



# **Rogers Communications Inc. Fourth Quarter and Full-Year 2018 Results Conference Call Transcript**

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**Time:** 8:00 AM ET

**Speakers:** **Joseph Natale**  
President, Chief Executive Officer & Director

**Tony Staffieri**  
Chief Financial Officer

**Paul Carpino**  
Vice President, Investor Relations

**Operator:**

Welcome to the Rogers Communications Inc. Fourth Quarter and Full-Year 2018 Results Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. Following the presentation, we will conduct a question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to conference over to Paul Carpino with Rogers Communications. Please go ahead, Mr. Carpino.

**Paul Carpino:**

Great. Thank you, Ariel. Good morning everyone and thank you for joining us. Today I'm here with our President and Chief Executive Officer, Joe Natale, and our Chief Financial Officer, Tony Staffieri. 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 2017 Annual Report regarding the various factors, assumptions, and risks that could cause our actual results to differ.

With that, let me turn the call over to Joe.

**Joseph Natale:**

Thanks, Paul, and it's great to have you on our team. Good morning, everyone. Today I'm pleased to share our fourth quarter and full-year results, along with our 2019 guidance. Let me start with the fourth quarter.

In Q4, the team continued to deliver another strong quarter of performance. Total revenue and Adjusted EBITDA were both up 6%. In Wireless we added a healthy 112,000 net additions and delivered postpaid churn of 1.23%, our best Q4 results in almost a decade. At the same time, Wireless ARPU grew 2%. The team struck a good balance between delivering great value for our customers and weighing long-term economics. In Cable we reported steady financial and operating performance. Despite the competitive intensity we added 25,000 broadband customers and grew both revenue and Adjusted EBITDA. In Media we reported strong results with revenue growth of 3% and Adjusted EBITDA growth of 8%. Q4 was a great finish to a strong year and we are well-positioned for 2019.

Turning to the full year, we made an impressive progress in 2018. We delivered on our key financial commitments and raised guidance in the third quarter. We delivered the best financial and subscriber performance in many years. We added a combined 560,000 additional postpaid wireless and high-speed Internet connections; we grew total revenue by 5% and Adjusted EBITDA by 9%; we grew after-tax free cash flow by 5% to \$1.8 billion; we returned approximate \$1 billion in dividends to shareholders. These strong results were reflected in our total shareholder return of 12.5% in 2018, an impressive 21 points above the TSX composite index, and compares favorably to our telecom peers.

We also stepped up our meaningful commitment to invest in Canada and to drive our nation's global competitive advantage. We invested \$2.8 billion in infrastructure to maintain our global leadership in technology; we hired 1,000 additional team members to support our customers; we paid \$1.1 billion in taxes and government fees; we contributed \$60 million to our communities; and as a proud Canadian company, we devoted \$679 million to create and produce Canadian content. Our accomplishments last year provide a view into the strength of our vision and our team. As a team, we hit our stride, delivering strong end-year results and making long key long-term investments while fundamentally improving our execution engine.

We also made meaningful progress on our strategic priorities. We advanced our journey to drive a customer-first mindset and ideology across the entire organization. This mindset has permeated the hearts and minds of our team and is starting to show up with our results and our customers' experience. In 2018, our team delivered a 10-basis-point improvement in Wireless postpaid churn; we saw healthy reduction in call volume and even greater rise in digital adoption; and our customer care investments delivered strong service-level improvements, especially during the critical selling season.

In Wireless we improved network performance and coverage across Canada; we struck a strategic and comprehensive partnership with Erickson to bring Canadians the very best that 5G has offer; we stepped up our efforts to deploy small cells; we signed a strategic partnership with UBC to build and test the real-world 5G up on a city-like campus. We believe that 5G will radically transform the world around us and fuel the Canadian economy. It is critical that we partner with Governments, universities, and industry to shape this transformation as it sweeps our nation over the next five to 10 years.

In Cable, our Internet service continued to lead the industry. We already offer 1-gigabyte speeds to all of our customers today, and into the future, our DOCSIS roadmap will support upload and download speeds of up to 10 gigabits per second across our entire footprint.

In 2018, we started a journey to accelerate the evolution of our connected home strategy. The reinvention of our TV business with Ignite TV was a critical step in that journey. To introduce Ignite TV we took a new go-to-market approach that allowed us to pressure test the service before commercial rollout. Throughout the year, we methodically moved from employee trial to consumer trial to full-scale consumer launch. This was a great cross-Company effort that has become a blueprint for how we execute key Company initiatives. I am proud of our team and how they brought the service to life for our customers.

While it's early days, we're seeing an unimpressive reduction in churn and improvement in likelihood to recommend, and ARPA. Rogers has established a competitive advantage in cable with our world-class Internet, our DOCSIS roadmap, our IPTV service, and our connected home roadmap. Together, we believe this gives us a winning formula to own the home.

