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RCI.B.TO - Q2 2013 Rogers Communications Inc. Earnings
Conference Call

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RCI.B.TO reported 2Q13 consolidated revenue growth of 3.4%.



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PRESENTATION

Operator

Operator

I would now like to turn the conference over to Mr. Bruce Mann of the Rogers Communications management team.

Bruce Mann - Rogers Communications Inc. - VP of IR

Thanks, operator. Good morning, everyone. I appreciate you joining us for Rogers Communications' second-quarter 2013 investment community teleconference. It's Bruce Mann here. Joining me on the line in Toronto are Nadir Mohamed, our President and CEO; Tony Staffieri, our Chief Financial Officer; Rob Bruce, who is the President of our Communications Division; Keith Pelley, who is President of our Media Division, and Ken Engelhart from our regulatory team.

We released our 2Q results earlier this morning. The purpose of this call is to crisply provide you with a bit of additional background up front and then answer as many of your questions as time permits.

Today's remarks and discussion will undoubtedly touch on estimates and other forward-looking information from which our actual results could ultimately be different and as such, you should review the cautionary language in today's earnings report and also in our 2012 annual report, these include factors, assumptions, and various



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risks that could cause our results to be different as well as an explanation of some of the non-GAAP measures we discuss and all of these cautions apply equally to our dialogue on the call this morning.

So if you don't have copies of today's release in full and/or our 2012 annual report accompanying the call, they are both available on the IR section of our Rogers.com website or on EDGAR or SEDAR.

With that, I will turn it over to Nadir Mohamed, our CEO, and then Tony Staffieri, our CFO, for some brief introductory remarks and then the management team here looks forward to taking your questions. Over to you, sir.

Nadir Mohamed - Rogers Communications Inc. - President and CEO

Thanks, Bruce. Welcome, everyone, and thank you for joining us. As you can see from this morning's earnings release, we delivered a balanced set of financial and subscriber results with continued growth in both consolidated revenue and adjusted operating profit and augmented by some additional growth from acquisitions that we completed in the quarter.

We also put up strong growth in postpaid Wireless subs as well as Cable Internet as we leveraged our superior network to deliver data growth across both our Wireless and Broadband Cable platforms. At the same time we further expanded operating margins both year-over-year and sequentially from Q1 in each of Wireless, Cable, and RBS.

Even with expense pressures that Media associated with the residual impacts of the NHL lockout and the seasonal impact of increased Blue Jays player salaries, we still recorded solid adjusted net income and earnings per share growth on a consolidated basis.

The balanced growth in Q2 across revenue, margin, and earnings clearly reflect our innovative product offerings and the strength of our asset mix, which positions us uniquely as Canada's largest wireless provider, complemented by healthy broadband and media business.

So beginning with Wireless, on a subscriber front, we delivered strong net postpaid growth of 98,000 net adds fueled by strong postpaid gross additions which grew at 7% year-over-year. We have also significantly brought down retention spending, which as you recall had spiked in Q1 while at the same time holding postpaid churn relatively flat during the quarter at 1.17%.

A portion of the strong gross additions was driven by short-term promotions that included the first one or three months off for free on new plans. While this contributed to the strong postpaid subscriber adds, these offers, which expired at the end of Q2, contributed to the slowdown in ARPU growth which you see in this quarter.

Another factor impacting ARPU growth was the implementation midway through the quarter of our innovative new US data roaming plans as well as lowering of certain of our international roaming rates. These new US wireless data roaming plans priced at a flat rate of \$7.99 per day are designed to instill cost certainty for our customers while roaming, which we fully expect will expand the number of customers who use their wireless data devices while traveling.

This quarter we began to see the immediate revenue impact of the new price plan on existing wireless data roamers, but the stimulation of usage is just really kicking in now and we are seeing encouraging early trends. We expect that this will continue to put pressure on ARPU in Q3 as we will have the plans in place for the full quarter versus roughly half of Q2 and we don't expect that additional usage will fully offset the re-rating effect for a couple more quarters.

While the data roaming component of wireless data was essentially flat as a result of these changes, we did however see growth continue across all of the other data categories with continued strength in data upsell and the cumulative effect of the growing subscriber base, deeper penetration of smartphones, and the increasing usage of wireless data, generally all contributing to the growth.

One additional factor which influenced ARPU in the quarter was that to remain competitive in the postpaid space we began including certain voice features such as voicemail and caller ID into our simplified all-in data sharing plans that were introduced late last year.

In summary, the balance of subscriber growth and ARPU is important to us and we remain focused on delivering sustained topline growth.

In the quarter, we activated 678,000 smartphones, 8% more than Q2 of last year, so demand continues to be significant. 72% of our postpaid customer base now has a smartphone, up from 63% last year and wireless data now accounts for 46% of network revenues, growing 18% year-over-year. So we are continuing to have success concentrated in the high-end of the market.

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Our smartphone metrics -- that's ARPU, churn, and upgrade rate -- remain healthy given the competitive backdrop and we are continuing to attract and retain our high lifetime value customers which is squarely on strategy and clearly the most significant driver of our top line.

