

2021 Desjardins Industrials, TMT & Consumer virtual conference

Company Participants

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

Other Participants

- Jerome Dubreuil
- Scott Sullivan

Presentation

Jerome Dubreuil

So we're back in to the telecom space with Rogers Communication. I'm Jerome Dubreuil, analyst here at Desjardins and Rogers which like everyone knows announced last week the proposed acquisition of Shaw Communication for an enterprise value of CAD26 billion. So we're privileged to host President and CEO, Joe Natale; as well as CFO, Anthony Staffieri here very shortly after the big announcement. Gentlemen, good afternoon and thanks for being with us.

Joe Natale {BIO 6407853 <GO>}

Good afternoon, Jerome. Thank you for having us at your conference.

Jerome Dubreuil

Great. So let's jump right into it. First, obviously, on the proposed acquisition of Shaw. This has been discussed in the industry as a potential event for years, but still okay and please take us through the strategic rationale behind the proposed transaction.

Joe Natale {BIO 6407853 <GO>}

Sure. I think first of all, it's important to remind ourselves that we're at an inflection point in terms of the generational investment that's ahead of us in the telecommunications industry. The investments that are required to build up 5G ubiquitously across Canada to have the same level of strength and global leadership that 4G had -- has had for us and secondly, the investment to drive connectivity deeper into rural Canada as a whole and to continue to offer choice and options and alternatives for consumers and businesses and for all the technologies and ideas that are coming along. The Rogers and Shaw networks are complementary. There are some incredible synergies between our footprints. The

extensive fiber in western Canada will really help serve the future of the cable industry, but also help to support our ability to go deeper into rural Canada and go deeper into 5G and the capability there.

When you combine the expertise of a Shaw of expertise and the expertise of Rogers, it's very powerful combination in terms of not just technologies and networks, but people and capabilities of people and the strength that people bring together. I think bottom line is having a national coast to coast fiber network that can be deployed to support the needs of the future around 5G that can be deployed to help us drive deeper into the small business and especially the enterprise space where we have very small portion of the market and to leverage the capability for backhaul and small cells and everything else required to build up 5G, especially as we look to close the gap in rural Canada where there are 2 million homes right now that are underserved, either have no internet or very poor internet by the standard set by the government.

Questions And Answers

Q - Jerome Dubreuil

(Question And Answer)

Yes, that's interesting. Thanks, Joe. And now obviously we're expecting a decision from the regulators in a year or so. How do you intend to manage to regulatory risk and what have your conversations with the government been like thus far?

A - Joe Natale {BIO 6407853 <GO>}

It's too early to just say definitively. I mean, this is one week in what will likely be a year or so. So as one week of 50 in terms of this. We will in our seeking regulatory approval from three sources, three places, the Competition Bureau, the CRTC and ISED[ph]. These are all proceeds that are well known, well established that involve opportunity for consultation across the industry and consultation with respect to the public as a whole and we're prepared for those conversations, prepared for those discussions. And I'm sure we will do everything in our power to look at this from the same side of the table as government to figure out what is in the best interest of the future and the best interest of Canada going forward and we're confident that we can reach an agreement with those three governing bodies and come out the other side. I think one of the most important things we're solving for I already mentioned it is that we have -- we need a modern policy framework that will look to the telecommunication needs of the future and it's hard to look at the future without considering some very important aspects from a regulatory point of view or from a policy framework point of view.

So How do we close the visual divide in Canada? When you have 2 million homes that are underserved and one thing that COVID has taught us is that we've created a big divide between those that are online and those that are not online, and it's not just about cooking with your friends. It's education online. It's about business online. It's about telehealth and telemedicine. So more than ever technology and networks have become the foundation of society. It's important we have a regulatory approach or framework that

solves that. At the same time, affordability is very important and you've heard us talk about affordability and the moves that we made in the marketplace, whether it's the move to unlimited or whether it's our program around connected for success where we're offering capabilities for low income Canadians with respect to being online and being part of the online community as a whole. So these are conversations we look forward to having with all orders of government. We look forward to having with the regulatory authorities. And we believe with like minded people looking to solve the policy framework topics for the future, we'll find a good natural landing spot and we believe confidently that we will be able to kind of conclude on this transaction and move forward.

Q - Scott Sullivan {BIO 20821485 <GO>}

Great. And maybe lastly on the proposed transaction. If approved, you'll be taking on a significant amount of debt. How do the financials and synergies work in supporting your deleveraging efforts?