We also started to build a formidable, high-performing culture. In 2018, we achieved best-in-class engagement and we were recognized with a number of prominent awards, including one of Canada's Top 100 Employers and a Top Employer for Young People.

Turning to 2019, we have solid momentum, a clear plan for growth, and a disciplined capital program that will sow the seeds for the future. The macro environment continues to look favourable. We see healthy growth in the economy and our industry. The wireless subscriber market is expected to grow 5% and home Internet 2%. We plan to lead this growth by delivering on our customers' strong demand for broadband, backstopped by our commitment to deliver the very best customer experience.

Our 2019 guidance reflects the strong trajectory with sustained growth in both revenue and EBITDA. We announced a meaningful increase in capital expenditures that we will invest in our networks and a particular coverage in rural and remote areas. The Government's recent tax law changes will advance some of these investments. Our 2019 capital plan reflects an unprecedented level of investment in our country's network infrastructure, the engine of Canada's innovation agenda.

As I take a step back, it's clear that we have the right plan and the right team. We are buoyant about our future and our growth potential. In 2019, we will maintain our focus on our six strategic priorities: our customers, our networks, our growth, our innovation, our culture, and our communities. Overall, we will take a meaningful step toward our long-term vision, our vision to build a next-generation world-class technology company that is number one with our employees, our customers, and our shareholders.

At the center of this vision is our customer. It starts with listening to their feedback and improving their experience with Rogers. We will continue with our unassailable focus to make things clear, simple, and fair. As customer service improves, it will drive greater cost efficiencies that we can reinvest in their experience. We know we have work to do and we are fully committed to delivering on this challenge.

In network, we will continue to make the right strategic investments. In Wireless, we will investment and partner to bring Canadians the very best of 5G. In Cable, we will future proof our customers with our DOCSIS and connected home roadmap. Our significant commitment to our networks will ensure Canadians have a global competitive advantage for decades to come. We will introduce new content and services on Ignite TV while bringing our customers the home of the future.

Fundamentally, we remain relentlessly focused on sparking growth in our core business while enhancing shareholder value. Operational excellence and well-timed network investments are key to our success.

I'd like to express a heartfelt thank you to our team for their fierce commitment to our customers and to each other. I'm immensely proud of what we have accomplished and I'm genuinely excited about what we will bring to our customers in the year ahead.

With that, let me turn it over to Tony. Over to you, Tony.

**Tony Staffieri**

Thank you, Joe, and good morning, everyone. Overall, we're very pleased with our operating performance, not only for this quarter but for the full year as well. During the past several quarters, we communicated a number of goals we had set for ourselves across various key fundamentals, which included stronger guidance for Adjusted EBITDA and free cash flow, and I'm proud to say that we delivered on all of them.

On a consolidated basis, we continue to produce strong total revenue growth of 6% and Adjusted EBITDA growth of 6% this quarter. Our cost efficiency program delivered another 10 basis points of margin expansion this quarter and, over the span of two years, we have over-achieved our goal of 100- to 200-basis-point margin improvement with cumulative margin expansion of 210 basis points. Over the past two years, we've gone after much of the low-hanging fruit in terms of cost efficiency. We continue to see more opportunities on this front, but margin expansion will be at a more gradual pace.

Looking at our Wireless business, we reported strong service revenue growth of 5% this quarter, which reflected a combination of meaningful subscriber and ARPU growth. Despite a highly competitive quarter, our focus on subscriber economics delivered a combination of 112,000 postpaid net subscriber additions, which was an improvement of 40,000 year-over-year, along with growth of 2% in blended ARPU and 3% in blended ABPU. As you will recall, we had set ourselves a goal of 2% to 4% ARPU growth and 3% to 5% growth on ABPU on a full-year basis for 2018. I'm again pleased to say that we met these goals with full-year revenue growth of 3% on ARPU and 4% on ABPU.

Our focus on base management and customer experience also produced churn of 1.23% this quarter, which is an improvement of 25 basis points year-on-year, an improvement of 12 basis points when compared to two years ago. Our commitment to balancing subscriber growth at the right economic value led to a strong flow-through of our topline revenue and we delivered 7% growth on Adjusted EBITDA.

While our year-on-year Wireless margin contracted this quarter as a result of higher frontline investments in the quarter, we delivered margin expansion of 100 basis points for the full year. In Cable, this quarter we grew revenue by 1% and Adjusted EBITDA by 3%. Our Internet product continues to be the driver of growth in our Cable business. Internet revenue grew 6% this quarter,

reflecting our ability to monetize the increase in consumer demand for data. Internet remains the anchor in the customer home, and our ability to offer Ignite gigabit Internet across our entire cable footprint continues to attract customers.

This quarter we reported 25,000 net subscriber additions, an improvement of 5,000 year-on-year. On Adjusted EBITDA, we expanded Cable margins by 80 basis points this quarter due to a combination of cost efficiencies and continued product mix shift to higher margin Internet. We achieved our two-year goal on margin improvement with cumulative margin expansion of 180 basis points. In Media this quarter, revenue grew 3% given higher advertising and sports revenue, and Adjusted EBITDA grew 8% due to our continued focus on cost efficiencies.

