Company Name: Rogers Communications
Company Ticker: RCI/B CN
Date: 2018-09-26
Event Description: CIBC Eastern Institutional Investor Conference

Market Cap: 34,569.32
Current PX: 67.24
YTD Change($): +3.19
YTD Change(%): +4.980

Bloomberg Estimates - EPS
Current Quarter: 1.171
Current Year: 4.212
Bloomberg Estimates - Sales
Current Quarter: 3773.500
Current Year: 15057.647

CIBC Eastern Institutional Investor Conference

Company Participants

- Unverified Participant
- Anthony Staffieri

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Okay. We'll get started with the next presentation. My pleasure to be hosting Rogers Communications. I'm sure all of you know it is a leader in the communications and media world in Canada. Pleased to have with us this year, Tony Staffieri. Tony is Chief Financial Officer. Welcome, and thanks for joining us.

Anthony Staffieri

Thank you. Good to be here, and good morning, everyone.

Q&A

<Q>: Just, maybe, just from a big picture launch question, Rogers has their hands in the competitive market across the country in a number of verticals. So maybe just your big picture thoughts on how competition stands both from a Wireless and Cable perspective [indiscernible] (00:33)

<A - Anthony Staffieri>: Sure. I'd summarize it by saying it continues to be healthy. We just went through the back-to-school period. And I would say on the Wireless side nationally, continues to have its competitive challenges. The good thing is it's against the backdrop of a continually increasing market we think. We see the size of the market continue to grow at a healthy rate and that's good for us and for the industry.

And on the Cable side of it, we continue to see good competition there. Our approach on that is a little different than it would have been in the past. We're trying to have a good balance of customer subscriber loadings and profitability or ARPU. So we've been more balanced than you've seen us pull back on what I would call long-term promotional type things. And that's the backdrop as we head into the busy time in between now and end of year. But I would describe it as generally consistent with what you would have seen in prior years.

<Q>: Okay. Just tucking into Wireless, as you noted, increasing at a healthy rate, the subscriber growth really is the driver behind that. What are Rogers thoughts on the continuation of that growth? How long [indiscernible] (02:00) earlier this morning talking about the penetration rate in Canada alone argues for a lot of runway in that. What are your thoughts on that?

<A - Anthony Staffieri>: We spent a lot of time looking at the drivers of it. In 2017, the market grew at about 5%, first half of this year it's closer to 6%. A number of factors that contribute to it, certainly the health of the economy continues to help and as we look to that as a factor and our expectations, all indicators are that continues to move well in terms of GDP, we look at immigration, unemployment. All those factors that have contributed to the growth in the market, we see as continuing and be there at least for the foreseeable future. And ultimately as you said, it comes down to the penetration rates. Canada is sitting at 87%. No reason why we shouldn't get to U.S. levels of penetration rates that sit at about 120% today. So all the factors that contribute to it, we continue to see going forward. May not be as high as the 6% that we saw most recently, but certainly a healthy rate of growth is what we forecast.

<Q>: Okay. You talked in the Wireless about getting into the busy period as we get to the tail end of the year. Last year was a bit crazy with some offers from Shaw and Freedom. Rogers met that pretty heavily in response and then we had a bit of a choppy last quarter last year. What are your thoughts on the competitive environment in a four-player market? What you've seen, has it balanced out, stabilized from a Rogers' perspective?

<A - Anthony Staffieri>: I would say, in general, we've seen the competition not change much. I would say there was a bit of a spurt as you mentioned last four quarter and that was really owed to one of the players, Freedom in particular getting the iPhone and I would say that was a new dynamic in the marketplace. But if we look at the way the market shaped up since then, we've done fairly well in playing in all aspects of the market and I would say the top end of [ph] freepay (04:11) all the way to the top end of our premium brand. And that's an area we're sort of slightly indexing more and more in. If you were to look at our ARPU growth rates together with subscriber growth, you can see that's kind of where we're over-indexing on in a healthy way. And so, I think it, overall it continues to, as I said at the outset, it's competitive but it's competitive in a good way and it pushes us to focus on our strengths and fix some of the things that aren't working well.

<Q>: There is a lot working well. Your churn rates are the lowest it's been ever since last decade anyway.

<A - Anthony Staffieri>: Yeah.

<Q>: So, the ability to kind of keep that sort of customer retention in a four-player market, you're comfortable you've got that ability to keep it going?

