Company Name: Rogers Communications
Company Ticker: RCI/B CN
Date: 2018-09-12
Event Description: BMO Capital Markets Media & Telecom Conference

Market Cap: 35,050.09
Current PX: 68.04
YTD Change($): +3.99
YTD Change(%): +6.230

Bloomberg Estimates - EPS
Current Quarter: 1.171
Current Year: 4.218
Bloomberg Estimates - Sales
Current Quarter: 3773.500
Current Year: 15063.529

BMO Capital Markets Media & Telecom Conference

Company Participants

- Unverified Participant
- Anthony Staffieri

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Here he is. Okay, I think we'll keep moving. And we have Tony Staffieri, he is the CFO of Rogers. I think everyone here knows Tony. He has been there for years.

Q&A

<Q>: A lot of ground to cover here, Tony. Let's start with Wireless, your biggest business. Let's get – we'll start off with the high level question. What's your assessment of the market, Rogers, and the competitive intensity and how Rogers has positioned?

<A - Anthony Staffieri>: Great. Well, good morning, everyone. The market continues to do well. In 2017, we had total market growth of 5%. And in the first half of this year, it continue to grow even higher than that. I think the fundamentals haven't changed. We have comparatively low penetration rates, 87% here in Canada compared to 120% in the U.S. and we don't see any structural reasons why they should be different. And against the backdrop of a very healthy economy, good immigration levels. We expect those penetration rates to continue to rise and the size of the market continue to rise as well.

<Q>: Yeah. Okay. And it's been a big focus since Joe came aboard, it's been customer service. From what the metrics the Street can see, it looks like there's good progress there. How are you feeling about the service side of the business?

<A - Anthony Staffieri>: Feeling very good. I think Joe has a terrific track record on the customer service front, and he's been going at it, building block by building block. It starts with everything from the way we get paid and what gets measured and what gets inspected. And so you're right, churn has been doing well, but you can be sure underneath all the things that you would expect to see is customer service improves and the rebuilding of the customer service first culture is coming through. But the biggest proof of point is churn. And when we look at metrics is underneath that in terms of quality of installs, quality of interactions with customers, all those metrics continue to move in the right direction as well.

<Q>: Okay. Back over to competitive intensity in the market, Freedom continues to improve their network. Bell now has three brands, they're better positioned in the prepaid market against your brand. How do you feel about your ability to continue to get your fair share going forward?

<A - Anthony Staffieri>: We continue to feel good. If you were to look at over the last several quarters or many quarters, we continue to do well on the gross add side. We have a very strong distribution network that's very effective, and we consistently lead the market in gross adds. And if you were to look at churn, in addition to that, churn has continually been coming down and as a result of a number of factors, and so we see that working well.

And so against the backdrop of a growing market, some of the smaller players, there is room for them to comfortably grow and meet their aspirations, but really having an impact on the market overall and so we continue to execute well against that backdrop of competitive intensity. The focus is a lot on price and more and more as we try to balance subscribers with ARPU growth, it's more than just price and as customer service moves along together with the distribution network, then it's the complete package that we're finding customers are looking for.

<Q>: It's interesting you mentioned price because when – from the metrics the Street sees, you guys are leading on ARPU. And some of your competitors are sort of tempering expectations, have continued ARPU growth. What's your assessment of your ability to continue to drive the pricing growth that you've seen?

<A - Anthony Staffieri>: We continue to be confident about the growth in ARPU. We've said that for this year, we see ARPU growth under legacy accounting standards of 3% to 5% and under the new IFRS of 2% to 4%. We've been delivering in that range and continue to see us being able to do that. We've been very focused for quite a while on translating what is user data growth of 30% to 50% to the ARPU growth of 3% to 5%. It's really about discipline, particularly in the base and managing that, that is key to it.

There is talk about whether or not many more SIMs per account are going to dilute the average and that could have an impact way out there. But if we were to look at in the foreseeable future, we continue to see opportunity to continue to grow ARPU, because the utility value continues to grow.

<Q>: There's been pretty good market discipline throughout this calendar year. But if we look back to last year, we were on the same trend, and then things went really intense sort of after Black Friday and certainly in December, so much so that one of the promotions that you initiated did overwhelm your systems and – how confident are you that as we're now into the beginning of the really intense selling period that that's not going to happen again and what lessons do you take away from what happened last year?

<A - Anthony Staffieri>: Yeah. You're referring to specific capacity issue that we had in our systems that related to one of the offers around the Christmas time, and it was concentrated to a very small period of time. I think the message I would leave is we're very confident that we have the systems to be able to execute on a day-to-day basis, and it was unfortunate that we had that one mishap. But it was a very isolated incident, and we know the root cause of it. We fixed it and moved on.

