

Thomson StreetEventsSM



Conference Call Transcript

RCI - Q3 2010 Rogers Communications Inc. Earnings Conference Call

Event Date/Time: Oct 26, 2010 / 8:00AM EST



CORPORATE PARTICIPANTS**Bruce Mann***Rogers Communications Inc. – VP, IR***Nadir Mohamed***Rogers Communications Inc. – President & CEO***Bill Linton***Rogers Communications Inc. – EVP & CFO***Rob Bruce***Rogers Communications Inc. - President Communications***Bob Berner***Rogers Communications Inc. - CTO***Ken Engelhart***Rogers Communications Inc. - VP Regulatory***Keith Pelley***Rogers Communications Inc. – President Media***CONFERENCE CALL PARTICIPANTS****Greg MacDonald***National Bank Financial - Analyst***Simon Flannery***Morgan Stanley - Analyst***Tim Casey***BMO Capital Markets - Analyst***Phillip Huang***UBS Securities - Analyst***Jonathan Allen***RBC Capital Markets - Analyst***Bob Bek***CIBC World Markets - Analyst***Vince Valentini***TD Newcrest - Analyst***Rob Goff***Northland Capital Partners - Analyst***Jeff Fan***Scotia Capital - Analyst***Ric Prentiss***Raymond James - Analyst***Peter MacDonald***GMP Securities - Analyst***PRESENTATION**

Operator

Oct 26, 2010 / 8:00AM EST , RCI - Q3 2010 Rogers Communications Inc. Earnings Conference Call

Good morning ladies and gentleman. Thank you for standing by. Welcome to the Rogers Communication Inc. third quarter 2010 investor community conference call. (Operator Instructions) I would like to remind everyone that this conference is being recorded today, Tuesday October 26, 2010 at 8 AM Eastern Time, and I would like to turn the conference over to Mr. Bruce Mann and the Rogers management team.

Bruce Mann - Rogers Communications Inc. – VP, IR

Thanks, operator. Good morning everyone. We appreciate your joining us for Rogers' third quarter 2010 investment community teleconference and webcast. It is Bruce Mann here joining me on the line this morning from Toronto are Nadir Mohamed, Roger's President and CEO; Bill Linton, our Chief Financial Officer; Rob Bruce, President of our Communications division; Keith Pelley, who is the new President of Roger's Media; Bob Berner, our Chief Technology Officer as well as a couple of other members and their respective teams. We released the third quarter 2010 results earlier this morning.

The purpose of the call is to crisply provide you with a bit of additional background upfront and answer as many questions as time permits. As today's remarks and discussion will no doubt touch on estimates and other forward-looking information from which our actual results could be very different, you need to please review the cautionary language in our earnings filing of this morning and also in the full-year 2009 MD&A. They both include various factors and assumptions and risks on how our actions could be different from what we might talk about today and those cautions apply equally to our dialogue on this mornings call. If you don't already have copies both are available on the Rogers.com web site where they're both filed with SEDAR and the SEC.

So with that let me turn it over to Nadir Mohamed and Bill Linton, both for some brief introductory remarks and some color on the results and then the management team will take your questions. So with that over to you, please Nadir.

Nadir Mohamed - Rogers Communications Inc. – President & CEO

Thanks, Bruce. Good morning everyone and thank you for joining us. As you can see from this morning's earning release we delivered another quarter of continued growth in new subscribers, revenue and free cash flow across the business despite an increase in the competitive environment.

Our Q3 financial results were consistent with our guidance for the year, and reflect significantly heavier volumes of both smartphone sales as well as upgrades. Between our sales to new subscribers and upgrades by existing subscriber, we have never activated more smartphones in a single quarter. And on the gross additions front, it's the second highest quarter ever for the smartphone sales for new customers. This is supported by the launch of the iPhone 4 of which we were somewhat supply constrained during the quarter, but also the new Blackberry Torch, a host of new Android and Windows mobile devices. In fact, this was clearly one of our heaviest quarters of Blackberry activations ever.

You can clearly see both of these dynamics reflected in our results issued today. You can see the healthy mix of high value customer loads and our strong postpaid wireless additions for the quarter and you can see the impact of the heavy volume of sales and upgrades in our wireless equipment subsidies and margins. As expected, the results reflect an incrementally more noticeable impact of increased competition being really the first quarter where we had almost all of the new competitors up and running in multiple markets. You see the impact of this on our postpaid churn level which ticked up incrementally, and the continued decline in wireless voice reflects upon this competitive environment as well as what we see as an increasing maturity of the voice market. Importantly, in this environment, we strategically focused on and invested in our customers with a sharp focus on retention to help insure that we minimize churn in the most valuable segments of our base.

Rogers continues to lead in terms of wireless data metrics with our innovative offerings and high quality networks. The continued strong growth in our wireless data revenue which is again the most significant driver of top line growth was not enough to completely offset the Voice ARPU pressures which in the net have the impact of moderating our top line growth. We have also increasingly been applying more of this same methodical focus on retention, and value oriented segmentation on the cable side of the business. You can see the improvements on the cable subscriber side which are driven as much by lower churn as by sales. At the same time, we have been driving meaningful cost efficiencies across the Company both in terms of OpEx and CapEx which has helped us to maintain strong margins and continue to grow free cash flow.

Excluding the year-over-year change in the cost of equipment sales we essentially held our CapEx flat year-over-year Q3 -- versus Q3. And coupled with our lower CapEx we delivered this quarter we had strong growth in free cash flow, we were up 16%, on a per share basis reflecting our on going stock buy back program, free cash flow per share was in fact up 24%.

