued operating momentum and are a real testament to our executive team and 25,000 employees who haven't missed a beat in terms of executing on our plan.

For the year, we achieved all our growth targets. We were faced with some tough decisions in 2016, and we believe we made the right long-term choices to drive the most value for our customers and shareholders going forward.

We are, of course, excited about our recently announced partnership with Comcast, which will bring our customers a best-in-class IPTV experience, as well as a continued stream of industry-leading innovations. The agreement builds on Rogers’ Internet leadership and furthers our strategy to deliver all IP services in the home.

The financial impact of this on our Q4 statements was significant, triggering a write-off of $484 million and eliminating our IFRS bottom line. But we have no doubt this is the right decision for the long term for Rogers.
On the CEO transition, as most of you know, last quarter we announced our intention to hire Joe Natale as President and CEO of Rogers. We are looking forward to welcoming Joe in July.

In the interim, we are confident in our ability to build on the momentum you see reflected in our fourth quarter results. In 2017, we will continue to drive revenue growth, but we are also committed to improving our cost structure and gaining productivity improvements you see throughout our businesses. This will position us well to translate strong revenue growth and to increase profitability and free cash flow. As such, our 2017 guidance reflects a stronger outlook than our growth achievements in 2016, reflecting a plan designed to deliver increasing shareholder value and of course, value that is sustainable over the long term.

So, a good quarter and with that I'll turn it over to Tony to get into the details.

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

Thank you, Alan, and good morning, everyone. Overall, we're very pleased with our operating performance this quarter. We recorded strong consolidated service revenue growth of 3%, underpinned by robust subscriber metrics, and translated this to solid adjusted operating profit growth of 3%.

We continue to execute well against our plan with further sequential improvements in key financial and operating metrics. We’ll always have work to do, but we’re excited about 2017 with the momentum we have and the upside ahead.

Looking at Wireless, our largest segment, we maintained strong service revenue growth of 6%, which reflected a combination of both subscriber growth and meaningful ARPU growth. Blended ARPU and ARPA increased 3% and 7%, respectively, as we drive growth in our premium value bands and data usage.

Notably, we translated this performance into adjusted operating profit growth of 5%, the healthiest AOP growth we have seen in a number of quarters, while still posting strong net adds.

Q4 postpaid net subscriber additions of 93,000, which is up 62,000 year-on-year, was driven by record gross additions and steady churn. We maintained stable churn in the fourth quarter, despite unprecedented promotional activity in the market which we only selectively matched. Of course, the competitive environment will continue to play a part, but we're focused on further reducing churn in 2017 as we improve customer experience.

Turning to Cable, we're making good progress as this business returns to growth. Our total service unit net subscriber additions were positive for the second consecutive quarter, driven by Internet net additions of 30,000, up 14,000 year-on-year. Cable revenue was up slightly, with adjusted operating profit growth of 2%, primarily driven by the ongoing shift in product mix to higher margin Internet services.

Our Cable results were impacted in the quarter by the CRTC decision to reduce wholesale Internet rates on an interim basis. Excluding the impact of the resulting lower wholesale revenue, Cable revenue and AOP growth would have otherwise increased 2% and 5%, respectively.

Total Internet revenue grew 9% in the quarter, but again excluding the impact of the wholesale Internet reprice, growth for Internet would have been double digit at 12%. So our core Cable growth product continues to track well in the market. Nearly half of our residential Internet customers are now on plans of 100 megabits per second or higher. Rogers now offers gigabit Internet service to our entire Cable footprint, so our capacity for growth is available with success-based capital as needed.
It is clear we have a competitive advantage with our Internet offering, and that's not only helping us win Internet customers, it's helping our Cable business overall win back households as we return to increasing household penetration rates.

Upside in our Cable business is only strengthened by our long-term partnership with Comcast that we announced in December. We plan to deploy Comcast's X1 all IP-based video platform in early 2018. We've seen the success X1 has had for Comcast in the US market, including improving TV subscriber additions, lowering churn, increasing ARPU for X1 users, but most importantly delivering a better customer experience.

Our customers will benefit from Comcast's scale and substantial R&D investments. We expect our Cable video economics to benefit from the variable OpEx model in our Comcast agreement, which will limit Cable video CapEx to more success-based investment. As a result, we anticipate Cable CapEx to commence declining once we've launched the platform, thereby improving our ROI metrics for our Cable business.

First on the innovation roadmap is Comcast's new Digital Home solution, which we intend to launch together with the new IPTV in early 2018. Digital Home is a whole home networking solution which will provide customers with a simple and intuitive way to control and manage their connected devices in the home.

And our adoption of the X1 platform not only includes access to a proven TV solution, but also to Comcast's state-of-the-art customer-premised equipment roadmap, including reduced set-top box configuration – sorry, reduced cost set-top box configurations in advanced gateways. We expect to begin deploying these new gateways in mid-2017. They're capable of delivering up to 9 gigabits per second over Wi-Fi within the home and can also support voice solutions, home monitoring and automation applications.

