Q1 2011 Results Conference Call

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Operator

Please stand by, your meeting is about to begin. Good morning ladies and gentlemen. Welcome to the BCE's First Quarter 2011 Results Conference Call. I would like to turn the meeting over to Mr. Thane Fotopoulos, please go ahead, Mr. Fotopoulos.

Thane Fotopoulos, Head of Investor Relations, BCE

Thank you Donna, and good morning to everyone on the call. Our call today, as you all know, will focus on BCE's Q1 results that were just issued earlier this morning, and as usual, I'm joined here today by our CEO George Cope, and our CFO Siim Vanaselja. The release, along with our supplementary financial information package and slide presentation, are all available on BCE's website.

The following review of the slide presentation by George and Siim we'll move to Q&A and answer as many of your questions as time permits. Because we are holding our Annual General Shareholder's Meeting this morning, which begins at around 9:30, we're going to end this call earlier than usual, just before 9am, so please be aware of that.

However, before we begin I'd like to remind you that today's remarks will contain forward-looking statements with respect to such items as revenue, EBITDA, adjusted EPS, free cash flow and capital intensity. Several assumptions were made by us in preparing these forward-looking statements an d there are risks that our actual results will differ materially from those contemplated by the forward-looking statements. For additional information on such assumptions and risks, please consult BCE's 2010 annual MD&A, as updated in BCE's Q1 2011 MD&A and BCE's press release dated May 12th, 2011 announcing its financial results for the first quarter of 2011. All of these are filed with the Canadian Securities Commission and with the SEC and are also available on our website. Any forward-looking statements made by BCE represent our expectations as of May 12th, 2011 and accordingly are subject to change after such date. Except as may be required by Canadian security laws, we do not undertake any obligation to update any forward-looking statement whether as a result of new information, future events, or otherwise; and I am making this cautionary statement on behalf of both George and Siim, whose remarks today will contain forward-looking statements.

So with that behind us, George, I'll hand it over to you.

George Cope, Chief Executive Officer, BCE

Great, thanks Thane. Good morning everyone, and thank you for joining us this morning. I am going to start on slide four, Continued Progress. Let me start there and say that we had, we believe, from Management's perspective, an excellent first quarter driving towards all of our 5 Strategic Imperatives. I think the highlights of the quarter being the early completion of the CTV acquisition and a very strong first quarter for wireless consistent with last year's post-paid net adds. They continue to roll out of the Fibe TV footprint and the continual imperative on cost management helping to drive our EBITDA growth to 6.4 percent EBITDA growth year-over-year and our best EBITDA results in over eight years.

Turning to page five, wireless had another strong quarter. We continue to grow the business and meet our expectations in terms of market share with our focus, as I said, on the call last quarter, continuing to be in the postpaid market where clearly the profits are the ARPU are and the EBITDA growth is. 81,000 postpaid net adds, continuing to achieve our target of market share that's representative of the position we believe we should have in the marketplace, considering we see the acceleration of smartphone penetration enabling us to drive ARPU growth year-over-year of 3.2 percent and growth in our data revenue of 38%. You will of course note that our COA has increased year-over-year and that's really driven by the mix of postpaid customers taking more and more smartphones. You'll note also we have aligned our method of calculating COA with our competitors in the industry in COM to make it easier for the analyst community to compare those numbers. So our focus continues on postpaid and moving in the right direction and particularly Siim will talk about the financial performance, which we're very pleased with on wireless.

Turning to the next slide, as everyone knows, one of the important parts of driving the turnaround of Bell Mobility over the last couple of years has been the investment we made in HSPA+ and the leadership there that we pursued with the new network. This morning, we are announcing that we will have LTE available in certain markets in 2011. It's also worth noting that the rural footprint expansion of LTE will be contingent upon 700 MHz availability, and again all this buildout in '11 and as we go forward into '12, will be accommodated within our capital budget this year and within our 16 percent capital intensity as we go forward also into 2012. So look for us to launch certain markets for LTE this year.

Turning to slide seven, continual improvement in our NAS lost line trajectory. I think that's been one of the continual discussions we've had with the analyst community, can we continue to see that benefit and we have again with the NAS losses coming in at 59,000 in the first quarter this year versus 100,000 in the first quarter last year. So again, continuing to see the benefits of the other services in the home we're offering, competitive attention on the business side is always there but it was nice a positive growth there. Part of that helped by wholesale net adds, and most importantly it's the best wireline voice performance we had in almost six years with a decline in voice revenue of just 3.5 percent in the first quarter.