A - Tony Staffieri {BIO 6566699 <GO>}

Well, one of the advantages of this transactions financially is it's occurring at a time when interest rates are at an all-time low. And as we look to the potential upsides, we really want to capitalize on that leverage and the upside. We announced the and you would have seen the valuation on the deal was 10.7x forward-looking EBITDA for Shaw. And when we look at the synergies that drops down net of synergies through 7.6 and we think there are synergies on top of that that could take it down even further. So you can see why we decided to make this an all cash transaction except for a portion of the Shaw Family's holdings. So that made a lot of sense. On closing, our leverage ratio is going to be just over 5x and with the synergies coming in fairly quickly, we see that leverage coming down to under 3.5x in less than 36 months and we're very confident about our ability to deliver on those synergies. For the most part, they are contingent on the wireless side of the business and so this deal pays for itself largely on the back of the cable surgeries, which are significant.

And so if we look at some other metrics like dividend payout ratio shortly after close, payout ratio at our current dividend rate drops down to under 30%. So clearly some of the fundamentals are going to be there to get the leverage down very quickly so that the upside accrue significantly to the equity shareholders. In terms of those synergies, they're across the Board in terms of what you would think there are some revenue synergies and Joe will talk about them upfront in terms of the strategic rationale, but we haven't factored those in to our models completely. What we have factored in are the ones that we know have a very high confidence of delivery around costs and in particular third-party costs, as well as capital investments and we know there's a lot of duplication that we would be able to substitute right away. And so we've talked about a synergy benchmark about \$1 billion and as I said very comfortable with our ability to achieve that.

Q - Jerome Dubreuil

Great. Thanks. Now if we're back a bit to your operations in wireless, are you seeing the quarter unfold in wireless versus the expectations you unveiled in January? Are you still in line with what these?

A - Joe Natale {BIO 6407853 <GO>}

Well, as we said on the Q4 call, we were going through some significant restrictions in two of the biggest markets in Canada in the early part of January. As we've seen those restrictions lift, we've seen the market wake up and overall, we're seeing very good volume in the market. Our view is that we will see year-over-year growth in terms of net new customers to the category across the industry. We think that's good, that's healthier. It means that the market is waking up and people are out there shopping and looking for opportunities as a whole. With respect to ARPU, nothing different than we said in the Q4 call. Still feeling the pressure from some of the COVID impacts that we talked about. Bear in mind that Q1 last year had only a small impact with respect to COVID in the latter part of the quarter and so this will be the last quarter where we have COVID impacted results versus less or non-COVID impacted results happening as a whole. But -- and we're feeling good about the excitement in the market. There are customers out there shopping. They're looking at new devices and at the same time, we've developed some very good capabilities to transact without having to have customers visit our stores.

If you recall a year ago, we didn't have a lot of those capabilities. A year ago, we had a tougher time transacting outside of our store. Well, look what's happened in 12 months and these are capabilities that will service for ever more. We've grown our pro-ship service. Now that will allow products to be shipped to customers' homes or where they might be and help them set them up either remotely or in-person. We've developed a whole bunch of curbside service delivery or courier capability with digital ordering and digital self-serve. So these are all capabilities that we were working on. We put our foot on the gas last year and now there are substantial part of our volume whether we have restrictions or not, we have the ability to transact in both modalities in-person and through electronic means.

Q - Jerome Dubreuil

Great. Thanks. And you touched on the ARPU growth for the quarter, but maybe more in the following quarters medium-term with the transition to unlimited and possibly roaming coming back. Are you still expecting a second half recovery on the ARPU front?

A - Tony Staffieri {BIO 6566699 <GO>}

Short answer is absolutely if we were look at Q1, Joe referred to some of the big moving pieces just put a little specificity around it. Our expectation is that roaming revenue for the quarter will continue to be down about CAD75 million, overage revenue about CAD25 million same numbers you heard on our call of last quarter for Q1 and that's largely coming in as expected. And so we're still expecting our ARPU in absolute dollars Q1 on a blended basis to be in and around CAD49, so somewhat flat to what you saw in Q4. But as we move into Q2, two things. One as Joe outlined, we start to lap the impacts of COVID and so year-on-year expect to see positive directional changes, but it really is the second half that the overage piece is behind us. We will have largely gone through our base.

There will always be a little bit that we've talked about, but it will be eight quarters since we launched it and in line with our expectations. When we launched it, the overage melt will be largely behind us and won't be an impact for sort of year-on-year and moves to

unlimited will start to be accretive for us. So that's positive. And then when you put on top of that what we hope to be good pickup in the travel business, both consumer as well as enterprise that will be additive to our ARPU profile. And so we continued to see good growth in ARPU as well as wireless service revenue in the second half.