Oct 26, 2010 / 8:00AM EST , RCI - Q3 2010 Rogers Communications Inc. Earnings Conference Call

Importantly, to reinforce the future growth of our business, we continue to make significant investments not just in our leading networks and customer retention initiatives, but on opportunistic acquisitions consistent with our strategic priorities. We made several tuck-in acquisitions this quarter on the broadband, wireless, and digital media side. These include Cityfone Wireless, [BV Media] and Kincardine Cable. The most significant was our acquisition of Atria Networks which fits squarely within our Rogers business solutions, strategic priorities, On-net IP based services and our small and medium segment of the business market principally in and around our cable footprint.

Turning now to Rogers Media, I am absolutely thrilled to have Keith Pelley join us as the new President of Rogers media. Keith is one of the top forces in Canadian media, and while he joins us from CTV, we have worked together closely over the past couple of years as Keith, most people know among other things led the 2010 Vancouver Olympic broadcast consortium of CTV and Rogers Media. Keith will lead all of our Rogers Media properties -- a portfolio that spans across the country with broadband specialty television, radio, home shopping, digital media, print and sports entertainment, generating over \$1.5 billion of annual revenue.

I would like at this time to also thank Tony Viner for his significant contributions to Rogers over the past 28 years, and wish him the best in his retirement.

The Rogers Media portfolio of category leading properties was further reinforced during the quarter with our launch of Sportsnet ONE national televised Sports Network during the quarter. This will leverage the brand value of our already very successful Sportsnet franchise as well as many other facilities and infrastructure that are already in place. And we secured key anchor tenant content for the new Sportsnet ONE TV network announcing a 10 year programming partnership with Alberta's two national league hockey teams, the Edmonton Oilers and Calgary Flames. So we are excited about the potential growth that comes with the expansion of the Sportsnet franchise.

Gaining this powerful Alberta based content further increases our exposure in the west, and literally comes just one quarter after we strongly reinforced our regional presence in the BC market. As you know we secured the naming rights of the NHL Canucks Hockey Arena, now called Rogers Arena.

As we focus on investing in our strategic platforms, we also took the opportunity to divest the remaining portions of our circuit switch telephony assets. As many of you will know, we work consistently since late 2005 to transition as many of these circuit switch telephony subscribers as possible on to our cable telephony platform. As we are successful in doing so, the related collocation and switching facilities became increasingly under utilized and a fixed cost that would have soon caused what is already a lower margin portion of business to become unprofitable. We have provided some specifics in the release in terms of the timing of the divestiture and the level of revenues involved. To conclude, despite an increase in competitive market, we continue to deliver solid subscriber numbers, very respectable margins and double digit growth in free cash flow, enabling us to return more than \$0.5 billion of cash to shareholders in the third quarter in this year. I am confident that we are very well positioned going forward, not only in terms of asset mix and financial strength, but also with the robust product portfolio, great brands, great distribution, terrific networks, and a seasoned management team that's absolutely focused on execution. Let me turn it over now to Bill, and then we'll take your questions.

Bill Linton - Rogers Communications Inc. - EVP & CFO

Thank you, Nadir. I will give you a little bit of additional color on the financial results and metrics for the quarter. On the top line overall our consolidated revenue growth was 3% for the quarter. That reflects a top line growth of 4% at wireless network, 3% at cable operations, and 3% at media. At wireless, we now have 37% of our postpaid base on higher end smartphones, up from 28% level this time last year. These are higher ARPU, lower churn, higher life-time value subs.

Wireless data revenues now make up 28% of our wireless network revenues, and represent one of our most significant growth drivers. As you can see, in term of our postpaid wireless results overall, the 4% increase in network revenue is a bit of a sequential deceleration from Q2 of '10, and reflects continued softness in out of bucket usage and roaming. And as Nadir pointed out, and as you can see from our gross additions, sales remain very strong.

On the prepaid side, the year-over-year increase in subscriber additions reflects a combination of continued iPad additions and additions under our new chat brand. We categorize both of these in prepaid as both have prepayment features and don't require term contracts. I point out that to date, both of these products have ARPU and churn characteristics that are accretive to our historical prepaid metrics. However, because of the early stage of both of these offerings, and for obvious competitive reasons, we are not going to get anymore specific in terms of providing metrics for you at this point.

Oct 26, 2010 / 8:00AM EST , RCI - Q3 2010 Rogers Communications Inc. Earnings Conference Call

In terms of wireless network margins I would point out a couple of factors to consider. First, is that the third quarter of '09 was a difficult comp, as it was one of our highest margin quarters ever, and as we said at the time, it was likely not ever repeatable. Second, as Nadir mentioned we had a significant number of smartphone sales during the quarter, combined with an extremely large number of upgrades for existing smartphone subscribers. Both happening at the same time. Together these had the effect of increasing equipment subsidies almost \$70 million year-over-year. And third, because of very solid cost controls, we were still able to put up very respectable 48% wireless service margins.

Turning to cable operations, you can see good continued subscriber growth metrics, the revenue growth rate reflects a couple of things though that are worth mentioning. First, it is that the declining circuit switch telephone business, which as Nadir mentioned, we are in the process of divesting was dilutive to the rest of cable operations business, not just in terms of margins but in terms of top line growth as well. Secondly, we had about a 50% lower volume of subsidized digital box sales in Q3 of this year, versus last year as our focus continues to be on the box rental model. So this had the impact of bringing down the revenue growth rate a bit as well. Thirdly, only about two-thirds of the video pricing changes we made in July of the quarter are in the results, versus a full quarter that were in Q3 '09 results. So this was a bit of a drag on the revenue growth rate as well. To adjust for these items together, I'd say a normalized level of revenue growth rate for cable ops would be 5% versus 3% that we reported.

Even with the timing of price changes and the increase in subscriber loading, cable operations still expanded in EBITDA margin in the quarter to 46%. Good cost controls drove a portion of the increase but there were certain one-time items as well. To isolate the operations from the one-time items I'd say a normalized level for the quarter would have been in the 44% range versus 46%, which still represents a continuation of the margin improvement we have been seeing relatively consistently the past number of quarters. On the media side, we are starting to lap the quarters where we started to see markets improving last year. So there's a bit of that going on.

While broadcast TV continues to do phenomenally well, we saw some revenue pressure for different reasons in the publishing, shopping channel, and sports entertainment divisions. These are to a degree more quarter specific items than trends, and we are expecting a strong Q4 in terms of revenue growth rate. An important piece of color on the expense side at media is the launch during the quarter of the new Sportsnet ONE Network. We acquired quite a bit of incremental new programming to launch at the network, but are just the at the start of the revenue ramp. So we have the programming expenses but the subscription revenues haven't started yet. Without these start up cost, media's operating profit growth would have been approximately 20%. We will see a continuation of this in Q4 with an additional estimated \$20 million of EBITDA dilution, and then we start ramping up revenues early in the next year.

Stepping back to a consolidated view, still respectable top line growth combined with good progress around OpEx and CapEx containment, helped drive solid double digit growth in free cash flow. During the third quarter we bought back 9 million Rogers shares for \$335 million under our share buy back program, and also paid out \$187 million in dividends. With this we have already returned about \$1.5 billion of cash to shareholders so far in 2010. Also during the quarter we closed \$1.7 billion in two investment grade debt offerings consisting of \$800 million of 6.1% 30 year notes and \$900 million of 4.7% 10 year notes.

Among other things, proceeds were used to redeem Canadian dollar equivalents of almost \$1.5 billion of higher cost debt and associated derivatives that were previously outstanding. With the result being that we both reduce the average cost of our outstanding borrowings and extended our maturity schedules.

Let me hit a couple of items of note below the operating line on the income statement that impacted net income and EPS growth. The 6% decline in adjusted net income was largely the result of a \$58 million year-over-year swing in foreign exchange gains on unhedged debt. This was a result of a very significant strengthening of the Canadian dollar relative to the US dollar in Q3 of last year. This gave rise to a very large foreign exchange gain we recorded in that period. This didn't reoccur this year because Canadian dollar didn't appreciate as much as it did last year. Normalizing for this swing, adjusted net income would have grown by about \$30 million.

The reduction in GAAP net income was a result of the swing in currency gains I just mentioned, combined with almost \$100 million of cost related to the repayment and issuance of long-term debt associated with the refinancings we did this quarter, and also a \$34 million increase in stock-based compensation. These items were partially offset by a \$15 million help on depreciation in amortization and another \$15 million in the change in the value of derivative instruments.

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. However, given the results to date at this point in the year, directionally our bias is to the higher ends of both the adjusted operating profit and free cash flow guidance ranges.

Looking out to next year, I would just remind everyone of the transition to IFRS accounting that will become effective in the first quarter of 2011. Based on the IFRS standards, as they exist today, combined with all of the work and estimates we have done to date, we don't believe that this is going to have a material impact on what we report our revenue, operating income or earnings to be versus under Canadian GAAP as we report today.

There will be some changes to how the actual income statement will be presented, and to the financial statement notes and there will be a one-time transition, but for the most part we currently expect to be able to present and discuss our results in the MD&A largely as we do today. In our Q3 MD&A today, we have provided some condensed Q3 and year-to-date income statement and balance sheets compiled under the current IFRS standards, and compared them to how we report today under Canadian GAAP, then we've noted where and why items differ between the two. There's a good discussion in terms of what the differences are and how the transition is affected. We will provide additional information with our year-end results and again at this point, given what we know and are estimating, I don't expect this transition will be an issue one way or the other for the investment community.

I'll finish by saying overall on a consolidated basis, we have put up healthy but somewhat moderated top line and operating profit growth, reflecting a combination of successes on the sales side, investments on the retention side, and a bit of what is essentially the new competitive reality. We continue to be in a very strong position financially, with an exceptionally solid balance sheet. We have investment grade ratings, relatively low balance sheet leverage at two times debt to EBITDA and \$2.2 billion of liquidity available under our fully committed multiyear bank facility, and \$344 million in cash on the balance sheet. So in terms of the balance sheet from both leverage, liquidity and maturity perspectives, we continue to be in a very strong financial position. With that I will pass it back to Bruce and the operator so we can take any questions you may have.

Bruce Mann - Rogers Communications Inc. - VP

Thank you, Bill. Operator, we will be ready to take the questions from the participants in a couple of seconds. Quickly, before we begin, as a management team we would like to request as we do on each of these calls that those participants that are asking questions be courteous to 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 if we have time we will circle back and take additional questions or we'll get them answered for you separately this afternoon after the call. With that, would you please like to go ahead and explain how you'd like the participants to queue up for questions and do the polling.

QUESTION AND ANSWER

Operator

Absolutely. Ladies and gentlemen, we will now conduct the question-and-answer session. (Operator Instructions). One moment please for your first question. Your first question comes from Greg MacDonald of National Bank Financial, please go ahead.

Greg MacDonald - National Bank Financial - Analyst

Thanks, good morning guys. Question I have is on postpaid ARPUs, sequential decline there. Is more than what I would be willing to describe as volume-related. My best guess is with the truing up to 1.2% that there's some retention repricing going on? Could you comment on the magnitude of expectations going forward on that reprice? Is this as bad as it gets, are there any one-time items in there that might be describing what's going on? And more importantly, I think you know right or wrong, the biggest concern from the operating side of things for the market is on the prospect for margin compression. So one of the things that I note that Verizon really benefits from is the OpEx control and the scale and you showed that this quarter. So what I am looking for is not necessarily some margin guidance but some indication of your confidence and ability to keep OpEx and G&A as a counter lever against revenue weakness on the wireless side because you did show a pretty decent number there, and Bill I indicated that or indicate you seem to suggest that material margin compression is not really in your budget and your comments but you didn't say that exclusively, but you seem to suggest that. Am I right in that assumption? Thanks.

Rob Bruce - Rogers Communications Inc. - President Communications

That's a lot of things rolled into one question, Greg. But good morning, it's Rob Bruce.

Oct 26, 2010 / 8:00AM EST , RCI - Q3 2010 Rogers Communications Inc. Earnings Conference Call

Greg MacDonald - *National Bank Financial - Analyst*

I am trying to meet the definition.

Rob Bruce - *Rogers Communications Inc. - President Communications*

Listen. I touched on our focus on cost controls last quarter, and I try to highlight some of the things, but let me reiterate some of those for you. As you will recall, we did a significant restructuring in 2010 where we, where we restructured the Company, the operating divisions, which we said would result in a savings. I think you are starting to see those savings come through and those will continue to come through over time. We have taken initiatives like out sourcing some of our IT support, we are doing a lot of process reengineering, renegotiating of contracts, working hard to drive our COGS down.

We are very focused on taking calls for the call center out through a variety of initiatives including ramping up our efforts on self serve through both the web and our touch tone IVR. Lots of work being done on credit improvement strategies, e-billing, and another long list, so suffice to say very, very focused on pulling the cost control lever to offset anything else that's going on in other parts of the business.

The story from a revenue perspective really was you know voice continues to be under pressure. Lots of activity and focus, certainly some as you referenced, Greg, some plan migrations as people hear about lower prices in the market without question, they call the call centers and continue to ask for opportunities to go to different places. We feel in a very good position offering three different brands with different value propositions, which we feel have brought us some success in terms of mitigating some of that downward pressure. Certainly as well, there is significant promotional activity out there to drive gross loads, and we've continued to see that reflected in declines in air time and MSF revenue lines on voice.

Also, not surprisingly, and a continuation of a trend that we've seen before is roaming continues to be under pressure, down significantly year-over-year. You know, not quite as much as air time and MSF, which is off about \$50 million, roaming is off about \$20 million. It's both inbound and out bound, both volume and rate. We are driving the rate a little bit Greg to be fair, because we are trying to increase the penetration in our base of roaming and continue to stimulate that business. On the flip side, as Bill touched on the data revenue story -- it's a terrific story. We are up 28% year-over-year, 37% of our customers on smart phones. And if you compare us to North American blended rates on ARPU, I think Verizon is now only a nickel ahead of us. We are at \$18.15, Verizon is at \$18.20. So amongst North America's best in terms of producing data revenue. It has fallen sequentially year-over-year as was referenced to 28%, still fantastic growth, driven by growth on smart phones' success representing about 3/4 of the growth and SMS and data roaming representing the rest. But clearly the number that was in the mid-30s last quarter was bound to decline. I think we referenced the lapping of the is SMS price increase, and frankly the size of data now at almost \$0.5 billion in the quarter, the numbers are just too big to keep going at plus 30%.

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

Greg, it's Nadir, just maybe tie it back in terms of margin, the one thing that I would highlight along with what Rob said is obviously we've made some very important decisions in terms of investing in our customers and you can see it in terms of the subsidies when you look quarter-over-quarter between Q3 of this year and last year, well over 150,000 more devices that we subsidize in terms of hardware and think of it as somewhere in the \$60 million to \$70 million of incremental costs that have been absorbed in the quarter. And when you factor that in, it really highlights the cost control we have on the other side because margin, even with the impact of that additional \$60 million to \$70 million, it is about 48.3%. So one of our issues is last year as you note, this quarter Q3 2009 was at 50 -- just over 50% which as I said before I don't think those kind of margins are sustainable over the long term, but we feel pretty good about our opportunity in terms of controlling costs and I think you see it in quarter.

Operator

And your next question comes from Simon Flannery of Morgan Stanley. Please go ahead.

Simon Flannery - *Morgan Stanley - Analyst*

Okay. Thanks very much. Good morning. I wanted to talk about the capital spending for a moment. You have touched on some pretty good CapEx numbers to help the free cash flow generation, where are we in terms of sort of base capital spending now for this year and for next year? Are we at a new stable level, and how -- can you tie in the announcement about LTE testing? We have Verizon launching in a few weeks, AT&T rolling out next year. Are we likely to see any major deployments, or trials in 2011? Or is it really 2012 and beyond? And any impact on how much that might cost from a CapEx perspective? Thanks.

Nadir Mohamed - Rogers Communications Inc. - President & CEO

I will start off and then Bob can fill in with some color if we need to. But obviously I will start with -- we haven't given guidance for 2011. So it can only be directional from that perspective. But maybe to set the stage, before we talk about LTE, on the HSPA front, today, I think most of you know we have actually rolled out 7.2. I would say 85% of pops are already covered on 7.2. We have been rolling out 21 with coverage now to 25 top cities on 21. So that is I think north of 60%. I would describe between the two we have got virtually the country covered by next year, in terms of fully rolling out HSPA. Clearly, our view is that the next platform is LTE, you know keenly observing what's happening south of the border between Verizon launching and now AT&T talking about launching including trials. We took the opportunity to announce a trial of LTE, and maybe I will get Bob to describe what it is we are trying to do with LTE trials and give you a sense of how we see the we see it evolving.

Bob Berner - Rogers Communications Inc. - CTO

Certainly. Thank you, Nadir. Simon, I guess it's safe to say that there's a lot of companies fiddling around with LTE trials and lab trials and that sort of thing. We and the others have been doing that and what we announced was a much more comprehensive real life technical trial in the greater Ottawa area, so that we can understand how the technology operates in the various frequency bands and how it interacts and interoperates with our existing HSPA Plus, and GSM network, because as you can imagine, it is going to be a combination of networks that are in market in all countries and we need to be able to get some deployment experience to understand what the benefits of the technology indeed are, and what are the true uplifts in data speeds. So, we are going to continue to do that and we're going to try it in our AWS frequencies. We are working with Industry Canada on development licenses for 700Mhz. So there will be a significant number of real-life sites out there where we can test interference, speed, and capability. We haven't made any announcement concerning commercial launch of LTE, nor have we forecast the expected commercial deployment costs.

Just one last thing, I think you know Bob made reference to the 700 spectrum. Obviously to us that is very important that we get access to that spectrum because at that frequency you get the in-building penetration that we need and the ability to have rural coverage that we'll require. So that question ties in to what's the timing for when the auction will unfold for 700. But I think it is very important that as Canadians, one of the reasons we announced the trial was to make sure people knew that we were going to be leading on LTE as Canadians, and frankly to have Government recognize the need for spectrum, particularly 700 spectrum, to actually enable that deployment. So, partly the timing will be dependent on how we see the frequency and ecosystem roll out.

Operator

And your next question comes from Tim Casey of BMO Capital Markets. Please go ahead.

Tim Casey - BMO Capital Markets - Analyst

Thanks, I have a follow up and then a question. Just Nadir, what is your working assumption on when the auctions for 700 and 2.5 GHz, what are you guys assuming? My question relates to Keith Pelley and the outlook for media. Keith, what are you as you wrap your hands around it, what are your expectations on how you're going to grow the media business, and specifically, we've heard more talk about programming inflation, particularly coming out of the sports networks. Obviously you guys own one, but can you talk a little bit about the implications for the media and the cable cost in revenue lines? Thanks.

Nadir Mohamed - Rogers Communications Inc. - President & CEO

We have Ken on the line. Let me maybe take the question on the -- just where we see 700 hopefully he has some insights beyond the tweets from Tony.

Oct 26, 2010 / 8:00AM EST , RCI - Q3 2010 Rogers Communications Inc. Earnings Conference Call

Ken Engelhart - Rogers Communications Inc. - VP Regulatory

Yes, it looks like the auction for 700 will be in 2012. It is not clear whether it's going to be early in 2012 or late. I think probably later up than earlier. 2.5 is still a bit of a question mark. It might be done at the same time as the 700; it might be done earlier, or it might be done later.

Nadir Mohamed - Rogers Communications Inc. - President & CEO

So Tim, before I hand it to Keith I just wanted to put it on record that this is pretty good for the new guy because with Tony our batting average for questions for Tony was once every two or three years. So I am kind of liking this. Over to you, Keith.

Keith Pelley - Rogers Communications Inc. - President

I would like that to continue after this. Thanks very much for your question. It is -- I am really enjoying this. It is a great company with an outstanding culture, and some terrific brands that will provide us a plethora of opportunity, and I think what I have really noticed very quickly is how diverse our portfolio is. When you look at networks like the Shopping Channel, to the Toronto Blue Jays, to radio, and Nadir mentioned the Olympics early on and one of the successes that we had and we drove more than \$100 million in terms of incremental revenue as opposed to what our business plan was in the midst of a recession was based on the way that we integrated and sold from a multiplatform perspective. And the number one priority that we have right now is finding a way to integrate this diverse portfolio.

So how did the Shopping Channel work with CHFI and how does CHFI work with the Toronto Blue Jays. And that is a focus on the go forward basis, while in the interim -- or while at the same time, supporting cable and wireless. As far as the question goes on programming content and, and the need for it, well there's no question that it is a consolidated world but it is very, very competitive. It's feverishly competitive right now. And our strategy, and we have been very successful with it, and I certainly applaud Tony Viner and his team, they have the strategy really was in order to solidify long-term growth and to understand the cost structure on a go forward basis, was to secure long-term deals. And that is what has happened with the likes of the Flames, the Oilers, the Ottawa Senators, and recently the Toronto Raptors. Then you add the Toronto Blue Jays in there, which we own and all of the sudden, our portfolio from a sports perspective is second to none. And that's because we have the long-term deal. So we are poised for growth both from a Sports Net perspective, and if we can find a way to integrate our brands like we had some of this at the Olympics, then really there is tremendous growth potential in the media division.