Turning to Bell TV, strong quarter on revenue growth of 7.5 percent, ARPU growth of 4.4 percent. We continue to ramp up Bell Fibe TV, interesting for us early on that 30 percent of the customers taking Fibe TV are bringing all three products with them to Bell. The footprint is now just over 800,000 households and we're on track for our targeted number at the end of the year of two million households. In terms of the growth in net adds, we've clearly seen increased competition for the satellite business in Western Canada and in the Atlantic territory, with the growth of IPTV that we've seen and the competitive intensity in those markets, and so what we thought we would do here is also make sure that the Street understands that in Ontario and Quebec we had net adds of 12,000 in the first quarter, driven principally by the early growth we're seeing at Fibe TV.

Wholesale net adds were flat year-over-year. We continue to benefit though, we think, from the execution of Telus in the TV business in the West and that's clearly important, and it was flat for us year-over-year. And so the intensity on the competitive side in the West is really what drove the 8 net adds, whereas the Ontario and Quebec 12 net adds represents some of the early growth we're seeing in Fibe TV. Obviously the financials on TV were excellent and continued to drive significant revenue growth for the Organization.

Turning to the next slide on the wireline data side, residential wireline data we had a very strong quarter. Internet ARPU up 2.3 percent, net adds up year-over-year principally driven by Fibe Internet and the pull-through of Fibe TV. And so we're continuing to see a reduction in churn on the Internet side, really happy with that part of the business from a residential side. On the business market side, not the same results. Business data product revenues, so product revenue we have that in part of our data numbers as well, was much lower year-over-year, principally due to the Xwave acquisition, which we have in last year's numbers but there was a soft quarter in terms of hardware sales there, and also $17 million less revenue year-over-year on the business side that was one time for us in the Olympics last year. So, overall, the business side continues to be softer than we would like, and on a consolidated basis we're pleased with the data growth on the consumer side.

Turning to slide 10, as everyone knows we did close the CTV transaction a quarter earlier, we've rebranded it Bell Media, we've introduced a number of new services. Most importantly, when we announced the acquisition we said it would be financially accretive this year, and you can see here that we're expecting an adjusted EPS of $0.07 per share for the first nine months of ownership of the asset this year. And I think most important from a value perspective for our shareholders is the acquisition price, which was announced at 9.6 times last 12 month EBITDA at the time of closing it's actually moved into 8.2 times trailing EBITDA and that's because of the strong performance that we continue to see in the new Bell Media assets. Also for our shareholders, we are in the midst at the moment of renegotiating new rates for TSN and RDS from our customers being obviously the distributers of our product, and this is the first rate increase that has been done in 10 years and at the moment, our product is priced below that of our competitors in that space. So we think that also over time will be potential upside.

Turning to slide 11, early on we have launched some new mobile TV services. We continue to believe and are really excited, particularly with the size of the screens now with the tablets, this area of growth is going to continue to be important. Bell Media's offering packages on commercial terms to all Canadian wireless providers now and it has access to TSN. You can see BNN, CTV News, and it's over to those companies to decide if they want to distribute those packages or not. We have launched them at Bell Wireless, and we think it's a really unique method of pricing because it ensures that the consumer knows how much they're using. In other words, data is really tough thing for a consumer to understand how many hours of TV they're watching, it's not intuitive, so we've priced video as a separate product in our portfolio. Mobile sports for $5 a month for 10 hours. Mobile TV and the variety of news and you can see here you can do the combined at different prices. We're seeing great growth early on in this, we're adding over 2000 customers to Mobile TV on a weekly basis, and we're really excited about this as we go forward, as a differentiator in the market or a great value offer for Bell Media to the other wireless competitors.

So in summary, strong wireless quarter for the company certainly in the competitive environment we're in and most importantly achieving that 40 percent margin and EBITDA growth, which Siim will talk about. Wireline trends: the right direction on NAS erosion, and some positive numbers on Internet and revenue in TV and Fibe TV growing out and really obviously excited about that opportunity given the numbers we're seeing in Western Canada and so the faster we get that footprint out, the happier we'll be, quite frankly. Cost management continues to drive up EBITDA growth, investment in broadband everyone continues to see, and the CTV acquisition allows us to continue to execute our four screen strategy in the markets. And as everyone knows, provides us access to contents to compete with our other competitors in the marketplace who we buy all of our content from today, or would have without the acquisition of CTV.