Q - Jerome Dubreuil

Great. That's helpful. Thanks. And we've also seen that you've launched the first standalone 5G network in Canada. What's next on your 5G roadmap and what's the expected impact on the results or on the CapEx in the coming quarters or years?

A - Joe Natale {BIO 6407853 <GO>}

Sure. Well, as you said, Jerome, 15 months ago, we launched first 5G network capability in Canada and here we are now with 170 cities lit up on 5G and the first standalone core, which we think is a great foundation for all that's to come. There's still a lot of work to be done with respect to further deployment and reaching deeper into other cities across Canada, including suburban and rural parts of Canada as a whole. 5G will be a generational technology like no other in the capabilities that it brings. I mean, typically we thought the move from 2G to 3G to 4G really around just speed and capacity overall, but 5G has a number of capabilities that go far beyond just speed and capacity, and we think they're very exciting for the future of the industry. And with Rogers and Shaw coming together, we have an even greater ability to go further and go faster with 5G, go further, go faster and go deeper into rural Canada with 5G.

5G in my mind is about three high-level things that we're after as an industry. First and foremost, 5G has a brand new set of capabilities around spectrum management or dynamic spectrum management, the ability to be more efficient in the use of spectrum and therefore get more out of spectrum. Spectrum is one of our biggest costs by far and the ability to get a bigger bang for your buck on spectrum is critical to doing a good job in this industry. And with 5G, we have the ability to be more efficiently use the spectrum, which will lower unit costs and those savings will get passed on to consumers and will help us grow the category to further out and more extensively. The second thing that 5G does is it makes the promise of fixed wireless an even more real opportunity. I mean, fixed wireless has been around for a long time, but it's always been limited by capacity and limited by the nature by which it blocks or impedes traffic of all different types that might be served by that tower by that infrastructure.

In the world of 5G, we have the opportunity to proportion a piece of the network towards fixed wireless and have really a specific fixed wireless capability and part of our rural broadband coverage and expansion is a combination of fiber and fixed wireless. And fixed wireless I believe is at a state now where it is a viable alternative as a last mile provider and there 5G brings us for the very first time in terms of that capability without impeding first responders or critical phone calls or other data sessions that are important and in the past whenever we've had fixed wireless about deal with those things.

The third thing is the capabilities that are driven by the standalone core and by the fact that when you look at our almost 9,000 cell towers, you can think of those as 9,000 data centers in a way. And therefore, the premise of mobile edge computing is real and the

ability to leverage that capability for all kinds of IoT applications, whether they're in healthcare, in agritech, in transportation, in mining, in the resource sector and we're doing projects right now with all those industries to look at ideas and applications to leverage the power of 5G to help drive growth and productivity in those industries. So more than ever 5G is about the future of business. It's not just about talk, text and data. It's about how do companies use these capabilities to reinvent how they do business and therefore, it's about the economic digital capability of Canada and those are the three things that we're after.

We're going to push hard on this. This is about nation building as much as it is about delivering more affordable wireless capability for consumers as much as it's about stretching further into rural. 5G is the first technology that has the ability to do all three and we're very excited to be leading with it, very excited to be out of the gate strong with it and Rogers and Shaw coming together where it allows us to do more quickly and faster.

Q - Jerome Dubreuil

Great. That definitely makes sense. Now we're shifting to the cable side of the business. How's cable been performing? Well, actually it has been fairly stable despite the pandemic. Have you seen any changes in that trend recently?

A - Joe Natale {BIO 6407853 <GO>}

No, we seeing continued good performance and momentum from the cable business. We continue to make the right investments in cable. We're really excited about the Comcast platform and the roadmap that it will deliver for the connected home with many more things to come in the short and medium term from that platform. We're excited about the ability to leverage the docs roadmap and where that will take us, combine that with deep on capability where it makes sense in new areas, et cetera. I mean, we've got sort of a great ability to drive the performance of our network on a subsets basis, on a neighborhood by neighborhood basis.

And I've always said to you and to others that one of the beautiful things about a cable network is that you can make success based investments and you can address one neighborhood and one note at a time in terms of what do you need all that neighbor of the note. And if you get that rhythm going over time, you really can do some wonderful things. So we're very pleased with it. It's nice that the restrictions again are being lifted and we're seeing a lot more activity in the marketplace, which is good. But we're happy with the financial performance of our cable business and we'll continue to be strong.