Turning back to our consolidated figures, I'll now go through some additional details on our financial results. We invested \$828 million in CapEx for the quarter and \$2.79 billion for the year, which was near the high end of our guidance. We've always invested in our networks, in Cable and Wireless, and will continue to do so in the future. In Wireless we're paving the way for 5G with our 4.5G rollout, while being efficient with our assets by strategically and prudently investing in fibre-back coil (phon 14:07) only where necessary. In Cable we are investing in integrating Ignite ITV into our network and pulling forward no segmentation to recognize economies of scale, while remaining well ahead of consumer demand for data.

With respect to our financial flexibility, we generated free cash flow of \$275 million this quarter, which was an increase of 20% year-over-year, while delivering dividends of \$247 million to shareholders. We ended the quarter with a debt leverage ratio of 2.5 times, which compares to 2.7 times a year ago. The improvement is due to both higher Adjusted EBITDA and lower net debt. Our balance sheet remains healthy with our solid investment grade credit ratings, stable outlook, and attractive rates on our outstanding debt. With a backdrop of our strong fundamentals and solid balance sheet, along with significant investments in our network, we've raised the dividend from \$1.92 to \$2.00 per share.

Turning to our guidance, we look forward to continued growth in key fundamentals in 2019 while still investing in our core businesses. We've provided revenue guidance in the range of 3% to 5% growth, and for Adjusted EBITDA we expect growth in the 7% to 9% range. Free cash flow is expected to increase in the range of \$200 million to \$300 million, even with our CapEx investment expected to be in the \$2.85 billion to \$3.05 billion range.

A few comments to help you interpret these guidance ranges. Firstly, the definition of free cash flow is being simplified to Adjusted EBITDA less CapEx, interest, and cash taxes. This will bring the metric more in line with standard practice across the industry. Secondly, our guidance ranges reflect the adoption of IFRS 16 lease accounting commencing in Q1 of this year. This standard will be applied on a prospective basis. As a result, year-on-year Adjusted EBITDA comparisons will be higher as lease payments that were previously reported as an operating expense will now move to the interest and depreciation lines. This translates to three points of Adjusted EBITDA growth which flows through to free cash flow. This new lease accounting standard also increases our assets and liabilities by approximately \$1.5 billion. I would highlight that IFRS 16 does not change the underlying economics of our business.

In closing, we executed and delivered on our goals in 2018 and are excited with the path we've set for ourselves in 2019. The guidance we have provided reflects confidence in our execution and our ability to deliver on the fundamentals in order to achieve sustainable growth.

With that, I'll ask the Operator to open the lines for questions.

**Operator:**

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

Our first question comes from Vince Valentini of TD.

**Vince Valentini:**

Thanks very much. I'm just trying to understand the guidance from a couple of perspectives. The \$174 million impact from IFRS 16 in 2018, is that expected to be virtually identical in 2019 or does it change from year-to-year?

**Tony Staffieri**

The \$174 million adjustment that would've related to 2018 is going to be approximately the same in 2019. You can think about it as roughly evenly spread throughout the year.

**Vince Valentini:**

Okay. In the Media segment you had some pretty big sort of one-time items from Major League Baseball the past two years. Is it fair to say your growth in EBITDA in 2019 in this guidance does not assume a recurrence of that, so you're growing despite that one-time item disappearing?

**Tony Staffieri**

That's correct.

**Vince Valentini:**

Okay. Lastly, for Joe maybe, this dividend increase—very nice to see, thank you for doing that—but do you guys still think of dividends as a once-a-year in January event or is it possible that we could have this reviewed more frequently, depending on how results shake out over the course of the year?

Thanks.

**Joseph Natale:**

Thanks for the question, Vince. Let me just take a step back for a second. Number one priority for our cash is investing in the future of our business. Our primary belief or philosophy is that we want to keep the financial flexibility to invest in the things that give us core advantage and that propel and sustain our growth. That's our networks, tools and services to serve our customers, the innovation agenda that we have in front of us. That is sort of the primary focus of the organization. From time-to-time, we may deem there to be excess cash, and we will take a look at that excess cash and figure out how we best return it to shareholders during that period of time. What you'll see from us is a bias more towards share buybacks in the future overall. What we don't want to do is be stuck in a cycle of annual dividend increase commitments. We are being very thoughtful about this, but our primary focus is the future of the business.

**Paul Carpino:**

Okay. Thanks, Vince. Next question, Ariel?

**Operator:**

Our next question comes from Jeff Fan of Scotiabank.

