

BMO Capital Markets' 21 st Annual Media & Telecom Virtual Conference

Company Participants

- Joe Natale, President and Chief Executive Officer
- Tony Staffieri, Chief Financial Officer

Other Participants

- Tim Casey

Presentation

Tim Casey {BIO 17145706 <GO>}

Good morning, everyone. My name is Tim (inaudible). Welcome to the BMO Capital Markets Telecom and Media Conference, the 21st version and it's a virtual one, like all conferences these days. We're very pleased to have from Rogers Communications' Joe Natale and Tony Staffieri to start us off. Good morning, guys. Thanks for thanks for dialing in.

Joe Natale {BIO 6407853 <GO>}

Hi, Tim. Good morning. Happy 21st birthday.

Questions And Answers

Q - Tim Casey {BIO 17145706 <GO>}

(Question And Answer)

Appreciate it. Joe, let's before we get into fundamentals, let's start with pictures you were in the sector and that would be the Cogeco offer. I think everybody understands fundamentally why this is an interesting opportunity, but given the response of the controlling shareholder and that response has been consistent with the way they've answered the question for a while now. I think everyone's curious as to why now, from your perspective what's changed with respect to this opportunity?

A - Joe Natale {BIO 6407853 <GO>}

Sure, Tim. Why now is the critical question. And the thinking behind our bid is fairly simple and straightforward. This is really about answering some basic questions as we look at our investment into the future. As we look at our investment plans and infrastructure and networks and digital capability. We're looking at what we're doing in

every province across the country. And the relevance here is what are our plans in Quebec? And what are our plans in the parts of Ontario where Cogeco operates? And that may sound extreme, but that's just because we're at a critical juncture in the history of our industry in Canada.

We're in sort of stage one, I would call it. The biggest generational cycle in technology and network capability. You've heard me talk in the past about how 5G will change every industry and fuel innovation and create an even more enhanced and capable digital economy. We've talked about connectivity being critical now more than ever. We've seen it in every aspect around COVID and especially for rural Canadians or rural Quebecers. And it's going to take billions of dollars of investment over the next 5, 10 years to provide the world-class conductivity that will matter, will matter to Canadians, will matter in the future.

And more than ever at a time when economic recovery and connectivity are more important, we're looking to establish that partnership with Quebec, with Ontario, with all the provinces across the country to figure out what is the best approach to play a role and build out that innovation to build up that communications infrastructure. And if you think about Quebec, Quebec is very squarely focused on innovation and technology. The digital economy is here and been reinforced by the last few months, as we've all become even more committed digital citizens, whether it's working from home, whether it's online schooling, whether it's ordering groceries, whether it's small business being able to function, right? Only 40% of small businesses in Canada had an online presence going into COVID. Well, the past online presence especially in the rural areas is about world-class networks. So as we sit here, Tony and I and with our board make our capital plans for the medium and the long term. We're asking a very fundamental question, do our plans include Cogeco territory or not?

And a question that we certainly have asked over the years. We've held the largest stake in Cogeco for a long time. As you know, we have roughly a 33% economic interest in the combined companies and it's the largest state by far. So we're asking ourselves the question, was -- as we enshrine our capital plans and look at driving innovation. Is that with Cogeco inside as part of a partnership here or is it not. Because of two very fundamental different decisions. So I'd hate to miss this technology investment cycle and not have answered the question. That's the dialogue we've had, at the leadership table and with the board. And it's been a question 20 years in the making.

Q - Tim Casey {BIO 17145706 <GO>}

That makes perfect sense, Joe. But the family, the Rogers [ph] family has been fairly definitive, and this -- in some ways it feels like a now-or-never moment for Rogers in that you either going to buy equity in Cogeco or sell equity in Cogeco, some investors feel that way. Do you think that's an accurate statement?

A - Joe Natale {BIO 6407853 <GO>}

I think it would be unfair of me to lay out our deal strategy or our plans, our approach. What I would say is that we're looking at investment overall. And what is the best approach to deliver on that capability, Tim. And as you've heard from us, we're patient,

we're working our way through this. This is a marathon not a sprint, as you've heard our partnership Maltese say. So we're just going to keep at the focus here because of all the things I talked about.

Q - Tim Casey {BIO 17145706 <GO>}

I understand. Thanks for that, I understand that. And I just -- I know there to people online, if you want to submit question -- submit questions, there are ways to do that on the web app and I'll get them here at my end and try to get them into the discussion as best I can.

Joe, before we go into some sector fundamentals, I just want to talk a little bit about COVID from a strategic perspective. And you said something on the last call that was about interesting, you said to say that COVID-19 has permanently changed how we operate is an understatement. Can you unpack that a bit for us? Because that's a pretty wide reaching -- ranging statement there.

