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Rogers Communications, Inc. (RCI)

Scotia Capital, Inc Telecom, Media & Cable Conference

CORPORATE PARTICIPANTS

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

OTHER PARTICIPANTS

Jeff Fan
Analyst, Scotia Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Jeff Fan
Analyst, Scotia Capital, Inc.

[Abrupt Start]

...tag teamed here for the next few sessions with both CEOs and CFOs, and we are honored to have Rogers Communications here with us this afternoon to kick-off the afternoon. So, coming on to the stage are Rogers' CEO, Joe Natale, and Tony Staffieri, Rogers' CFO.

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

Hi, Jeff.

Jeff Fan
Analyst, Scotia Capital, Inc.

So, Joe, this is I think day 36.

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

Is that right? You're counting?

Jeff Fan
Analyst, Scotia Capital, Inc.

I'm counting. Well, you counted from day one [indiscernible] (00:37)...

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

That's right. Yeah. Now, it's been just about 4.5 weeks or so now. Yeah. Five weeks.

QUESTION AND ANSWER SECTION

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

So, maybe we can start by stepping back and just thinking about what attracted you to the Rogers organization.

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

A

I think, first and foremost, Rogers has an incredible mix of assets across all the various platforms, got a very strong and vibrant wireless business, number one wireless player in Canada. We have number one position around cable TV and a strong Internet franchise and on the sports media side, some great properties there as well. So, there is an opportunity to kind of really bringing together all those pieces.

There is a huge entrepreneurial spirit in the company and courage to innovate, that's been there from the very beginning which is attractive and exciting. And there is opportunity for improvement and growth, right? Opportunity for improvement around customer service, opportunity for improvement around cost management, opportunity for improvement around some very important areas, and there is a great team in place. Tony and I have worked together now for only four or five weeks, but we have a very strong kinship around the priorities and what's important, and I was getting tired of sitting at home. So, I was trying to get back to work.

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

Any surprises based on your 36 days being at Rogers? And you talked a little bit about the opportunities, maybe we can touch on that a little bit on the customer service side. What do you think you can bring?

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

A

I think, there's been some reasonable progress in what I would call the various silos of customer service, right, looking at improvements in terms of retail stores or looking at improvements in terms of the call center. But, in this business, you really have to look end-to-end to drive the needle on customer service. Look at end-to-end from product management through to promotion, order management, provisioning or installation, billing, support, all those factors.

And just, very simply, even if you do a job that's 95 out of a 100 in every one of those elements, by the time you get to the customer through seven or eight major parts of the business, you're down to disappointing about one third or 40% of the customers as a result, that's simple mathematics. And there really hasn't been enough of a concerted effort to look end-to-end and really look at how can we drive improvement along that complete value chain and therefore drive improvement in not just productivity, but churn as a result of doing that.

I've just been saying to the product managers at Rogers that your job is really the Chief Operating Officer of your product or solutions, not just about the features or fees and speeds of that product, the latest new shiny feature. It's about what is our ability to sell, service, and support that, make money along the way and have a great customer experience. So, that focus, that mentality, I think, is not as ingrained as it could be and there is a big opportunity on that front.

Jeff Fan
Analyst, Scotia Capital, Inc.
Q

And any surprises based on what you've seen so far in the organization, not just on the customer service side, just across the board?

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.
A

Yeah. I've been kind of making sort of two piles, two lists, one list is, things that are kind of exactly as I expected, and things that are astonishing either kind of in a positive way or in an opportunity way overall. The end-to-end piece is one that's there. Tony and I've had a number of conversations just around cost management. We think based on the way that we're organized, the way we're going to market as an organization, there are opportunities to fundamentally change the cost structure as well, and therefore to drive better margin improvement.

I think as well, in some of the areas where we are making investments, there is an opportunity to kind of really go faster and close the gap. I'm very supportive of the decision that was made around making the move to Comcast XFINITY platform as our major video entertainment solution. Frankly, I don't think that can happen fast enough. I think that fundamentally, the opportunity for us is great. I'm watching very closely as to what's happening south of the border with Comcast and Cox, as they kind of make those steps forward. We're seeing good improvement in terms of reversing [indiscernible] (05:10) in terms of customer engagement and satisfaction, just the raw economics of that business.