Also in 2017, our customers will see further enhancements to our existing TV platform, including improving stability in our mobile app. In short, we're excited about our Cable business growth, with clear product and technology advantages, and with an improving OpEx and CapEx model to deliver ROI growth.

On the customer experience front, we continue to make solid headway on this priority, and it remains at the top of our list. To that end, we were pleased the Wireless postpaid churn declined 4 basis points in 2016, for the lowest churn rate since 2010.

We're focused on becoming a leader in self-serve to save customers' time and give them more control, which in turn has reduced contact volumes for us. We launched a number of tools and offerings throughout last year.

We continue to see increasing adoption of our data manager tools that allow families to manage wireless data usage in real time. We've been seeing a rise in customer satisfaction when customers have more certainty and control.

And in the fourth quarter we launched our latest self-serve option, EnRoute. Customers can now track on their mobile phone when a technician will arrive for an installation or service call. Our overall approach is resonating with customers as we saw 42% more self-serve transactions on the Rogers brand in the fourth quarter year-on-year, and 56% more for the full year 2016.

In addition, the number of times customers needed to contact us continued to decline with a 6% reduction year-on-year in the fourth quarter and a 7% reduction overall in 2016. As we enter 2017, we look forward to doing more
for our customers going forward, including offering more self-serve options and new ways to interact with us digitally.

The highlight in Media was another successful playoff run for our Toronto Blue Jays. Fourth quarter revenue and AOP were impacted by fewer postseason Toronto Blue Jays games compared to last year, as well as lower advertising revenues.

For the second year in a row, Sportsnet was the number one sports media brand in Canada and the gap has widened. As the brand attracts greater viewership, this positions us well to drive higher subscriber and advertising revenue.

In Q4 we committed to accelerating our shift from print to digital media in order to keep pace with changing audience demands. Since then, we've been realigning resources and developing a roadmap that will drive innovation and new content ideas while increasing digital audiences and revenue.

Turning now to some additional details on our financial results, Wireless was the most meaningful contributor to both revenue and AOP growth in the fourth quarter. Higher AOP and lower CapEx drove strong free cash flow of CAD 392 million in the quarter. Cash taxes were higher year-on-year due to Mobilicity losses used in 2015.

CapEx was CAD 604 million in the quarter and CAD 2.35 billion for the full year, down about CAD 90 million from 2015. We are also pleased to report a decline in overall CapEx intensity to 17% in 2016, down from 18% in the prior year.

We generated operating cash flow of CAD 1.053 billion in the quarter, which supported the payment of CAD 247 million of dividends. In total, we paid out CAD 988 million of dividends in 2016.

Moving to overall performance below AOP, our net income was largely impacted by the write-down related to the investment in our own IPTV solution and our decision to move to the Comcast platform.

We ended the fourth quarter with a leverage ratio of 3.0. Strong operating cash flow allowed us to repay over CAD 300 million of debt in the quarter. This would have resulted in a reduction of our leverage ratio from last quarter to 2.9, but it was offset by the non-cash impact that rising interest rates particularly since the US election had on the accounting for our hedge portfolio.

Consistent with what we've been saying, we're focused on further meaningful improvement toward our target leverage ratio of 2.5 or better. We're focused on growing the top line and translating that into increasing profits and free cash flow growth, and we like the momentum we're seeing here. We maintained our solid investment grade credit ratings with stable outlooks and attractive rates on our outstanding debt. We ended the year with CAD 2.7 billion of available liquidity.

Our hedging strategy provides predictability over the next year, with substantially all of our expected US dollar expenditures for 2017 hedged at an average of CAD 1.33 per US dollar. Our 2017 growth outlook is even better than what we achieved in 2016. We expect to grow total revenue 3% to 5%, and each of AOP and free cash flow 2% to 4%. We expect CapEx to be in the range of CAD 2.25 billion to CAD 2.35 billion.

In summary, all of the operating machinery is working well and our fourth quarter results show that we are picking up the pace, setting us up for further operating momentum and improved underlying fundamentals as we move into 2017.
QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we'll now conduct the question-and-answer session. [Operator Instructions] We'll now take the first question from the line of Jeff Fan with Scotia Capital. Please go ahead.

Jeff Fan  
Analyst, Scotia Capital, Inc. (Broker)

Thanks, good morning and good numbers. Tony, if I could just ask you to elaborate on a couple of things. First is on the Wireless ARPU and ARPA. You called out data usage as one of the components. Wondering if you can just talk a little bit about that and whether you're seeing an acceleration perhaps in consumption and growth in your customer base and whether you see that as a sustainable trend into 2017?

And then the second question is around the Digital Home comment that you made. Wondering if you can just, again, elaborate a little bit more on some of the potential services and differentiation that you see coming. And then secondly, just on the license fee to Comcast, whether that one license fee covers the services beyond video and includes some of these Digital Home enhancements that you expect to deploy? Thanks.

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

Thanks for the question, Jeff. I'll – so just going in order; I'll start with the first one in terms of Wireless ARPU and ARPA. As you said, data usage has been a significant driver of that. Our overall data usage increases when you look at it each month in the 40% to 50% range. And when you look at it on a per user basis, it's consistently in the 30% to 40% range. Driver of that is really two things.