Now turning to some important developments during the quarter, we announced the extension of our existing network sharing arrangement with Manitoba Telecom from HSPA to now include LTE. We also struck a new network sharing arrangement with Videotron covering Quebec and the Ottawa area. The combination of sharing spectrum and LTE networks will allow for greater capacity and faster speeds, together with expanded network coverage. This arrangement will lead to Opex and Capex savings as well as roaming revenues for Rogers outside of the sharing areas where Rogers is the exclusive national roaming partner.

Lastly on Wireless, as I'm sure most of you are well aware in early June, the CRTC issued their national Wireless Code of Conduct. Rogers is and has been a supporter of this as it is a far better alternative to having disparate codes being developed on a province-by-province basis, which would cause a significant amount of extra complexity in our customer-facing and back-office operations.

One of the elements of the new code essentially limits the length of service contracts in the future to two years. Rogers has always offered no contract terms as well as contract terms of up to three years. With the new code, we are in the process of eliminating the three-year contract option and recasting our service and device subsidy plans to two-year maximums.

You saw us put in place earlier this week new more flexible and value-inclusive service plans and adjusted device pricing, which together are a large part of that transition and it is a transition that we are focused on making in a manner that keeps our subscriber value economics as neutral as possible.

Turning now to the Cable segment of the business, we again delivered continued topline and adjusted operating profit growth along with increased margins as well. On the subscriber front, we continue to drive growth in our high-speed Internet and cable telephony products and both of these products have strong rates of revenue growth as well.

The television product reflects the impact again this quarter of the challenging competitive environment led by continued aggressive pricing activity and footprint expansion by our primary telco IPTV competitor as well as the impact of seasonal disconnects and cord cutting. However, our focus on driving Internet as our anchor Cable product more than offset this and led to solid topline growth.

We are continuing to intensely balance subscriber loads, pricing, and margins on a day-to-day basis in the face of these extremely deep competitive discounts as we work through this period.

In both Cable and Wireless, our continuous cost management initiatives helped to deliver strong adjusted operating profit growth and margins. We also closed on the acquisition of Mountain Cable from Shaw this quarter. Mountain is the incumbent cable provider in and around the Hamilton area passing approximately 59,000 homes and is adjacent to Rogers' existing cable cluster in Southern Ontario. This is an excellent tuck-in acquisition for our Cable business.

Rogers Business Solutions or RBS again successfully focused on driving the on-net and next gen portions of the business where we put up a healthy double-digit revenue increase.

We also closed on an acquisition in RBS this quarter purchasing the Canadian data center hosting and cloud computing operations from Primus, known as Blackiron Data. This is an excellent fit with our Business Solutions division as the facilities and capabilities are complementary with and generally concentrated in the same geographic areas as our mid-sized business customers and enterprise services operations.

Now turning to Rogers Media, I'd characterize the advertising market in Canada as continuing to be tough especially in the broadcast TV and publishing segments. But radio is continuing to perform well and we are seeing good growth out of our Sportsnet and home shopping businesses, as well as the Blue Jays. Tony in a moment will touch on the impact of the residual NHL lockout and Blue Jays salaries that I referenced earlier.

We also received regulatory approval to finalize the acquisition of theScore, which was announced a number of months ago and which further reinforces Media's highly successful Sportsnet brand. theScore is Canada's third largest sports specialty TV station and we have already rebranded it as Sportsnet 360 while retaining many of the similar elements of theScore brand. So we continue to really build up the strength of the valuable Sportsnet brand and franchise.

To sum up, it was a quarter of continued growth in both the top and bottom lines with strong margins and the successful execution of a number of strategic initiatives. While expecting it to continue to be a highly competitive market, I have no doubt whatsoever that the strength of our franchise and our superior asset mix will remain a great platform for continued success.



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With that, I will turn it over to Tony for some remarks on the numbers and then we will take your questions.

Tony Staffieri - Rogers Communications Inc. - EVP and CFO

Thank you, Nadir. Good morning, everyone. I will provide a little bit of additional context around the financial results and metrics for the quarter and then we can get into your specific questions.

On the top line, our consolidated revenue was up 3.4% for the quarter, driven by revenue growth of 2.7% at Wireless, 3.2% at Cable, and 6.8% at Media. RBS total revenue was relatively flat year-on-year but delivered strong 21% growth in next-generation services offset by planned declines in the legacy lines of business.

As Nadir mentioned, we concluded the acquisitions of Mountain Cable, theScore, and Blackiron in the quarter and their results are included in the growth rates I just quoted. Excluding the impact of these acquisitions, consolidated revenue growth would have been just under 3%.

At Wireless, the modest slowdown in our network revenue and ARPU growth profiles were due to the pricing impacts Nadir mentioned and importantly, the free one month promotions which expired in the second quarter and we expect to see increased adoption of wireless data roaming with our new US plans, which should begin to offset the re-rating impacts over the next couple of quarters.

Wireless adjusted operating profit was up 3% year-over-year with margin expansion of 100 basis points to 49.2%, while at the same time, we delivered a 13% increase in net adds. We brought down retention spending to 12.5% of network revenue from 15% during the first quarter and held churn stable year-over-year while still making customer investments such as our new US data roaming plans which speaks a lot to our continued execution around cost management and efficiency initiatives.