And so we're confident that we have what we need in terms of capacity going forward. The market continues to be competitive and we're prepared for that especially as we head into the busier season, if you will, falling into Christmas and so we're prepared.

<Q>: Okay. Can you weigh in a bit on the handset market and the outlook for subsidies? Apple is going to have their big event later today. They'll launch, looks like, three new phones. What are customers buying across the handset market, and should investors expect a continued heavy subsidy market in Canada?

<A - Anthony Staffieri>: A couple of things I'd say on that the – in terms of handset pricing, they continue to go up and we'll see later today as we see Apple's new model what that's going to look like. But one of the things investors should take away is the industry has been very disciplined in the subsidy model, and so we've been fairly consistent as an industry and as to how much we're willing to subsidize. We've all made offers that allow consumers to pay less at the till and then we factor into the MSF price on an ongoing basis. And so, I think you should take comfort in the fact that the underlying subsidy has been relatively flat over the last long while.

And then when you look at the new IFRS accounting, which strips out the subsidy component of the monthly payments, what we can see is real ARPU growth in terms of the services we're providing. And so, the subset, the handset market will do what it's going to do and the consumer will speak with their wallets. But the industry seems to be reacting well to how to manage that within our economics.

<Q>: Canada is relatively unique in that it is still a really subsidy driven market compared to a lot other major markets, do you expect that's going to continue?

<A - Anthony Staffieri>: We see the economics around the subsidy model working very well. I think implicit in your question is whether we look to move to some type of equipment financing. We don't see the need to do that. Especially when you compare the growth of the market today and the growth of the handset, it doesn't seem like the market in Canada is looking for equipment financing in any material way, and at least, we think for a long while the subsidy model continues to meet consumers' needs.

<Q>: Okay. Let's talk about platforms in 5G. It's very topical in the industry. Where is Rogers on the path to 5G these days?

<A - Anthony Staffieri>: We continue to invest much like the rest of the industry. The standards continue to move along. And it's interesting to see how the technology is evolving as well. We are investing and experimenting trialing much like the others are doing as well. I think from a practical perspective, we're a year out from what we would call a commercial launch and maybe a little more. I think you'll see – don't be surprised to see us or the industry make announcements of 5G implementations in isolated areas and/or marketing claims around 5G and that's probably true globally as well.

But in terms of a real robust 5G network, I think we're quite a ways out on that. But nonetheless, we continue to invest to get ready and we continue to invest in fiber to get ready for that. And we're also excited about the microwave technology that's evolving. That's still a big part of the network on 4G and 4.5G in the U.S. and Europe. And as we move to 5G, it's interesting to see how that technology continues to be robust and likely is going to be part of the network for a lot of rural applications and maybe some urban and we'll see how it evolves, but we continue to be at the forefront of it.

<Q>: A year ago, Joe used to say the best way to prepare to 5G is to continue investing 4G and 4.5G. Are you still doing that or have you moved on to true 5G type investments?

<A - Anthony Staffieri>: We've been in the process of upgrading our network to what we call 4.5G and so it's the latest equipment related to 4G, and it's capable of being upgraded to 5G through software. And so that's the type of network investment we have been making and that's why you've seen our capital intensity in Wireless pick up a little bit over the last several quarters. So we're putting the latest generation, and that'll carry us into 5G until we actually get higher bands of spectrum, millimeter waves, et cetera, and then that's when the next wave of hardware will come on board, pricing on that who knows. But what we do know from looking at 2G, 3G and 4G is prices will come down and so we're fairly confident that the investment will be made within a very reasonable capital intensity in the outer years.

<Q>: When we talk about 5G with Bell and Telus, they always hammer away about how their fiber build is going to give them a competitive advantage in next-generation wireless. Implicit in that is that a cable company is disadvantaged because they're not doing that. How do you respond to that?

<A - Anthony Staffieri>: And we're very comfortable with the network that we have in footprint. But we also have investments that we've made in particular in urban areas outside of what we would consider to be our core footprint. And much like we do today on the enterprise side, there is ability in which we do to buy or rent fiber from others and where that's uneconomical and we just put in fiber ourselves. And so, it isn't – 5G is really going to be about a real estate play.

And in a lot of areas, there is already fiber there, and we're talking about small cells – a mesh of small cells that are on the sides of buildings. And so, wouldn't think about it as a lot of heavy trenching, but it's more fiber pulling that happens within conduits and ducts that are there today. So, as we think about our plans for 5G, like I said, we're already on our way through that investment, but it isn't at all a competitive advantage for us.