Obviously, the applications that drive data usage continues to explode, but significantly we see more and more customers coming in on our premium value bands that give them better – larger data buckets and therefore makes them more comfortable to use data in a number of different ways. And so I think it's a number of factors, but if I have to summarize kind of the key drivers I think it's, as I said, the use case continues to increase and the ability to get certainty and control over data charges is improving, particularly – excuse me Jeff – particularly with things like our data manager tool that enables that kind of certainty.

Your other question was to expand on a little bit on the Digital Home and talk a little bit about that. The Digital Home solution from Comcast dovetails nicely with what we're looking to deliver. It's about owning the home and creating a strong, multi-product sticky customer. Comcast has indicated to us it's going to be available for syndication in 2017 and we intend to launch it with X1 in early 2018.

And the whole home networking solution is going to provide customers with a simple, fast intuitive way to control and manage their connected IoT devices. It's going to significantly move the agenda on self-install. It allows customers to easily add and pause devices, pair Wi-Fi extenders to boost signal strength in the home. And it's really centered around and expands on their voice control to manage the whole home network securely.

You're adjusting thermostats, lights, home security using voice control. It's really about simplification and aggregation in the home and using the excellent platform as the entry point. So it's a lot more than just IPTV.
What's great is that it's cloud-based platform and that's going to link to the new DOCSIS 3.1 Wi-Fi gateways that we plan to launch in mid-2017.

So overall, as we look over the medium-term horizon, we see the all-IP home that's entrenched by voice, video, and smart home monitoring and IoT using a combination of our gigabit-capable network, Rogers and Comcast technology providing our customers with the best next-gen residential service suite offered in our footprint.

And then more significantly, we think it has the potential to really move forward the fixed mobile convergence that we've all been talking about for so long. Comcast is going to bring the scale needed to invest in software and CPE that can provide seamless interactivity between fixed and Wireless.

And then the other, I think, important thing for us is it is proprietary technology and it isn't going to be available elsewhere. So I think that's going to be a big benefit for us.

The last question you had was whether our license fee extends to video. I don't want to get -- or disclose too much about it. I will say that it clearly has the capacity to expand to include it, and we wouldn't be talking about it if we didn't have the roadmap to get there.

Jeff Fan
Analyst, Scotia Capital, Inc. (Broker)

Okay. Thanks, Tony.

Operator: We'll now take our next question from the line of Vince Valentini with TD Newcrest. Please go ahead.

Vince Valentini
Analyst, TD Newcrest

Yeah. Thanks very much. Okay, if I can stay on ARPU for a second in Wireless. So you've seen an uptick in your growth every quarter this year, obviously you're getting to a peak here, 2.6% blended ARPU growth in the fourth quarter. You talked about the data usage. I'm just wondering, is there any reason you wouldn't expect these trends to continue as you're gradually getting more and more higher-end customers loaded on your network? Can we see the sub loading get better every quarter? Or is there anything unusual or one-time in nature that could cause ARPU growth trends to reverse? And as part of that, could you maybe just clarify for us where we're at with Roam Like Home and what kind of impact we may be seeing, if any, in these quarterly results now?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

Thanks for the question, Vince. There is an -- in terms of the ARPU trends, as you would expect when we look at them over the last several quarters, in fact, over the last eight quarters, you see a good continuation in the data usage and the movement up the value band to the higher premium buckets. We do with Share Everything see a good mix of added devices coming in, things like tablets, which generally would have a smaller ARPU. But because they're part of that Share Everything, the total ARPU continues to grow. And so there isn't anything obvious to us that would suggest that that trend should not continue, and so we're confident in what we see there.

In terms of Roam Like Home, that continues to do well. When you look at the number of users that are now on it, it is up year on year by 34%. So it's been extremely popular with customers and is a good vehicle to move them to the Share Everything construct.
In terms of impact on our ARPU in overall results, if you look at postpaid revenue it would have — it had an impact in the quarter in terms of a negative drag of almost 1 percentage point. And if you were to look at blended ARPU, same thing, just over 0.5 percentage point in terms of the impact.

So it still continues to have, notwithstanding the increased usage, a bit of melt in terms of roaming revenue. But we continue to see a kind of close to flat and the opportunity for that to start to grow in coming quarters.

Vince Valentini
Analyst, TD Newcrest

Thank you.

Operator: We’ll now take the next question from the line of Drew McReynolds with RBC. Please go ahead.

Drew McReynolds
Analyst, RBC Dominion Securities, Inc.

Thanks very much. Good morning. Tony, just wanted to talk about the Wireless operating leverage that you got in Q4. You know, obviously, it’s something that you’ve struggled with as 2016 played out, but we got a little bit of a pop here in Q4. Can you just talk about the dynamics there and what your expectation is implied in the 2017 guidance?

And then a second question, obviously good postpaid Wireless net adds and Internet net adds. Can you just talk about a little bit of the mix there on the Wireless side, just what kind of unison contribution you got?

And then on the Internet side, what kind of SMB or wholesale contribution you’re getting there? Thank you.

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

Okay, thanks for the question. In terms of when you think about Wireless operating margins that you saw in the fourth quarter, as well as for 2016, I would say in general, I would start with the summary that when we look to 2017, we see them as continuing somewhat stable as we head into 2017. Certainly when you look at 2016, the investment that not only we but the industry has made in handset subsidies continues to decline. But I think it is important to note it has been commensurate with the increase in revenue and ARPU.

So I would say I’m pleased overall that we have been able to continue to monetize that investment into higher revenue and ARPU and so we see that continuing into 2017. We’ve gotten better at being disciplined in tying the amount of subsidy to the plan that the customers are coming in on. Certainly you saw that in the fourth quarter.

While the headline was $0 iPhone 7s, it was really only available on premium value bands. And so there is that construct and discipline that we’re seeming to be getting better at.

In terms of the net add mix, I would say it was a healthy mix across the spectrum in terms of premium value and additional devices coming in on Share Everything. Having said that, Share Everything ARPU specifically continues to grow. So not only is ARPA growing, but ARPU for Share Everything continues to grow and so that’s healthy.

When you look at our ARPU coming in, in the quarter, ARPU in continues to grow year-on-year, and so that’s a healthy mix as well. So I think overall the quality of the net adds that we see we’re pleased with.
Same thing on the Internet side. I've talked about almost half of our base is on speeds of 100 megabits or higher. And the vast majority of new customers coming in are coming in at those speeds as well. And so you see in the revenue growth that translates to healthy ARPU growth for Internet. Wholesale has never been a significant part of our business, and it continues to not be very significant. And so the amount of – the impact on net adds in the quarter for wholesale Internet was negligible.

Drew McReynolds  
Analyst, RBC Dominion Securities, Inc.

Okay, thanks, Tony. If I could just have a follow-up here, just quick one; obviously, you're trying to make some business market headwinds. Just with respect to your final comments on net adds, Unison or the SMB market penetration on the Internet side, just can you give us an update on how that is progressing?

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

A couple things. I don't want to provide too much detail in terms of the various markets. As you know, it's been a focus for us and it is included in the numbers that you see. So I don't want to get too far ahead of ourselves in terms of the specific segments within the overall Wireless. You will have seen that the question is relating to our new Rogers Unison product. I would say that one is early days and is not a material part of the numbers that you see resonating well in the marketplace but, again, very early days on that one.

Drew McReynolds  
Analyst, RBC Dominion Securities, Inc.

Thank you.

Operator: We'll now take our next question from the line of Tim Casey with BMO. Please go ahead.

Timothy Casey  
Analyst, BMO Capital Markets (Canada)

Thanks. Tony, I apologize, I was late getting on the call. But in your guidance you've signaled a little bit of margin erosion with your revenues growing slightly faster than your EBITDA projections for the year. Could you talk a little bit about where you see some investment spending there within the major operating groups? And one other one, you noted that you intend to bring Joe Natale in July. Are there still ongoing discussions with Telus, is there a chance there's an acceleration of that timeline, or should we assume that's a hard number? Thanks.

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

So, Tim, I will start with the first one in terms of margins. The revenue guidance we provided was total revenue as we did in the past, and it includes equipment revenue. If you were to translate that to service revenue and then look at AOP in that context, we see margins generally stable. We're being careful and making sure that we've got the room we need on the Comcast implementation. That's going to be a mix of CapEx, but it's also going to bring in the short term some OpEx as well and so we wanted to make sure we have the capacity within our guidance to deal with that. And so – but I think the headline for you is margins overall, and within each of our key segments to be relatively stable as we head into 2017.
Alan Douglas Horn  
Chairman & Interim President and Chief Executive Officer, Rogers Communications, Inc.

And, Tim, this is Alan Horn. On Joe, it is – July is the timing.

Timothy Casey  
Analyst, BMO Capital Markets (Canada)

Thank you.

Operator: We’ll now take our next question from the line of Phillip Huang with Barclays. Please go ahead.

Phillip Huang  
Analyst, Barclays Capital Canada, Inc.

Yeah. Thanks, good morning. Congrats on the strong Q4 results and the guidance. Maybe first a modeling question. I apologize I haven't read your entire release, so I was wondering what we should assume for cash taxes for 2017?

And then second, a question on the Cable business. Just wanted to, first if you could give us an update on the pricing environment. And then a follow-on to an earlier question on the wholesale broadband market. Certainly we understand it’s an impact on the industry's wholesale revenues, but – and you said that the impact on the subs on the quarter were relatively negligible. But do you see this as an opportunity going forward, the flipside of it being potential to accelerate wholesale subscriber growth? Thanks.

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

Phil, so a couple of things I’ll go through. I hope I got the questions right, you didn’t come across that clearly. But I think the first one is related to cash taxes and what we could – or what you should expect for 2017. The cash tax is indicated...

Phillip Huang  
Analyst, Barclays Capital Canada, Inc.

Right.

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

...in the guidance numbers we gave. I think generally, we've always talked about cash taxes, doing the right thing there in terms of making sure we have the right tax planning, et cetera. It has been and we continue to see it in the range of about 8% of adjusted operating profit as a barometer. As you know, that's not the way it's calculated, but from a cash tax point of view that's generally the range that we see it coming in at and has been coming in at.