<A - Anthony Staffieri>: Yeah. I mean we'd look at it, it's a struggle every day, every week and every month in terms of what is it that's going to keep customers. We've always been very good at gross ads.

<Q>: Yeah.

<A - Anthony Staffieri>: Very good distribution network and a number of other things that work really well for us and you continually see us getting leading share in the gross ad. Retention is one we've had a very acute focus on and it's come down to a number of things around the customer experience that we've gotten better at. And we look at churn just how are we doing on a year-on-year basis and is it continually coming down and you've seen that improvement coming through in the last many quarters. And our expectation is we continue to be on track to continue to drive that south on a year-on-year basis.

<Q>: How important is the bundle to these efforts? Obviously a very strong component from the wired side mirrored with the Wireless. Is that a key component still for that strength? And there was some discussion over the years that perhaps Wireless was outside of bundle, the family use and such. But what are Rogers thoughts on the importance of the bundle?

<A - Anthony Staffieri>: The bundle if you were to look at, it's interesting, we call it bundle or the other one we've talked about is quad-play and the industry has talked about it for a long time now, at least seven years or eight years and maybe even more than that, that we would see the industry move to that. I would say other than a price discount the bundle really hasn't played out in any meaningful way for any player across the country. Not so much in the U.S. because you still have the delineation between wireline and wireless players. Our view is slowly over time and we think it will happen at an increasing rate. As you get global players being able to play on both sides of it, you get the next stage of product evolution and then having a true in-home, out-of-home seamless experience, that's going to be key to a real meaningful quad play bundle. But we think we're a ways from that. And until that happens, we think the importance of quad play not say it's not important, but it be much more limited.

<Q>: Interesting. So one of the dynamics we have coming up in the next year is another spectrum auction. So, what are your thoughts on your spectrum positioning as it stands and you can't be too specific on your objectives for the auction, but just an auction is in general for more spectrum?

<A - Anthony Staffieri>: Generally, I will start with the headline, more spectrum is always good. But as we enter into the 600 in comparison to 700, which we did well in and spent quite a bit of money on, I would say given the acquisition, our expectation is while it's a good spectrum, it's less critical for us, and as we think about a 5G world it will be the subsequent auctions that focus on the higher band...

<Q>: Yeah.

<A - Anthony Staffieri>: ...spectrum bands that increasingly will become important as well.

<Q>: So it is a good segue into the 5G discussion. We posed the question to some of your competitors as well. How does Rogers look at the evolution to 5G timing and opportunity wise at this point?

<A - Anthony Staffieri>: Not a lot of new things to say. Generally from a strategy we will fast follow and we've been working with some of the global players hand-in-hand in terms of where the technology is going. And I would say it's not fully baked yet. Certainly, the core pieces are there and so from a technology and standards, we're close to being there as an industry and we'll be closely behind.

In terms of the deployment of 5G, I would say we're still a year and a bit away from seeing that. Don't be surprised you'll see it from us and from others in the industry announcing what I would call 5G limited deployments.

<Q>: Yeah.

<A - Anthony Staffieri>: But I would say those are specific use cases in terms of the experimentation and evolution of it. The business cases or revenue plans for 5G are still to be evolved and developed and I think that's a key component that needs to proceed any robust 5G investment and deployment.

<Q>: Okay. One of your competitors was talking about the advantage they have in fiber to do backhaul in a 5G world. I know Rogers has historically also used microwave technology quite extensively on the network. Do you have any thoughts as far as whether that is an issue, will be an issue or not an issue for Rogers in a 5G environment?

<A - Anthony Staffieri>: In a 5G environment, it's going to be fiber and microwave like it is today and we don't see us having any competitive disadvantage when it comes to 5G with our national network.

<Q>: Okay. Verizon in the U.S. is pushing an earlier 5G launch as a fixed technology, the last mile – replacing the need for a wire for the last mile. Is there any thoughts on this from a technology perspective that we can see in Canada or do you think this is just very specific to what Verizon needs to do in some of its markets?

<A - Anthony Staffieri>: Yeah. The Verizon fixed wireless 5G aspect is really about substituting that last mile of copper with something else. And for them it's an acute problem because it is copper in the last mile which is very limited in what it can do. For us in our fiber network today, we rely on coax for that last mile and coax has shown to have a lot of upside. Today, we offer 1 gig to our entire footprint with DOCSIS improvements, in short order it will be 4 gigs and 5 gigs of speed in about 18 months or so, symmetrical upload, download. And so, we see a long runway for coax sort of the last mile. And so, the need to look for a fixed wireless solution, which today is very expensive, we just don't see it in our horizon. If technology changes, costs come way down, that might change, but we don't see it.