Q - Jerome Dubreuil

Great. And from the less volatile part of your business to media, which has been a little bit more volatile given the pandemic, how is this segment doing lately? And do you have any insights on when the stadiums will start open up, obviously, Rogers Place -- Rogers Centre in Toronto and how was the state of advertising?

A - Joe Natale {BIO 6407853 <GO>}

FINAL

Sure. So as we look at our broadcast business, we're seeing with the games being back on the air and the excitement around sports, the Northern division NHL, the excitement around basketball, the Jays spring training like it's -- from a broadcasting point of view, there's lots to watch and more than ever sports has proven to be a very important part of the content marketing and the content business. And there's no better way to reach an audience than through the power of live sports and watching live sports through any device. So that recovering nicely from what happened last year. Last year, we had feast or famine. Last year, we had no games or we had 7, 10 games a day. And from a monetization point of view, those are both difficult and we're seeing that recover nicely especially as our typical advertiser start to spend more.

As it relates to the Jays, it's not so much about the Jays playing in the stadium. It's about having fans be in the stadium. The financial pressure is really about fans and attendance. We're watching very carefully what's happening in the U.S. and we can get to a place where maybe a quarter or a third of the stadium is filled with fans at some point and that's a combination of vaccination and public health, approvals and support around that and doing what's right. Hopefully at some point later this year, we'll get to that place, but other than those things happening, it really won't change the financial trajectory of the Jays. So playing in an empty stadium doesn't really do much for us. It's having fans and seats enjoying the game and therefore the economics that come with that. So fingers crossed and I think there's not a baseball fan in Canada that wouldn't love to sit in a stadium and watch the game because it's not just about the game, but it's indicative that the things are better from a society point of view and we can enjoy those things when we miss the most.

Q - Jerome Dubreuil

Yes, me first. And going a going maybe on the consolidated front. Regarding your guidance, would you consider providing some sort of guidance for 2021? And what would you need to have the confidence of providing such guidance?

A - Joe Natale {BIO 6407853 <GO>}

As we look to our disclosures at the end of the quarter, we continue to assess how much more uncertainty is there with respect to COVID and you think about the two things that have impacted us the most. One is roaming related to travel that we talked about and the second is the topic we just talked about relating to sports and material for us is can we get fans in the seats and how many. And that's still a wild card for us and so I think through the rest of the year, those are material impact for us.

And if we had to start a call that out today, we'd have a hard time doing that with any credible consistency based on what we know and more importantly, what we don't know about how we come out of this COVID. So if you fast forward two to three weeks from now, is a lot going to change? Probably not. And so we'll continue to focus on providing investors with good short-term guidance, if you will, in terms of what we expect for the following quarter much like we have for the last year and our assessment is that continues to be more credible and more worthy for the investment community and so we'll stay on point with that.

Q - Jerome Dubreuil

Great. That's understandable. And now we're running a bit short on time, but maybe lastly on the regulatory front. Do you have any updates on the MVNO and TPIA files and expect the bid on Shaw could have an impact on the timeline of these decisions?

A - Joe Natale {BIO 6407853 <GO>}

So the short answer, Jerome, is I don't know. I would say to you that we were waiting for the conclusion of those files and we were expecting them -- are expecting them anytime soon. In terms of announcement, I'm not really sure whether that timing will change or not change as a whole. You would have to ask the CRTC that question overall. I would say to you that we're going to continue to drive affordability in Canada. We've been leading the way in many fronts on that from unlimited. Unlimited now, we're at over 2.5 million customers and it was a big financial impact on our business and you've seen it over the last eight quarters. It was the right thing to do for consumers on that front. The CPI just came out a consumer price index around wireless and wireless prices are down 15%. So it underscores the fact that there are very few very few consumer goods that have been down 15% in the last year and so we'll continue to kind of driving the equation on that front. It's good business for us because it expands the category and attracts more customers and we want our customers to use our products more. The more they use our products, the more we can continue to invest in the future. So we continue to making those comments to the various regulatory authorities and working with them collaboratively on what is the outcomes. But in terms of the specific decisions, I don't have any further insight than the last time we talked about it.

Q - Jerome Dubreuil

Okay. Great. So that's all the time we had. Thanks a lot. I think that was very helpful as usual. Thanks, Tony and Joe for your time.

A - Joe Natale {BIO 6407853 <GO>}

Thanks, Jerome. Good luck with the rest of the conference.

Q - Jerome Dubreuil

Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the

views of Bloomberg LP. © COPYRIGHT 2021, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript