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Conference Call Transcript

RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen and thank you for standing by. Welcome to the Rogers Communications Inc. Q2, 2010 results conference call. (Operator Instructions) I would like to remind everyone that this conference is being recorded today, July 27, 2010, at 8:30 AM Eastern time. I will now turn the conference over to Bruce Mann of the Roger's management team. Please go ahead, sir.



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

Bruce Mann - Rogers Communications Inc. - IR

Thank you, John. Good morning, everybody. Thank you for joining us for Roger's second quarter 2010 investment community conference call and webcast. Joining me on the line this morning here are Nadir Mohamed, Roger's President and Chief Executive Officer, Bill Linton, our Chief Financial Officer, Rob Bruce who is the President of our Communications Division, Tony Viner, President of our Media Division and Bob Berner, our Chief Technology Officer. We also have a couple members of their respective teams with us as well.

We released our second quarter 2010 results earlier this morning, approximately 7:00. The purpose of this call is to crisply provide you with a bit of additional background up front and then answer as many questions as time permits. As today's remarks and the discussion that will follow will undoubtedly touch on estimates and other forward looking information, from which our results could be different. You should review the cautionary language in our earnings filings of this morning. Also in our full year 2009 MD&A including the factors, assumptions, risks, et cetera about why those things could differ. Those cautions apply equally to our dialogue on this morning's conference call. If you don't already have copies of this morning's earnings release and/or our 2009 annual report where that information can be found they're both available on the investor relations section of Rogers.com. With that I am going to turn it over to Nadir Mohamed and then Bill Linton for some brief introductory remarks. And then the management team will take your questions. Over to you, Nadir.

Nadir Mohamed - Rogers Communications Inc. - CEO

Thanks very much, Bruce. Good morning everyone and thank you for joining us. As you can see from this morning's earnings release, we delivered another solid quarter of results despite an increase in the competitive environment in Q2. Our financial results were a strong continuation of what you saw from us in Q1. And at the same time in Q2, we delivered healthy subscriber results both in wireless and cable. We delivered a healthy 5% consolidated revenue growth and generated double-digit adjusted operating profit and EPS growth. Our wireless data revenue grew a strong 39%. We had meaningful cost efficiencies that helped drive another quarter of margin expansion right across all of our three business units.

We added a healthy mix of high-value customers while holding customer churn down to very respectable levels. And importantly, we delivered another strong quarter of free cash flow growth and returns to shareholders. So, overall a strong second quarter for Rogers.

Let me quickly cover a few of the operating highlights of the quarter and offer my perspective and then Bill will walk you through some of the financial nuances for the quarter. The most significant driver of topline growth is again the continued strong growth in our wireless data revenues, up a strong 39% and now representing 27% of wireless network revenue.

Rogers continues to lead in terms of wireless data metrics with our innovative offerings, high-quality networks and focus on customer experience clearly continuing to pay off. We activated more smart phones this past quarter than we did in Q2 of last year. Smart phone sales to new customers were not far behind last year's levels and we had a meaningful higher number of existing subscribers that upgraded smart phones at the same time. We continue to make a significant smart phone and customer experience enhancements during the quarter such as our innovative new handset guarantee program, our self activation process for iPads. As a result continued success attracting an extremely high quality mix of high ARPU, lower churn, subscriber additions that are driving excellent network revenue and ARPU growth, at very well controlled churn. I think it's clear that the targeted work we do on the retention side combined with our focus on customer experience and our proven network quality leadership has allowed us to continue to deliver excellent subscriber churn results. Even with these continued investments as a result of aggressively managing the cost side, we delivered strong wireless margin expansion.

Now, in early July, we announced the introduction of a new wireless brand called chatr to focus on the growing unlimited talk and text category. This is something that has been in the works for some time. It's been designed to capture a piece of a new category that has been developing in the market. What we're doing is designed to be complementary to existing Rogers and Fido plans. chatr will appeal to a targeted segment of the market and we fully expect that the vast majority of post-paid subs who are interested in large coverage areas, data offerings or high-end handsets will remain attracted to Rogers and Fido plans.

Looking back five years ago, I recall some eyebrows being raised when we kept the Fido brand and operated it as a distinct brand and value proposition, targeted to specific segments where we'd traditionally not been that strong. Today no one would doubt our success. When we repositioned Fido two years ago, we heard concerns about cannibalization but it didn't happen in any meaningful way because we were deliberate in our execution. We're doing that again in a new category that is emerging as the industry enters a different stage in its life cycle. At Rogers, we have been executing a multibrand strategy for some time and we're confident chatr will be terrific complement to our multi brand platform. The key for us has always been methodical market segmentation and a keen understanding of how we balance and price the distinct levers behind our



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

value proposition and that includes a combination of network coverage, distribution, device line up and so on. We believe that a chatr brand will serve Rogers well and add more choices in the market for Canadians.

Now turning to our cable operations, we have been working hard across our now integrated sales and marketing organizations, also in the acquisition and retention fronts I believe the organization is benefiting as we leverage more of the segmentation and targeting tactics from our experience in wireless. As a result, you again this quarter see continued improvement in the trajectory of our cable subscriber results. Part and parcel to this is particularly encouraging improvements in our churn results. At the same time the team has been successful in continuing to capture efficiency gains which enable further margin expansion. So good continued improvements in the cable operations business.