**Jeff Fan:**

Thanks. Good morning. First just on the clarification on the free cash flow guidance, so if we were to take, I guess what you guided to for 2019, to compare it to the, I guess reported, what we need to do is adjust the IFRS impact of, I guess, \$170 million and, I guess, also adjust for the contract asset; is that the right way to think about it to make it comparable to the 2018 actual results?

**Tony Staffieri**

That's right, Jeff. If we were to convert that to, once you work through that math, to be helpful, if we convert it to percentage increases on a like-for-like basis, free cash flow growth in the 1% to 5% range, which is consistent with the free cash flow growth we had provided in 2018.

**Jeff Fan:**

Okay. Great. That's helpful. Next question just on ARPU, so your ARPU growth is very healthy. Wondering if you can talk about the shift from prepaid to postpaid and that as a driver; and also, if you can just give some direction on what's happening with your postpaid ABPU, whether that's growing, maybe a little bit on usage growth and where usage is right now on your postpaid side, just to give us a sense as to how we should think about ABPU for 2019. Thanks.

**Joseph Natale:**

Thanks, Jeff. Why don't I start? Tony, you can feel free to kind of add to it. We believe that fundamentally there is room for continued ABPU growth into the future on a longer-term basis for sure. We're not going to attach a number to it, Jeff, just to be absolutely clear about that. But we do see some fluctuations in the short term. In terms of what's propelling ABPU up or ARPU up is still continued strong demand for data. You've heard me say time and time again that smart phones have become the remote control for our lives, and that sort of dedication from our customers will continue and we see strong demand growth on a really organic and substantial basis.

Second thing is that we continue to focus our efforts around base management. As churn moderates for the industry, which we think is a good thing, there will be less available nets in the marketplace as a

whole, so managing the base appropriately and looking after the quality of incoming customers and helping the base of customers upgrade appropriately is a very important skill set that the team has worked hard to create over the last year and will continue to kind of develop as a muscle for the organization.

We also do believe there's opportunity to continue to tier up customers as they kind of go from less capable smart phones to more capable smart phones as they extend that portfolio of capabilities across their family, etc. The thing we're watching closely around a factor that's having a moderating impact on ARPU is the fact that data buckets have grown substantially over the last little while. In fact, I would say the data buckets have grown faster than the rate of growth of usage or consumption. It's that headroom in the data buckets that we're seeing in some parts of our base taking time to catch up to. The demand is still great, but occupying that headspace, given add-on data buckets is the moderating impact or affect on ARPU as a whole.

We do feel confident in the longer-term, and some of the initiatives that we have are the right initiatives. We'll take some time to keep focusing on them. If you look very carefully at our guidance, you can see that we're feeling confident about the growth prospects of the Wireless business and it's reflected very clearly in the guidance we put forward.

### **Tony Staffieri**

To tack onto that, Jeff, to answer a few of your more specific questions, in terms of postpaid ARPU and ABPU growth, while we don't disclose that, what we can tell you is that the growth in each of those is commensurate with what you see on a combined blended basis, and so we're feeling pretty good about the growth we're seeing there. In terms of pre to post, it's been a natural part of moving our customers up the value chain. If you were to look at and dissect our net adds of 112,000 this quarter, you can see that it's pretty consistent gross-add momentum, but materially, it's part of the churn reduction that you're seeing contributing to the net. While it's a healthy part of our postpaid growth and industry growth, it continues to be relatively consistent but not a majority of that growth.

### **Jeff Fan:**

Okay. Thank you.

**Paul Carpino:**

Great. Thanks, Jeff. Next question, Ariel.

**Operator:**

Our next question comes from David Barden of Bank of America Merrill Lynch.

**David Barden:**

Hey, guys. Thanks for taking the questions. I guess the first question would be, Tony, for you on the CapEx. I think for most of the year last year we were talking about kind of stable Wireless CapEx investments and falling Cable CapEx investments. I guess that's not happening now. If you could kind of elaborate a little bit on the pivot on the capital spending and where that's going, that would be helpful. Then I guess the second question would be, with the higher spending and the 600-megahertz auctions coming and leverage likely going up, I guess, Joe, why was now the right time to raise the dividend given that I think expectations weren't necessarily there that you had to do that?

Then I guess, finally, on the Ignite TV, if you could kind of give us the latest on kind of where that stands in terms of deployment, take up, and kind of other details, that would be helpful. Thank you so much.

**Tony Staffieri**

Thanks, David. I'll start with the CapEx question. When you look at our guidance range for CapEx for 2019 you'll see that the bottom end is slightly higher or about the same as where we left 2018, with room to grow that within our Adjusted EBITDA growth and free cash flow growth. We thought about the envelope in terms of giving us what we need, as Joe referred to in his comments, what we need investing in our core networks first and foremost. As you split those out on the Wireless side, you don't see much of a change in terms of capital intensity there and things continue to be consistent. On the Cable side we have said that we expected capital intensity to be at about and maybe slightly declining levels as we got into the 2019 and 2020. We still see that to be the case. We wanted to provide room within our CapEx envelope to capture the Ignite TV migrations, depending on the volumes that we execute on during the quarter. Think about it as giving us the flexibility to do that, but, first and foremost, it'll be on networks spend in both Wireless and Cable.