Your second question related to the pricing environment we saw in Q4, I think I would say that certainly not different than any other Q4, it was the quarter of competitive intensity. You get Black Friday, you get Boxing Week. Probably the one notable change that we're seeing is with customers are more and more in tune with waiting for those periods.

And so we're seeing much more stark peaks and valleys in terms of when the volumes are coming in and so that combined with us being better at anticipating that and being competitive in the marketplace with our own
offerings, they generally continue to be centered around handset subsidies, and as I said, we're comfortable with that given the ARPU ins that they're driving and the base reprice upward that they're driving as well. So on balance, that continues to hold well.

And then the last part of your question I think related to the wholesale Internet market and...

Phillip Huang  
Analyst, Barclays Capital Canada, Inc.

Right.

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

...what we see happening and the impact. As I said, for us wholesale Internet continues to be a very small part of our business. As you're aware, the interim pricing that's happened at the wholesale level is a concern for us, in the sense that it is below the full cost of providing that service. And so we're confident over the long term, the right thing is going to happen in terms of those rates. But we continue to see that as, again, a very small part of our Internet mix.

Phillip Huang  
Analyst, Barclays Capital Canada, Inc.

That's very helpful. Actually, the update on the pricing environment, I was actually making reference to the Cable side of the business. I was wondering if you could give us an update on that.

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

Sure. On the Cable side, I mean, it's generally a continuation of what you saw in Q3 on that front. The promotional activity generally centered around the whole home and the bundled offerings. With Internet being our key product, we're being very careful to ensure that we're getting the right value in the way we price Internet, in the way we bundle it in the pricing for the whole home. And so I would say overall — and you see that coming through when you look at Internet revenue and Internet ARPU. And so while the individual products sort of go up and down on a consolidated whole home basis, we don't disclose. But what I can tell you is ARPA continues to move in a positive direction for the whole home.

Phillip Huang  
Analyst, Barclays Capital Canada, Inc.

Thanks very much.

Operator: We'll now take our next question from the line of Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery  
Analyst, Morgan Stanley & Co. LLC

Great. Thank you very much. So, I wonder if you, Tony, you just talked about the balance sheet, you did delever in the quarter and then the year back to 3.0, but it looks like you're holding the dividend again for now. So how are you thinking about dividend policy and deleveraging and when you might be in a position to revisit the annual dividend?
And also on the Wireless adds, another strong quarter. It looks like you're expecting a good 2017. How would you attribute your subs to overall market reacceleration versus improved shares? Is it sort of a 50-50, or does it lean more one way or the other?

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

Okay, Simon, I'll start with the second part of the question and then get to the first one. In terms of the Wireless adds in the market, we've seen over the last, if you were to look at the total industry and the total market over the last several quarters, there's been an uptick in, depending on how you measure it, it's anywhere from 3.5% to about 4.5% increase in total size of the net add market. Our expectation is, and we'll see it once everyone reports, but our expectation is that that continued on into Q4. That would be our best guess of – based on what we see in the marketplace.

And so our strong net add position that you saw in the fourth quarter certainly reflects a continuation of that larger market size. But more significantly for us we see it as moving – continuing to move into a strong market share position of nets; again, a continuation of the position you saw in Q3. Our expectation is we continue to track actually into Q4 in terms of market share.

On your first question in terms of dividends, nothing new there. We said that we're really focused on two things: first and foremost getting a business that is growing cash flow on a sustainable basis, and that's coming in nicely. And we wanted to direct that cash flow in the short term to paying down debt and getting our leverage down.

And so while we've seen good trending in 2016, we still got work to do and want to continue to see it moving towards 2.5. We're in the middle of a CEO transition. So as most of you noted, it's kind of a bit impractical for us to make a long-term decision on dividends during this time period and so we sort of – the common sense approach is to not do it right now, and that's what you see there. In terms of when we do it, we don't want to get too far ahead of ourselves, but I think the metrics to keep watching are cash flow growth and movement on the balance sheet as the key ones.

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

And Simon, just to add to that. Obviously, one of the things that we've seen over the last number of years is an increasing trajectory in terms of debt to EBITDA. I think 2016 is a good year in terms of reversing that trajectory, which is something that we've been looking for. It's early days and there's obviously a lot of moving parts, but it's something that the management and the board will be looking at going forward.

Simon Flannery  
Analyst, Morgan Stanley & Co. LLC

Right. And no spectrum auctions on the horizon, in your view?

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

We don't see it in the near term. I mean it – we wait to see, I think what we're hearing is that probably not in 2017 and the probability for 2018 we think remains low, but that's as best as we can estimate right now.
Simon Flannery
Analyst, Morgan Stanley & Co. LLC

Great. Thanks a lot.

Operator: We'll now take the next question from Greg MacDonald with Macquarie. Please go ahead.

Greg MacDonald
Analyst, Macquarie Capital Markets Canada Ltd.