And then just to summarize, obviously we're very optimistic about the outlook for the company with the increase today in the EBITDA EPS guidance as a result of the CTV acquisition. So we've announced an increase in our dividend earlier than we had anticipated and really the reasons are the early close of the CTV acquisition, the acquisition price is maybe the best way to show how positive we are at 8.2 times EBITDA versus 9.6. We've just completed our strongest quarter in eight years on the back of, we believe, excellent wireless growth and ILEC cost reductions. We've increased EBITDA and EPS guidance today and the increase we believe is absolutely important that we remain consistent with our capital market strategy and this new dividend as a payout is expected to stay below the midpoint of our payout ratio and ensures that BCE does not go below our payout ratio, if we hit the high end of our guidance. So we're really pleased to announce this increase for our shareholders, and couldn't be a better day given that it's our Annual Meeting.

And with that, let me turn it over to Siim. Thanks everyone.

Siim Vanaselja, Chief Financial Officer, BCE

Thanks George and good morning everyone.

So we began the year with all our business segments well structured and well positioned for growth, and I'd say our first quarter results show that we're off to a good strong start in 2011.

As George said, Bell's operating performance was highlighted by industry-leading wireless postpaid subscriber acquisitions, growing market traction for Bell Fibe Internet and Fibe TV, continued improvement in NAS line losses and higher ARPU across all our consumer product lines.

As you see on slide 15, all of this contributed to good service revenue growth, significantly higher EBITDA growth, year-over-year margin improvement and pretty attractive growth in Adjusted EPS. Service revenue growth at Bell this quarter was 1.8 percent. That was driven largely by strong wireless and TV revenue growth of 9.2 percent and 7.5 percent respectively. Higher residential Internet revenues also contributed to the year-over-year improvement.

Overall top-line growth was moderated a bit by softer business revenues in the first quarter. Our EBITDA grew 6.4 percent and margins improved two percentage points year-over-year, really representing our best performance in eight years, and this was driven by stand out wireless EBITDA growth of 12.2 percent, even with higher smartphone activations and customer upgrades, as well as the realization of meaningful wireline cost savings.

CAPEX accelerated this quarter on broadband fibre deployment and network conditioning in support of IPTV. We also increased investment in client care support systems and self-serve tools, as well as network capacity to accommodate increasing wireline and wireless data consumption.

Adjusted EPS, which is before severance and acquisition costs and net of gains on investments, increased $0.11 per share versus last year. That mainly reflects the benefit of higher year-over-year EBITDA.

We generated free cash flow of 265 million for the quarter, which was on track with our plan, but $295 million lower year-over-year and that's essentially a result of the mandated customer rebate payments this quarter from Bell's CRTC deferral account balance.

And lastly, as anticipated, the change-over to IFRS has had little impact on our P&L or our key operating metrics for 2011.

So with that overview, let me turn to each of our segments beginning with wireless on page 16. Wireless revenues grew 9.2 percent reflecting the positive flow-through of postpaid acquisitions last year, as well as continued strong data revenue growth of 38 percent. Smartphones represented 55 percent of postpaid gross activations this quarter and that contributed to wireless ARPU growth of 3.2 percent, representing a fifth consecutive quarter of improved ARPU. This was achieved, even as voice ARPU continues to be affected by competitive pricing pressures.

Wireless product revenues were also higher in the quarter, up 15.1 percent, reflecting higher year-over-year smartphone sales and upgrades. Wireless EBITDA was a highlight in the quarter growing 12.2 percent and yielding a revenue flow-through to EBITDA 54 percent. This improved flow-through resulted in margin improvement of 1.3 percentage points, bringing our margin to 40.3 percent, and after spending $28 million more in the quarter on customer retention. So I'd say a good, strong start for wireless.

Turning to wireline, our Residential Services Unit maintained good performance trends, with higher year-over-year TV and Internet revenue driving top-line growth of 0.5 percent. That mainly reflects customer upgrades to higher priced TV programming packages, growth in Fibe Internet customers, and the impact of price increases. We delivered our best wireline voice performance in more than six years, as our local voice and long distance revenue erosion improved to 3.5 percent from an average quarterly rate of 7 percent in 2010. This reflects 41 percent fewer NAS line losses year-over-year, more win backs, and increased home phone bundle penetration. Also, higher revenues from increased global long distance minutes contributed to the improvement.

Our Business Markets Unit reported lower revenues this quarter, given last year's upside from the Olympics, as well as lower customer spending on hardware and connectivity. Business NAS net additions however were positive in the quarter, and that's hopefully a good sign going forward.

Wireline EBITDA grew a healthy 4 percent and margin expanded to 39.1 percent, benefiting from strong TV and Internet performance, lower voice erosion, and $90 million of reductions in operating expenses. Those cost savings were realized from the year-over-year decline in Olympic related expenses, as well as lower labour costs, the elimination of capital taxes, and productivity initiatives in field operations and call centers.

Moving to slide 18, Adjusted EPS increased 18 percent to $0.72 per share, that strong growth came primarily from three areas. First, mostly from higher EBITDA, second from lower net pension financing costs, and third from some tax upside as a result of a 2 percent reduction over the statutory tax rate that came into effect for 2011, as well as the earlier than expected resolution of one uncertain tax position this quarter. So in terms of where we are in term of tax recoveries, we had $0.03 of recoveries per share this quarter compared to $0.02 per share in the first quarter of 2010. Our effective tax rate of 25.5 percent this quarter is in line with the guidance that we provided to you for the full year. I would say though, that given the uneven timing of tax recovery, the effective rate will no doubt vary from quarter to quarter through the balance of the year.

Higher year-over-year depreciation expense reflected increased asset base and a shift in asset mix to slightly higher depreciation rate, and that, together with higher interest expense did moderate Adjusted EPS growth a little bit in the quarter.

On slide 19 you have the details of our free cash flow generation which amounted to $265 million. This is in line with our plan and reflects 226 million paid to customers in the quarter in satisfaction of our deferral account balance with the CRTC, I can say that that obligation is now fully met.

Capital spending in the quarter was $74 million higher year-over-year reflecting accelerated fibre investment and network conditioning to expand our IPTV footprint, as well as increased investment in customer service and network capacity. We do expect CAPEX spending to continue ramping up during the course of the year, but remaining within our 16 percent capital intensity guidance for the full year. Our use of working capital increased this quarter due to the timing of supplier payables and a buildup of inventory and that's normal for the first quarter.

During the quarter, our investment grade credit ratings were reconfirmed by all the rating agencies and we took advantage of good market conditions to raise $1 billion with seven-year medium term notes. That increased our cash balance to 2.1 billion at the end of March, and in anticipation of the financing for the closing of the CTV acquisition on April 1st.

So our balance sheet and liquidity position remain very strong. Looking ahead, the financial performance of both Bell Wireless and Bell Wireline are tracking to the guidance target that we provided back in February. Now with the completion of the CTV acquisition, which will be consolidated in our financial results beginning in the second quarter under the new segment, Bell Media, we're revising upward our 2011 financial guidance for revenues, EBITDA and Adjusted EPS. We're also pleased to report that at closing, the transaction purchase price represented an even more attractive standalone valuation of 8.2 times proportionate LTM EBITDA compared to the 9.6 times multiple that we announced last September.

Our increased revenue guidance to the 9 to 11 percent growth range reflects the inclusion of CTV for Q2 through Q4. CTV is benefitting from a strengthening TV and digital advertising market this year and higher subscription revenues. Consequently we're increasing our EBITDA guidance to the 8 to 10 percent growth range and consistent with this increased EBITDA for 2011 we're now expecting Adjusted EPS to be in the range of $2.95 to $3.05 per share, representing year-over-year growth of 6 percent to 9 percent.

As George said, CTV's expected to contribute approximately $0.07 of earnings accretion per share for the nine-month period April 1st to December 31, and that's, of course, today's announced $0.10 dividend increase.

Our free cash flow guidance remains at $2.2 to $2.3 billion for 2011 as it takes into account the seasonality of working capital and capital spending at CTV, as well as acquisition and integration costs that we will be absorbing this year. So accordingly, we are also maintaining a projected year-end cash balance of $400 to $500 million.