**Joseph Natale:**

David, on the dividend question, I've been here now about 20 months. We've been asked the dividend question, it feels like, in most sessions or discussions with investors. After some thinking and reflection, discussions with the Board, we felt it was appropriate at this stage, given the strength of our results, given the conference we have in our future, to underline that confidence with a dividend increase, and then very directly and clearly state our policy and our philosophy going forward around the use of cash. That's all we're trying to do here is just kind of lay that out fundamentally and reinforce the fact that the primary use of cash will be for the future of this business and investing in sustained growth in our competitive advantage, and that going forward, as I said earlier, more of a bias towards share buybacks and we will look at dividend increases as we deem appropriate, but not on some sort of annual increase cycle. It helps us be more clear and specific, is the short answer to the question.

On Ignite TV, we're really pleased with where we are on Ignite TV. It is early days. We're not going to disclose some of the specific metrics at this point for a number of reasons, including competitively sensitive reasons, but we are seeing a very impressive reduction in early life cycle churn, something that I know you know we measure very specifically in early lifecycle of adoption for any new product. We're looking very carefully at likely to recommend and we're seeing a material step-up in terms of the reaction from our customers. Those most people that have used the product for a while have really kind of come back in many different forms to say this is an incredible product and it really has strong appeal in terms of finding content, discovering content, taking content with you with the Cloud PVR, the use of the voice command function, all the things we've talked about. We're seeing that materialize and it's showing up fundamentally in the ARPA, Average Revenue Per Account, for household metrics.

As you might imagine, the more discoverable the video-on-demand content and the more variety we keep adding, the more consumption of that content and the higher loyalty metrics that we see around it. Very pleased with it. At the end of the day, we spent a big part of last year sweating the details around Ignite TV and we're playing the long game, playing the long game. This is not just about Ignite TV, it's about the connected home roadmap that follows, and you'll continue to see capability drops from us on a regular basis through this year and the years to come. As we're ready to talk of those capabilities drops, we will certainly give you every ability to see them, understand them, and, hopefully, share our enthusiasm for what they do for our business and what they do for our customer loyalty and economics as a whole. But we couldn't be more pleased about what we're seeing from the products.

**David Barden:**

Thanks, guys.

**Paul Carpino:**

Thanks. Next question, Ariel.

**Operator:**

Our next question comes from Tim Casey of BMO Capital Markets.

**Tim Casey:**

A couple for me; just on the free cash flow guide, Tony, just a clarification: is there any other one-timers in there we should think about? I think, would cash taxes be impacted and flow through on that line? Just a comment, Joe, on market competitiveness on Wireless. You mentioned you expected the market to grow 5% this year; just wondering if you could maybe add a little colour on how you get there and what broad competitive brush you expect next year. Thanks.

**Tony Staffieri**

Okay. Thanks, Tim. I'll lead off with the first part of your question. The short answer is there aren't any one-time items in free cash flow. You might be referring to the upcoming legislative changes and accelerated depreciation. That is not going to have an impact on our 2019 free cash flow. That will start to come in in 2020 and later years, but not an impact for this year.

**Joseph Natale:**

On the competitive market place around Wireless, I would say that Q4, once again, was an intensive competitive period for the industry. It started early in the quarter and it just kept going on a regular and consistent basis in terms of competition and competitive offers stepping up. Really proud of the team in terms of where we landed as an organization. You know, 112,000 postpaid nets for the year; we're up 100,000 nets over the previous year at 453; and the best number of all in that whole mix is our churn metric. A 10-basis-point improvement in churn, bringing it to 1.1% for the year, while gross has been up 2%, is a very powerful combination for us.

We don't to the competitive intensity changing or relenting at all in the year ahead. We do believe that there is still penetration growth available in the Canadian market. You've heard me say before in the

past that we're sitting at about 87% penetration or so, vis-à-vis the U.S. at 119 or 120. There's no structural reason for the penetration being remarkably or structurally different north or south of the border. We're going to continue to march along the path of that penetration growth. The key is making sure that we focus on quality and managing our base appropriately. We're not going to be chasing subscribers at any cost. That's a very important part of our mindset. You saw us deliver very strong margin expansion, 100 basis points on Wireless in the past year and 110 in 2017 in Wireless. You've seen the type of ARPU and ABPU growth that we've achieved in 2018. You heard me talk a few minutes ago about what we see in the future and our feeling around ARPU and ABPU growth. We're going to continue to do well in the marketplace while making sure we manage the long-term economics of the business, continue to offer affordability for customers and give them great service while managing the obligation to shareholders around these economics.

**Tim Casey:**

Thank you.

**Paul Carpino:**

All right. Thanks, Tim. Next question, Ariel.

