Rogers Communications Inc.
Third Quarter 2022 Results
Conference Call Transcript

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Speakers:

Paul Carpino
Vice President of Investor Relations

Tony Staffieri
President and Chief Executive Officer

Glenn Brandt
Chief Financial Officer

Operator:
Welcome to the Rogers Communications Inc. Third Quarter 2022 Results Conference Call.

As a reminder, the conference is being recorded.

I would now like to turn the conference over to Paul Carpino, Vice President of Investor Relations with Rogers Communications.

Please go ahead, Mr. Carpino.

Paul Carpino:
Thanks, Ariel.

Good morning, everyone, and thank you for joining us. Today, I'm here with our President and Chief Executive Officer, Tony Staffieri, and our Chief Financial Officer, Glenn Brandt.

Today's discussion will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's earnings report and in our 2021 Annual Report regarding the various factors, assumptions, and risks that could cause our actual results to differ.

With that, let me turn it over to Tony to begin.

Tony Staffieri:
Thank you, Paul. Good morning, everyone.

I'm pleased to report that Rogers Q3 results continue to demonstrate strength and consistency in our Wireless business and Media results that reflect the unique value and quality of our sports and Media assets. Additionally, we invested aggressively in our networks and our customers' experience to ensure we deliver the resilience and services our customers expect. We're making excellent progress on our priority to drive better execution in 2022, and I'm proud of what our teams have delivered today.

Let me provide some highlights on our Q3 results and progress across key priorities before turning it over to Glenn for additional detail on the quarter.

Before I start, let me note that given the Shaw, Rogers, Quebecor transaction is now in front of the competition tribunal, we will not be taking any questions on the transaction. We will remain confident in our response to the commissioner and the response of Videotron and Shaw, and greatly appreciate the hard work of the tribunal to bring this to a timely conclusion so that this transformational transaction that will increase competition and choice for consumers can close. When appropriate, we'll provide further updates on the progress.

Turning to our Q3 results. In Wireless, Rogers continues to be strong. We're delivering on our commitment to drive better execution, and you have been seeing this consistently throughout 2022. By leveraging our extensive distribution network, growth and immigration, and effective base management, Rogers is achieving strong share gains in a growing and competitive Canadian Wireless market, and continuing to offer consumers choice.

We had postpaid phone net subscriber additions of 164,000 in the quarter, and total mobile phone net adds of 221,000 up 30,000 from last year. We saw success in all brands across our markets, and impressively we have delivered total net Wireless additions year-to-date of 448,000, up 137% from last year. As we have seen throughout the year, demand for Rogers' Infinite unlimited plans has continued to grow, driven by more people returning to the office, strong immigration growth, and more consumers traveling outside of Canada.

Since launching unlimited plans in Canada in 2019, Rogers has become the largest provider of unlimited data plans to Canadian customers, with more than 3.2 million customers on these robust and 5G capable plans. As the need for data continues to grow and new applications are developed, the value of these plans becomes even more important to customers.

Through our Infinite unlimited plans, consumers are leveraging the extensive data buckets and higher speeds that support video and business applications used in a hybrid work model, or while traveling on vacation with friends and family. The appeal of these plans is clearly evident in overall monthly data usage, which continues to grow. On average, our customers are now using 6.6 gigs per subscriber, up 35% compared to the same period last year.

On Infinite plans, data consumption is even more impressive with customers using almost 10 gigs per subscriber per month. This is up 17% year-over-year and more than triple the usage when unlimited plans were launched back in 2019. The simplicity and value of these plans combined with the record investments being made to support this usage are allowing customers to leverage the full capabilities of their mobile devices.

In our Media business, we have accelerated our return to profitability, driven by our leading portfolio of sports assets. We delivered double-digit revenue growth and have seen significant growth in Adjusted EBITDA, reflecting the growing value of this franchise. While other non-sports Media players in Canada have seen weaker performance in this business, Canadian's appetite for Sports programming and attending Blue Jays games in-person remained robust and drove excellent financial performance.

On the Cable front, where we had delivered strong execution in the first half of the year, we did not achieve the subscriber results we expected of ourselves with our performance in Q3. Against the backdrop of very aggressive and opportunistic promotional activities from our national competitor, we were less effective in responding to this dynamic early in the quarter, but we have since focused on tactics that balance subscriber growth and market share with wireline profitability.

While very disappointed with the network outage, the impact was isolated and our teams have worked hard to regain customer trust. Importantly, we have gotten better from what we have learned as we accelerate investments and network resiliency in order to provide always-on connectivity and service to our customers.

Overall, I was very pleased with our underlying Q3 financials, which were strong. Excluding the $150 million in credits we provided to our customers in Q3, total service revenue was up 7% and Adjusted EBITDA was up 8%. In Wireless, our underlying business reflected strong financials with service revenue up 9%, Adjusted EBITDA up 7%, and blended mobile phone ARPU up 3%. In our Cable business, revenue and Adjusted EBITDA were both up 2% and we maintained Cable profitability, despite the aggressive promotions.

Importantly, these credits will not carry into the fourth quarter and we're encouraged that our better execution plans are working. Additionally, even with the impact of the credits, we are able to maintain our 2022 Full Year guidance ranges. In terms of network investment, our CapEx spending in Q3 was $872 million, up 18% from one year ago. This represents a record quarter for capital investment by

Rogers. Importantly, network specific investment was up 52% compared to a year ago, demonstrating the commitment we are making to improve resiliency and the customer experience.