With respect to capital expenditures, while CTV operates at a lower level of capital intensity relative to Bell, our overall capital intensity guidance of around 16 percent of revenues continues to be appropriate.

And lastly, before we move to the Q&A for your reference on slides 21 and 22 I've provided a summary of Bell Media's financial contribution to Bell for 2011, as well as our updated key financial assumptions that underpin our 2011 guidance targets.

So with that I will turn it back to Thane and we'll move to the Q&A session.

Thane Fotopoulos, Head of Investor Relations, BCE

Thanks Siim. So before we start the Q&A period I please ask given our time constraint that you limit yourself to one short question and no follow-ups so we can get to as many people possible. So Donna, with that please explain the polling instructions.

QUESTION AND ANSWER SESSION

Operator

Thank you. If you have a question and you're using a speaker phone, please lift the handset before making your selection. To register, please press star, one on your telephone keypad. To cancel your question, please press the pound sign. Please press star, one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

And the first question is from Phillip Huang from UBS. Please go ahead.

Phillip Huang, UBS

Good morning, thanks for taking my question. It's good to see both your wireless margin and postpaid net adds above expectations. I was wondering if you could provide us with an update on your strategy for wireless, I believe you'd previously mentioned that your focus this year will increasingly shift from acquisition to retention, but you still got the high share of postpaid gain amongst the three national players in Q1, so I was wondering, can we expect to see more balance share in terms of subscribers for the rest of the year and correspondingly are we at the inflection point for margin and can we expect to see year-over-year improvement in your wireless margin going forward? Thanks.

George Cope, Chief Executive Officer, BCE

Yeah, you know in terms of the market and the market share, clearly our focus is on postpaid, that's where the value is, that's where all of our distribution channels are focused, that's where we converted when we acquired Virgin. We converted their focus from a prepaid organization to a postpaid organization and with the upgrades, obviously the smartphones, we think that lends itself to a fairly positive ARPU outlook going forward, particularly as our mix of postpaid clients converting to smartphones continues to grow. So that's the positive.

The acquisition of the Source we think is very important and the branding of the Company and the HSJ (phon) all driving the market share position we have and have benefited from. It's impossible on a call to forecast market shares other than to say if you know our target and our goal was to make sure we were taking ourselves from a couple of years ago in the low 20's to under 20 to make sure we were capturing over 33 percent of the postpaid market and we continue to achieve that goal and that's our strategy, and we're going to continue to execute on that basis.

We've increased our expenditures on retention. We'll continue to do that as we have the room to make that investment. There's a payback on that clearly because as we migrate people to smartphones, we see an increase in ARPU. We talked about that other quarters and so we're obviously doing that, and the margins on wireless really are reflected in our consolidated numbers for the year on our guidance, and that's as far as I'll go there.

Other than to say one thing; Obviously we're pleased in this quarter to get the margin back to 40 percent, which we had talked about in the fourth quarter that the investment we believed we were making in subscribers would show some benefits this year, and hopefully the investment community would agree with us and we saw that benefit with quarterly growth of 12 percent, yet the same net adds postpaid as we had last year when most people credited last year's postpaid net adds to the Olympics, and there was no Olympics this year.

Phillip Huang, UBS

Thank you.

Operator

Thank you. The next question is from Maher Yaghi from Desjardins Securities. Please go ahead.

Maher Yaghi, Desjardins Securities

Yes, thanks for taking my questions. Just wanted to check some of your assumptions for your revenue growth and EBITDA. You know when I look at your previous guidance and your new guidance on EBITDA it seems that you have not really materially changed your view on the rest of the year for Bell Canada, but there seems to be just a slight implicit lower revenue assumption for Bell Canada on the revenue side for the rest of the year. My math is right? or is this due to IFRS or are you really, slightly reducing your Bell Canada revenue assumption for Q2 to Q4?

Siim Vanaselja, Chief Financial Officer, BCE

No, I can clearly state that the business plans that we put in place for Bell Wireline and Wireless continues to be our business plan. The guidance that we provided in February with respect to Bell is still the numbers that we're tracking to, there's been absolutely no change in our expectation for any sort of reduction in revenues or deterioration in Bell Wireless or Bell Wireline. I'd say if anything, we're performing through the first quarter at least on track, if not slightly ahead, and all that we've done in updating our guidance is taken the Bell Media numbers for April 1st to December 31 and included those in our numbers. There are a couple of IFRS adjustments that are going through and if you'd like, we can take you through some of those offline, if you're getting confused with some year-over-year numbers.