**Tim Casey:**

Our next question comes from Philip Huang of Barclays.

**Philip Huang:**

Hi. Good morning. Thanks for taking my question. Tony, you've mentioned continued margin expansion in 2019, albeit more gradual. Was wondering where you see the greatest opportunity within the business, is it Wireless versus Cable. Then also a quick one on prepaid. Obviously a lower value segment, but was wondering what the drivers were behind the bigger net loss in subs this quarter. I'm not sure if I missed something in the release. Thanks.

**Joseph Natale:**

Thanks for the questions, Phil. In terms of margin expansion, as I said, very pleased with the performance over the last year and two years with over 200-basis-point margin expansion. As we look to this year, I don't want to get into the specifics of margin expansion by category, but we see opportunities in both Wireless and Cable in terms of margin expansion. As I said, it'll be more gradual

than what you would've seen over the last year or two years, but as we continue to invest in customer service, what we'll see is more long-term return on that, and so still delivering margin expansion. That's captured in our EBITDA growth ranges, Adjusted EBITDA growth ranges that we have for the full year.

I think your second question relates to prepaid and the level of churn that we saw in the fourth quarter, which really relates to two things. One is the number of pre-deposed migrations that we saw, not only for us but for the industry, and we think that's contributing to the bottom end of prepaid for all the players in the industry; and, two, it's competitive intensity that's heating up in the prepaid space that we saw in the fourth quarter.

**Philip Huang:**

Thanks very much.

**Paul Carpino:**

Thanks, Phil. Next question, Ariel.

**Operator:**

Our next question comes from Aravinda Galappathige of Canaccord.

**Aravinda Galappathige:**

Good morning. Thanks for taking my question. I have one for Joe and one for Tony. Joe, I was wondering if you can talk a little bit about the progress that you're achieving on the enterprise side, including SME. Obviously, enterprise becomes even more significant as we kind of enter sort of the 5G applications. I was wondering if you can talk about sort of the progress thus far and the strategy going forward to kind of get a stronger grip of that segment. Then for Tony, just going back to IFRS 16, could you just give us a sense of how that impact breaks down on a segment basis, the three segments?

Thank you.

**Joseph Natale:**

Thanks, Aravinda. On the enterprise side, 2018 was a good year for building and investing in the future of enterprise business. We built products at capabilities and reshaped the engineering and sales force efforts, and really to kind of get ready for continued growth and momentum in 2019 and 2020 and beyond. We did see some good early results in terms of the strength of our Small Business portfolio.

Inherent in our results for both Wireless and Broadband is a component that relates to the work that the Enterprise Team is doing.

We won't get into disclosing any of that specifically for sensitive reasons, but the team is stepping up. We think there's a big opportunity in that space. As I've mentioned to you in the past, we are under-indexed, in especially the middle and large part of the enterprise space, and if we do nothing more than get a reasonable share of the market commensurate, equivalent to what some of some of the other cable cos have done in North America, that will continue to provide benefit and growth and prosperity for our business, and that's what we're focused on and that's what the team is focused on through 2019 and 2020. As that marches along we will talk a bit about it during some of these calls, but we're feeling very confident and bullish about what that team is doing.

**Tony Staffieri**

Aravinda, on your question of IFRs 16, if you were to look at the amount of the adjustment that would relate to 2018, the \$174 million—and as I said, it'll be about the same for 2019—think about it as the majority being related to the Wireless business. As you would expect, much of our lease program revolves around two things in Wireless: one is a space for wireless towers, and, secondarily, our distribution network. That's why you'd see a majority of that adjustment, if you will, being related to our Wireless business.

**Aravinda Galappathige:**

Thank you. I'll pass the line.

**Paul Carpino:**

Great. Thanks, Aravinda. Next question, Ariel.

**Operator:**

Our next question comes from Maher Yaghi of Desjardin.

**Maher Yaghi:**

Thank you for taking my question. I wanted to just dig a little bit into these accounting changes that you guys are going under. In the notes we published on IFRS 16 we had estimated the impact on EBITDA for Rogers was going to be around \$174 million, which is what you guys have reported today. But we

had estimated that impact on free cash flow was going to be around \$111 million. I'm kind of surprised by how the split between interest cost and debt repayment, and your calculation of free cash flow. Can you tell me what discount rates you're using in assessing the proportion of interest cost that goes into that calculation of free cash flow versus the portion that goes into debt repayment?

**Tony Staffieri**

Maher, just a couple of comments to be helpful; I'm not sure where the \$111 million number you're quoting has come from. This is the first disclosure we've made of the impact of IFRS 16, and so, as I said, to be helpful, we're trying to provide and be transparent with the year-on-year changes. The amounts will move, as I said in my opening comments, total lease payments that were otherwise as operating expense into both interest and depreciation. In the due course we can follow up with you in trying to help you on the split between those two categories.

But I will reiterate it does not have an impact on cash flow, and so the cash payments end up being what they are. I hope that helps.