Our operating costs in Wireless decreased a full 5% year-over-year. Solid execution in terms of operating efficiency at Cable as well, where margins expanded 170 basis points to 49.5%, with adjusted operating profit growth at 7%. Margin expansion was helped not only by a reduction of costs year-over-year once you exclude the impact of Mountain Cable acquisition, but significantly by the favorable mix shift in revenue growth from TV to Internet.

Today, Internet contributes more gross margin to our profitability than TV, underscoring the importance of our data monetization strategy.

Overall revenue growth at Cable of 3% was led by Internet, which grew at 17%, together with cable telephony growth at 4%, both of which more than offset the TV revenue softness reflective of the ongoing competitive activity occurring in that product segment.

The sequential slowing of Cable's topline growth from Q1 was impacted by the overlap in timing of pricing changes made across Cable's products in January 2013 versus in March of 2012. That had the impact of increasing the overall revenue growth rate in Q1 on a nonrecurring basis by approximately 1%. The inclusion of Mountain Cable added 130 basis points to Cable's overall revenue growth in Q2 and 170 basis points to adjusted operating profit growth.

At our Business Solutions segment, the shift to and growth of on-net next-generation revenues continues to drive improvements in the financial profile of this business. The combination of the improving revenue mix profile together with cost management delivered a strong 14% increase in adjusted operating profit and a 340 basis point increase in margins over Q2 of last year.

The acquisition of Blackiron Data contributed 800 basis points of both revenue and adjusted operating profit growth year-over-year.

Turning to our Media segment, the largest contributors to revenue growth were our Sportsnet properties, the shopping channel, and higher attendance at the Blue Jays games. Of our total Media revenue growth of 7% in Q2, the acquisition of theScore comprised about 140 basis points of that. However, overall revenue growth at Media continued to be constrained by softness in the advertising markets across most divisions, underscoring the importance of our growing subscription revenues in this segment tied to valuable content customers are willing to pay for.

Notwithstanding Media's strong cost efficiency improvements activities in the quarter, two specific items caused Media's adjusted operating profit to decline year-over-year. The first was the residual impact of the NHL lockout that compressed a large number of hockey games specifically 34 more NHL games than last year, which Rogers Sportsnet produced and aired, driving significantly higher programming costs in the quarter.



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The second item was the seasonal impact of increased Blue Jays player salaries, reflecting the strategic decision late last year to make investments in the depth of our baseball team's talent. While we continue to be optimistic about our team's successes in the field, the effort has proven successful in terms of boosting ticket sales. Blue Jays revenues were up a strong 27% from Q2 of last year and the financials are tracking to our plan.

The impact of these two expense items at Media was nearly \$35 million. So as you can see, we are continuing to successfully execute around cost management initiatives across our media properties, having offset significant portions of these items.

Stepping back I would say overall a combination of continued growth and healthy margins across the Company. We continue to make healthy levels of investments in customers, networks, and acquisitions and have been able to do so while preserving both margins and cash flow as a result of simplification and cost efficiency initiatives we are successfully executing.

And you continue to see this productivity improvement in our financials. Our underlying operating costs on a total Company basis decreased year-over-year by 2.1% excluding the impact of the acquisitions, equipment costs, and the two items in Media that I mentioned. I should also stress that we view cost productivity as part of our DNA and you can expect us to continually seek to realize incremental efficiency gains going forward.

Looking on a consolidated basis below the operating profit line, you'll see that our adjusted net income grew by 4% year-over-year and adjusted diluted earnings per share by 5%, reflecting our growth in adjusted operating profit and a reduction in adjusted tax expense, partially offset by an increase in interest expense.

Our effective tax rate on adjusted income was 25.9% in the second quarter versus 27.3% in the second quarter of last year, contributing about \$0.02 to the growth in adjusted earnings per share. On an unadjusted basis, net income was up 29% due to an increase in other income of \$53 million, primarily the result of a \$47 million gain on the sale of Rogers' 33% minority interest in specialty TV channel, TVTropolis. In addition, integration and restructuring costs were down \$19 million year-over-year.

In terms of cash during the second quarter, we generated \$602 million pre-tax free cash flow. This was down from Q2 of 2012 as the increase in adjusted operating profit this year was offset by higher Capex spend and the increase in interest expense. After-tax free cash flow was lower due to the expected increased cash tax levels compared to 2012.

During the second quarter, we returned \$246 million in cash to our shareholders in the form of \$224 million in dividends, up 8% year-over-year, and \$22 million in share buybacks executed in the final days of the quarter.

As we turn to the balance sheet, we ended the quarter with \$3.1 billion of available liquidity. This comprised \$875 million of cash, our \$2 billion of undrawn credit facility, and \$250 million available under our accounts receivable securitization program.

I will finish by saying that we continue to be in a very strong position financially with an exceptionally solid balance sheet. We have investment grade ratings on relatively low balance sheet leverage with no significant near-term debt maturities and very significant liquidity available. I think this view is supported by the fact that during the quarter both Fitch and Standard & Poor's credit rating agencies upgraded Rogers' senior unsecured debt to BBB+ from BBB.

With that, I will pass it back to Bruce and the operator so we can take your questions.

Bruce Mann - Rogers Communications Inc. - VP of IR

Thanks, Tony. Operator, quickly before we begin taking questions, I would just like to request as we do on each of these calls that those participants asking questions limit the questions to one topic and one part so that as many people as possible have a chance to participate and then to the extent that we have time, which hopefully we will, we will circle back and take additional questions or we will get them answered for you separately after the call.