Thanks. Good morning, guys. Want to ask a bit of a follow-on to Simon's question on the gross add numbers that, Tony, you made reference to the fact that the market has lifted nicely. You implied that you've taken some share. That's nice to see, but these are very big gross add numbers that we're seeing. And we have, at least in the last few quarters, seen these types of numbers out of your competitors as well.

Can you talk a little bit about what you think is driving that and whether it's a bit of a cyclical thing, the last year, maybe last year and a half, that should tail off or whether you think there's some sustainability in? I'm more interested in what your assumptions on that gross add number are going into your guidance for 2017, if you can say whether you're actually assuming growth or not on postpaid gross adds? Thanks.

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

Thanks, Greg. I think a couple of things. I'll start with the last part. It's always hard to estimate forward-looking in terms of where the market is going to go, so be cautious on that. I think we're optimistic that the reasons for the growth that we saw over the last several quarters including the fourth quarter should sustain into 2017, but we're cautious about it as well.

If we did stick to Q3, Q4, specifically in the fourth quarter as you said, good healthy gross add uptick. Our postpaid gross adds were up 19% year on year, and that's up from the 8% you saw in Q3. It's also interesting to note that prepaid continues to do well also in the marketplace. And so while we focus on postpaid, the prepaid segment continues to come in nicely in and of itself and it continues to be a good segment which migrates to postpaid afterwards and so those pieces are working well.

In terms of the contributors, it is a number of factors, but I think we kind of hone in on a few of them. The attractiveness of some of the handset pricing we think makes it easier for folks to get into the higher-end smartphones. And so access, increased access is certainly part of it. I think with some of the tools in the bigger buckets that are there, customers are more and more comfortable adding devices, most notably on the Share Everything plan. So you have more devices, more family members coming in. And so what we see is what we would describe as the mid-to-bottom end of the market kind of filling in nicely also, and that's contributing to the ARPA. I could go on with a number of other things, but I think those are probably some of the key drivers, we think, that drove the total size of the market in the second half of 2016.

Greg MacDonald
Analyst, Macquarie Capital Markets Canada Ltd.

So from your comments, I'm to assume that you're also including prepaid in that, right, on the gross side, on the lower to mid, or is that segment different? Do you have different views on what's happening there?
Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

No. My comment with respect to lower to mid, we're seeing that. My comments were in the postpaid. So as I said, it's a good healthy mix that we're seeing coming through, and it's a good balanced mix that you would have seen in previous quarters as well. Separately, on the prepaid side, that market continues to do well, not only in terms of size. But if you were to look at prepaid ARPU in and of itself, that continues to move in a positive direction. And so I think it's good to see both segments, postpaid and prepaid markets growing nicely.

Greg MacDonald 
Analyst, Macquarie Capital Markets Canada Ltd.

And on the prepaid side, would that be just more devices being added on as well; tablets, for example?

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

On -- sorry, if you could repeat that, Greg. On the postpaid side? On the prepaid?

Greg MacDonald 
Analyst, Macquarie Capital Markets Canada Ltd.

On the prepaid side.

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

No, I wouldn't attribute it necessarily to tablets. It's what you would expect, a varied range of devices on prepaid.

Greg MacDonald 
Analyst, Macquarie Capital Markets Canada Ltd.

And you....

Operator: We'll now move on to the next question from the line of Aravinda Galappatthige with Canaccord Genuity. Please go ahead.

Aravinda Suranimala Galappatthige 
Analyst, Canaccord Genuity Corp.

Good morning, thanks for taking my question. Tony, I just wanted to touch on Cable CapEx. Obviously, you are pointing towards broadly lower CapEx in 2017. Is that predominantly coming from the Cable side of things? And can you maybe just talk to sort of the magnitude of the reductions that we can expect for 2017? Obviously, your peers are in the low 20% in terms of -- low to mid 20% in terms of intensity. So there's further room for reduction in CapEx there on the Cable side. Can you just touch on that?

And secondly, with respect to the X1 launch, can you just maybe discuss sort of the main milestones from here on up until the launch; sort of the main humps that you have to kind of get through before you're able to roll the product out? Thanks.

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.
So, Aravinda, of the two questions, I'll start with CapEx. So in the guidance we provided for 2017, you'll see that in the range we provided, the top end of the range, CAD 2.35 billion is where we were in 2016 in terms of actuals. And so you can sort of cross-read on that. That will be the high watermark for 2017, and an opportunity to continue to bring it down as you saw in 2016 coming from 2015. So I think from a total envelope, capital intensity continues to come down nicely.

In terms of the specific pieces of it that you see there, 2016 as you would expect investments in continued LTE in 700 MHz deployment, and that has started to come down on LTE, reaching 95% of the population now, and on the 700 MHz deployment, over 91%. So as that starts to come down, you'll see Wireless CapEx continuing to come down.

On the Cable side that you referenced specifically, 2017 is going to be – while we had expected it to come down, moving the Comcast X1 into 2017 causes us to be roughly flat, maybe down a little bit in Cable CapEx, but it is a one-time item. And so long-term on Cable we expect, once we get past the implementation phase and into 2018, we expect Cable to continue to come down significantly. And that's going to be getting past the IP launch, but also a much better CPE profile as we tap into Comcast's ecosystem on both the set-top box configuration but also on the modem and gateway side as well.