**Maher Yaghi:**

For sure. But just because when you look at EBITDA impact, you say it's going to be the same on free cash flow. Implicit in your assumption here that there's very little interest cost assumed in your calculation of free cash flow while the debt repayment portion, which is going to be the bigger portion of that calculation, is below the free cash flow line. That's why my question was trying to assess your discount rate so that I understand how you split that rent item. We can take it offline.

But in terms of free cash flow, when I look at 2018 and I add the \$174 million of IFRS 16 adjustment, and I add the \$363 million of definitional change that you just announced today on how you calculate free cash flow, you basically—the new free cash flow number for 2018 is 30% higher than how it would've been calculated under old IFRS and old definitional assumptions with your calculation of free cash flow. Can you talk about the usefulness of this metric now given how much it's now far from the actual cash flow generation of the Company?

**Tony Staffieri**

I think a couple of things I would say, Maher. As you work through the year-on-year, one thing is we're trying to be very clear, transparent, and simple about what the big metrics are that impact free cash

flow. We'll continue to provide the additional metrics, which you will see on our balance sheet, if you're referring to the contract asset, for example, and the changes in that. What we're finding is different groups will have different ways of looking at free cash flow, and so as a very core of it, we're trying to provide something that's very simple.

When you look at the growth rates and back all of them out, because of some of these changes, and in particular because of the IFRS changes, you end up with growth rates that end up being double digits and beyond. That's why this year we decided to provide more of a range in dollar amounts to be more helpful. As I said, all the pieces that make up that beyond CapEx interest and cash taxes we'll be transparent with. Again, we'll be available. Paul and team are available after the call to sort of help you through that in thinking about the pieces of it.

**Paul Carpino:**

Great. Thanks. Thanks, Maher. Next question, Ariel.

**Ariel:**

Our next question comes from Drew McReynolds of RBC.

**Drew McReynolds:**

Thanks very much. Good morning. Tony, not to beat a dead horse here on free cash flow; you alluded to 1% to 5% growth. Can you just remind me what that's in context? I guess specifically, if you just go under the old accounting, old definition, did you meet your 5% to 7% free cash flow guidance for '18? Whatever that number is, what's the growth off that, same apples-to-apples in '19 is kind of my question. Then just secondly on Internet, if you can comment the impact of Internet resellers out there, just what that competitive dynamic is relative to prior quarters, prior years, that'd be helpful. Thank you.

**Tony Staffieri**

Okay. Drew, I'll start with the first one. Thanks for the opportunity to continue to help clarify it. When you look at 2018, we ended the year with free cash flow growth of just over 5% relative to the updated guidance of 5% to 7% that we provided in October, so pleased not only with the rate of growth but within the guidance ranges that we provided. If you were to look at 2019 guidance and back out those items that we've been talking about, so on a like-for-like basis, that 5% growth in 2018, our guidance this year would be in the range of 1% to 5% for 2019 on a like-for-like basis.

**Drew McReynolds:**

That's helpful. Yes. Thank you.

**Joseph Natale:**

Drew, on the Internet broadband economics question and the competitive intensity, all of last year was a very competitively intense period for that business. We saw significant price discounting from our major competitor throughout the course of the year. In terms of third-party resellers, I think their role in the market and the approach that they took was aggressive, but consistent throughout the course of the year. We didn't see anything sort of change dramatically from that perspective to that specific question. I would say to you, despite that competitive intensity, we have now grown Internet penetration for 14 straight quarters, and, in fact, last year grew by 180 basis points as a whole.

In the same spirit as Wireless, we're working hard to bolster our capability around base management. The team is doing a much better job around base management. There's the continued demand for broadband data to the tune of about 30% growth per year, so it's very strong demand across the board. We've got a great advantage with the DOCSIS roadmap and the connected home roadmap that I mentioned earlier.

One stat that might be useful is, if you go back five years ago, we had about 4% of our base on 100 megabit per second tier or greater; if you look at that stat today, it's roughly 60% of our base on 100 megabit per second or greater. That continued growth is a natural part of what we're seeing and with the DOCSIS roadmap we have the headroom and capacity with the 1-gig footprint right now and whatever will follow in the time to come as a whole. If you look back at the last five years, our Internet ARPU has had a CAGR of roughly about 7% over that period of time as we've up-tiered. I believe there's still lots of room to monetize that growth on the path forward, and we've done very well on absolute and relative terms to our major competitor in terms of customer additions and improving the economics of the business as a whole. As 1-gig matures on DOCSIS to 10-gig, we'll continue to kind of meet and satisfy the growing data demands of the household in Canada.

**Drew McReynolds:**

Thanks, Joe.

**Paul Carpino:**

Great. Thanks, Drew. Ariel, we have time for two more questions.

**Operator:**

Certainly. Our next question comes from Simon Flannery of Morgan Stanley.