A - Joe Natale {BIO 6407853 <GO>}

Yes, Tim. I didn't say that lightly. If I -- if you could sort of enter some of our management meetings and listen to the dialog on this topic, what you would hear is that every aspect of our business has accelerated in terms of the transformation plans that we had in place before COVID. Things that we thought would have taken by a year or two out of necessity, out of absolute laser focus, we got completed in weeks or months. And in some ways that's a dividend from what's going on, and driving that to the benefit of our customers and to the benefit of our people has been sort of the mantra in the organization as a whole and shown up in a few ways.

As we have looked at how to -- how we best to serve customers in a world where they feel uncomfortable, coming into a store potentially if you feel uncomfortable in a face-to-face conversation. We've worked hard to architect a set of ways of addressing customer needs. In the wireless business, we launched a Pro On-the-Go before the pandemic, and now that's been highly accelerated. And it's a critical feature for customers where we bring the store to you. And you support that with a digital capability around ordering, around service, around adding features, around price plan changes. It's really changed the very nature of those interactions, and now we've got the best of both worlds on that front. We've got a advantageous store footprint and physical store footprint in 2,500 locations across Canada. And we've got an online integrated physical virtual approach to serving our customers and wireless which has been serving as a very well as we made our way through the back to school and summer season.

In the cable world, we are pretty much at 100% self installation, or pretty close to using a video app to support our customers either from the field or from our call center. And the success has been terrific on that front. We talked about doing something like that over the course of a few years, is actually happened over the course of a couple of months. And we're going to build on that capability, we strengthen the app interface for customers.

We have all of our call center people working from home, we've got many parts of organization working virtually and it's working very well. So we're starting to rethink, what

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is the work environment look like, what are the work styles and approaches that make sense by area, do we still need all the real estate. So, and those are just three or four of the areas, there are many more. But there's nothing like focus as an executive team to say, okay, let's double click and get some of these things done now with speed and with extraordinary attention, because it really matters. And there's nothing like the mantra of more than ever connectivity matters to Canadians, and that connectivity means we have to adapt quickly and how we do things. And in most of the areas we're never going back.

Q - Tim Casey {BIO 17145706 <GO>}

Maybe that's a good segue just into the quarter, Joe, that you've moved quickly on that. Maybe just an update on what Q3 has been like or almost to the end of it's probably the most unique back to school environment you've ever operated? And how it's -- how would you describe on the wireless side, the competitive environment and in the loading environment so far this quarter?

A - Joe Natale {BIO 6407853 <GO>}

Sure, I'll make a couple of comments and then give Tony a chance to add his thoughts and reflections. Q2 was very quiet for the industry, once everyone reported we saw that overall volumes were down 75%, 80% across the entire wireless sector. It's like someone turned the lights on, somewhere near the end of June. And that was fueled by a combination of pent-up demand from consumers. And then sort of a rhythm around the fact that it's summertime back to school, although very different back to school than ever before.

And the question we kept asking to the quarter is this just pent-up demand or will there be continued momentum and what we've seen is continued momentum through the quarter. And I'll pause there and let Tony kind of add.

A - Tony Staffieri {BIO 6566699 <GO>}

And we saw that play out in the competitive activity in the marketplace as well. So as you look to the activity it was mostly amongst the -- and has been mostly amongst the switcher market. Some of the things we traditionally look at that has been part of the industry's growth has been immigration as well as foreign students. That's a piece of the market we're not seeing in any large numbers this quarter. And so it's a bit of a different dynamic from that perspective.

So as we look to Q3 our sense is that, if we look as Joe said, Q2 market on net ads was down 75% to 80% depending on what you include. We see Q3 is somewhere likely down in the 5% to 15% range always difficult to read, but certainly a comeback from Q2, but our sense is not quite to where prior year levels were.

Q - Tim Casey {BIO 17145706 <GO>}

Could we expand a bit on that and just talk a bit about base management, and how unlimited plans are being accepted. I think you were at 1.9 million at the end of June. And just in general, how you feel about base management and returned if we -- if -- I know we

can't remove the impact of roaming and overages from COVID impacts, but the sort of underlying ARPU trajectories?

A - Tony Staffieri {BIO 6566699 <GO>}

Sure. We're actually about 2.1 million customers on limited now. Tim, it's been growing sequentially despite the lockdown. So the thesis continues to take hold including the economics underlying. And we talk about base management, it's important to remind ourselves of that \$2.1 billion. Let's not forget that our unlimited plans are building our base with the highest ARPU plans for the future. And I know, that some of our peers have been kicking and screaming a bit on this topic of unlimited, but our goal was to take the long road, take the long game here. The overage regime in Canada overage revenue was at a point where we were going to limit our ability as an industry to take full advantage of 5G and what's around the corner.