Operator

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

Phillip Huang - UBS Securities - Analyst

Alright, thanks for taking my question. My question is on the prepaid results, obviously very strong -- stronger net adds, and I just wanted to get a little more color on the main drivers behind that. I am inclined to think that Chatr was the main driver, but given that Chatr generated subs with ARPU \$35 to \$45, we don't seem to be seeing the uplift on prepaid ARPU's, so wondering if you might provide some color to help shed some light on that? Thanks.

Rob Bruce - Rogers Communications Inc. - President Communications

I will -- maybe I will pick up on what Bill said, that we weren't going to be particularly specific, Phillip in terms of breaking out, breaking out prepaid into its component parts which as Bill highlighted were recognized iPad, Chatr, and the conventional prepaid business. Some of the things that are going on, that are underlying the prepaid business right now, is we are seeing more migration than we ever have before in the original prepaid business, people moving to postpaid. I think that's leaving us with a base of slightly lower value conventional prepay customers, and I believe that the numbers point to the stronger ARPUs that we are seeing both at iPad and Chatr pulling that ARPU back up again, so it is down as a result of migration out to postpaid and up again as a result of both Chatr and iPad, but that's what is really going on behind the scenes.

Operator

Your next question comes from Jonathan Allen of RBC Capital Markets. Please go ahead.

Jonathan Allen - RBC Capital Markets - Analyst

Thank you very much. Rob you had mentioned that -- I think you were seeing some planned migrations earlier out of the postpaid side. I was just wondering was that a reference to customers migrating down from the Rogers brand perhaps to Chatr and perhaps you can talk anecdotally of what you are seeing there if anything, and also curious on the roaming side you have mentioned the lower prices that Rogers was implementing to try to stimulate increased usage. I was wondering if there's any sort of fall out from lower roaming revenues available on Chatr and whether that was causing any concern with enterprise customers?

Rob Bruce - Rogers Communications Inc. - President Communications

Okay. A couple of things. In term of migrations, really what I was referring to is in these businesses, Jonathan, I mean there is a constant flow of customers calling in with questions, desires to change plans as more competitive noise and activity go on out there, and the frequencies of calling goes up significantly. So that was the reference and to some extent the size of the downward migrations get larger. I wasn't really referring to migrations to Chatr. Those are very, very small in number. And my view is migrations to either Chatr or Fido from Rogers are very positive because they mean that instead of a customer potentially leaving us they're staying in the portfolio of brands we have and we continue to meet their needs. But again at this point, a very, very small number.

In terms of roaming, roaming having Chatr having no impact at all on roaming, really what we are trying to do and you may have seen it as you go through the airport Jonathan particularly in the US and international terminal, just really highlighting great buckets of roaming minutes available to our travelers leaving the country, and starting to have a good stimulus effect in terms of getting people who hadn't previously tried roaming because they were concerned it was too expensive to start experiencing roaming and we think we can continue to build that business and build the penetration of roaming in our base. That's really what I was referring to.

Operator

And your next question comes from Bob Bek of CIBC. Please go ahead.

Bob Bek - CIBC World Markets - Analyst

Thanks and good morning. Just wanted to revisit the cost of retention, Nadir you talked about \$60 million to \$70 million in subsidies absorbed in the quarter, and given Q3 had constrained iPhone supply and the Torch was fairly late, would we expect to see that subsidy number increase materially into Q4 given the obviously smart phone loading is going to continue to ramp up quite highly.

Nadir Mohamed - Rogers Communications Inc. - President

I will get Rob to address Q4 but just on Q3 to make sure we are articulate what happened. We did have some constraint on iPhones but between you and obviously a bias toward having our existing customers take advantage, we had a pretty good set of numbers on iPhone 4. We also had a very, very strong Blackberry quarter between both new sales and upgrades. So, on balance as I said, that is one of the literally strongest quarters we have had in terms of activity both for new and upgrades. But it was driven primarily by Blackberry, although iPhone not to get carried away with inventories, because frankly we had pretty good supply. We just had not enough supply for new because we tended to prefer having our existing customers upgrade first. Rob, why don't we talk a little bit about Q4.

Rob Bruce - Rogers Communications Inc. - President Communications

Let me just go back and say we are talking about the \$70 million incremental. It is just important to note that the total was more than \$200 million, and it was one of the busiest quarters of the year. Looking forward, there continues to be pent up demand for iPhone. And we didn't come close to satisfying the demand for iPhone 4 as we exited Q3, so we expect that demand to continue. However it is important to note that the special iPhone launch program where we gave previous iPhone customer bars the opportunity to upgrade easily to the new iPhone 4 is actually finished. And we created policy changes to reduce the number of data to data customer upgrades. However, I should say the general appetite by

our customer base to upgrade continues to be strong. All of this hype about new and exciting devices, iPhone 4, Torch, and others continue to drive our customer base to upgrade at more than the rate we are typically used to. Saying that I expect the numbers in Q4 not to be dramatically different than they were in Q3. And maybe just to follow up and hit in a little more detail our equipment margin numbers in Q3, really driven by retention as Nadir said of the equipment margin increase of about \$65 million to \$70 million that we have referenced about \$60 million of that was retention. It was driven by almost 190,000 more units than we had seen in the past than we had seen a year ago, and a smart phone mix that was up significantly from 43% a year ago to 52%, and the average device cost moving up from -- device subsidy rather moving up from \$205 to \$241 largely driven by increases in subsidy on Blackberries which you heard Nadir say, were amongst the most popular devices in the quarter. Anyway hopefully that gives you a little more comprehensive view about where we are going and what happened in quarters from an equipment margin perspective.

Operator

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

Vince Valentini - TD Newcrest - Analyst

Yes, thanks very much. I want to follow up with that on a more of a longer term view on the equipment subsidies, can you first clarify, is the change on the up-grade policy, is it now 30 months as opposed to 24 months for people to be able to get an upgrade? Does that feed into your thinking of the long-term economics here? Are we starting to see the cycle get a little bit too tight especially with \$600 to \$700 smart phone devices out there that you have to subsidize so heavily, are you a little less comfortable resubsidizing those every two years, and what kind of trends do you see out there with the Android gaining some momentum, and maybe Blackberry still there? Is there some offset to Apple's negotiating leverage that over time you can start to get the handset subsidies down and maybe get some better deals from some of suppliers?

Rob Bruce - Rogers Communications Inc. - President Communications

Yes, thanks, Vince. The policy change we made was actually a policy change to take data to data to a minimum of 24 months to an upgrade. Where we would like to get, and we're working to get the systems in place, is to allow customers to pay at any point frankly beyond the year to buy a portion of an upgrade -- otherwise upgrade in advance, but pay a portion of the upgrade costs themselves because I think there's no mistaking that customers have appetite for new devices. We have to create the availability of those new devices, evidence would suggest from our customers many of them are willing to pay. We just have to have the capabilities of letting them avail themselves of the new devices and protecting that -- the costs of that upgrade cycle. We will continue to work down that path Vince, and build the IT capabilities to support some of our desires and let me just turn and talk about the trends. The other thing that I think has not materialized that we talked about in the past that will have a significantly positive impact, is starting to get smartphone subsidies down. In fact, since the last time I talked to you Blackberry has actually been going in the other direction, and iPhone has been relatively stable. We haven't had enough proliferation of great devices from others. We've had some Android devices which have started a little bit but we need a greater selection and availability of lower cost devices which I believe is what Android promises. The other thing we are pushing very hard on is to recognize the segmentation and not push every single person necessarily to a smartphone when maybe really all they want to do is text. So we are trying to triage in store, push people who are really going to be using text devices like QWERTY sliders, which have subsidies that are very much like voice devices and thereby, rain in a little bit of the costs associated with the subsidies that we are seeing today.

Nadir Mohamed - Rogers Communications Inc. - President

Vince, and maybe just to add to Rob and just give you -- this is not a next quarter kind of comment but directionally I think if you look at the next year or two, and Rob alluded to it a little bit. If you look at the quarter it was dominated by Blackberry and iPhone, a certain amount of Android but clearly the two power houses were Blackberry and iPhone.

In the next couple of years what to me is exciting is you will see that expand where between the Android devices and lots of manufacturers that getting into copying very strong device form factors coming on board as well as -- coming on board as well as Windows Mobile. We finally have a mix change, people like Samsung and others are getting into the act. I think that really holds promise in terms of the potential for a change in the subsidy game. As you know, when we move from RIM to Apple, really if anything we had a bigger head if you want on subsidies, whereas I believe with Android and with Windows Mobile, with the approach being one that says multiple manufacturers using the same operating system that gives us the first promise of a potentially lower subsidy environment.

Oct 26, 2010 / 8:00AM EST , RCI - Q3 2010 Rogers Communications Inc. Earnings Conference Call

Only one last thing, just to make sure that people know, you should know in Q3, when we launch the iPhone 4, one of our key priorities was to take care of our existing customers and we were very generous in making sure that we allowed very easy upgrades to happen. That's what Rob referred to in terms of the exceptions we made in Q3 that obviously are behind us.

Operator

Your next question comes from Rob Goff of Northland Capital Partners. Please go ahead.

Rob Goff - Northland Capital Partners - Analyst

For strategy and tactics within the business group considering the blink acquisition now behind you?

Nadir Mohamed - Rogers Communications Inc. - President

Sorry Rob, we may have actually missed the first part of your question. The part that I picked up was the business strategy with Blink? I hope I didn't miss any in the front of that.

Rob Goff - Northland Capital Partners - Analyst

You caught the gist of it.

Nadir Mohamed - Rogers Communications Inc. - President

Sure. If you go back it ties a little bit to the comment I made which is back to circuit. I think when you look at our RBS division, we picked up a chunk of business through our Call-Net acquisition. A fair amount of that was circuit-based off net if you will. And I think you know we have been working hard to migrate that base over and also grow the new business which is IP on net. What we have done in the last quarter or so is really try to beef that up with the acquisition of Blink, Atria obviously we think we'll be done, up and running early part of next year. It really beefs up our portfolio in that area by giving us more fiber. I think Atria off memory is about 5,600 kilometers of fiber, the 3,800 buildings that are on net. Again, the key thing here is growing our footprint, growing IP base Ethernet type of solutions. So that's part of the thrust on RBS but we shouldn't lose sight and I'm going to ask Rob to speak to it. We also have in the small business area the same strategy as other cable companies which is a grow on the cable footprint using our cable plant and maybe Rob can give you some color on our steps in that area.

Rob Bruce - Rogers Communications Inc. - President Communications

Yes, and Rob, we have touched on this a little bit before. But we continue to try to emulate what the US cable operators are doing successfully. That's penetrating the small and medium enterprise and I know Edward has talked in the past about IBL, our multi-line business product that has some great features like fax mail is part of voice mail and business directory listings and other things. We started to make some strides, although I think we have a lot of head room yet, in terms of getting our business offerings into, in the small business, 26% of our cable phone nets were actually from SME -- the numbers are still very modest and again I would say there is a lot of potential. The ARPUs are stronger than consumer up in the \$30 plus range. Internet too continues to grow with 6% of our internet nets also coming out of business and at this point we are starting to get some traction, the numbers aren't big enough to be worthy of mention, but we continue to push in that direction and we will continue to emulate what the US carriers are doing.

Operator

Your next question comes from Jeff Fan of Scotia Capital.

Jeff Fan - Scotia Capital - Analyst

Oct 26, 2010 / 8:00AM EST , RCI - Q3 2010 Rogers Communications Inc. Earnings Conference Call

Thanks very much. I have one quick follow up and a question on churn, both on wireless. The follow up is back to the question regarding ARPU and the changes within voice. I am just wondering did some of your data only devices have an impact on voice, ARPU changed this quarter like those devices that only bring in wireless revenue? I am wondering if you can help us quantify to see if there was impact there. And then the question that I have is regarding Videotron, I know it is only been less than a month in the quarter, that they launched but wondering what kind of impact are you seeing, the rational for going unlimited and perhaps a little bit of color on what you have been seeing to date, and the impact on churn? Thanks.

Rob Bruce - Rogers Communications Inc. - President Communications

Yes, hi, Jeff.

Jeff Fan - Scotia - Analyst

Hello.

Rob Bruce - Rogers Communications Inc. - President Communications

Just to be clear, what you were thinking about. Were you thinking about the impact of sticks?

Jeff Fan - Scotia - Analyst

Yes, like data only devices that perhaps doesn't come into your, that doesn't generate voice revenue, that gets --

Rob Bruce - Rogers Communications Inc. - President Communications

If you were looking for an indication of whether it was having any impact on churn?

Jeff Fan - Scotia - Analyst

No, impact on the ARPU calculations, because I guess the denominator would include these devices yet they don't really generate any voice revenue.

Rob Bruce - Rogers Communications Inc. - President Communications

Yes. There is a dilution of just a little bit under a dollar, that pool of, of sticks that don't generate any voice revenue. It drives down our voice ARPU about \$0.93 approximately, I think is the number if I recall off the top of my head. To your second question, it is very, very early days for Videotron. To be honest with you, we can barely even feel them in market in terms of the ports. The offerings that they have in market are not very much different than we expected. And you know honestly Jeff beyond that it is hard to really say much more.

Operator

Ladies and gentlemen, we have time for two further questions. The first question comes from Ric Prentiss. Please go ahead. I am sorry, Ric Prentiss of Raymond James. Please go ahead.

Ric Prentiss - Raymond James - Analyst

I think there's only one of me. One quick housekeeping question, on the one-timer in the cable operations it sounds like that ball park was about \$15 million of benefit in the quarter, was that anticipated in the guidance when it was previously given? And then also the circuit switch divestiture, I assume that really the 2011 items as far as guidance and then I'll get into the real question.

Oct 26, 2010 / 8:00AM EST , RCI - Q3 2010 Rogers Communications Inc. Earnings Conference Call

Rob Bruce - Rogers Communications Inc. - President Communications

Yes. The one-time item in cable in quarter was not anticipated when we did the guidance at the beginning of the year. And just so you know there's one-time items that go both ways. We just highlighted that one because of the impact it would have had in this particular quarter. The second question was on circuit switch and what was it?

Bruce Mann - Rogers Communications Inc. - VP

The timing is going to be that the lines will start to migrate literally now in the -- over the course of the fourth quarter, and it will be completed in the early part of '11 maybe by the end of the first quarter. So it's going to be a phased migration.

Rob Bruce - Rogers Communications Inc. - President Communications

I think it is important to say that the revenue and cost impacts really are not material for the remainder of the year as Bruce said most of these migrations will happen out in the next couple of months and it is not a one time cut over.

Operator

Your final question comes from Peter MacDonald of GMP Securities. Please go ahead.

Peter MacDonald - GMP Securities - Analyst

Thanks, just trying to get my head around the focus on retention and smart phones in the quarter against the postpaid ARPU erosion and, higher churn. I think you said in your opening remarks that you attributed the direction of both the new entrants, but it kind of raises two questions. Does it imply that new entrants are having a greater success at attracting higher value subs or are you also seeing something from the Bell-TELUS HSPA transition? And then if it is new entrants, how should we be considering the impacts that Videotron's going to start to have in Q4 and then Shaw later in 2011? Thanks.

Rob Bruce - Rogers Communications Inc. - President Communications

Peter, just to make sure, the reference wasn't to the new entrants at all. That was just a reference to the fact that for us it is important to actually invest in retention because they tend to be the high value customers, and for sure to the extent that we have made reference to churn it would be attributable to the market as opposed to the new entrants, who for the most part have had fairly limited impact.

Operator

Mr. Mann, this concludes the question-and-answer session. Please continue.

Rob Bruce - Rogers Communications Inc. - President Communications

All right, thanks operator for conducting the call this morning. Thanks everybody for participating. We appreciate your interest and your support and your coverage. If you have questions that weren't answered on the call, please give my colleague Dan or I a call. Our remarks at the beginning were a little longer than they were historically but we did have a lot of color to add. So we do understand if there were a couple of people left in the queue and we apologize. You can either call Dan or myself. Our contact info is in today's release. That concludes this morning's call. Thank you very much.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation and you may now disconnect your lines.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2010 Thomson Reuters. All Rights Reserved.