So operator, if you could just explain quickly to the participants how you want to organize the Q&A polling process, we are ready to start on this end.

QUESTION AND ANSWER



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Glen Campbell - BofA Merrill Lynch - Analyst

Yes, thanks very much. So we are encouraged by the pricing changes you've put through for new customers but I was wondering if you could talk a little bit about what happens for existing customers who are upgrading. Will the subsidy levels be reduced for upgrading customers now that they are operating for two years instead of for three? And is there any change to the eligibility? In other words, will the same customers who were eligible for upgrades before be eligible now under the two-year regime? Thanks.

John Boynton - Rogers Communications Inc. - Chief Marketing Officer

Hi, this is John Boynton, the Chief Marketing Officer. For customers who currently are out of term, which is about a third of our base, they can feel free to do whatever they want to market pricing. For customers who are upgrading today from three-year contracts, they will go onto the new two-year terms in terms of the hardware price and the hardware portion of the contract.

Glen Campbell - BofA Merrill Lynch - Analyst

Can you give us a sense of how much lower the subsidy is on average for those upgraders now than it was? So under the three-year terms, the subsidy would be, say up to \$500 say, on an expense base. Maybe sometimes more. Now that we are in a two-year cycle for upgrades, are they getting reduced subsidies and if so, by how much?

John Boynton - Rogers Communications Inc. - Chief Marketing Officer

It depends really, Glen, on the category, whether it's talk and text or whether it's smartphone light or smartphone premium. There aren't any hidden tab fees or anything like that so the price is straight out and I think we published them.

Glen Campbell - BofA Merrill Lynch - Analyst

Okay, so my question would have been on the smartphone premium. It looks like there is a -- would it be fair to say -- a modest reduction less than 20% in the average subsidy?

John Boynton - Rogers Communications Inc. - Chief Marketing Officer

Yes, on a handset-by-handset basis, it varies a little bit but yes, there's definitely a reduction in subsidy.

Glen Campbell - BofA Merrill Lynch - Analyst

Okay, thanks very much.

Operator

Tim Casey, BMO.

Tim Casey - BMO Capital Markets - Analyst

Thanks, I will ask the question that's on all investors' minds. Could you comment on the issue of Verizon? Bluntly, do you think they are coming in? What do you think the business case and from a regulatory perspective, what do you think about the issue of a level playing field with respect to auctions and so on? Thanks.



Nadir Mohamed - Rogers Communications Inc. - President and CEO

Tim, it's Nadir. Somehow we thought that question might come up. Not sure why, but first off, I obviously don't want to really comment on anything that is speculative because we are not quite sure of who said what. But maybe I can take the opportunity to just offer some thoughts on the general idea of quote-unquote a fourth national facilities-based operator which seems to be a driver of these discussions.

I think I have had a chance to probably speak with most of you, if not all of you over the last few years and something I've been very consistent on is I have never seen how a four-player market can work in a country like Canada. I never thought of it as a sustainable model. If you think of what has happened over a period of time consistently in Canada, it is proven out that this country -- it's difficult enough, frankly, to work with three players. It's really hard to think how anybody that knows the business would think that a fourth facilities-based player would make sense.

Frankly globally it's interesting. If anything, we are seeing a market that is consolidating in just about every country. So Canada by no stretch is an outlier. If anything, three players is the norm and so -- and that is by the way before factoring in what I would say is the unique characteristics of Canada in terms of the geographic expanse of the country.

And maybe I can build on just what -- if you look into Canada, what you really see is frankly a market that's been built out really well in terms of networks. We have tremendous coverage, probably one of the best in the world in terms of fastest speeds and most reliable networks. Penetration in the market we shouldn't forget is approaching 80% but frankly in urban areas, it is well north of 80% and we've got three players that have quad products pretty much across the board and frankly a market that has been served well.

We've seen a few studies recently that have come out that reinforce that pricing is very competitive, certainly against the US, there is many price points that in fact would say it's a lower cost to Canadians -- for Canadians than the US.

But look, Tim, I've got to be very, very clear here. We welcome competition. Frankly it's in our DNA. Those that know the history of the Rogers Company would know that our Company has been built on taking on the telecoms. We always took on the big phone companies and we thrive on competition.

But what we are absolutely against is a tilted or stacked playing field where you have a massive incumbent US carrier that would be given favorable treatment and frankly better treatment than Canadian incumbents.

I think to your question on playing field, what we are really asking for is a level playing field. It's that straightforward. We can't have it stacked against us and we don't see how a government policy would make sense that the Canadian government would favor a US player, frankly we would never be able to get the reciprocal rights that are being offered.

So our view is very straightforward. We can't have a US foreign incumbent be allowed to buy new entrants at depressed pricing by blocking the ability of incumbent Canadian players to do the same. So it's about parity.

And the same thing applies with spectrum. If we're going to be restricted to 10 megahertz of prime spectrum, so should everybody else including very large foreign incumbents. And frankly when you look at what we have had to do in Canada and we've done successfully in Canada, we've built out networks across the country.