5G with the overage regime that was in place historically, just is completely illogical. So therefore, we had to break the back of that construct and our view has been in terms of base management, the broader macro base management topic is put your foot on the gas and drive to that place, because those are high-value customers that will continue to be in this sort of worry free space and consuming unlimited and really, really pre-position for 5G as it's coming now and it's arrived overall. And hanging on to that overage revenue, we just think we'll sort of a false sense of security and eventually the jam would break. So why not just lean into it and make that happen.

You hit on the key issue right now. The most notable metric, right now in terms of the base is ARPU. And when you factor out the fact that roaming that has had a significant impact on ARPU. And you work through the overage that was predetermined through that unlimited move. The underlying metrics are strong. It's unfortunate that the \$100 million a quarter of roaming loss, which is we got the strongest roaming franchise in Canada by far, that hurts in the short-term, but it will come back, because that's a very strong franchise and it's underpinned by the portion of our base that are roamers most naturally and that are in that category as a whole.

So we're looking at base management both as a macro and micro activity. The macro activity is what is the overall composition of that base. Are they ready for what's coming down the road in terms of the 5G roadmap and then day-to-day it just managing the ins and outs of that base, which I think we've done a very good job of.

Q - Tim Casey {BIO 17145706 <GO>}

And I guess the other part of that discussion would be EIP [ph] plans, a handset financing plans you put. I think, you have that across all your brand's now, maybe an update there. And there seems to be some concern among some investors said the subsidy market remains alive due to competitive reasons. You have any insight on how EI plans and subsidies are being absorbed by the industry?

A - Tony Staffieri {BIO 6566699 <GO>}

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We launched the EIP plans over a year ago back in late June, July of last year. At that time, we said that overall subsidies or promotional discounting on headsets was in the neighborhood for us, \$900 million a year. And so our view was we would likely see a gradual erosion of that to the benefit of both the industry and the customer, in terms of monthly payments. If we fast forward to where we are today, now the market has moved pretty much almost a 100% to complete EIP. And when you look at the amount of discounting that's happening in the market, it's still happening. But on year-on-year basis, what we're finding is it is down. It'll fluctuate from week-to-week or month-to-month depending on promotional discounting. And there still is discounting happening on both the hardware side as well as what we call the monthly recurring fee side of it.

The one thing to keep in mind is some of those hardware promotional discounts are sometimes funded by and often funded by the OEM and so it's important that be taken into account. So we would say on balance in reflecting on where we wanted to be probably fair to say we're behind in terms of dollars of where we wanted to be, but has it moved the needle in the right direction absolutely, and so it'll take probably longer than we thought to get to what we aspirationally thought would be a reduction of that \$900 million. But as I said, it is moving on balance in the right direction.

Q - Tim Casey {BIO 17145706 <GO>}

And what are your expectations for the handset market, that now we're into the seasonally stronger periods for loading at, there's great anticipation for a new iPhone, perhaps next month's. What is your sense of where the sweet spot is of consumers now, because some of these new phones, they can exceed \$2,000 at retail. It's quite an expensive device. How -- what do you see across the broad market that way?

A - Joe Natale {BIO 6407853 <GO>}

Well a couple of things one is we're seeing a range of 5G phones coming out at various price points. So I think, that bodes well for the ability to kind of stack up value points based on affordability for customers. The other thing that we're seeing is that older models sort of the N minus 1 phone. If you want to call it that at the N minus 2 phone are still great devices and for a lot of people that phone is great, and I don't need the latest and greatest. So we're seeing a lot of appetite for, the one step removed phone from that perspective because the affordability equation and the capabilities that has.

And then, refurbished phones still have a big place in the market. It's a -- in lot of ways, it's like the car industry, Tim. There are different models and different classes and then there is a certified pre-owned market where the provider ourselves is standing behind the quality, capability of the product, even though has been previously enjoyed et cetera. So we're looking at it as sort of an array of lineups and capabilities that address every part of the market.

The new 5G iPhone is rumored to be coming out in October, November and we'll see as the announcements kind of unfold. But bear in mind, we have the largest iPhone base in Canada. We have had the largest iPhone base from day one of the iPhone and it's a structural advantage for us as an organization.

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And we're just also getting more thoughtful around the financing options that give customers flexibility based on their needs. So the combination of the range of phones and the financing options, they're the -- for lack of a better way, the hand-me-down market is still huge in Canada, as parents or older kids hand down the older phone to younger kids et cetera. So that fluidity is still there and the lifetime useful life of phones is still there. Contrasted to the early part of the industry where phones are almost disposable. All right, we're in a very different stage right now. So we've built a competency around managing that fleet of phones across price points.