In closing, I'm extremely pleased with the growth and leadership we have seen in our businesses. I want to thank the Rogers Team across the country for their hard work and ongoing commitment to improving the customer experience and delivering better execution, despite a protracted regulatory process associated with the Shaw, Rogers, Quebecor deal. I appreciate our team's passion, and so do our customers.

Let me now turn the call over to Glenn, who will provide a few more details on the quarter.

Glenn Brandt:
Thank you, Tony, and good morning, everyone. Thank you for joining us.

Rogers' third quarter results reflect strong underlying fundamentals in our Wireless and Media businesses with a continued commitment to investing in our networks to drive better operating and financial performance across all of our businesses.

For full transparency, my remarks today will include commentary on our results with and without the impact of the $150 million in customer credits. We expect the sustainable run rate for our business in the fourth quarter will more accurately reflect the ongoing business, excluding the credits. I encourage you to refer to our press release and other disclosures issued today to see the corresponding side-by-side comparisons we may highlight.

In Wireless, third quarter service revenue was up 3% on an as-reported basis, but up 9% year-over-year excluding the impact of the credits. As we have noted throughout the year, our Wireless financials are seeing the positive benefits of multiple drivers including higher roaming revenue as global travel recovers, a larger postpaid and prepaid mobile phone subscriber base, and an overall increase in market activity, including growth in unlimited plans as Canadians return to work and school, further accelerated by immigration and an increase in foreign students and seasonal workers.

Our strong performance in Wireless has been consistent throughout 2022 and reflects our ongoing investment in network infrastructure and customer service. Rogers reported total mobile phone net adds of 221,000, up an impressive 30,000 from last year, including 164,000 postpaid net adds. The Wireless market in Canada is strong and Rogers continues to execute well across all brands.

Our results are also continuing to benefit from strong base management strategies we have implemented, and by providing customers with a wide variety of robust value oriented and flexible plan offerings that can meet the needs of any customer. The Wireless market was very competitive and active this quarter, and our teams responded well to the busy environment.

There were approximately 666,000 mobile phone net ads across the sector this quarter, and Rogers has succeeded in attracting approximately one-third market share. Once again, reflecting strong competitive execution and attention to customer service. Postpaid mobile phone churn was 0.97% compared to 0.85% one year ago, remaining under 1% and similar to our peers.

While our churn was more elevated early in the quarter, we had returned below 1% by the time the more promotional back to school selling period commenced. ARPU as reported was 56.82, down 2%, but grew 3% to 59.76, excluding the impact of the aforementioned credits. With consumers continuing to travel, roaming revenues were strong in Q3 up 130% compared to the similar pre-pandemic third quarter period of 2019.

While we did see a small pickup sequentially in business travel from Q2 to Q3 of this year, business roaming still remains muted relative to pre-COVID levels. Additionally, ongoing customer migration towards the Rogers Infinite unlimited plans as seen throughout the year has also contributed to improvements in ARPU. Wireless Adjusted EBITDA was down 1%, but up a solid 7% excluding the impact of the customer credits as we saw excellent flow through from our service revenue growth.

As reported, Adjusted EBITDA margin was 62% and up a strong 64% on an underlying basis. In our Cable business, total revenue and Adjusted EBITDA were down 4% and 10%, respectively, on an as reported basis, but both were up 2% year-over-year when excluding the customer credits. Impressively, EBITDA growth remained positive, despite the aggressive promotional environment from our national peer.

We were largely measured and balanced in our competitive response, matching competitive offers where appropriate and otherwise maintaining underlying profitability versus driving loading. On a product basis, we delivered 6,000 retail Internet net customer additions in the third quarter and video net additions remained positive at 7,000.

While the highly promotional environment and network outage impacted our third quarter churn and customer net additions in Cable, we remain competitive in the market and optimistic as we move into the fourth quarter. Cable Adjusted EBITDA margin was 48%, but excluding the credits remained healthy and consistent with the prior year at approximately 51%.

In our Media business, the quality of our sports and Media assets delivered solid results in both revenue and profitability. Revenue grew 12%, driven by Blue Jays fans who returned to in-person attendance at Rogers Centre. As well viewership and sponsorships and advertising revenues associated with Toronto Blue Jays games were also up substantially year-on-year, contributing to the revenue growth.

As a result, profitability within Media was even more pronounced with Adjusted EBITDA of $76 million or 130% turnaround from the same quarter last year. At a consolidated level, total service revenue was up 3% and Adjusted EBITDA was down 1%; but excluding the customer credits, up 7% and up 8%, respectively.

Capital expenditures were $872 million or 18% higher than last year, reflecting capital intensity of 23%. The additional investment reflects our commitment to drive better resilience across our networks for Canadians. By the end of this year, we will have rolled out our 3,500-megahertz spectrum to over 30% of the population, with more to follow through the fourth quarter and into 2023.

Free cash flow of $279 million was down from $507 million last year, primarily as a result of the higher capital expenditures, higher interest on borrowings, including borrowings associated with the Shaw transaction, and the impact of the customer credits.

Turning to the balance sheet. We are in a very solid financial position as we prepare for the acquisition and integration of Shaw. At September 30, we had $3.7 billion of available liquidity, including $700 million in cash on hand and cash equivalents and a combined $3 billion available under our bank credit facilities. We also held $12.8 billion in restricted cash and cash equivalents that will be used to partially fund the cash consideration of the Shaw transaction when that closes.

Our debt leverage ratio at quarter-end, excluding the Shaw financing was 3.2 times compared to 3.4 times at December 31, 2021. As previously highlighted, we use adjusted net debt, excluding Shaw financing, to analyse our debt and cash balances as the senior notes, derivatives, and restricted cash and cash equivalents associated with the transaction financing have been issued for the specific purpose of funding the acquisition, which of course has not yet closed.

In August, we received consent from specific noteholders of $12 billion in bonds to extend the special mandatory redemption outside date to December 31, 2023. That was an extension of one year. We have also extended the commitment on our aggregate $6 billion of bank term facilities by one year to December 31, 2023. This funding will be used for the Shaw transaction and, with these extensions, we have ensured our financing remains in place should the transaction close in 2023.

As part of the agreement to extend the bonds special mandatory redemption date, we paid an initial consent fee to noteholders of approximately $520 million in early September and will pay holders an additional consent fee of approximately $260 million should the transaction not close prior to December 31, 2022. That second instalment will be made in early January 2023.

With these transactions, we were able to de-risk our financing obligations while also maintaining favourable terms ahead of entering a period of more volatile global capital markets and rising global interest rates. Our total weighted average cost of borrowings for all debt was 4.4% at September 30, and our weighted average term to maturity was approximately 12 years. I should note that 12 years reflects the five-year rate setting on our subordinated hybrid debt securities, for those trying to calculate the numbers.

In terms of our outlook, we are confirming our 2022 Full Year outlook, which we had revised upwards following our Q1 results. To this point, we have not seen any material impacts to our business associated with inflationary and other economic pressures. We continue to monitor the environment and feel we are in a strong operational and financial position to manage any potential changes to the overall economic or business climate.

As we look to the fourth quarter, we anticipate growth and profitability to continue across each of our businesses. In Wireless, we anticipate fourth quarter service revenue and Adjusted EBITDA growth to both be in the mid- to high single-digit range. In Cable, we anticipate both revenue and Adjusted EBITDA growth to be positive in the low single-digit range, and in Media, we anticipate revenue will continue to grow in the double-digit range as seen in prior quarters, and Adjusted EBITDA will continue to be strongly positive for the quarter and year.

Overall, our underlying Q3 results and Q4 outlook reflect better execution and financial stability as we prepare to come together with Shaw. Our teams remain committed to delivering ongoing improvements going forward. The fourth quarter will see the continuation of a full year of solid improved operating and financial performance, setting us up well for 2023 and as we look to close on the Shaw transaction.

With that, Ariel, can you please commence with the Q&A? Thank you.

Operator:
Thank you. Our first question comes from Vince Valentini of TD Securities. Please go ahead.

Vince Valentini:
Yes, thanks very much. Congrats on the good operating metrics in the quarter, excluding the outage.

The question I have is kind of two part on promotional activity in Wireless. First is, there's been some concern that September got a bit aggressive amongst all of the carriers, especially the flanker brands and wondering your perspective on whether some of that normal demand in Q4 in October may have got pulled forward into Q3, or do you still see similarly strong trends in gross and net ads in October so far?

Then related to that, your Wireless revenue, excluding service credits, of course, up 7%, sorry, up 9% and EBITDA, up 7%, normally we see positive operating leverage if service revenue growth is that strong. So, I'm wondering if that's a signal of maybe a bit of elevated spending on promotions or perhaps even handset subsidies in Q3?

Thanks.

Glenn Brandt:
I think starting with your second question, Vince, I think the difference in the growth between the revenue and the EBITDA is more just timing and lapping the quarters. I think if you look back in our third quarter prior year, that would explain the 7% versus 9% with a fairly strong third quarter last year. There's nothing in there that's particularly indicative of more aggressive promotional or activity that didn't flow through to the EBITDA in the third quarter of this year.

Glenn Brandt:

And then… sorry go ahead Tony.

Tony Staffieri:

With respect to the first part of your question, Vince, in terms of Wireless competitive activity, promotional activity in the third quarter, we saw a pickup in mid-August in terms of back to school, and I would say, I wouldn't characterize this year as materially different than what we typically see in prior years.

It did intensify in sort of early to mid-September in terms of some promotional activity, but again, I wouldn't highlight it as significantly different than prior years. As we head into the early parts of the third quarter, we're seeing the typical dynamic that you would expect that will start around this time. I don't know that I'd characterize it as necessarily a pullback into the third quarter.

Just to finish your question, Vince, I think you asked whether the size of the market in terms of gross and nets and how we're seeing that for the fourth quarter. It's still early, but our early indications are we continue to see overall growth that's in-line with what we saw in Q3.

Vince Valentini:

Thank you.

Paul Carpino:

Thanks, Vince. Next question, Ariel.

Operator:

Our next question comes from Maher Yaghi of Scotiabank. Please go ahead.

Maher Yaghi:

Yes, thank you for taking my question.

I want to just follow-on, on the question with Vince's question about the market dynamic in Wireless, and you indicated early on in Q3 the strength, Tony, in some of the conferences you did. Now, if you try to split it in term—when you look at gross loading in the quarter, very strong at 429, up from 303 last year. With immigration probably going to continue, how about the addition to gross closing coming from students that might not be continuing, let's say, in Q4, or Q1, or Q3?