<Q>: Okay. And in microwave...

<A - Anthony Staffieri>: Disadvantage [indiscernible] (00:13:24).

<Q>: I'm sorry, microwave will be part of the mix as well for you guys in 5G?

<A - Anthony Staffieri>: We think so. As we work with the different OEMs and our suppliers on that front, as I said the technology for it continues to move quite rapidly and seems very adept at delivering in a 5G environment. So, we kind of see it as at least based on the numbers we're looking at today as a very cost effective solution as I said particularly in the rural areas.

<Q>: Without getting ahead of ourselves and think too far in the future, but how would you advise investors to think about network sharing in 5G compared to where you are today?

<A - Anthony Staffieri>: I would say it is no different. We look at – I get the question a lot as to whether we'd be interested in some type of network sharing. And I think we look to the cost that could be saved vis-à-vis the competitive disadvantage we then put into the marketplace, and our numbers continue to suggest that any type of network sharing is going to be dilutive to our economics and so we continue to be not interested. And that's true even in a 5G environment.

One thing we do know is that owning our own national network gives us a lot of competitive advantage, and it gives us the flexibility to invest where consumers are requiring it where businesses are requiring it without having to negotiate with a partner on the other side. We think network is critical, a key success factor for this industry, and so anything that dilutes our complete ownership and control of it, we don't see that as being a good thing for our economics.

<Q>: But you do have a network sharing agreement in Québec, so how do we reconcile those two realities that you want to own all your network, but you have found some economics that work in the province to get that?

<A - Anthony Staffieri>: We do in Québec as you said and I would say that's a very isolated agreement that was struck some time ago. I think probably seven or eight years ago is when that agreement was struck, and I think it had some advantages with respect to spectrum and cost sharing as well as backhaul. And we'll continue to look at that agreement specifically in terms of economics as we move to 5G as well.

<Q>: Okay. Let's switch over to wireline, the – I guess the big news for you guys in terms of product at least is Ignite is commercially deployed. You've recently turned on the promotion machines. It's kind of out of friends and family kind of thing. What's the initial feedback and the progress report on Ignite?

<A - Anthony Staffieri>: For those of you who haven't seen it, it's just terrific product. It's been a game changer for us. Has a lot of very good features. It's IP based, integrates Netflix and YouTube right into the product.

<Q>: Sorry Tony, just so everybody understands, this is the Comcast platform that you've deployed and you've branded it Ignite. Sorry, go ahead.

<A - Anthony Staffieri>: That's right. I should add it's the next generation of the Comcast X1 platform. So as Comcast moves to an all IP network, this is the IP version of X1. And so it provides for, I would say, the interface that you may be familiar with the Comcast. But the next generation of it provides for a number of other features that are not only consumer friendly, but cost effective as well. Cloud DVR or PVR being one of them. The fact that it's wireless. The fact that it doesn't require a setup box. It has a small gateway that you can attach to the back of the TV. But having that big blue light staring at you is kind of a thing of the past.

And so, we're really quite excited about it. I talked about some of the products integrated. Comcast has announced Amazon Prime will be part of it and will include that as well. And it's really the beginning of us following the Comcast road map on the whole home. And so you can expect us to quickly follow suit with xFi and X Home. X Home is on the same platform as Rogers Smart Home Monitoring, and so that will be an easy move for us and so we're quite excited about the products at road map.

As you said, we've launched and the feedback from customers has been very good. The product is terrific and one of the things we really try to do is make the whole customer experience a lot better compared to our legacy cable in the way you order the product, in the way you get an appointment and how the whole installation process works. Given it's all Wi-Fi based, it's a lot easier and so our techs aren't spending time trying to locate coax cables through or fiber throughout the house and it's a lot easier.

And so, everything is moving well. We're trying to pace the volume of the product, so that we can continue to enhance and improve the customer experience piece of it that I've talked about, but everything is on track for us.

<Q>: In the past, Rogers has talked about the rollout of Ignite being the expression issues, it'd be a white-glove service initially, really high-end or premium product and then it'll evolve from there. How is the thinking now that you are in market with it?

<A - Anthony Staffieri>: The thinking hasn't changed. Because it's IP based, our focus has been on best Internet and best Wi-Fi. The home is really going to be anchored in that, and that's been our competitive advantage for quite some time, and we continue to execute on that competitive advantage. If you look at our metrics, we've consistently increased Internet penetration rates for the last 12 quarters and that's the cornerstone of it. And then as you bring in xFi, for those of you familiar with it, you can watch the tech and it's really easy, it actually looks for the Wi-Fi and you just click and it connects and you're up and running. So, it's a very simple process.

So, we're quite excited about the ability to move X1 and xFi to a self-install model in the not too distant future. We're already doing that with Internet alone, and the penetration rates of self-install continue to climb. And so we've talked about our cost per install going from today something that's $1,100 in legacy to something under $400 and continuing to decline from there. And as we get more familiar with the product, we're more confident about that cost road map.

<Q>: Yeah. Let's talk a little bit, that was one of the things that excited investors about going to Comcast is what we would see capital intensity benefits as investors down the road, what's the timetable there?

<A - Anthony Staffieri>: We continue to see the major factors that caused that to increase and it's really two-fold. One are the legacy set top boxes and the second was the investments we had previously been making in our own IP product, and so the latter has gone away and we pivoted as I mentioned to the Comcast road map.

The second piece of it is as the penetration of the new Ignite TV product increases, then you'll see that come down as well, and that's worth a lot. And those are the two big drivers to get our capital intensity in line with the rest of the industry. We've taken the opportunity to take some of that savings in the near term to over the next couple of years, this year and into next year and put it into node segmentation. And that's part of the fiber discussion that we previously had. And so this year, we've mentioned you won't see capital intensity for cable come down and into – without getting into too far ahead of ourselves in guidance, we think by 2020 and beyond, you'll see our capital intensity come way down and in line with the industry.

<Q>: Okay. Great. Switching away from consumer, can we talk a little bit about the SME initiative? Investors used to see the Rogers business services numbers, they're now included in other units. You had a [indiscernible] (00:22:03) to manage the business. What's the update on SME? Because it seems like a business opportunity, the Canadian cable on Rogers have not really taken advantage, say, compared to U.S. peers. We get a lot of investor questions about that. What's happening with SME?

<A - Anthony Staffieri>: Well, you're absolutely right in that we've underperformed in the area of SMB or SME, as we describe it. If we're to look at our metrics compared to our peers south of the border, they are 2x where we're at in terms of SME penetration, and so it's a huge opportunity for us. As you said, Dean Prevost has come onboard as our leader for Enterprise, and he's putting in all the right building blocks to accelerate that in a very material way.

We haven't been successful in the past, but if you look at some of the things he's been doing underneath and putting in the right building blocks and the right compensation to drive that, we're seeing all the right signals in metric. So it's still early days and it'll be a while until you see the numbers show up materially in our external results. But underneath, everything is headed in the right direction there and we don't see any reason why we should be gapped in the long term relative to where the U.S.-cable peers are at.

<Q>: Okay. Any questions from the floor? Okay just a couple more, Tony. Maybe just – let's just talk a little bit about media. Obviously, the sports businesses dominate that. It's been a bit of an off year for the Jays, but I'm sure there's a lot of excitement down at MLSE and whatnot. How are you thinking about the media business and your sports business as we go into the back half of 2018 here and into 2019?

<A - Anthony Staffieri>: It's probably appropriate to [ph] state at the outset (00:24:00) Media is a very small part of our overall asset portfolio. And the media assets we have are largely centered on sports. So, we continue to be excited and confident about the ability to continue to monetize and grow the revenue and profits streams related to our sports assets, and we continue to see that. So, a lot of excitement and there's ups and downs. But if we were to look at our ability to monetize it through radio, monetize it through Sportsnet, that continues to move in in the right direction.

<Q>: Okay. Very well, I think we'll end with the standard capital priorities question. [ph] Wouldn't be an investor confidence (00:24:47) if you don't have to field the dividend question. But how are you thinking about the balance sheet and how Rogers is going to allocate capital over the next couple of years?

<A - Anthony Staffieri>: Sure. Nothing's changed on that front. We continue to be focused on the fundamentals, grow revenue, expand margins and grow free cash flow. And our guidance for this year delivers that and we're confident that we are on track to deliver that. And as we look to our outlooks in the future years, we see opportunities continue to grow free cash flow, and at the same time our balance sheet continues to improve leverage, at the end of the last quarter was down at 2.6%, sorry, yeah 2.6% and we're on track to continue to move that down.

Our payout ratio relatively healthy and somewhat conservative in the 55% to 60% range. So, all the fundamentals are there to continue to target cash return to shareholders, and we're committed to that over the long term. Nothing to announce today.

<Q>: Yeah.

<A - Anthony Staffieri>: But everything continues to move in the right direction.

<Q>: Okay. So, one last time, any questions? All right. I think we'll shut it down there.

Anthony Staffieri

Thank you.

Unverified Participant

Thanks, Tony.