At Rogers Media, we delivered the strongest topline growth we've seen in more than two years. We began to see acceleration in our broadcast and our specialty TV and Shopping Channel businesses over the past couple of quarters. Then in Q2, we saw an inflection of the overall ad market which has now contributed to topline growth at our radio and publishing divisions as well. With all of the core media divisions growing again, combined with the cost efficiencies put in place over the past year, we generated very significant operating leverage.

So, combination of strong execution, great properties and a bounce back in the ad markets leading to some terrific results. Across our communications and media businesses, our heightened focus on cost efficiencies both OpEx and CapEx stands out again this quarter. As I mentioned before, anticipating moderating topline growth, we have been vigilant on the cost side driving operating efficiencies to maintain strong margins and earnings and cash flow growth. You clearly see that we have delivered on that in our results this quarter.

But importantly, we continue to make the healthy investments and growth platforms including HSPA+, DOCSIS 3.0, broadband video, strong content and acquiring significantly more 2.5 gigahertz wireless spectrum. And with the Rogers arena, we have also measurably reinforced our regional presence in the BC market with the naming rights of the NHL Canucks home hockey arena. And we demonstrate strongly across Canada how our enhanced on demand TV, broadband video and wireless capabilities can converge to add terrific value to customers as evidenced during the FIFA World Cup.

I think it's also important to appreciate what we have put together over the past year to leverage our national 3G network and to further expand our coverage into more rural and under serviced areas. Clearly, we're the roaming partner of choice and have executed exclusive agreements with several HSPA based new wireless entrants that have launched service. At the same time, we have struck arrangements with regional carriers in Manitoba, Northern Ontario and other less dense parts of the country to jointly expand our own 3G network with network sharing agreements. Under these agreements, we have also become the roaming provider for these regional carriers outside of their territories. So very good progress in terms of continuing to further leverage the significant investments we made over time in our national network and spectrum holdings. Overall, on a consolidated basis we put up healthy top line growth with double-digit operating cost of growth and well controlled capital investments. On the backs of our financial strength and performance, we returned more than half a billion of cash to shareholders in Q2 of this year.

So, a solid Q2 for Rogers both financially and operationally as the environment intensifies in the second half, I am confident that we are very well positioned both in terms of asset mix and financial strength as well as having a robust product portfolio and a seasoned management team that is focused on execution. Let me now turn it over to Bill and then we will take some of your questions. Thank you.

Bill Linton - Rogers Communications Inc. - CFO

Thank you, Nadir. I will provide a little bit of additional color on the financial results for the quarter. On the top line overall our consolidated revenue growth was a solid 5% for the quarter and up 2 full percentage points from the same quarter last year. This reflects the solid topline growth of 7% at wireless network, 8% at media, and 4% growth cable operations.

In wireless, we now have 35% of our post paid base on higher end smartphones up from 25% level we were at this time last year. These are higher ARPU, lower churn, higher life time value subs, and the impact is clear in our financial and operating statistics. As you can see in terms of our post paid wireless results overall, we drove an increase in network revenue of 7%, for ARPU by 1% and held our postpaid churn down at a very respectable 1.06%. Notably on the prepaid send, we begin providing service during the quarter for Apple's iPad. We've made it exceptionally easy for customers to activate their iPad service with us. And overall this has proven to be a successful product for us. And one which I believe, we will find to be accretive to our prepaid ARPU and churn metrics as we go forward. This solid performance on the top line combined with the excellent work on cost efficiencies that Nadir spoke to drove wireless EBITDA margins on network revenue to 49.9%.

Turning to cable operations I would note that a large portion of the revenue growth rate deceleration in the quarter is a result of the timing of price changes that were made last year in March but were implemented in July this year. If adjusted for the timing of pricing changes, the cable



operations revenue growth would have been 5.5%. So, we have a bit of a lag when you look year over year. But that will be lapped as we report Q3 in the fall. Even with the pricing timing and the increase in subscriber loadings, cable operations still expanded its EBITDA margin in the quarter to 43.4% helped by cost efficiencies implemented over the past year.

Stepping back to a consolidated view, we had respectable topline growth to be sure but the operating leverage and free cash flow generation were exceptionally strong. From an EBITDA perspective adjusted operating profit of \$1.2 billion on a consolidated basis is up a very strong 11% year-over-year and represents a 210 basis point operating profit margin expansion. In fact, we again delivered margin expansion at all three of our major business units. The significant progress around cost controls in addition to measured property, plant and equipment expenditures helped drive an excellent 20% increase in consolidated free cash flow to \$591 million. And as a result of the accretive benefit of our share buyback program over the past year, free cash flow on a per-share basis is up a very strong 30%.

Let me turn to a couple of the items of note below the operating line on the income statement that impacted the net income and EPS growth. The \$52 million or 13% improvement in adjusted net income was the result of the \$117 million increase in adjusted operating profit coupled with a \$40 million drop in depreciation and amortization which principally reflects lower amortization of intangible assets. These increases were partially offset by a \$56 million net loss on foreign exchange. Net of the related change in derivative instruments. A slight increase in interest expense and a year-over-year increase in income tax of \$48 million larger related to the growth in the pre-tax income. These items combined with a lower number of shares outstanding as a result of our share buyback program drove adjusted earnings per share up strongly by 23% to \$0.80 for the quarter.