<Q>: Okay. You've got a network share agreement here in Quebec. We talked to Quebecor earlier this morning about the positives and negatives of that. Your thoughts on the share and any prospect of that in other geographies if that's something that's beneficial or something that Rogers is looking at?

<A - Anthony Staffieri>: Yeah. We have, as you said, the agreement with Videotron today. And we are both working at the agreement and the network. When I say the agreement, the fundamentals of the network and themselves. I think we both share a vision of having a best network in Quebec and we continue to work with that. And we're always looking for ways to make it better for each one of us, and you can expect that to be ongoing. In terms of our plans for further network sharing agreements with others, we don't have any plans today. We'll always look at something, but it's really hard to see the economics of it working when we already have a best-in-class network up and running nationally.

<Q>: Yeah. That makes sense. While we're still on Wireless, maybe capital intensity, you've been very efficient over the last few years on your spending, a little bit of a ramp up off late. Just your general thoughts on the need to spend for the Wireless platform, perhaps in preparation for 5G at some point?

<A - Anthony Staffieri>: Yes. As you said, a few years ago, we were down 8%, 9%. We said that wasn't unsustainable. We were pausing in anticipation of 4.5G. And that's what we're deploying today. We're deploying [ph] all Ericsson (13:08), North America's choice network provider, and that's what we're deploying now. Our 4.5G technology is upgradeable by software to 5G. And so, we don't need to replace that equipment until the shorter wavelengths become available. And so all of that put into our capital intensity, we've always said 12% to 14% is sort of where the industry has been, and likely will be, and will be in line with the industry in roughly 12% to 14%...

<Q>: Okay.

<A - Anthony Staffieri>: ...capital intensity.

<Q>: Going to switch to Cable now, but before I do it, I'll throw it out to the audience, any Wireless questions? [indiscernible] (13:54).

<Q>: Tony with the added competition in the last couple of years, the conversions in technology and the ability to sort of monetize network different so to speak in the household. Do you think you guys have lost pricing power versus say 5 to 10 years ago?

<A - Anthony Staffieri>: The short answer is no if we ever had it and I mean, it's always been competitive and so it – while the industry is dominated by three parties, it's very competitive amongst the three and it's been filled in over the last 10 years with competition from smaller regional players. So that's always been there. So I wouldn't describe any new competition coming onboard in the last little while, it's come in different waves over the last 10 years. [indiscernible] (14:50) you're talking about, they had different names that they operated under and we've competed with them in different segments of the market for the last 10 years. So I wouldn't describe anything unusual or different in terms of competitive intensity.

<Q>: Okay. Any other Wireless questions? Yes.

<Q>: [indiscernible] (15:12-15:28)

<A - Anthony Staffieri>: Yeah. If I understand the question is really, it was in the context of how we feel about the regulatory environment and the request for a low cost data plan.

<Q>: Yes.

<A - Anthony Staffieri>: There is two things. One is, I think the regulatory environment we describe as well balanced. We see the things the regulators are trying to do to ensure healthy competition. But at the same time, it's clear that they're very appreciative of a facilities based competition. They realize how important it is to have investments in the network for the long-term of the network and frankly that's what's led to Canada having one of the best networks in the world. And so that's generally our take on it. The government requested low cost data plans and it's data-only. And so, we've submitted and others submitted for that. We understand what the government is trying to do and made our submission along with something that we think achieves the objectives they were looking for.

<Q>: Anybody else? Okay. Just switching to Cable...

<A - Anthony Staffieri>: Yeah.

<Q>: ...the most topical point I guess is the launch of Ignite TV recently. We've talked in a few sessions this morning about the power of the X1 box and now you're rolling out your platform. Early thoughts on the potential for Ignite?

<A - Anthony Staffieri>: Yeah. As you said, we just rolled it out commercially. We've had it trialing over the last year. I've mentioned I think on several occasions, I've had it in my home since last October and this is the IP version of X1. We've now launched it into the marketplace earlier this quarter and that follows a very large employee trial involving thousands of deployments and so we're really pleased with the product if you haven't seen it.