I'm trying to just get an assessment of your view about the Wireless market. Has something different changed in the mobility and on the corporate side that is helping this growth? Because we're seeing it in the U.S. business and enterprise growth is really very strong right now. Is this the case in Canada right now?

Just a follow-on on the outage, are you seeing any delayed churn from the outage on your business and enterprise markets as these contracts come up for renewal?

Thank you.

Tony Staffieri:
Thanks, Maher. Two parts to your question.

The first relates to the elements of growth that we have been seeing and contributing to the overall Wireless size of the market and how we see it into Q4. There have been several factors that we've highlighted, clearly immigration has probably been the single largest. If you look at the trends on that as we work throughout the various quarters, it's actually on the uptick as we look to Q4. And so, that continues to grow rather than decline in total. There is some seasonality to foreign students attending classes here in Canada. As you would expect, there is a bit of a slowdown in that.

Then on the business and enterprise side, there is a pickup in that space that typically lags as we look at it historically, lags the population growth as businesses grow to serve that. We're seeing that picking up, and that will be a factor in the fourth quarter as well. We continue to keep our eye on inflationary and recessionary pressures more broadly and whether or not that is having an impact, and to date it does not, and we'll continue to watch that closely.

The second part of your question, Maher, if you could just repeat it, please?

Maher Yaghi:
Yes, for sure. Thank you for answering my question first.

I'm looking to see if you're seeing any delayed churn impact from the outage on your business and enterprise segments now, as contracts come up for renewal, what are the tactics you're deploying to keep those customers and not seeing them switch out?

Tony Staffieri:
The impact of the outage on churn was very isolated and very specific. If you look at our Q3 results, obviously very strong performance, and that really reflects the strength of our Wireless franchise and confirms that the impact of the outage was very isolated, as I said. As we look to, particularly in the back half of the quarter, our gross ads and our churn, as Glenn referred to in his opening comments, we were back on trends that we had prior to the outage.

As we look to the business sector in particular, we're seeing the same type of trends. There isn't anything that is alarming or of concern for us, and you ought to expect to see good churn levels resume on a consolidated basis as we look to our fourth quarter results.

Maher Yaghi:
Thank you.

Paul Carpino:
Thanks, Maher. Next question, Ariel.

Operator:
Our next question comes from Drew McReynolds of RBC. Please go ahead.

Drew McReynolds:
Yes, thanks very much, and good morning.

Quick follow-up from the last question, just in terms of Wireless activity. I guess, Tony, how much do you see in terms of, I guess, Canadian going from one to two devices? Is that a factor here in and above kind of prior years?

Then secondly, something we really haven't talked a lot about, but you did allude to having the biggest unlimited subscriber base in Canada, and obviously through that migration you've talked about the simplicity dividend. Maybe just speak to some of the characteristics of that simplicity dividend that you're seeing through the results today. Thank you.

Tony Staffieri:
Thanks, Drew.

In terms of factors that are contributing to the increase in size of market for Wireless, secondary devices continues to be one of the factors. We did mention it at the outset, only because relative to the other factors, it's much smaller, but certainly continues to be a factor. To some extent what we are seeing is a bit of substitution, and frankly, it's at the margin of secondary SIMs on the same phone, and that replaces the need for a secondary device. But again, that's very much at the margin and in early stages, but we expect that trend to continue, similar to what you see in the U.S. market.

In terms of the dividends, we see from customers moving to unlimited plans. We're seeing all the things that we expected and hope to when we launched unlimited plans several years ago. In addition to improved ARPU, which is really driven on the back of increased usage, and we shared some of the numbers on that, most of those customers are coming through with much better what I would describe as overall customer experience and cash flow performance.

If you were to look at the number of customer outreach to us, in terms of whether it's billing or any other issues, they are more than half—less than half of what they otherwise are for the entire Wireless base. So, very good customer experience from that standpoint. If we were to look at cash flow in terms of those customers being on some type of auto pay and/or because they have very few billing issues pay their bills earlier, and so that contributes to the overall cash cycle time. Those would be the two biggest benefits, a number of other ones that we have highlighted in terms of lower operating costs for those customers, but really captured in those two fundamentals.

Drew McReynolds:
That's great. Thank you.

Paul Carpino:
Thanks, Drew. Next question, Ariel?

Operator:
Our next question comes from Matthew Griffiths of Bank of America. Please go ahead.

Matthew Griffiths:
Good morning. Thanks for taking the question.

I just was hoping to get a little more colour on the Internet net ad performance in the quarter. Obviously, you mentioned impact early on from the outage, promotional intensity from competitor, but I was wondering was a lot of the diminished performance versus a year ago due to a change on the consumer side or was it more focused and isolated to the business side in this quarter? Any kind of colour would be kind of interesting if you could give it.

Then just in the MD&A, you mentioned that you're doing upgrades to your DOCSIS 3.1 platform to evolve to DOCSIS 4.0, so I was wondering what are you—what kind of work are you engaged in to prepare for the 4.0 upgrade down the road?

Thanks.

Glenn Brandt:
Thanks, Matt. Let me start with the first part of the question.

In terms of the competitive intensity in the quarter and the net ads, I think really the two things you saw are the obvious ones. There was the isolated impact of the outage, which was maybe a little bit more pronounced for Cable than Wireless in terms of impact. I think that largely because of the second element, which is, it was a very intensely competitive market through the quarter.

I think that was our national competitor being opportunistic with the outage early in the quarter and working-off of their platform of heavy capital investing in their footprint. I think you saw both of those reflected in the quarter. We were measured in our response and we're trying to balance the attention to customer service, holding our customers, dealing with the impact of the outage through that, but also being mindful of the go-forward with our margins and being conscious of the economics.

As I said, we tried to be measured and balanced. That competition is continuing into the fourth quarter in terms of both companies actively pursuing customers. But we're being careful to hold customers and to compete for them. As we go through the fourth quarter, I expect we will have stronger results going forward.

Tony Staffieri:

In terms of the second part of your question, Matt.

It's probably worth highlighting as we think about and talk about DOCSIS 4.0. We really operate hybrid network. We've been deploying fibre and have accelerated our fibre deployment of late, but we've been deploying it over the last 10 years. More and more of that fibre we're moving to passive optical. That allows us to increase the speeds, and you saw us announce 8 gigabit speed symmetrical, and that's an example of what you see on the pure fibre network.

In places where we have coax, that's where we're performing the upgrade to DOCSIS 4.0. In terms of specific initiatives, we're working hand-in-hand and in lockstep with Cable labs and our peers in the U.S. and in the industry here in Canada, and what you see as part of that 10G initiative are tests that clearly indicate the speed capability there.

It's important when you step back and you look at our hybrid network, we're confident and proud of the leadership that we have across our entire footprint in terms of network performance. Across our entire footprint, we offer a minimum of 1 gig of speed, and in a lot of places that's 1.5 gigs of speed. As I mentioned in some markets, it's even higher than that.

We'll continue to invest in network and ensure we have network performance leadership that is not only competitive and/or leading against our primary competitor, but secondarily well ahead of the customer requirement curve, notwithstanding those top capacity speeds that I talked about. The average customer in our base sits at speeds of 300 megabits per second, and it's growing, and we're prepared for that growth.

Matthew Griffiths:

Thank you very much.

Glenn Brandt:

Thank you, Matt.

Paul Carpino:

Thanks, Matt. Next question, Ariel.

Operator:

Our next question comes from Sebastiano Petti of JPMorgan. Please go ahead.

Sebastiano Petti:

Hi. Thanks for taking the question.

I just want to see if you can comment on the trends in Cable EBITDA. Obviously, first quarter was very strong, second quarter as well, but if you look at the underlying EBITDA growth in the third quarter, as well as what you're guiding to in the fourth quarter, I mean, it would imply slower top-line versus what you had been seeing, I think earlier on, as well as higher OpEx. You’ve talked about investing in the customer experience for the better part of the year, not necessarily being as promotional as maybe some of your peers.

Can you help us unpack what is going on there? I mean, the first half was very strong, but it seems as though—and wasn’t sure if there’s any comps or anything we should be keeping in mind in the back half that has been driving the lower underlying growth in the segment.

Glenn Brandt:

Thanks for the question, Sebastiano.

I think, again, you're seeing us lapping as we move through. The recovery coming out of COVID had started before we got into 2022. The first half of this year we were lapping quarters that were maybe a little bit more affected, and then coming through in the third and fourth quarter as we've moved through, I think you've seen a little bit more growth in activity.

There is some of that that's more pronounced maybe in Wireless than in Cable, but it affected Cable as well as we went through COVID, some of the customer relocations through COVID coming back as we move through the second half of 2021 and into 2022. You're seeing some of that. You're also seeing a competitive market. We saw more competition in the third quarter, and that's continued in the fourth quarter from what we had seen in the first half of the year.

We're responding to that, but there were a few different elements at play. On the margin, I think there is still significant growth ahead, but you are seeing more tempered growth rates within Cable certainly than you're seeing in Wireless.

Sebastiano Petti:

Just as a quick follow-up. That makes a lot of sense. Thanks, Glenn.

Just as a quick follow-up to that. Obviously, lots of focus on the broader macro inflationary environment. You were asked about it at the September conferences, but what if anything, are you seeing in terms of inflationary pressures, and I don't want you to—across the enterprise? Anything you can comment about advertising to your other kind of customer—other kind of cost to service, etc.?

Thank you.

Glenn Brandt:

I think, we're seeing just broadly, and some of this is anecdotal, across the economy, some of it we are seeing within the Company. We see pressures on wage levels within the economy. Certainly, the impact of rising gas and food prices on people's pocketbooks are translating as people come back to the office. We're seeing more gas consumption with commuting, although commuting is still a work in progress for us as well as broadly, I think, globally. But there are some inflationary pressures on wages as a result.

We're not seeing it internally to a material extent, Sebastiano, but certainly we're conscious of that impact on people's pocketbooks. We're watching the impact that has on our receivables, collections, and time to receive. Again, the signs of it so far have been I would say muted or very modest, not material, but we're aware of those pressures.

I think as we move into the winter season, and the impact on gas prices that I'm expecting because of disruption in supply in Europe and globally, that's going to have a rising impact on gas prices, which will have a rising impact on people's cost of living. I think you're going to see those pressures continue. We're managing them.

On supply chain side, we've been managing supply chain pressures coming up on three years now. It's an ongoing balance between price and schedule to delivery. Truthfully, I'm not seeing really a significant change in that from what we've been managing over the last couple of years.

Sebastiano Petti:
Thank you.

Glenn Brandt:
Thank you.

Paul Carpino:
Next question, Ariel?

Operator:
Our next question comes from Simon Flannery of Morgan Stanley. Please go ahead.