During the second quarter we bought back 9 million RCI shares for \$328 million under our share buyback program. And also paid out \$188 million in dividends. So we returned \$516 million in cash to shareholders in Q2 and returned \$993 million year-to-date in 2010. In terms of the outlook as we say in our release this morning, we are maintaining our full year 2010 guidance ranges at this time. We have had a relatively strong first half of the year. And the operating profit line for the first two quarters has tracked strongly relatively to the level indicated by our full-year guidance.

What we don't know at this point is the level of device upgrade costs we might incur in the second half of the year as we begin to upgrade a portion of our smartphone subscribers to the next generation of devices. This is a function of lack of visibility around availability and timing more than anything else. This combines with the fact which we have always assumed that we expect a more challenging environment in the second half the year. At this point we do not see any firm basis for changing our current guidance ranges for the year. Although given the performance in the first half of the year, the bottom end of the adjusted operating profit range looks relatively conservative. As we know more in the coming months, we will make changes at that point if they're warranted.

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 and relatively low balance sheet leverage at 2 times debt to EBITDA. And we have \$2.4 billion of liquidity available under our fully committed multi-year bank facilities and \$122 million in cash on the balance sheets. So, in terms of the balance sheet from both a leverage and a liquidity perspective, we continue to be in a very, very strong financial position. With that I will pass it back to Bruce and the operator so we can take your questions.

Bruce Mann - Rogers Communications Inc. - IR

Thank you, Bill. Operator, we'll be ready to take questions from the participants in just a couple seconds. Quickly, before we began we will request as we do on each of these calls that those participants that wish to ask questions be courteous to the other participants and 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, we will circle back and take additional questions or we'll get them answered for you separately after the call. So, please go ahead Operator. Would you explain how you'd like the participants to organize the polling for the questions and then we'll be happy to take them.

QUESTION AND ANSWER

Operator

(Operator Instructions) Your first question today comes from Bob Bek with CIBC.



Bob Bek - CIBC - Analyst

My question for Nadir and perhaps Rob. Can you elaborate on your prepared comments on chatr or the launch of chatr? And the strategy you are looking at there and some of the strengths that you are bringing into what is obviously a changing competitive environment? And to the extent that you can, can you address any of the issues on Mobilicity as far as the competitive concerns that they have with the launch? Thanks.

Rob Bruce - Rogers Communications Inc. - President of Communications

Bob, it's Nadir. Why don't I lead off and I will get Rob to talk about chatr specifically. But as I mentioned in the opening remarks, we have had a multi brand strategy for some time.

Nadir Mohamed - Rogers Communications Inc. - CEO

We obviously have had lots of experience having Rogers and Fido in the market. One of the things that we learned is the importance of actually being true to brands in terms of the value they provide. And we look at value multiple ways. It is a combination as I mentioned of network in terms the reach to quality of the device line up.

What do we have? Whether it's data centric integrated units or just voice units, predominately voice centric units, distribution, line up, I think that is a very important part of the mix. And then what the segment is really all about. And you put all that together with price and you come up with a value proposition that is very targeted. We found that to be a very successful strategy. By the way, it is a strategy that is not foreign to other industries. If you look at retail and hospitality, they do this kind of thing all the time. In fact, our competitors have historically had more than a couple brands in place.

So, we're very excited about chatr. I think it will serve us really well. And it will be competitive offering and the market will be great for Canadians. So, I think it's a natural part of the evolution. Let me then turn it over to Rob to talk about chatr.

Rob Bruce - Rogers Communications Inc. - President of Communications

Thanks, Nadir. And Bob, just a couple additional comments. As Nadir said as penetration increases typically brands expand to address different market segments. That is exactly what is going on with chatr. chatr is a segment brand designed to serve the zone based with unlimited voice and text market. Neither Rogers nor Fido really fully address the segment. Fido however, has pioneered zone based, big bucket and unlimited pricing in Canada in the past five or six years. But we believe by pulling that part of the Fido value proposition out and amplifying it in chatr. It will resonate even better with customers and be more successful.

chatr was constructed, of course, to be that stand alone brand that stood for that value proposition. Also constructed in a way to minimize cannibalization of our own base. As Nadir mentioned, we have had lots of success managing a multi-brand approach both on the initial Fido launch and then on the relaunch as we changed the positioning of Fido. chatr will have unique to it a very low overhead and a very lean cost structure with very simple plans, minimal back end costs. It will ride on underutilized network assets and will have separate distribution. And we believe it will be a very effective competitor. And it will offer customers out in the market much more choice. And like Nadir, I am excited about the prospects for chatr but continued to be very enthusiastic about our other two brands which I also think are both great brands and have strong value propositions of their own.

Bob Bek - CIBC - Analyst

Any thoughts on the Mobilicity concerns or challenge. Anything you can say on that?

Rob Bruce - Rogers Communications Inc. - President of Communications

Well, I am a little puzzled by it to be honest with you. Because I don't think about our efforts on chatr as being anti-competitive. In fact, I think they're competitive and wireless has always been a competitive marketplace and we expect it to continue that way.