One of the things we're really looking at right now is less about volume for us and it's more in the early stages. The metrics we look to are quality, what's the quality of the product, how's it performing in the home, and we like what we see there, and it's a continuation of what we saw throughout the trials. It comes with much improved Internet and whole-home Wi-Fi. And so that's working well.

We're looking at quality of ordering, quality of installation, quality of first bill, and all those types of things, and those quality metrics are coming in nicely. We had set high standards for ourselves, and of course there's always things we can do better and that's what we're looking for right now is, what are all the things we could do better and have to do better as we ramp up the volumes.

So for the first quarter or two, that's really our focus, and as I said, we're pleased with the product. It has Netflix and YouTube fully integrated. Within a couple of months, we're going to have Amazon Prime integrated as well, and it really dovetails with the strategy of making sure that we're not competing with other video providers, but making it easy for consumers to get the video content they want. And so, that continues on the same strategy. It's going to be followed very closely with [ph] xFi and X-home (19:00). They'll obviously follow for us the Ignite branding. So we're quite excited, really pleased with the results today, huge opportunities for us.

<Q>: Broadly speaking, are there margin implications early on? I mean, obviously these opportunities will be additive over time. Any concerns from the market as far as a near-term cost, is it CapEx, is it OpEx, is it anything there at all that's material?

<A - Anthony Staffieri>: Yeah, we've been very transparent. The licensing model we have is a variable cost model, and so huge savings in CapEx for us. But we think the upside in ARPU and ARPA that the product will drive will self-fund. And so it's not going to have an impact. In the short term what you will see is some of what you would expect the branding, advertise, [ph] marcom spend (19:49) might be a little heightened in the near term, but we don't see it having a material impact on margins and our plans for margin expansion.

<Q>: So you have this product in the market just as your competitor in Toronto has launched fiber to the premises. Any initial early thoughts on the head-to-head competitive environment there given fiber from them and Ignite for you?

<A - Anthony Staffieri>: Sure. Look, we've been competing with our competitors Bell Fibe brand for 10 years now. And we've been executing on our competitive Internet advantage. For the last 12 quarters, we've consistently increased our broadband penetration every quarter on a year-on-year basis. And so, we're pleased with the way we're executing there. And now, we're adding the video xFi and whole-home component to it which we think makes the value proposition even more compelling.

And so, as our competitor continues to invest in fiber-to-the-prem and be able to meet us on broadband speed, we think as that happens, we've now got a whole-home value proposition that's much more compelling. And more and more it will be not only about speed, but how simple, how reliable and all those other value metrics are going to become increasingly important and we think we are now moving to that as an additional competitive advantage.

<Q>: You talked earlier that your priorities in Cable are more focused on ARPU profitability from the Cable sub. We're seeing a lot of offers, increasing data from an Internet perspective, obviously leadership on speed and their fibers is increasing. What are your thoughts on the pricing ability in Cable in that environment and is it really just a function of giving more for the money at some point?

<A - Anthony Staffieri>: Well, the whole Internet industry has really been deflationary in some respects. And so it's really been about delivering what's next for a little bit more. And so the philosophy of more for more, we don't see going away. Today if you were to look at our profile, 58% of our customers, almost 60% are at speeds of over 100 megs and that really talks to the advantage that we've been executing on as I mentioned. There is a lot of headroom for upside. If you were to look at, as I mentioned today, our entire footprint and get 1 gig of speed, it's a very small percentage of customers that are actually on 1 gig today.

<Q>: 1 gig. Yeah.

<A - Anthony Staffieri>: So from where we are in our sweet spot to where they can move to, there is still a lot of headroom and therefore we think a lot of room for continued ARPU improvement. As we think about the whole-home, we've always said more and more we think about ARPA for the home and ARPA margin for the home. And it's kind of going down the path we expected more and more, it's going to come from broadband and software interfaces related to connecting the home rather than from video, which has been the traditional cable business model if you will.

<**Q**>: Okay.

<**A - Anthony Staffieri**>: So we'll see over time, we think much less of our margins coming from video content delivery and more and more from broadband and connected home.

<**Q**>: Okay. Just a question on the enterprise or the business segment. It was a focus for a number of years. You've now tucked it back in on Cable in the financials. Just any general thoughts on Rogers from an enterprise perspective in your markets?