**Simon Flannery:**

Great. Thanks very much. Joe, you've talked in the past about servicing value potential asset monetization. I was just wondering if there's any progress on those or is that something that's now been put on the shelf for a later date. Then on the TV market, you gave guidance for the Wireless and both the Internet growth. How are you thinking about the overall TV video ads for the industry in 2019? Do you think the pace of cord cutting is going to be comparable to 2018? Thanks.

**Joseph Natale:**

Sure. In terms of servicing value, Simon, still very much focused on all opportunities to service value for the organization, in line with the overall strategic priorities of the Company. There's no new news to report there on any front. When there is some news of any consequence, rest assured that we will update our shareholders and give you some specifics around what's happening.

On the TV front, first, talk a bit strategically about what we view the role of TV to be. TV increasingly is becoming an important entertainment feature set of the broadband connection. Our focus is very much the broadband connection, owning the household and the average revenue per household or per account that manifests itself. We'll continue to find innovative ways of delivering entertainment, innovative ways of packaging entertainment and offering choice and service to our customers to do so. We have not seen any remarkable wholesale shift in TV cord cutting. It's kind of been running at the same rate more or less that we've seen for the last little while. In the sort of 1% to 2% range is what we've been seeing, which is substantially better than the U.S. As a reminder, the U.S. has been running a far greater cord cutting, right, largely because of a couple of reasons. One is they've got much higher ARPU and prices around video entertainment, and the proliferation of individual streaming services, etc., in the U.S. has kind of advanced cord cutting by sort of a combination of things.

Our goal is to continue to leverage the power of Ignite to offer our customers the choice and to help them manage the whole home around that, and not just make it a standalone product but make it part

of the whole home ecosystem. You'll see further capability drops coming from us. Entertainment is just one step on the journey, but the other capability drops around the Internet of Things, around using voice for a smart home monitoring, and managing the home around managing Wi-Fi in the home, things of that nature we've talked about in the past and these will all be service sets and features that will continue to add to the value the broadband connection. We'll continue to manage the individual content economics of that business, but rest assured we're squarely focused on broadband in the whole home as the primary strategy behind our residential business.

**Simon Flannery:**

Thank you.

**Paul Carpino:**

Thanks, Simon. Ariel, can we have our last question, please?

**Operator:**

Certainly. Our final question comes from Richard Choe of JP Morgan.

**Richard Choe:**

Hi. Just wanted to ask a little bit about the CapEx increase. Can we get a little bit more detail on what it's going to be spent on? I guess with the dividend increase, what gives you confidence that between the CapEx increase and the dividend increase, that the business is doing well enough where you can do both?

**Joseph Natale:**

Sure. Tony, you want to start?

**Tony Staffieri**

Sure. Why don't I start with the CapEx question? Richard, as we said before, the envelope we provided, which in absolute dollars gives us a step up relative to the current year, I think when you translate it to capital intensity, it's important to keep in mind it's commensurate with the growth we're seeing in revenue, subscribers and also Adjusted EBITDA. Think about the capital intensity ranges you saw for us on a consolidated basis and for Wireless as a continuing trend and it's of no surprises; and on the Cable side, flat to slightly declining. But the biggest variable there is going to be the number of

migrations to our new platform in the year. I don't think there's anything there that ought to be much of a surprise.

Then the second question related to the dividend increase, the dividend increase, as Joe said, is in the context of our view of cash flow, not only on what we've executed but how we see it translating out in the near term, being this year and beyond. Our cash flow guidance for this year continues to have good, solid cash flow growth on the dividend increases commensurate with that cash flow growth.

**Joseph Natale:**

Richard, if you look forward at the growth prospects of our industry, I really believe that our industry will continue to be a very important part of the economic landscape and what matters to customers across the country. The macro numbers in terms of GDP growth, in terms of penetration growth, in terms of household growth, immigration growth, are all propelling the industry on an overall basis. I look at our competitive advantages with respect to network, with respect to distribution, and the penetration growth available in Wireless, we feel will do very well in that context.

Look on the residential business and the DOCSIS advantage, the connected home roadmap, and the importance of broadband overall, we continue to see long-term growth prospects in that business. Enterprise, you heard me say a few minutes ago, we're under-indexed and, therefore, there's growth opportunity there. Then you get to Media and, in a world where media is going through a major transformation, we have a great mix of assets between sports and local content in the form of radio and local TV. Those are two great asset bases from which to grow and propel the Media business. We feel we've got a strong mix of assets, great focus on the customer, and a good Management Team to drive into the future, and that gives us the confidence overall. That's underpinned by the guidance we've just laid out today and underpinned by our results from last year.

**Richard Choe:**

Great. Thank you.

**Paul Carpino:**

Great. Thanks, Richard, and thanks to everyone for joining us on our call. If there's any follow-up, please feel free to reach out to the IR Team as well. Thank you.



**Joseph Natale:**

Thank you.

**Operator:**

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