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

Bob Bek - CIBC - Analyst

Thanks very much.

Operator

Your next question comes from the Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery - Morgan Stanley - Analyst

Okay. Thank you very much. Good morning. You continue to have strong momentum on the smartphone side of things. Can you give us all some color around what percent of your postpaid device sales are actually smartphones? I think some of the numbers we are getting at AT&T are in the 70% plus level. I think both AT&T and Verizon feel like smartphone penetration of their base may rise over the 70% to 80% level overtime obviously with strong implications for ARPU and churn. You are at 35% of your base right now but we would appreciate any color you have on where you think that may go over the next several years? And how some of your marginal customer in a sense what percent of those are taking these new devices? Thanks.

Nadir Mohamed - Rogers Communications Inc. - CEO

Simon, this is Nadir, and Rob will get to the specifics. Our view is that when you look at wireless data we have been focused on it. We think that we are still early in the game. I have always had the view there is no reason whatsoever to not think of wireless data the same way as we do wireline data. If you look at high speed Internet penetration in Canada is north of 75%. My expectation is wireless data will follow suit. So over time I expect every device to actually be an integrated smartphone and the language will frankly disappear because we will take that as a given. So I think there is tons of upside. Rob, do you want to talk specifically about the quarter and the numbers?

Rob Bruce - Rogers Communications Inc. - President of Communications

Sure, absolutely. Simon, to follow up, 42% of our gross loads this quarter were on smartphones. Smartphones driving almost 46% of our data revenues in aggregate and about 60% of our data growth on a year-over-year basis. We continue to be very enthusiastic about it. The lifetime values remain very strong. No sign of deterioration. ARPU is around \$100. Almost two times what we see on voice. The churn is very, very low even relative to typical phones. So, as I think either Bill or Nadir said earlier in the call, BlackBerry and iPhone transactions up almost 20% year-over-year. And I too share the belief that we're heading towards a world that predominantly smartphones to the point that the word will really not be used much anymore because everything will be a smartphone.

I think the other exciting thing is we're continuing to see relatively stable usage. So not consuming vast amounts of network as some people had feared. And again, when you look at iPhone we're seeing usage levels on average around 250 Mbps. And BlackBerries significantly lower than that. So, again, not the network hogs that they were reported once to be.

Simon Flannery - Morgan Stanley - Analyst

Very helpful. Thank you.

Operator

Your next question comes from Tim Casey with BMO Capital Markets. Please go ahead.

Tim Casey - BMO Capital Markets - Analyst

Thanks good morning. Could you expand on the components regarding your second half outlook and level of device availability and upgrade activity. And specifically you are really quiet regarding the next generation of the iPhone which is going to launch soon. Is that playing into your



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

uncertainty? In a related question, can you talk a little bit about the balance between iPhones, BlackBerries and Androids. Is the Android platform moving the needle at all for you yet?

Nadir Mohamed - Rogers Communications Inc. - CEO

Tim, it's Nadir and I will pass again to Rob and maybe Bill can round off on guidance. Let me leadoff with we're very excited for what we see it as very iconic devices coming to market in the second half. And obviously I think that everybody understands that the launch of the iPhone 4 is imminent. It clearly has an impact in terms both a new activation and hardware upgrades. So, that is really the primary driver for why we ended up not changing guidance. But Rob can share some more insight in terms of what we're expecting with the iPhone.

Rob Bruce - Rogers Communications Inc. - President of Communications

Yes, Tim. It is Rob. As you probably know the launch date for iPhone 4 is July 30th. We have made no specific announcements yet due to the competitive nature of this product and the category. As the biggest provider of iPhone and the winner of Apple's recognition as the best at serving Apple customers anywhere in the world we'll obviously be looking after our existing customers with an appropriate and intelligent hand set upgrade policy. And the other things that people have come to expect from us over time and we will be sharing more of those launch details with everyone shortly. Bill, over to you.

Bill Linton - Rogers Communications Inc. - CFO

Tim, the only thing I would add as we are relatively conservative on making changes to guidance. That has our tendency of the past number of years. And there is just too much uncertainty to make a tweak in it at the end of the second quarter.

Tim Casey - BMO Capital Markets - Analyst

Are you seeing major shifts in terms of Apple versus BlackBerry versus and Android?

Rob Bruce - Rogers Communications Inc. - President of Communications

It's Rob again. We continue to see back-and-forth between the quarters between Apple and BlackBerry. But generally speaking we are seeing a rising trend of Android growth as well coming along although much smaller than both BlackBerry and Apple. A consistent following for Android and as more devices are launched, that the following gets larger. We like that a lot as a subsidy on the devices are generally lower on Android as well. So, I think it holds promise that we continue to drive down the smartphone subsidies and improve our own smartphone economics..

Tim Casey - BMO Capital Markets - Analyst

Thank you.

Operator

Your next question comes from Phillip Huang with UBS. Please go ahead.

Phillip Huang - UBS - Analyst

Good morning and thanks very much for taking my question. Maybe you can just expand a bit on the wireless margins. You have several spending requirements on the back half with the addition to the iPhone for subsidies. You have got chatr marketing costs and presumably more active marketing spending during the back-to-school and holiday shopping seasons this year given the Videotron's launch as well as new entrants. It always seem that to be able to offset a good portion of increase spending with cost savings. So in your guidance, certainly it implies a range of 42% to 49% in the back half even though you noted the lower end of the operating profit appears to be conservative. Perhaps we can get



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

a bit more color on what types of scenarios you envision in going to the lower end of 43%. And perhaps why you would see your EBITDA growth on wireless end up in the high-end of the guidance range. Thanks.

Nadir Mohamed - Rogers Communications Inc. - CEO

Philip, this is Nadir. I'll lead off. I think at the risk of repeating obviously we didn't change guidance. And we have already talked about the fact that due to large part is driven just on our view on what is coming in terms of devices. As you know with the way that we account for new subscribers, it hits your EBITDA in year. These are good news when you sell more devices. The hardware upgrade also flows through on EBITDA. That is the big variable in terms of knowing what the lineup looks like and the inventory.

And from a cost point of view we have been pretty strong in terms of managing costs. If you look for the quarter on wireless on the operating expense side, I think the expenses are being pretty much flat at 1% increase I think year over year. So, we feel very comfortable, confident in terms of managing our cost equation. The real variable is the device side. And I think it is just too difficult to call at this stage because we have not gone through the first stage of the launch. I don't believe there is too much more to read into it. If you look at the revenue side, we have had strong performance with the good subscriber sequential growth from the last quarter to this quarter. If you look at our ARPU on the blended side, it is actually up this quarter. And you see a moderating trend in terms of decline in voice. Data continues to be very very strong. So, I think the real story for us, or the primary story is just not being at the stage where we can confidently tell you what the take rates will be on some of these very strong devices that are coming to market.

Operator

Your next question comes from Jeff Fan with Scotia Capital. Please go ahead.

Jeff Fan - Scotia Capital - Analyst

Good morning everyone. I want to follow up on chatr a little bit. Nadir, you talked about the network quality and understandably chatr should have much better networks than new entrants. I'm curious if you can just comment a little bit on the pricing. I guess there has been some talk on pricing run the \$35 to \$45 level, which would be similar to what the new entrants are offering. I would have thought that if you guys would have launched it, that you guys would have priced it at a premium given you do have some advantages. And the second part of chatr is on smartphones and data devices. I know initially does not seem like your going to have any offering there. But can you talk about given smartphones are such a big part of the penetration going forward. Is it fair to say the smartphone and data devices will be part of the chatr also?

Nadir Mohamed - Rogers Communications Inc. - CEO

Jeff, the one thing obviously that we don't want to do is preempt our announcement. It's a competitive market. And we don't in any way want to talk about pricing before we go to market. I think the key thing is looking at the three brands and the value propositions. And I think it's probably important. But if you don't mind I'm going to take a second just to make sure that we communicate how we see the three brands working. Starting with Rogers. So, obviously our primary brand, it's a premium brand. If you look at it from a customer point of view, it will be the brand that is focused on leading edge devices, offering a proven reliable great, vast network and the coast to coast coverage including all of the roaming deals that we have. Terrific handset servicing including the handset guarantee. World class tech support. Rob mentioned how we fare in terms of Apple, we're seen as a leader in terms of tech support. It is clearly the premium brand from Rogers.

I think, Fido if you look it as a value brand. Superior service for sure. We label it as the brand that cares for the customer, cares about the customer and the environment. I think many of you know that we went to full electronic billing for Fido and to the extent that people wanted to go paper we charge for it but the charge goes to support the environment. It is a very distinct value proposition.

If you look at chatr, the latest offering that we will have in market it's a niche market but it is a growing market and offers Canadian unlimited talk and text. And it will be backed by our terrific network. But the network will be zone based. And I think again you will see that zone based network coupled with a different device lineup and a different distribution lineup. All that will be part of the mix in terms of pricing. And Jeff, I am not trying to be coy, but obviously have not announced pricing. So it is premature to talk about specifics.

Operator



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

Your next question comes from Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss - Raymond James - Analyst

Thanks, good morning. Two quick questions. As you mentioned the chatr niche but growing product, what were your expectations as far as how large the market is. But the broader question, on ARPU, you mentioned also that it is up. Can you talk a little bit about overage and roaming and what the general economy is doing. What your thoughts are as far as ARPU for the rest of the year and into the future?

Nadir Mohamed - Rogers Communications Inc. - CEO

Ric, why don't we get Rob to talk about ARPU and give you a sense of how we see it's shaping up? And particularly talk about the components.

Rob Bruce - Rogers Communications Inc. - President of Communications

Hi, Ric. Good morning. Just a couple of quick comments in terms of ARPU, we continue to be enthusiastic. Data revenue growth continues to be strong as you have seen at 39% year-over-year now making up 27% of our total revenue. And more than offsetting the gradual decline that we're starting to see in voice which has been seen in the past couple quarters. And that's producing flat or slightly positive ARPUs. When we look at the trends in ARPUs line by line, obviously we still see some softening of those voice elements. Roaming continues to be an area of softness.