Simon Flannery:
Great. Thank you very much. Good morning.

Coming back to your comments on churn, I think you obviously talked about some of the pressures from the outage potentially abating, but anything going on in terms of involuntary churn? I know you're a little bit concerned about the macro into next year, but how is the consumer at the low end in terms of payment patterns and so forth? What do you expect there?

Then on fixed Wireless, obviously, it's a different setup in Canada, but the U.S. has seen some strong uptake there. How are you thinking about fixed Wireless as a tool in obviously rural areas, but also areas where you don't have Cable plant? Thanks.

Glenn Brandt:
Thanks, Simon. Let me start with the first, and then Tony will take the second part on fixed Wireless.

In terms of the impact on churn, voluntary or otherwise, we're not really seeing an impact. We've been managing churn through frankly managing our improvements in customer service. So that's where we are focused. There's really no impact on involuntary churn as a result of any economic or otherwise pressures.

Tony Staffieri:
Simon, in respect to the second part of your question, in terms of fixed Wireless access.

The addressable for our market is much less than what it is for our primary competitors and/or in the U.S. The reason for that is, given our dual network of Wireless and extensive Cable network, which I earlier talked about, is fibre and coax. We have a competitive advantage in the markets we serve with that type of network. So fixed Wireless access is really an augment for largely for us rural areas where we don't have network or don't have it yet.

We've talked about in previous calls, about expanding and investing more into expansion of our network and that will substitute the need for fixed Wireless access, because it is more cost effective, but for us, for those reasons, it remains a somewhat limited opportunity.

Simon Flannery:
Great. Thanks a lot.

Paul Carpino:
Great. Thanks, Simon. Next question Ariel.

Operator:
Our next question comes from Tim Casey of BMO. Please go ahead.

Tim Casey:
Yes, thanks good morning. Maybe a couple of roadmap questions for me.

First one, just following up on the DOCSIS 4.0 discussion, can you get any—put any goalposts around when you think you might be putting that in service? In other words, when you think it'll be out of the lab and be ready for deployment?

The other one would be on Wireless. I think you mentioned you'll have 3,500 deployed across 35% of the population by the end of this year, just wondering if you could expand what your targets would be beyond the end of this year, and how we should think about capital intensity with respect to that rollout? Is it in the envelope (phonetic 45:41), or are you going to—should we expect a little higher intensity as you finish up 3,500? Thanks.

Glenn Brandt:

Thanks, Tim. I'll start on the second part.

In terms of the rollout, you're going to see a continued pace of rolling that out in I would say balanced or measured manner, we're not rushing this out there to try and do anything other than prudent investment. You'll see a continued pace through 2023. I'm not going to put any intensity or guidance around that for our 2023 capital spend, but we've been rolling it out on a balanced approach, starting with the busiest markets and just scheduling the resourcing. It's ongoing. This is a long-term rollout, not one that we want to be there by a certain quarter in 2023 or otherwise. It'll be measured. We'll continue at pace as we move through 2023.

Then, in terms of—remind me on your first half, Tim. (Multiple speakers 47:00)

The DOCSIS 4.0. I think, again, I'm not going to predict the timing. We'll roll that out with the developments. It's coming in the next year or so, but we will make sure that the technology is working. Our plan works extremely well now, our hybrid fibre coax. We continue to upgrade it ongoing. When DOCSIS 4.0 comes out, say in the coming year or so, we will roll that out when it's proven, and deliver it to our customers, but no specific timeframe on it.

We continue to invest in fibre and Cable uplift in servicing our customers and in investing in customer service. Our plant at 1 gig is far beyond the 300-meg service that most of our customers are taking on average. We've got plenty of headroom to roll that out as capabilities and opportunities present.

Tim Casey:

Thank you.

Tony Staffieri:

I'll finish that off, Tim, and answer your 3,500 question.

I'd summarize. Glenn has covered half the points on DOCSIS 4.0, but expect us to continue to be at the same pace as our U.S. Cable peers, and if anything, fast, fast follow, only because of the CPE issues and supply constraints that are out there for CPE that, again, are at the margin, but it'll be in-line with the industry and, as I said in my previous comments, well ahead of what the market needs in terms of competitiveness. We're comfortable with that roadmap.

Then the second piece relates to Wireless 3,500 deployment. We'll continue. We were very aggressive to deploy it as soon as it became available this year. As we deploy it into the fourth quarter in 2023, you can expect us to continue to push hard in terms of that deployment. Keep in mind on 3,500 for maximum effectiveness, it's a combination of deploying small cells at the same time. I would say, it's the spectrum deployment and the small cell deployment that are on a rapid pace.

As Glenn said, not something we necessarily want to provide an outlook on, but you see it in our CapEx trajectory. That's one of the primary factors of where that money is going.

Glenn Brandt:
Where there is strong emphasis is on devoting our capital intensity and our capital spend directly to network infrastructure to expand service and improve the capacity and capability of the networks. More of that capital intensity is being devoted specifically to Wireless and wireline network infrastructure across the board.

Tim Casey:
Thank you.

Paul Carpino:
The next question, Ariel.

Operator:
Our next question comes from Stephanie Price of CIBC. Please go ahead.

Stephanie Price:
Hi, good morning.

Just following on Tim's question on the 3,500 deployments, just curious what you've seen in terms of an uptick in customers moving to higher tier plans once you've deployed the 3.5 spectrum and introduced 5G plus?