So, that piece of it will come in nicely. Then we'll continue on segmentation as you would expect, and that largely is success-based. And so as we see demand coming in, that investment will dovetail with the revenue increases that we expect.

So overall, the roadmap for capital intensity for Cable to come down is there, and we certainly see the opportunity to get it to sub-20% over the long term, but those are the dynamics between now and then.

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Aravinda Suranimala Galappathige  
Analyst, Canaccord Genuity Corp.

Milestones?

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

Then the second part of your question was what are the key milestones on the X1 platform. I think it's important to highlight the execution risk if you want to call it that on the platform is – we consider it to be moderate to low. I mean, this is a proven product. Others have done it in terms of licensing the product, and so it's something that's proven. The ecosystem for it is relatively small, so we're dealing with Comcast and a very, very limited number of other suppliers in terms of the implementation phase.

So the whole construct for it is a much lower risk than the path we were otherwise on. And so I don't want to get into the specific milestones in terms of where we go, but as you would expect as we said, we're going to launch it in early 2018. And as you'd expect, we built in time for the right amount of product testing within smaller market groups before then.

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Operator: We'll now take our next question from the line of Maher Yaghi with Desjardins. Please go ahead.

Maher Yaghi  
Analyst, Desjardins Securities, Inc.
Yes. Thank you for taking my question. Tony, I wanted to – just in terms of 45% of your residential Internet base is now on speeds higher than 100 megabits per second, that has driven your Internet revenue growth quite nicely. Can you talk about what's your expectation of that metric? It's likely not all clients will take 100 megs, but how much further can we expect this metric to improve and continue to boost your Internet revenue line?

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

Maher, it's the – some of it, the discussion we had on the Wireless side, I think the ingredients that have pushed Internet speeds and capacity up continue to be there. The use cases continue to go up if you look at number of connected devices in the home, such that it sits at about 11 today. And just two years ago, it would have been a number significantly under that.

So, as the use case continues to go up, as video continues to move to IP and the size of the base continues to increase. You know, if you look at the size of our market, it continues to grow at over 2% consistently every quarter year-on-year. And so all of the metrics for growth are there. And so that – we continue to see that, and it plays well to our competitive advantage in terms of speed and capacity. And so as we said, almost half, greater than 100 megabits.

Again, if you were to look at where we were two years ago and where the industry was two years ago, it just continues to move exponentially. And so we don't see a reason as to why that would otherwise have to flatline at 100 Mbps or anything much more higher than that.

Maher Yaghi  
Analyst, Desjardins Securities, Inc.

Okay, great. And just a follow-up on the Cable. I noticed that the absolute decrease from the wholesale decision was not equal on revenue and EBITDA. It seems like there's some additional costs that got in there because of that decision. Can you talk about that? And also when I look at your cable pricing, we've seen recently the increased pricing in your territory quite a bit. Can you talk about your pricing strategy for 2017, and if you announced any price increases for your subscriber base?

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

So on the first one, in terms of – can you repeat the first part of the question, Maher?

Maher Yaghi  
Analyst, Desjardins Securities, Inc.

In terms of the wholesale level by this year – it looks like it went down by $14 million on revenue but $12 million on EBITDA. So I'm trying to figure out where is the additional cost coming from here?

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

Now I think if you work it through in terms of the wholesale piece of it, the impact, I think your $14 million is a little high. If you flow it through, it actually, what you'll see is expansion of the Cable margins. And so you get the full flow-through, but we're picking up the benefit of the mix in Cable of having more Internet which, as you know, is a significantly higher margin for us. So what you actually see is an improvement in Cable margins. So I'd be happy to kind of walk you through that. Amy will walk you through – can walk you through that after the call.
And then the second part of the question was on pricing strategy, and obviously that's something we're not going to talk about.

Operator: We'll now take our next question from the line of John Hodulik with UBS. Please go ahead.

Lisa L. Friedman
Analyst, UBS Securities LLC

Hi. Good morning. It's Lisa Friedman for John. I just wanted to turn back to video. I see that the losses have been getting better over the past, I would say, eight quarters. And I'm wondering if we should expect those losses to be stable this year; if you have any plans in place to kind of keep the lid on subscriber defections or if you expect any disruption in the market that you've now – your competitors know that you're not going to be rolling out your own IPTV product and that that won't be here until 2018? And then is there a point where video gets back to growth as you implement X1?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

Okay. Thanks for the question, Lisa. I think a couple of things. So in terms of continuing on our legacy platform, you're right, if you look at the subscriber numbers for video alone, they continue to get better quarter on quarter. We continue to make investments in improving that product, improving stability, improving some of the functionality of it, including mobile and TV anywhere type of applications.

So what we're seeing is that's improving the product. And when you combine that in a bundle with the superior Internet, I think that is accounting for some of the drag-along as well.

So we do continue to see improving trend, and we expect that trend to continue as we continue to make the investments in that legacy platform.