Q - Tim Casey {BIO 17145706 <GO>}

Before we move on to wire line. Joe, maybe just a brief update on 5G and how Rogers is approaching that?

A - Joe Natale {BIO 6407853 <GO>}

Sure, we were the first to launch 5G way back at the beginning of the year and we just announced we're at 54 cities with more to come. So we are the largest 5G network capability in Canada. And bear in mind that as Canada's only fully owned national wireless network from coast to coast, it's an advantage for us going forward. Add to that the Ericsson partnership that is 35 years old. Our network is dedicated devoted to Ericsson and the capability that we're proud of and we continue to innovate with Ericsson around new ideas and solutions that are at the heart of 5G.

We've got a very strong spectrum portfolio. We have the largest position in 600 megahertz, and we already have a good portion of the 3.5 gigs spectrum is being auctioned off next year and we'll get more in next year's auction. We've established a strong partnerships with institutions different parts of the country and we're able to use dynamic spectrum sharing as some of the capabilities that are inherently part of 5G, because of the interoperability between 4G and 5G on the Ericsson network. So we feel we're in a good place overall. And the business models are evolving both the B2B business models and the consumer business models. But they're starting to kind of come into focus and there are things that I think will continue to drive the innovation and digital economy, mean it wasn't long ago we sat here in the doorstep of 4G and wondered what was going to happen with 4G, and looking back now it's amazing what's happened in a short period of time. We're in that same mode of 5G. The 5G now is underway in 60 cities by year-end, phones coming out. It's happening.

Q - Tim Casey {BIO 17145706 <GO>}

Thanks for that, Joe. Maybe just because we're a bit tight on time. Maybe we'll just ask for an update on the wire line side. We've got more people working from home, you've got a different back to school with a foreign students as you mentioned. How is the -- how should we think about the wire line business, because it's quite stable in the second quarter?

Couple of things worth highlighting, if you look at volume of transactions in the third quarter. Say the market picked up relative to Q2, bit of what you saw in the wireless side, but to some extent back to school was more muted. I think with much of return to school

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being online. We didn't see the big volume pick up that you typically get in the August, leading up the first week in September time period for new internet. There's a little bit of that as some students call us around campus to get that campus environment, but overall volumes down year-on-year. However, what we do see is especially because of the working from home phenomenon, kids studying from home et cetera is the demand for more robust internet speeds and stability, and so we see a very nice traction on the internet ARPU and ARPA overall for the home. And so that continues to move the base ARPA up nicely.

Okay. And then on media, sports are back, you're a leader in sports. I've seen some Sportsnet press releases talking about record high ratings. How should we think about media for the back half of the year?

A - Joe Natale {BIO 6407853 <GO>}

I think as the business person and as a fan we're all glad to see sports on TV again. What it's reinforced for us improve it to us that it's one of the most important media properties out there that consumers who want to see the inflection point has been incredible around that.

Ad revenue has improved, still not at pre-COVID levels, but improved materially year-over-year. The categories that are a big part of advertising historically have been travel, retail, automotive and that's we're still seeing some downward pressure from those advertisers. But generally demand is picking up, think of it as Radio, TV advertising being down around 30%, whereas 2.5x that through the dark period of Q2 around lack of availability on the sports front.

With respect to the Jays, not having any Blue Jays game day attendance. Certainly provides revenue pressure. Nothing we can really say about 2021, but we hope the Jays can be back to fans in the stands, overall but -- we're happy to see the trend line on the media sports cycle.

Q - Tim Casey {BIO 17145706 <GO>}

Okay. Thanks for that Joe. I think we'll just wrap it up here and I'll maybe if you can just recap your -- the overall message to investors particularly with respect to capital priorities, if you could?

A - Joe Natale {BIO 6407853 <GO>}

Sure. Our capital priorities remain the same. The number one priority is investing in the future of our business. And we want to keep the flexibility that we've enjoyed to invest in our networks, invest in customer service tools and take advantage of the growth and capability ahead of us, and that hasn't changed, that's job one for us overall.

As we feel we have excess cash are biased will be to return capital via share buybacks. We think this provides the most flexibility as a whole. Just underscore, we're committed to our annual dividend of \$2 a share. And I think the punch line is we have a very healthy balance sheet with relatively far lower payout ratio. So we've got the dry powder and flexibility to

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make the right moves and investments and not sort of painted into a corner, because of a payout ratio, so we're pleased with that flexibility as a whole.

Q - Tim Casey {BIO 17145706 <GO>}

Well, that's great, Joe. I think thank you, Joe and Tony for dialing in today. We really appreciate your comments. And have a great day. Thanks again.

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