Glenn Brandt:
I think the uptick is ongoing in terms of what you see and customers signing up for unlimited plans. Whether or not it's specifically a result from the deployment of 3,500, whether or not it says people leave their home Wi-Fi environment and come back to work, come back to school, there are a few different causes. I think we are putting it out in our busiest markets first. That's also where you would see the higher uptick first, but there's a blending of cause and effect there.

Stephanie Price:
That's fair. Then just a follow-on on the demand environment. Just curious if you've seen any read-throughs from iPhone sales or (inaudible 51:06) that could suggest more of an uncertain economy and more of an uncertain customer spending pattern?

Glenn Brandt:
No. I think we've seen a busy third quarter. We will see a busy fourth quarter, competitive and busy. The economic headwinds that we see in the Media, we're aware of them. We're watching for them. Certainly, from a treasury standpoint, we manage foreign exchange risk. We manage interest rate risk, but from the actual economic impact, you're seeing businesses here that are growing, and we are investing in the growth. We're aware. We're watching. But no, there's no read-through in terms of any particular device or activity level, not to this point.

Stephanie Price:
Great. Thank you.

Paul Carpino:
Next question, Ariel?

Operator:
Our next question comes from Jerome Dubreuil of Desjardins. Please go ahead.

Jerome Dubreuil:

Yes. Thanks for taking my question.

The first one, there have been reports on delays for the iPhone this year. I know it seems that we've had similar headlines in the last few years with limited impact on your business. Wondering if you're seeing anything on that front at this time, if we've been possibly be seeing an impact on ARPU with higher-end customers were to not update their devices.

Then the second one is on an update on 5G. There's the base on the top line impact, but as you roll-out 3,500, mostly interested in the cost side of the equation, if you can provide more colour on this some of the learnings you have made in the recent tasks regarding the cost savings related to 5G cost.

Tony Staffieri:

Thanks, Jerome.

On the first one, just to be very clear on it. We have not had iPhone supply issues to any material extent. Our demand and our drive on unlimited has not been hampered by device limitations. I think that's good and that continues as we look to the fourth quarter in our expectations. We don't think that's going to be a factor.

Then in terms of 5G cost, as you think back to several years ago on rollout of 5G, I think as you look to the cost structure in absolute dollars, I don't know that I would necessarily suggest that it’s a material come down. What you do see is, on a cost per transport or cost per gig to transport, it certainly is materially coming down. So, for the same money, you carry a lot more data and other functionality in terms of latency and a few other things. That's the real benefit of it. When you marry that with slight cost increases for a number of factors, combined with how we are seeing and expect to see it to continue to drive ARPU, I think it suggests a very robust model for Wireless financials.

Jerome Dubreuil:

Thank you.

Paul Carpino:

Great. Thanks, Jerome. Next question, Ariel?

Operator:

Our next question comes from Aravinda Galappatthige of Canaccord Genuity. Please go ahead.

Aravinda Galappatthige:

Good morning. Thanks for taking my question.

I'll just follow-up on that ARPU point that you just discussed. Obviously, ARPU in the industry continues to be quite robust. I wanted to get a sense of how you see the outlook from here on? Roaming, maybe if you can just touch on how much more sort of running room there's in terms of tailwinds there. I know that you're already well above pre-pandemic levels.

Then more broadly, I know that early in the year, there were some price adjustments. In an inflationary, sort of backdrop, do you feel that you would have a little bit more leeway in terms of adjusting pricing positively as you look to 2023 as well? That can potentially supplement, sort of the tiering up that you're seeing because of 5G and so forth. So, that's on ARPU.

Really quickly on Cable CapEx. I just wanted to come back to that. Any kind of commentary that you can provide on sort of the longer-term market for Cable CapEx? It sounds like you want to kind of maintain CI at sort of the mid- to low 20s levels, but what are the prospects of maybe tapering that down into the teams? Is that maybe more than a couple of years away?

Thanks.

Tony Staffieri:

Aravinda, why don't I start with your question with respect to price dynamics and the contributor to ARPU, then you had specific ARPU and Cable CapEx that Glenn will pick-up on.

I would say, in terms of some of the factors, I think what you were suggesting is, given the inflationary environment, is there the opportunity for price increases? I just come back to the fundamentals that our Wireless industry here in Canada is extremely competitive, and price increases, just to be practical, I just don't see it as something that we can look to.

It's interesting when you look at CPI here in Canada. Wireless is one of the very few that was not a contributing inflationary factor in Canada. What we're focused on is trying to drive ARPU through real value delivered to the customer. We've talked about the reasons for that data usage is one, and they'll continue to be more evolution of the value proposition for the customer, but we're looking to earn that ARPU growth through that value proposition.

Glenn Brandt:
Then specifically on your question around roaming and the path for any further growth there.

There're two elements of the roaming. We're sitting at about 130% of the pre-pandemic similar Q3 levels on roaming revenue. That 130% is made up of volume where we're still running below the travel volumes, the roaming volumes that you would have seen pre-COVID. We're running probably at about 80%, primarily consumer, travel through the third quarter.

The business travel and you've heard me say this, previously, Aravinda, but we're still trying to figure out how to come back to the office, let alone get back on airplanes. So, business travel relative to pre-COVID is still muted. Consumer travel, there was a busy summer season, and that's reflected in the third quarter. You also see the impact of price increases that we had brought in, and changes to the plans in terms of how those are rolling through. That's the second part of that 130% of revenue. Going forward, you're going to see a continued growth in business travel.

I think you're probably also going to see in the coming quarters some impact from the economic headwinds that will temper maybe business travel over a longer period than otherwise, and will probably temper some of the consumer travel. Overall, though, I think you're going to see roaming continue to have a favourable impact.

On ARPU, you also see the impact of larger unlimited plans being sold and that rolls through as well, particularly as people leave their Wi-Fi home spots and come back on to the office or school.

On our Cable capital intensity, we have focused two key priorities in setting our capital spend levels. We're prudent in how we manage the capital and monitor those capital intensity levels, but we are focused on improving customer service and investing in network infrastructure. So, you are seeing us move more to investing in hard infrastructure with our capital spend, both wireline and Wireless.

Yes, you've seen that capital intensity level stay up in the low to mid-20% range through this quarter and I expect you'll see that for some quarters to come. That will temper over time, but we have some significant investment to make still in our Wireless and wireline assets. We will be making investments as we come together in Shaw with the integration of that. We'll be mindful of how that is spent and it will be dedicated to, as I said, customer service and the strength of our networks and the resilience of our networks. That will continue for a bit yet.

Aravinda Galappatthige:
Thank you.

Paul Carpino:
Thanks, Aravinda.

Ariel, we have time for two more questions.

Operator:
Certainly. Our next question comes from Batya Levi of UBS. Please go ahead.

Batya Levi:
Great. Thank you. Couple of follow-ups.

First, can you talk about, if you're seeing any change in customer demand for bundled, Wireless, and broadband products maybe driven by promotional savings or convenience for the customer?

Second, you alluded to it a little bit, but wanted to ask it directly. As you think about the cost structure, both in terms of OpEx and CapEx, is there any residual impact from the outage that should drive higher expenses as you plan for next year?

Thank you.

Tony Staffieri:
Batya, two parts to that. I'll start with your question on what we're seeing in the market in terms of bundle.

I would say, there is no material pickup in terms of bundle. Consumers for the most part are choosing their Wireless and Cable or wireline products separately. There always has been and continues to be a bit of that, but we don't see any material change in terms of bundle constructs in the market. When it's there, it's largely driven by promotional incentives only. From a product standpoint, there's little, what I would call, product integration still in the market. That's one of the primary reasons it continues to be somewhat separate.

Glenn Brandt:
Then, Batya, on your question on OpEx and CapEx and whether or not there's any pressures from the outage on those.

The outage impact on our revenue and OpEx from the customer credit standpoint, that passed early on in the quarter and was isolated to that point. As I've mentioned in my earlier comments, it is a competitive market, particularly in wireline where we are seeing competition coming from our national peer. That's ongoing.

We intend to compete for market share, just as we do in Wireless, but that's different from the question you’ve asked. It's not outage related, it's market related. It's seasonal, and it's ongoing, and they've always been competitive markets.

On CapEx pressures, we have some, as I said, we have increased emphasis on network resilience and infrastructure in our capital spend, but it's within our capital spend envelope that we manage as we have previously. We're not adding material amounts to our capital spend to create that headroom. We year-in, year-out, set our priorities. So, our 2023 levels without giving guidance for where 2023 is, but you will see that balance continue where we will have priorities emphasizing our network infrastructure, network resilience and customer service in how we prioritize the 2023 spend.

Batya Levi:
Got it. Thank you.

Paul Carpino:
Thanks, Batya. Last question, Ariel.

Operator:
Our final question comes from David McFadgen of Cormark Securities. Please go ahead.

David McFadgen:
Great. Thanks for squeezing me in.

Just an additional question on the roaming revenue. You said that the roaming revenue is about 130% of what it was pre-COVID, volume is at 80%, I was wondering if you could give us what the volumes are for consumer versus business? I don't know, I think that as you talk about there could be a reduction in the consumer volumes just due to, I think there was pent-up demand for travel this year and maybe some impacts from the macroeconomic environment. I was just wondering where do we stand on the volume with respect to consumer and business?

Thanks.

Glenn Brandt:
Sure. David, thanks for the question.

I think take my comments as being more indicative of presumed direction, rather than any themes that we're seeing. We have been through a couple of busy quarters of pent-up demand on the consumer side. I think everybody as we came out from COVID was screaming for the doors trying to get out from their house, and so you saw some of that on the consumer side.

I suspect there were other CFOs out there like me that, on the business side, I was quite comfortable with the lower travel and entertaining expenses over the last couple of years, and I'm looking to sustain that a little bit longer. It's a theme that's more on the margin rather than deep seated.

There is more business travel in this quarter than there was in the prior quarter. There will be more in the fourth quarter than it was in Q3. There will be more in Q1 than Q4, I suspect, other than seasonal differences. It continues to build and grow as we come out from COVID. I do expect that the economic headwinds, again, will have some directional impact, but we're not seeing it really. We saw more business travel in this quarter, as I say. The signals we are seeing is growth in consumer and business. Consumer responded earlier than business. It doesn't mean business is not growing. It just means that there was a little bit of a lag.

I'll leave it there.

David McFadgen:

Okay. All right. Thank you so much.

Glenn Brandt:

Thank you, David.

Paul Carpino:

Thanks, David, and thanks, everyone, for joining us on the call today. If there's any follow-ups, please reach out to us. Thank you.

Tony Staffieri:

Thank you, all.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.