So, if we look at voice, \$4.40 decline in ARPU that we've seen come from a combination of MSF and LD is starting to flatten out now a little bit which I guess is a positive sign. Essential services up very slightly and continue decline or some what flattening roaming revenue. Still down about 11% year-over-year in aggregate and about 17% from a ARPU perspective. So nicely offset as I said by data.

The real growth engine being smartphones. We look at a year over year basis that is about 60% of the growth in data revenue that we have seen year-over-year. About 30% of it coming from SMS and MMS. And the remaining 10% of that data growth coming from other.

Nadir Mohamed - Rogers Communications Inc. - CEO

Ric, it's Nadir. I was just going to add something. I think part of your question was around market size for chatr. Obviously we can't give you any specifics but I do believe it is a niche market. It is talk and text. So the question Jeff asked – this isn't about a rich data offering. That will be the Rogers and Fido brand. And by definition, I talked about my view over time - I see the market as everybody having integrated data and voice devices. And frankly, an evolution from person to person to person to machine to machine. So our world view is shared in the long haul with a very strong data centric world. But there is a niche that has been emerging and it is talk and text and that is where chatr will play.

Operator

Your next question comes from Vince Valentini from TD. Newcrest. Please go ahead.

Vince Valentini - TD Newcrest - Analyst

Yes, thanks very much. Seeking a clarification and a broader question. Clarification is just, you did have guidance for media segment as well. And I just don't understand it. You have done \$162 million of EBITDA in the last four quarters and the high end of your guidance is \$138 million for the year. So I just want to clarify that you are actually still sticking to that \$138 million as a high end just for the media segment.

And the broader question, just for Rob or Nadir. I am hearing a lot of talk about cable retention offers these days and people getting pretty significant discounts when they call into the call center. It seems to be somewhat regional but not totally unique. Seems to be somewhat widespread. And I have heard comments from some of your competitors that they're getting a little wary of it. So, can you give us some thoughts of what you're doing on the retention side in cable? Do you think you're being more aggressive than normal and if so, why?

Nadir Mohamed - Rogers Communications Inc. - CEO



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

Hey, Vince. This is Nadir. I will just pass it on to Bill for the media and then Rob. But I will tell you the one thing that I mentioned in my opening remarks, we do not give numbers but I am very encouraged. Our current performance across all of the cable products has been really strong and has been improving. So the work that we're doing is definitely paying off. But Bill, why don't you address the guidance and then Rob can talk about the tactics.

Bruce Mann - Rogers Communications Inc. - IR

Hey Vince, just quickly on your question on media guidance. What we did, if you remember back to early February, when we reported Q4 and set out our full-year consolidated guidance, we provided what I think was pretty clearly labeled as supplemental detail where we gave some metrics around basically revenue and EBITDA growth for the wireless cable and media businesses. And then went on to say that that wasn't something we were planning on updating as the year went on. That was just some supplemental detail. So you understood how we build up to the consolidated guidance of record and what you see in our annual report. And what we're working towards for the year and what we will adjust if it's appropriate at some point. Rob?

Rob Bruce - Rogers Communications Inc. - President of Communications

Hi Vince. Listen, in terms of TV discounts, as always we have limited time promotions and tightly targeted retention offers for high value and multi-product subs. Those are going on because of the launch of IPTV. There might be a few more happening in the neighborhoods around where you live. These offers are frankly tightly contained and monitored very carefully and not running at rates that are any higher than they have in the past. And generally speaking on churn in cable, I am delighted to report that we continue to move on churn having decreased basic churn down by 11 basis points, internet by 16 basis points, digital by 26 basis points and our Home Phone down 36 basis points. So starting to see some significant improvement as a result of our target retention efforts on cable and we hope to improve that in subsequent quarters.

Operator

Your next question comes from Glen Campbell with BoA Merrill Lynch. Please go ahead.

Glen Campbell - BoA Merrill Lynch - Analyst

Yes. Thanks very much. On postpaid ARPU, your year-over-year number was quite decent but if we look at the quarter trend in the last five years we have seen a five-point sequential lift in postpaid ARPU. Presumably most of that is roaming. And this year, we saw I guess if you normalize for the Olympics, a 2.5 point increase. So, when you look at the numbers, is all the difference this year relative to past years due to weakness in roaming? Or are there some other factors on voice side that we should be thinking about?

Nadir Mohamed - Rogers Communications Inc. - CEO

That is a good question. I have not spent a lot of time looking at it that way to be honest, Glen. We have seen the softness that I outlined when we responded to Ric Prentiss's questions and comments.

The slip down in MSF and Air probably slightly more pronounced than we have seen in past quarters. Particularly some aggressive moves on larger business accounts and the like. But honestly, nothing really stands out dramatically for me. And listen, we'll give it some thought and get back to you.

Operator

Your next question comes from Jonathan Allen with RBC Capital Markets. Thanks very much.

Jonathan Allen - RBC Capital Markets - Analyst



Rob, earlier on you mentioned that the chatr business plan would be very streamlined in overhead costs and in using excess capacity on the network. So I presume it will be a very low opex and capex impact on the numbers. But I hope you could provide some type of ball park figure for us. Is this also one of the contributing reasons besides the device lineup as to why guidance is not going up? Are we looking at a \$50 million overhead costs going into it?