Lisa L. Friedman
Analyst, UBS Securities LLC

And then...

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

And then, Lisa, I think the second part of your – go ahead.

Lisa L. Friedman
Analyst, UBS Securities LLC

I was just going to say also, has there been much impact from the changes in terms of pick-and-pay, now that that's been fully implemented as of December 1?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

So, on the pick-and-pay piece coming in, I mean, we have been watching it. The impact has been very small, in terms of the impact. The other part of your question that I was getting to was do we expect video to grow, particularly as we get into X1. And absolutely, and that's why we are making the investment. As I said, we are
extremely encouraged by the experience that we have seen Comcast has in the US with the excellent product, where – there is growth there.

So as you've said, when you combine the X1 together with the Internet advantage that we have, we think there is a real opportunity for growth. And I should add you see that in the cost numbers as well. So when you see their – I think their numbers post implementation of X1 seems to be a very good growth story for them as well.

Operator: We'll now take our next question from Rob Goff with Echelon Wealth Partners. Please go ahead.

Rob Goff
Analyst, Echelon Wealth Partners

Thank you very much. My question would be on the Cable side. Could you talk in general terms to the per-household CPE trending when you look at the upgrade to the DOCSIS 3.1 with the Wi-Fi gateway in particular?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

Sure, Rob. In terms of the – I think you're getting at sort of specifically the CPE cost structure, and I would describe it as generally stable over the last six to nine months as we've enabled more speed. You saw modems over the last year increase, but we start to see opportunity for that to flatline and frankly start to decrease again as we move on to the Comcast gateway roadmap, DOCSIS 3.1 enabled gateways. We see that continuing to improve in terms of per unit cost metrics.

Rob Goff
Analyst, Echelon Wealth Partners

Thanks, Tony.

Operator: Ladies and gentlemen, we have time for two additional questions today. The first will come from the line of Richard Choe with J.P. Morgan. Please go ahead.

Richard Y. Choe
Analyst, J.P. Morgan Securities LLC

Great. I just wanted to follow up on the CapEx guidance and commentary. Wireless CapEx is now under 10% of revenue, and it's gone down on a year-over-year. With growing subscribers and usage, can we stay at these levels, and can you talk about what efficiencies you are seeing with the CapEx continuing to be so low relative to historical levels?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

Thanks for the question, Richard. I caution on the Wireless CapEx. You'll see ebbs and flows until – while you see it come down, I don't think sub-10% is a long-term number for it. I think generally, you've seen it in the 11% to 12% range. And so we continue to think that that's a healthy CapEx level for Wireless.

Richard Y. Choe
Analyst, J.P. Morgan Securities LLC

And on the Cable side with the losses coming down, how much of the losses do you think are competitive versus just over the top, any sense on mix there?
Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

It's tough for us to estimate that. I mean we take swags at it based on total size of the market. But because the market keeps growing, it's really tough to know, and so I prefer not to speculate on the call.

Operator: We'll now take our last question in the queue which comes from the line of David McFadgen with Cormark Securities. Please go ahead.

David McFadgen  
Analyst, Cormark Securities, Inc.

Great. Thank you, and thanks for squeezing me in. Two questions if I may. So, the first one is just regarding the dividend and the potential 600 megahertz auction in 2018. If it does turn out that there will be an auction in 2018, do you think that you would just hold off on any given indecision, given the potential to spend a lot of money for that spectrum?

And then secondly on the EBITDA guidance, I was wondering if you can give us a little bit of color on where the growth will come from. I would imagine it's primarily Wireless driven, but if you could give us any color on where that growth would come from, that would be helpful. Thank you.

Anthony Staffieri  
Chief Financial Officer, Rogers Communications, Inc.

So, David, on the spectrum, and again in terms of timing of it, don't know. I'd probably add to the comments that I previously made; 600 megahertz auction is still going on in the U.S. And so we suspect that probably needs to be concluded before it starts up in Canada.

And so, again, we see it as unlikely over the next few years, but we'll see how that plays out.

In terms of the impact it's going to have on the dividend, I think it's just too premature for us to speculate right now. It's obviously going to depend on, by the time we get to the 600 Mhz, where our balance sheet is going to be and what our cash flow growth looks like. So, not a lot I can say about that now.

And then in terms of the AOP growth that we provided in our guidance of 2% to 4%, it would be helpful I would say we see it in all parts of our business. And so on the Wireless side, we are looking to — and again, the principles are kind of the same as we saw before — a good margin and I've talked about that. And I think one of the things you'll see improve is our flow-through rate on Wireless revenue growth. So, we are focused there.

And then secondarily on Cable, I think you'll see stable, possibly improving margins on Cable, but I don't want to get too far ahead of ourselves. The mix advantage that you see is certainly helping us, but as we move through the X1 platform that may rotate some back to video. And so there is a lot of moving pieces, and so I think a reasonable outlook is stable margins on Cable.

And then finally on Media, the core sports product there continues to do well and we see stable margins there as well. So again, the growth will come from all key segments of our asset portfolio.

Operator: Ladies and gentlemen, this will conclude the conference call for today. Thank you for participating and you may now disconnect your lines.