I think one of the big opportunities that we have on that front is that in the cable world, we're very much a success-based organization when it comes to capital expenditure, right? If you compare the telco world to the cable world, and the telco world as you're building your broadband capability, you need to kind of make some rather broad and pervasive investments on the anticipation of connecting homes. And in the cable world, we already have a 1-gigabit footprint across the entirety of our footprint. And as we kind of take the step towards XFINITY, yes, there is money involved in actually launching the platform, but in terms of connecting customers to the platform, it all be based on success and therefore [ph] we're having (06:08) a much more variable approach to CapEx investment which is I think a big advantage for us, a big opportunity for us.

Jeff Fan
Analyst, Scotia Capital, Inc.
Q

Right. I'm going to bring Tony into the conversation here. In the months and quarters before Joe joined, we saw a couple of very, very good quarters coming out of Rogers. You were in the front row seat driving the bus, what changed from the previous period through the last couple of quarters, what was done internally? Can you talk a little bit about any changes or any things that you guys put forward to drive the results?

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

I would say, if you've looked at the last few quarters, there have been a good momentum continuation of what you saw leading up beforehand. During that transition, we thought it was important to stay focused on the fundamentals, some of the things that were longer term and strategic, keep our eye on them, but it was really about making sure we didn't lose the momentum, because as you know, for both cable and wireless, it is a momentum business.

On the subscriber front, on Wireless, very good share of net add on the postpaid side and overall trending on the prepaid side as well. And when you dissect the net, it's really two things going on there. We've always done well on the gross add side, getting good solid share and channel execution has always been good and I would say it improved continuously over 2016 and into 2017. So, we like the momentum we're seeing there.

But the big driver was churn reduction and that was really a reflection of a number of things on the customer experience front. If you dissected some of the reasons for churn and what we've done about those, bill shock could be a good example and things like Roam Like Home, Data Manager have been big drivers in reducing those moments that lead to churn.

So those are the items, I'd say, on the subscriber front that's been healthy for us and continues to do well and then that's come with improving ARPU as well. And there's a number of things there, obviously data traffic is at the core of it. But the other piece that we're seeing as well, we're getting behind some of the roaming re-pricing things that we've gone through. And so, it's no longer a drag. And so, we're pleased with where we saw blended ARPU come in and postpaid ARPU, although we don't disclose it, it's coming in nicely as well. So, on both of those metrics, we like what we see and it's really a continuation of the momentum.

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

So, if you think about the transition period now moving into, now that Joe is aboard, obviously, focus more on the strategic side as well, is there any reason why you would lose the momentum or the focus on some of the fundamental aspects that you talked about the last couple of quarters, I mean, it's not either one or the other?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

A

Absolutely not. I think the good thing is, there is momentum, but there is especially with the background Joe brings, an opportunity to accelerate on a number of fronts faster than we have been. Cost is a great example that Joe mentioned. That'd be one area that as we focused on revenue, subscriber share, we put, I would say, a secondary and going forward a big value driver for us and I think that's one that we're going to accelerate much more .So there are a number of items that I think are only going to help the momentum rather than take away from it. And at the same time, we have the capacity to think about long-term as well, it's not as though, we hadn't, but I think we can continue to move confidently in some of the areas, Comcast X1 is a great example.

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

Okay. Joe, at your speech at the AGM, you've mentioned culture as one of the big focus areas for you. I know this is an investor conference, so culture tends to be a little bit wishy-washy, but tell us why that is important and how that's going to drive value for investors?

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

A

Sure. I think you heard me say that culture is the really only source of true competitive advantage and that's not just the motherhood statement, I think it's fundamental to any business that has long-term success and that is really kind of creating an environment where everyone in the organization takes on an ownership mindset, takes on a mindset that they truly are an owner of the business and that manifests itself in the way that an organization makes decisions, in the way an organization has debates and discussions, right?