Rob Bruce - Rogers Communications Inc. - President of Communications

Again as I said we are not going to share that on the call today, our real focus is on very low overhead costs and a very lean cost structure. We believe the simple plans will be key to driving minimal backend costs in terms of handling. And as you know as we shift people and we are shifting people more rapidly than expected on to the HSPA network, it frees up capacity which would be otherwise unutilized. So all of those factors come together to I think put us in a position to have a very cost-effective offering, which allows us to continue to deliver great pricing to customers on chatr which will be a key consideration to them.

Nadir Mohamed - Rogers Communications Inc. - CEO

Jonathan, it's Nadir. Just to add to Rob, I think that the key thing for the balance of the year is the ongoing margins is what Rob talked about. Clearly there will be some expenses related to start marketing and so on, but those will be associated with startup as opposed to an ongoing margin.

Rob Bruce - Rogers Communications Inc. - President of Communications

Jonathan, the startup costs are nominal.

Operator

Your next question comes from Dvai Ghose with Canaccord Genuity. Please go ahead.

Dvai Ghose - Canaccord Genuity - Analyst

Yes. Thanks very much. Another one on chatr I am afraid. Can you explain in 2004 when you bought Microcell, you killed the City Fido plans. You're kind of reinvigorating them under a new brand now. What drove you to do it in mid 2010. Is it penetration. Is it new entrants and so on? And when it comes to cannibalization you referred to try to minimize cannibalization but you are only launching it in urban markets where all three incumbents have said penetration is nearing 100%. So, by nature isn't it cannibalistic and not just to your wireless base but also increasingly to your wireline bases as a substitution product?

Rob Bruce - Rogers Communications Inc. - President of Communications

Dvai, it is Rob. Nadir, did you want to make a comment or should I go ahead?

Nadir Mohamed - Rogers Communications Inc. - CEO

Go ahead.

Rob Bruce - Rogers Communications Inc. - President of Communications

Dvai, you still have the knack of wedging more questions into a paragraph than anybody I know. But let me take a crack at them. When we took over in purchased Fido back some years ago, we continued on with City Fido. We changed the nature of it slightly from something that was completely unlimited to a large bucket offering, if you remember. And we continue to run it. And it has gone through a variety of different iterations. And it lives today in the Fido offering. It has very, very large buckets of minutes for quite reasonable prices.



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

So, we continue to be focused on that zone based large bucket. In 2004, the need for it to be completely unlimited we thought was significantly less. As time goes on things change. We see that as being more of an emerging segment. As we relaunched last year, we started to see it creep into the highest single digits on Fido brand. We thought there was potential for more. Obviously launching first in urban markets because that is where the opportunity is.

That is where the bulk of the people are. And that is where the people and the zones make the most sense. Again, those are only initial launched markets and I think we reference them Vancouver, Calgary, Edmonton, Toronto and followed by Montreal shortly thereafter. So urban markets first but we will ultimately roll out wherever it makes sense going forward.

Operator

Your next question comes from Greg MacDonald with National Bank. Please go ahead.

Greg MacDonald - National Bank - Analyst

Thanks. Good morning guys. Can I go back to the data ARPU question again? Because it seems to me this is the one area that if you're going to surprise on the upside this is where it's going to be. And frankly you did relative to my estimates this quarter where data ARPU is actually up, the growth of data ARPU is up sequentially. I just want to get a better sense in addition to the questions that have been asked on this on what the mix it is here. First you talked about the thinking spoke about usage in the economy and that is kind of muted still. So that is not really a marginal driver here, at least in the quarter.

The iPad was launched sort of late in the quarter. I'm going to assume there was no major impact yet from iPad. So, what we're really looking at here is smartphone upgrade cycle. And what I have to think is mixed toward the high-end data planned within that. Can you confirm just sort of what the major driver is on that sequential ARPU year-over-year increase. And then secondly on the iPad itself, could you give us a little bit more, are there any details you can give as of on what percentage of iPad customers are taking data plans? Maybe, I suspect you won't but maybe how many customers you actually sold in the quarter?

Nadir Mohamed - Rogers Communications Inc. - CEO

Let me start and then Rob will add. But the first thing is driving penetration of smartphones in our base. I think we made reference to 35% of our base now have smartphones or smart devices. And you can see sequentially, right? I think last year, this time was around 320,000 smartphones, smartphone devices that we activated. Last quarter was about 350,000, just shy of that and this quarter 385,000.

So, you've seen that play out. You've seen the adoption of data plans. If you look at BlackBerry, most of the BlackBerry well over 90% take data attach. So that is really the driver. Frankly, we have had a strong across-the-board quarter. People have been talking about iPhone but we have had a very strong quarter on BlackBerry and Android as well. As I said when we look ahead, we think there is lots of upside left but in terms of ARPUs specifically anything else, Rob do you want to add?

Rob Bruce - Rogers Communications Inc. - President of Communications

Yes, no exactly. I think it's the change over in the base you said from regular phones to smartphones as well as the new customers we are acquiring, that's driving it. Greg, to give you a little bit of help, I gave a couple numbers before. The percentage contribution of our data revenues is roughly 46% from smartphones, 37% from SMS, 17% from others. In contrast to the year-over-year where the growth is coming from 60% from smartphones, 30% from MMS and SMS and other. The comment that I would love to insert as well the numbers that you're seeing still have the impact of a price increase that we had on as a SMS a year ago would be lacking that in Q3 which will probably caused at least a minor rebalance of the data growth year-over-year.