<**A - Anthony Staffieri**>: Yeah. It's something that we've focused on. And I would say if you were to look back a few years, just weren't happy with the performance. If you were to compare our performance in the small business to our peers whether it's south of the border or here in Canada in the cable sector, you could see we've underperformed. And so that's something that we are very focused on increasing our penetration, the small and mid with a big focus on small. We think still has a lot of upside for us. We've spent the last year under new leadership in reestablishing some of the basic building blocks of how we go to market on that which is different than the way we've done it in the past and with early signs, it's headed in the right direction. It's going to take some time to ramp the momentum to give us the scale we're looking for, but it's coming.

<**Q**>: Okay. We've got about five minutes left. I will throw it back out to the audience again. Anybody with a question?

Just wanted to touch on Media. I know it's a small part of your portfolio. Importance within Rogers, is it a significant segment still in the longer term strategy?

<**A - Anthony Staffieri**>: It's a key asset. They're good assets. They're focused predominantly on sports, which continues to have good top line growth and good margin growth as well. I would say they continue, if you were to look at our asset mix in terms of Wireless, Cable, and Media, I think we like the fact that they're well-proportioned. We're big in Wireless, big in Cable, not so much in Media except for specialty assets. We don't necessarily see a need to invest more in media content. We like where we are in the assets we have.

<**Q**>: That was a segue into discussion on sports properties. Your thoughts on the Blue Jays ownership, any change there in the message?

<**A - Anthony Staffieri**>: No change in message. As we said before, we like the asset and there are no plans to change the ownership of the assets.

<**Q**>: And the NHL deal, long contract. How is that working from a Rogers perspective?

<**A - Anthony Staffieri**>: Things work well. We were ecstatic the day we got it, get a long-term deal. And you see it in the results of Sportsnet in terms of ratings. It's been a very good profitable contract for us and continues to do well as we head into yet another season. I think the outlook for the contract continues to be on the upswing again.

<**Q**>: Okay. So not needing to grow bigger in media, there is really not a lot of M&A work I guess you have to do at Rogers, there is not a lot for you to tuck-in from your main segments, there is really nothing there and nothing in media. Is that fair to say that you're kind of not focused on acquisitions at this point?

<**A - Anthony Staffieri**>: I think what I would say is long-term we think when you think about industries like wireless and cable, long-term certainly if you look to south of the border, they are scale businesses and there is a lot of upside to consolidation...

<**Q**>: Yeah.

<**A - Anthony Staffieri**>: ...in those businesses. Being practical in Canada, we just don't see that happening anytime soon...

<**Q**>: Okay.

<A - Anthony Staffieri>: ...in a material way. And so other than that there really aren't other areas that we're interested in.

<Q>: You have a substantial ownership in Cogeco, again, ultimately consolidation that might be a factor. So in the meantime if you're happy with that position?

<A - Anthony Staffieri>: We're happy with our position.

<Q>: Okay. Just on the dividend, obviously, your free cash flow profile is quite positive, notwithstanding we got spectrum auctions that we talked about going forward. What can you say from a board decision on restarting the dividend if there is anything you can give us on that?

<A - Anthony Staffieri>: Yeah. In terms of dividend, when you say board decision, it's really up to management to first make the recommendation. And we haven't made the recommendation yet, and as we've said nothing has really changed. We're focused on the fundamentals, grow the top line and grow cash flow. We continue to have, I would say, a well-balanced payout ratio of 55% to 60%. Our debt leverage ratio is coming down nicely, 2.6% last quarter. And we think we'll continue to make good improvements as we approach the end of the year. So at the right time, we'll make the recommendation and go from there, but nothing's changed.

<Q>: Okay. And just one question left. I will throw it out anybody – just neglect, sorry, yes, go ahead.

<Q>: [indiscernible] (28:28-28:40)

<A - Anthony Staffieri>: Yeah. As I've said, I think there is healthy competition. I'm not sure I understand the question as to what the problem is, somebody would be trying to fix. If you were to look at the industry in the U.S., it had a four player market and it may move down to three players.

If you were look at the way it's played out, the industry is playing out in different parts of the world, even in Europe. You see governments encouraging consolidation, and it goes back to the comment I said before that this is a scale business. And the synergies of consolidation are substantial. And I think what you see playing out in the U.S. is one piece of that.

Unverified Participant

Yeah. That's great. It's just probably a good place to end it there. And so thanks everybody for your interest, and thank you, Tony for speaking to us today.

Anthony Staffieri

Thank you.