So our view is very straightforward. If we're going to incent people to come into the market. They should be obligated to build out in Canada and it's not lost on me, by the way, that if you think about a US player coming in or for that matter any foreign incumbent coming in, they know the business well enough and the reality is Canadians want to get the benefit of investments outside of very slim core urban networks. And that's not what the policy was designed to achieve.

So my view is that if you look at history, what it has shown is that whenever we have government artificially propping up new players, it has always proven to be ineffective. So I appreciate the question. I don't want it to lead to any speculation but I think it's very important that everybody understands the situation.

Tim Casey - BMO Capital Markets - Analyst

Do you or Ken have a view on Minister Moore's receptivity to those ideas compared to the previous minister?

Nadir Mohamed - Rogers Communications Inc. - President and CEO



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I think it's probably fair to say that he has just taken office so we will see how that unfolds as time moves on.

Tim Casey - BMO Capital Markets - Analyst

Thank you.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - Morgan Stanley - Analyst

Thanks very much. Good morning. Tony, I wanted to talk about the balance sheet a little bit. You've obviously made some acquisitions here. You have the auctions coming up. How do you think about buybacks in that context, given some of the stock price weakness here? It looks like you picked up the pace a little bit later last quarter.

But do you think you are going to have the opportunity to work through most of the buyback program over the balance of the year and still keep your balance sheet in the sort of shape that you want to keep it in? Thanks.

Tony Staffieri - Rogers Communications Inc. - EVP and CFO

Thanks for the question, Simon. As we said, in February of this year, our Board approved the share buyback program of up to \$500 million for 2013 and we have been consistent in our thinking as we approach the spectrum auction. We want to be conservative in our use of cash to ensure that as we look to the potential purchase prices that we maintain what we consider to be a healthy balance sheet leverage ratio. And so we have erred on the side of caution in terms of share buybacks.

In the final few trading days of June, we thought the pricing was at a very opportunistic level and so on the final two days, we executed share buybacks to the maximum allowable for those two days. As the trading window opens, we will continue to look at share price levels and think about them in an opportunistic context. But we will tend to always keep an eye on our overall cash position. And as I said, we really won't have a good idea until we approach a date that is closer to the spectrum auction and gives us a bit more certainty on potential pricing.

Simon Flannery - Morgan Stanley - Analyst

When do you think you'll need to pay for the spectrum? Is that sort of the mid '14 event?

Tony Staffieri - Rogers Communications Inc. - EVP and CFO

There's an initial deposit that's required in September and then the auction is currently slated for Q1 with payments coming shortly thereafter in the first half of 2014.

Simon Flannery - Morgan Stanley - Analyst

Thank you.

Operator

Vince Valentini, TD Securities.



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Vince Valentini - TD Newcrest - Analyst

Thanks very much. I want to go back to the new rate plans for the two-year contract you've put out. Just make sure I understand this. It seems like the subsidy amount comes down a little bit so you get back obviously what will be more of a two-year cycle versus three year cycle. You get back some of that through lower subsidies but also you're getting some of it through -- it seems like higher pricing.

I want to focus on that part of it. It looks like it could be pretty material increase in some cases if a lot of your base migrated to these new plans. Now granted, they are getting long-distance thrown in as opposed to being an extra and voicemail and everything else. But from a pure ARPU perspective regardless of the cost, could this be like something that raises your ARPU by \$5 in 2014 if a lot of people take these plans?

Tony Staffieri - Rogers Communications Inc. - EVP and CFO

I think you're talking about the gross value on the rate plan but obviously there are other kinds of factors as to what happens with customer behavior. Not everybody is going to be in the exact same mix today as they are in the mix tomorrow. So \$5 would be the maximum amount you would see and then you would discount of that based on customer behavior.

Rob Bruce - Rogers Communications Inc. - President of Communications

Vince, it's Rob Bruce. I think the important thing here is we have learned over time that subsidies in this market are important to our customers and balancing the effort between both subsidy reductions and rate plan increases we thought was an important part of the formula as we went forward.

I think it's also important for everybody on the call to just keep in mind that this is really the first step of adjusting to a fairly significant shift in the pricing regime and I think all the carriers no doubt will be tweaking their rate plans and pricing over the coming weeks to try to get it to line up appropriately.

Operator

Jeff Fan, Scotiabank.

Jeff Fan - Scotiabank - Analyst

Thanks, good morning and thanks for taking my question. My question is on network sharing opportunities. You guys have obviously been very proactive in sharing with other regional players, but the one area or the areas where you don't have partners today remains Ontario, BC, Alberta, some of the bigger markets. With all the talks about possibility of a large foreign player like Verizon coming in, I just wanted to revisit where you possibly you could see a scenario that you might share with that potential partner. And if you can talk about the benefits versus obviously the costs of enabling a potential competitor coming into the market? Thanks.

Nadir Mohamed - Rogers Communications Inc. - President and CEO

Jeff, I'm sure you won't appreciate the answer, but you will understand why. Certainly it's something that I don't think we want to end up speculating or getting into a what-if scenario. I wouldn't want to repeat the answer I gave earlier but all of us have a different view of the merits of a fourth player.

Jeff Fan - Scotiabank - Analyst

Okay, perhaps I will try another way. Maybe on the cost for the quarter, just change gears a bit, especially within Wireless excluding equipment, we saw a really excellent quarter on cost containment. Wondering if this is kind of new level of Wireless costs going forward? And if it is, I wanted to get your thinking on what this gives you in terms of flexibility. Is this going to be offsetting some of the ARPU pressure that we are going to see on the data roaming that you talked about? Does this give you an opportunity to be a bit more proactive on gross share ads like what we saw this quarter?

Rob Bruce - Rogers Communications Inc. - President of Communications

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Jeff, it's Rob. For sure we continue to be very, very focused on driving productivity in the businesses, as Tony highlighted in his comments, and we are pleased with the 5% year-over-year Opex decline excluding hardware. And I think that rightly that continues to give us a couple of opportunities, continuing to create a sharp delivery of margin as well as being able to invest in subscribers and other things that bring us future revenue growth. So I think the opportunities are unlimited and we are going to take advantage of them.

Tony Staffieri - Rogers Communications Inc. - EVP and CFO

Jeff, if I could add to that, it's Tony. We've been fairly consistent in the way we think about cost productivity for the Company overall and we've talked about cost productivity on an annual basis in the 2% to 3% range. In any particular quarter you may see more success in one segment versus the other but we continue to look at that and we have talked about the consistency of margins in our core businesses.

So as we want to make investments in certain parts of the business, whether it's the customer networks, etc., then we will toggle other costs to ensure that we have consistency in our profitability and our margins. And so I will highlight again it will fluctuate from quarter to quarter but on an annualized basis, that's what you should expect to see.

Operator

Greg MacDonald, Macquarie Capital.

Greg MacDonald - Macquarie Capital Securities - Analyst

I want to go back to the ARPU question. I can appreciate that we have new plans in place and they look constructive on pricing. I guess the question I have is when you look at the existing postpaid ARPU for the quarter, I think it's pretty safe to say it was a miss for most people. And you talked a little bit -- I think it was Tony was talking about the inclusion of voice features as a potential pressure there. Wondering if you could comment on a couple of other trends.

One would be migration of Rogers' plans to Fido plans for existing customers, whether that's voluntary or involuntary? And then a second -- something we are seeing out of the US is more tablets being added, and that has an impact on the ARPU given the current definition of the user. So could you comment on those two things helping us understand this whole question mark of whether postpaid ARPU is kind of a flat outlook, is it a slight declining outlook? Because the last few quarters what we saw was a slight increasing outlook and I think people are trying to put all of the pieces of the puzzle together. Thanks.

Rob Bruce - Rogers Communications Inc. - President of Communications

Sure I should start off by saying the ARPU pressure as we talked about earlier in Tony and Nadir's remarks from some of the roaming initiatives, which frankly we think are imperative in the long run to kind of get roaming in line or I think we will see the same kinds of things that we've seen in other parts of the world where it becomes high on the regulatory agenda. We were disappointed when we saw voice mail and calling line ID actually rolled into the base rate plans going forward. That was a significant impact as you identified in your remarks.

For sure, as always, there is migration in the business between plans and that is an active part of the business every quarter, people migrating up plans, down plans, from Rogers to Fido, from Fido to Rogers. Clearly there's a lot of growth in the midrange on smartphones as people adjust and so we did definitely see some migration down to some of the Fido plans.

And finally, while MBB, Mobile Broadband, the mobile broadband business has an ARPU in kind of the \$40 range and clearly we continue to add subscribers in that Mobile Broadband space, and those subscribers are coming in at ARPUs that are in fact lower than our smartphone ARPU. So they would also have an impact on those numbers.



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Nadir Mohamed - *Rogers Communications Inc. - President and CEO*

Greg, it's Nadir. Just one thought to the tail on in your question, I think you are spot on that frankly the industry has to move forward from the historical perspective of ARPU to as you see south of the border, than those from ARPA or some variation thereof because clearly what we are going to see is more and more users have multiple devices and multiple services. So it's probably fair to say that the metric itself will actually evolve to something different.

Greg MacDonald - *Macquarie Capital Securities - Analyst*

So Rob or Nadir, is that a near-term definitional change that we expect and was that a major impact in the quarter? Because it was what most people would consider a very strong postpaid sub add.

Nadir Mohamed - *Rogers Communications Inc. - President and CEO*

As far as the quarter, we probably highlighted the key things and this would not have been the biggest factor by any stretch. But I think if you think of where the world is going and what we have already seen in our market, the fact is that if you think of penetration generally, we are up in the pretty mature space with close to 80% penetration. So what you are now seeing is penetration depth of devices per customer.

So probably fair to say the lead is being taken in the US in terms of defining it as ARPA whether the Canadian environment is exactly the same, we will see. But that shift will happen in the next few quarters.

Operator

Dvai Ghose, Genuity Capital Markets.

Dvai Ghose - *Canaccord Genuity - Analyst*

Thanks very much. Good morning, Nadir. Six months ago you announced your retirement intentions in January, 2014. I was wondering if you could give us an update and in particular now that the spectrum auction has been delayed to January and you may see Verizon as a competitor in that auction, is there any plan to accelerate the handoff or indeed to delay your departure on the other side.

Nadir Mohamed - *Rogers Communications Inc. - President and CEO*

Thanks, obviously the process is well underway and it's fair to say that we will let you know when we have something more to say on it. At this point there's nothing much that I can add.

Dvai Ghose - *Canaccord Genuity - Analyst*

Okay, thank you.

Operator

Ric Prentiss, Raymond James.

Ric Prentiss - *Raymond James & Associates - Analyst*

Thanks, one other question on the ARPU topic, obviously a hot one today. I think you mentioned the top two impacts on ARPU in the quarter were the promotional plans and the roaming. Can you isolate for us which were the more significant one given that the first month free expired in the 2Q and the roaming was mid quarter?

Rob Bruce - Rogers Communications Inc. - President of Communications

Yes, Ric, it's Rob Bruce. The more pronounced impact was the roaming. The impact of the roaming was in the range of just north of \$20 million in the quarter. Again important to remember going forward that we didn't see a full quarter of those roaming changes so that we expect that it will continue on going forward. Again, the inclusion of calling line ID, and voicemail again were also a negative in the quarter that I think it's important to highlight.

Ric Prentiss - Raymond James & Associates - Analyst

One of the interesting comments from the south of the border guys was significant increase in data usage as people move from 3G to 4G devices. Can you give us any insight as far as what you are seeing on data usage?

Rob Bruce - Rogers Communications Inc. - President of Communications

Yes, we are seeing that as well as people move on to LTE devices. We are seeing a marked uptick in their usage even if it's on an identical device, for example if they move from an iPhone that runs on HSPA to one that runs on LTE, we can see the uptick and data. So yes, that's definitely a trend we are seeing here as well.

Tony Staffieri - Rogers Communications Inc. - EVP and CFO

You will see us reflect that in the design of the new plans for August 9 in terms of the other bucket rate. We are very careful.

Operator

Drew McReynolds, RBC Capital.

Drew McReynolds - RBC Capital Markets - Analyst

Yes, thanks very much. Just back on Jeff's question on the Wireless margins, can you just give us a sense of -- I think you have a little bit more than 1.3 million subs on LTE. Just what the LTE impact is for the economics of Wireless?

And then just on the second question, I just want to focus in on postpaid churn. Obviously after a couple of year-over-year quarters of improvement, roughly flat or slightly up this quarter, just could you talk to kind of what your strategy is for continuing to reduce churn, what you expect the impact of the transition, the two-year agreements to be? Of course you launched your loyalty programs. I would be interested in hearing your thoughts again as it pertains to the churn.

Rob Bruce - Rogers Communications Inc. - President of Communications

Drew, I think you get the record for the nine-part question today, but let me see if I can play some of those things back. Firstly, the key impacts from an LTE perspective, LTE is about one-quarter of the cost to deliver a data payload to a customer. So obviously, that's one of the very significant impacts.

The other one we touched on already is we are already seeing customers using more because of the speed of LTE in terms of delivering an experience to a customer, and we think that that will continue to help and grow data revenue.

From a postpaid churn perspective, our view of it really was pretty much flat on a quarterly perspective. We worked very hard to strike the balance this quarter between retention spending and getting churn right. We are happy; I think we hit that balance better than we have in previous quarters. We will continue to work away.

Churn is a gigantic lever in this business. As we look South of the border where two-year contracts are the norm, we see the incumbent carriers doing an excellent job in delivering very low churn rates against two-year contracts. We believe we can emulate those kinds of results over time.

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So without -- that probably doesn't require much further elaboration. We are, however, really excited about the launch of Rogers First Rewards, which was designed to thank and reward customers for their business, with no blackout periods, hidden fees, or membership cards that people have to carry. Points can be earned from the program and redeemed online for a growing list of Rogers' products, including handset upgrades, VOD, and many other things that our customers are pretty enthusiastic about.

So the program will be launching in key markets throughout 2013. We are excited about it. We think it will both be a big win for customers, adding great value to their experience. Yet it will be accretive to margin as it displaces other programs that we've had in market in the past. So we think Rogers First Rewards will be a real win-win.

Operator

Blair Abernethy, Stifel.

Blair Abernethy - Stifel Nicolaus - Analyst

Thanks very much. I just want to switch to the cable side for a moment and wonder if you can give us an update on how your trials were going in London with moving towards more of an a la carte cable TV delivery. And also any sense or your views on some of the newer over-the-top TV providers. We're seeing a lot of traction with Ariel in the US, but there's a couple of players domestically in Toronto and Montreal that are kind of moving along the same lines.

Rob Bruce - Rogers Communications Inc. - President of Communications

Yes, listen, there's no question we had the trial going in London as you referenced for a while. We continue to believe that customers need to have more flexibility in terms of being able to get the content that they want and be able to pick and choose a lot more easily than they can do today and that was the essence of the test. And it's not at a point where we are ready to share all the results yet as it is still in process.

In terms of our views on the over the top portfolio, we haven't seen any material shifts in any one or two providers that sort of stand out as the obvious winners in the fray. We continue to make our key investments as we go forward particularly as it pertains to over the top providers. Our investment in extending and improving our Rogers Anyplace Mobile TV I think was a first in Canada. It was our way of recognizing that content consumption is going to continue to be consumed more over the Internet and less over television in the future.

We continue to make significant investments to make that offering robust. And as you know, our efforts to build an IP-based video platform in the future, which we talked about launching in 2015, will be a way more pronounced vehicle to be able to deliver to all screens even more easily than we can today and satisfy that shift that our users feel to be able to consume the product differently.

So we think that we continue to have a lot of the core things that customers are looking for when it comes to being able to consume television over other screens.

Operator

Adam Shine, National Bank Financial.

Adam Shine - National Bank Financial - Analyst

Thanks a lot. Obviously most of my questions have already been asked, so I'll stick with the other announcement you made yesterday, which was rather interesting, the wireless home phone. I'm assuming the latest subscribers will be included in Wireless, so it looks as though this is an opportunity to further leverage the wireless network.

But what's also interesting is sort of outside of your core cable footprint, you're going to be offering potentially a triple play solution ex-TV whereby you've got wireless, you've got obviously a home phone device and then ultimately the Wi-Fi hubs offering some Internet service. So can you speak to some of the dynamic here?



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And maybe it also ties into what Greg was talking about earlier with respect to tablets, dongles and other things coming into the marketplace, whereby ultimately ARPU might be pressured but you're getting more devices to ultimately drive aggregate data revenues higher? So I will leave it at that.

Rob Bruce - Rogers Communications Inc. - President of Communications

Thanks, Adam. I appreciate your question. We are very excited about our wireless home phone. It gives us a low-cost wireless home and small business solution. It operates as you know on the Rogers network and we will be offering it outside the cable footprint at an affordable price point at \$9.99, which is a promo price for existing Wireless customers and \$24.99 if you are not a Rogers' customer.

I think recognizing the fact that we see this as a bundling opportunity to bundle with our customers out of footprint and we have learned with our extensive experience unbundling that bundling has a profound impact in terms of taking churn down. So we are excited about that.

The great thing I think is the simplicity of using the product that I've had a little bit of experience with myself. You can connect up your existing fixed line telephones to it. You purchase a small box for \$29.99. Even I could figure out how to hook it up in about three minutes. It includes Canada-wide calling voicemail and calling line ID. I think it's going to be a winner. AT&T has launched it in the US as well as and has had great success with it.

So we are looking forward to it. As you said, it really sets up our ability to be able to deliver a triple play out of footprint and the big upside beyond the revenue of the product will be the churn benefit that we see on it.

Adam Shine - National Bank Financial - Analyst

Okay, good. Thank you.

Operator

Ladies and gentlemen, we do have time for one final question. David McFadgen, Cormark Securities.

David McFadgen - Cormark Securities - Analyst

Yes, a couple questions on your Internet business. So if you look at your Internet subscribers, they are about 88% of your TV subs. I was just wondering how high the penetration can go in your mind. I was curious to know how much are actually standalone? And then also on the Internet pricing, I am a Rogers customer. I received a notice just this week saying pricing is going up again. I'm just wondering how high you think this pricing can go? It just keeps going up every year.

Rob Bruce - Rogers Communications Inc. - President of Communications

Yes, David, on your first question, I think it can go up to 100% because in the long run the way we see the business is that Internet is the core product in the home. We believe that much of our total business will actually ride over the Internet over time and I don't see a world where there will be any households that don't have Internet.

You probably saw this quarter, we made an announcement around Connected for Success, which is a program that we are doing through Rogers Youth Fund to actually connect customers in -- as a start in the Toronto community housing, about 150,000 customers potentially to make sure that they actually get access to Internet. More and more of these things I believe will be done by us and our competitors to reach down and make sure that 100% Internet penetration is there.

The other important thing that I think we should say about Internet is it is the key to the future of our business; hence, monetizing the increased bandwidth usage will rapidly become the future across all our businesses, whether it's Wireless or Wireline. So there is -- there are clearly some unlimited offers out there. We think they are fairly shortsighted as Internet is the future of the business. And the reason that we think over time there is more pricing upside in Internet, are all the things that we're doing to build the superiority of the Internet.

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You will have seen many of these things for virtually all our customers in the past six months. We have up-speeded them significantly. We have invested in verifying speed consistency. We're the first Canadian ISP to use SamKnows, which is an internationally recognized methodology to ensure that we are actually delivering the speeds that we commit to deliver at peak times and at all hours throughout the day. And we believe that customers are looking for this kind of transparency.

We've launched things like TechXpert so that we can give premium technical support to our customers. We have removed all our traffic management processes. We have significantly enhanced the value of this product and over time it is our plan to monetize it accordingly and the price increase that you would've received in the mail would have just been one step in that monetization that we think will continue as Internet becomes the backbone product in the home.

Operator

Ladies and gentlemen, this does conclude the question-and-answer session. I will turn the conference over to Mr. Bruce Mann.

Bruce Mann - Rogers Communications Inc. - VP of IR

Thanks very much, operator. I guess in conclusion, the management team here at Rogers would truly like to thank everybody for investing your time with us this morning. We know it's a really busy period for you. We appreciate your interest and your support and I guess most importantly, if you have questions that weren't answered on the call, please give myself or my colleague Dan Coombes a call. Both of our contact info is on the release from this morning. So thank you very much. Enjoy the day.

Operator

Thank you. Ladies and gentlemen, this does conclude the conference call for today. Again we thank you for your participation and you may now disconnect your lines.

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