And closing out with just a comment on iPad. I'm very, very happy with iPad both as a device and our activations on iPads. Of course, are represented in our prepaid numbers because they are prepaid. We're seeing great success there. We're getting lots of reports back from the channel. We constructed a unique activation process that allowed customers to activate themselves on the device. I've been very successful and responsible for us getting more than our fair share of iPhone customers or rather iPad customers. With respect to what percentage are taking data, of course, the only ones we see are the ones taking data. So I don't know what the denominator is, I only know about the ones in getting are the ones taking data. So, I probably can't help you there. Okay, Greg?



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

Operator

Ladies and gentlemen, we have time for two more questions. Your next question comes from Maher Yaghi with Desjardin Securities.

Maher Yaghi - Desjardins Securities - Analyst

Yes, thank you. I just want to go back to the chatr brand launch. I guess the question is, are you seeing any penetration from the new entrants into your region? How would you characterize the uptake? If you received any churn in your own customer base going to a new entrance. Maybe you can just update us on your views there. And to follow up with that question.

There are discussions in between the major players that if Rogers go out with a new low end brand, they going to have to retaliate – BCE and Telus. They will have to come out with new plans on the low end side probably. Do you think you are being too much preemptive in terms of trying to target and market that is still very small and risking - You mentioned before you feel that you will not risk a lot of cannibalization but it is a very penetrating markets, the urban markets. And having three new players coming up with low-end plans. Wouldn't you think that would drive down prices overall for the whole industry?

Nadir Mohamed - Rogers Communications Inc. - CEO

Maher, Nadir. Let me start that we're very pleased with our churn results. If you look at the last two quarters on postpaid that we are frankly near best in class on the churn side. I'm not going to comment on any specifics with respect to the new players. The thing that we should not lose sight of is what we see is where the customers are and what the market opportunity is. There is a niche for talk and text unlimited. We see that niche emerging and that's what we try to target. Whether competitors follow and try to attack and address the same market. It is up to them but we're very confident. We would like our multi-brand strategy. We think it will be very effective with chatr and we're looking at getting into the market imminently. So more to come.

Operator

Your last question comes from Peter MacDonald with GMP Securities. Please go ahead.

Peter MacDonald - GMP Securities - Analyst

Thanks for taking my question. I think at least from my perspective it's fair to say we have performed fairly well against expectations and competition. But this coming quarter appears to be I would say the most challenging back-to-school opportunity for the new entrants, the iPhone opportunity for both Bell and Telus and the likely launch of Videotron. So, given that they all probably want to demonstrate good subscriber success, what are your expectations in the quarter and how should we be looking at it? Did you just let them have some of that success? Do you pick one battle over the other? Or should we be anticipating a pricing battle or higher cost of acquisition as a result of all of this competition? Thanks.

Nadir Mohamed - Rogers Communications Inc. - CEO

Peter, this is Nadir. Obviously we feel very strongly about our position in market. I think having now three brands in market will position us very well. We shouldn't lose sight. Yes, there will be new players. They will be competitive but we have got a tremendous network that is unmatched. We will put it to good use with the three brands.

We have distribution that's unparalleled. And again that will play out differently with a different set of different brands that we have but we will use it to our strength. And you'll see it in terms of device lineups. And we were talking about the iPhone 4 coming to market but it's going to be more than iPhone 4. We are actually very excited. We are confident that in the environment that is heating up we are well-positioned. So, we have already talked about what we see for the rest of the year in terms of the comments on guidance. But, no. I think the asset mix and the financial strength that we have coupled with the particular product portfolio that we're going to market with I'm quite excited about.



Jul 27, 2010 / 8:30AM EST, RCI - Q2 2010 Rogers Communications Inc. Earnings Conference Call

Peter MacDonald - GMP Securities - Analyst

Your relationship. Your historical relationships with RIM and Apple that the others would not necessarily have had because of their network. Does that give you any advantage in getting access to any greater supply of devices?

Nadir Mohamed - Rogers Communications Inc. - CEO

Peter, what I have found being around a long time in this industry is that every quarter is a new quarter. And we will leverage the advantages we have and others will do likewise. And exclusives and preferreds are kind of the norm in the industry. For sure, we have scale that works to our advantage. Scale in terms of what we offer to suppliers is always an advantage but we will just have to see what happens. And what we have in market. Premature obviously to get the specifics of what we will launch in the quarter.

Bruce Mann - Rogers Communications Inc. - IR

Operator?

Operator

Yes, this concludes the question and answer period. I will now hand the call over to our host. Please continue.

Nadir Mohamed - Rogers Communications Inc. - CEO

Thank you very much. The management team here at Rogers thanks everybody participating this morning. We genuinely appreciate your interest and support. If you do have questions that weren't answered on the call, if you could please give my colleague Dan Coombes or myself a call later this morning. Both of our contact information is on today's earnings release. We would be happy to provide whatever clarity you might need. So, with that thank you again and this concludes this morning's call.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.

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