One of the phrases I've been using around Rogers the last little bit is, I want to get to a place where we're having the meeting, in the meeting not before the meeting or after the meeting. And all too often, cultures in large organizations are punctuated by orchestrating a meeting around an event, but the real debate doesn't happen there, right? It's just that clarity and courage to speak up and no matter what role you have in an organization, what title you have, you feel you have an ability to speak up and say, you know what, this doesn't make sense, let's stop the bus.

The question is how do you make some of those stuff happen, how do you make some of those stuff happen. One is to really clarify accountabilities very clearly and create very specific, not just P&L accountabilities, but accountabilities with very specific investments, capital projects. I think there is an opportunity to kind of really drive that forward.

Second, measurement plays a big aspect in it, right? The ability to kind of really – we all feel the hot breath of something on our neck no matter what role we have in an organization. And part of our job as leaders is to make sure that we orchestrate the right measurements, what gets measured gets done, and all too often, there is a misalignment of measurements. One of the problems in sort of driving end-to-end focus is that people will try to maximize the measurement in their silo, and you get to a place where sometimes you hear, or you get the feeling that people are saying that my end of the ship isn't sinking, right? Because they are doing a good job of maximizing the measurements in their area and we shouldn't hold them at fault for that. That's something that we have to focus on as leaders in making sure the measurements [ph] are our customer end-to-end (12:55) in nature, and they're customer important measurements.

Tony touched on churn. We have a huge advantage in terms of distribution and gross loading. And you can see very clearly, as we improved churn, the almost turbocharger effect that has on our business, right, because, yes, cost of acquisition is not small in this smartphone infused wireless market, and if we can really drive churn in the right direction culturally, where everyone feels they have a role in it, it'll actually help us accelerate that point.

And the other thing that happens, I think, if we have the right cultural mindset is that, when there is a turn coming, you see the turn. You're ready to kind of dive in behind the turn. It's one thing to have a strategy for a period of time, but strategies evolve over time, markets evolve over time. We talked about the XFINITY platform and that solution. I look at that as almost the revenge of cable TV, right, in terms of what's coming back and the capability of fusing some of the best capabilities that we've learned from the OTT world and bringing it into the set-top box world and meeting customers head on in terms of their needs and expectations.

When the culture is watered that way, they're actually looking for those opportunities and they're pushing the organization to make that turn. So, I think those things are all very important. What I see inside of Rogers is actually a very highly engaged team, a team that is very committed to the future and to our customers. And now, it's a question of focusing them in the right place with the right measurements across that end-to-end look at the business.

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

You've had a little bit of time off and you had an opportunity to observe the industry. What are your thoughts on the current competitive environment both on the wireline and the wireless side?

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

A

Lo and behold, the competitive intensity is not abated. In the last 20 months, they've been off. If anything I think that's intensified, it's the very nature of this business as a whole. More than ever, the service proposition is front of mind as a competitive weapon and a very important part of it. The wireless market share battles that have been out there are still out there. And I don't think that will change and has changed. The opportunity on the Internet and cable TV front I think is remarkable in a very important way.

Internet has become the new dial tone for the home. Average Canadian household has 11 connected devices and growing substantially. Bandwidth consumption in the average Canadian home is doubling every 16 to 18 months and it's actually a very important foundational service to build on. I think that will be a very important battleground for us. We feel very equipped in that battleground with truly one of the best Internet products in Canada, period.

And then with the advent of our video entertainment platform on top of that and then where it's all going, it's all going towards the digital home. If you look at what Comcast has done with the purchase of Icontrol and the thoughts and views around owning the home with respect to other solutions in the home, whether it's smart home monitoring and security or the sort of connected capabilities, I think there is a great growth platform there for us and therefore, we'll be well equipped to compete in that particular market.

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

So, your major competitor is building fiber very aggressively in the Toronto market, which is Rogers' backyard. How do you see the competitive landscape play out once they're complete? And I want you to bring your perspective because you've been at both a telecom operator and a cable and so is Tony.

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

A

Right.

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

How do you think you fare when that fiber is built in Toronto?

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

A

Well, first of all, we currently have a full 1-gig footprint across Toronto, which is four times our competitor in terms of capability in that front and so we already enjoy the capability fundamentally. We talked about the strength of the products that we're offering or about to offer overall. And the fact that, we are driven by more of a success-based CapEx opportunity and benefit because of our technology footprint, so I think we're well positioned from that perspective.

And Tony, do you want to add to that?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

A

Yeah, I agree with that, Joe. As we've said, more and more households are making decisions for the home based on Interest first and so that plays to our competitive advantage. For the next I would say long while, we have that competitive advantage.

In the first quarter of 2018, we'll bring onboard the Comcast X1 IP version, which we think would be the second tier of competitive advantage when you think about the home. And then later in the year, we will follow the Comcast product road map in terms of the digital network within the home.

Our CPE, for example, the modem gateways will start seeding the Comcast version later this year and it's a very elegant front end to the horsepower advantage we have today. And so, when finally, in 2018 or 2019 or whenever it is, the telco can match us on horsepower, I think, they're going to find it difficult to unstick the customer to move away from the product advantages they're going to have with us.

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

A

And some inherent advantages in the solution of the cost of customer prem equipment, is fundamentally the different price point for us, given the nature of the set-top box is more of a simple passive device, with most of the functionality sitting in the cloud in our IP solution versus older set-top boxes that are today in both telco and cable end that have substantial hard drives, have substantial moving components and are quite expensive to procure and to create.

So there is a automatic, I think, CPE advantage from that perspective. On top of that, I would say that the ability to actually look inside the home and troubleshoot what's going on inside the home will be a clear advantage for us with the new platform that we're developing right now. It will have all kinds of home telemetry capability to look at what exactly are all the connected devices of the home, which of them are consuming bandwidth and to manage those devices independently both as a customer and as a Rogers' technician, we're going to troubleshoot what's happening.

So, for once, we'll have full two eyes of visibility into what's happening in the home where in the previous cable iteration, cable world, we have to roll a truck to see what's really going on, right. Rolling a truck is not a cheap proposition and often you kind of have to spend a lot of time troubleshooting. When you got that kind of telemetry, it's of significant advantage to us as a whole.

When it comes to the cost of installation, I think we'll see a remarkable difference in the fullness of time around the cost of installation, allow the devices – set-top box devices are not just wireless in nature, but they're largely plug and play. We've all been accustomed to plugging in the Apple TV box on our own. The capability that we're talking about will have some of that same potential.

So there are a number of inherent advantages, it's not just about – aren't just about the actual solution and its form factor, but the operating economics of that solution will be a tremendous opportunity for us in the fullness of time.

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

We've got a few minutes left and considering the fullness of the room, I'll give the audience a chance to maybe ask a question. We got one up here.

Q

Joe, can you talk about media coming from TELUS that company that try to avoid vertical integration, what is your strategy there, what are the strengths of [ph] Rogers' media (21:47) asset and where do you take it going forward? Thank you.

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

A

Sure. So, first of all, just to be absolutely clear, I believe that media and content is important because customers believe it's important and it is the sort of attraction factor around whatever mode of consumption that we're using as a whole. The real opportunity is when we have specific rights to content, actually own the rights. I think if you're the middle person, the intermediary, that's a tough place to be, because the minute you buy the content and start to monetize it, the rights owner is coming back for a premium on that content and you're kind of chasing that cycle.

One key advantage we have at Rogers is rights ownership, and look at what's happened to Sportsnet in a very short period of time. Sportsnet went from being the sort of lagging sports entertainment platform to the leading sports entertainment platform in Canada. Why? Because of ingenuity and creativity of the team, but also very specific rights ownership that was wrapped around that.

You look at radio, radio, I kind of think of the quote from Mark Twain, the – my death has been largely exaggerated, sort of. Radio is actually a very important, fiercely local medium that generates lot of cash for us as an organization. I think the media world is sort of splitting into a few different pieces. One, is sports as sort of a franchise on its own because it is truly is the stickiest most important content that's out there in a very emphatic way. Two, is things that are fiercely local. There's incredibly loyalty towards the radio station we tune in on the morning drive, around programs like Breakfast Television that are fiercely local in nature, they're doing very well for us.

The third place to really kind of focus is around digital. I'll be the first one to say that we haven't cracked the code on digital yet, in terms of how we leverage our properties across many platforms and that's where the opportunity really lies. [ph] I don't know, (24:03) Tony, if you want to add anything to that overall mix?

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

A

Yeah, I'd cap it up by saying, it continues to – we always look at it in terms of vertical integration. Media needs to earn a return on capital just based on its own fundamentals and we continue to look at it that way. We're not looking at it from the perspective of cross-subsidizing the Cable and Wireless business or vice versa. And so as Joe said, sports leads to that in terms of growth both in terms of top line growth and margin expansion, complemented by steady low-single digit cash flow growth in the radio business as the primary drivers of that.

For the last few quarters, you've seen some bumpiness overall because of the restructuring we've done in going through the publishing side of it. It's going to take a bit of time for the digital side of publishing to have a material impact, but it's a low investment path that we're on and so it continues to complement the share growth.

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

Final question, capital allocation, as you think about capital spending on the network side, investments as required, M&A, dividend buybacks, it's kind of an open question, but I want to give you a chance to both to talk about that?

[indiscernible] (25:27)

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

A

Maybe I'll start and say, in terms of – when we look at allocation of the cash flow, on the Wireless side, we continue to see capital intensity being in the roughly 12% range. You know that for 2016, you saw it coming at just under 10%. I would say much of that was really timing more than anything, but we think the right medium- to long-term number is in the 12% and in some quarters, you may see it go to 13% range. And in our models when you look at that in terms of revenue and margin growth, it provides for a healthy ROI.

And then on the Cable side, that's one we've been sitting high at over 30% the last little while, and there's two things that will sort of come out of that number that is going to drive that down over the medium- to long-term, more in line with industry norms low-20s or even below that. Our investment in IPTV comes to an end in terms of the material amount this year with the X1 launch happening next year. And then the second is, as Joe mentioned, our capital investment for new customers comes down considerably in the X1 world.

We go from a home today that costs us over CAD 1,000 to something that's going to be under CAD 400 and so the economics shift significantly.

So those will be the two big drivers on the Cable side of it and so over the next few years, you'll see that continue to come down. Ultimately, once we go to all IP, you'll see the full benefit of it, but it will be headed in the right direction. And media always continues to be a very low CapEx model and frankly not very material the overall size of the number.

And so I would say from the CapEx side of it, that's how we're sort of seeing that flow through. Our leverage continues to sit relatively high and we've said, we'd like to continue to move that down. It isn't something that we are, I would say, by any stretch panicked about. We think in our cash flow models, we see a very good natural progression down and you've seen that already in 2016 and you'll see that continue to come down.

And then on the final piece of it, what does that mean for dividend growth? Nothing really new on that. We've said that, let's focus on the fundamentals that set the stage for dividend growth, being revenue growth, margin expansion and cash flow growth. And that's what we've been focused on. And so, in terms of what that means for when we'll increase dividend, nothing new to say that we haven't said before.

Jeff Fan
Analyst, Scotia Capital, Inc.

Q

And in terms of opportunities on the acquisition side, Joe, you started your comments by saying Rogers has some of the best assets in the industry. Is there anything that strikes you as [ph] potential gaps (28:37)?

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

A

At the moment, not necessarily, no. Right now, the focus is more on evolutionary approach to the growth of our business based on the assets that we do have and extracting better return on those assets and continuing to drive some great discipline around capital allocation, which Tony and the team done a fantastic job in the last little while. So I think, there is room to kind of drive growth in the backs of what we have already.

Jeff Fan
Analyst, Scotia Capital, Inc.

Great. I think that's a great point to end it. We're out of time. We could probably sit here for another 20 minutes. Thank you, Joe, thank you, Tony, for being here. It's our pleasure.

Joseph M. Natale
President, Chief Executive Officer & Director, Rogers Communications, Inc.

Thank you.

Anthony Staffieri
Chief Financial Officer, Rogers Communications, Inc.

Thank you. Nice to talk with you.