George Cope, Chief Executive Officer, BCE

The other thing I'll just mention, it's George, and this would obviously be in Siim's area, remember it's not just adding Bell Media, you have to do, if you go to page 21 and the analysts will obviously do this, the inter-segment eliminations are important to do because if you just add one number to the other and don't do the eliminations, it would look like one of the two divisions. So maybe that's part of it, but clearly our Bell revenue numbers and guidance are exactly what they were last time we had the call.

Siim Vanaselja, Chief Financial Officer, BCE

Right and so all those details of inter-segment revenue eliminations are included in the slides, I think it's the last page.

Maher Yaghi, Desjardins Securities

Okay, thank you very much.

George Cope, Chief Executive Officer, BCE

Thank you.

Operator

Thank you. The next question is from Matt Niknam from Goldman Sachs. Please go ahead.

Matt Niknan, Goldman Sachs

Hey guys, thanks for taking the question. My question is on wireline margins, and obviously, you know, cost cutting activity continues to remain a tailwind, but as we think about the mix shift towards more data and TV, which are lower margin, and a greater commercial push with IPTV through the remainder of the year, how do we think about the wireline margin trajectory for the next couple of quarters in 2011? Thanks.

George Cope, Chief Executive Officer, BCE

Well, what I would say, you know, the analysts, all of you have our outlook on EBITDA and revenue and so the margin mix obviously is a balance of the two. The focus in the wireline business are two things, it's clearly to make the investment in the Fibe TV and our imperatives yet continue to drive cost out of the business to protect those margins and, you know, it is also important to remember that we are a positive EBITDA business in our TV business because of the revenue growth we continue to see in our satellite TV business. So I'm not going to give a specific guidance on that, but there's not a concern we have of a significant margin erosion in our outlook, but I think it's better reflected in just taking the models that the folks on the phone have on wireless and wireline and comparing that to what our annual guidance would be.

Siim Vanaselja, Chief Financial Officer, BCE

Yeah, I would just add that I think in February we talked about the visibility that we had in the wireline business, the cost reductions of about $200 million as we said today, in the first quarter we've delivered on $90 million of those that included a good reduction in employee headcount in our customer operations as we became more efficient in those operations. Clearly we still have visibility into at least the balance of that $200 million by way of reduced support group costs across the IP network field services groups and in corporate. We've consolidated a number of the operations between Bell Mobility and Bell Residential on the customer support side and we're generating savings from that, and then on the corporate side we're going to benefit from the Ontario sales tax harmonization, a reduction in public utility tax rates in Quebec, the capital tax abolishment. We're benefiting from a stronger Canadian dollar on our U.S. purchases, so on the wireline side, I think we're very much on track to deliver on our targets.

Matt Niknan, Goldman Sachs

Got it. Thank you very much for that colour.

George Cope, Chief Executive Officer, BCE

Thank you.

Operator

Thank you. The next question is from Glen Campbell from Merrill Lynch. Please go ahead.

Glen Campbell, Merrill Lynch

Yes, thanks very much. My question was on wireline growth and CAPEX. Your residential wireline growth went positive this quarter, and as we look west we see the potential to, you know, increase that even further as IPTV rolls out. So, given that, do you think it still will make sense beyond this year to try to manage Bell to within 16 percent CAPEX to sales or is there an opportunity here to accelerate growth by stepping up the spending a bit?

George Cope, Chief Executive Officer, BCE

Yeah Glen, it's George. I did make some reference to '12 on the call, and I want to obviously watch we're not giving guidance for 2012, but the capital markets model and the business model we've outlined for the Company, we don't think changes as we go forward, and we tend to benchmark ourselves also against everyone else on the globe, in terms of what their capital intensity is, and we're still a little higher than other places around the world, and they're also executing IPTV and so we're going to push ourselves to try to keep it within the model range we have, and we'll clarify that obviously as we get into next year.

Glen Campbell, Merrill Lynch

Terrific. Thanks very much.

Operator

Thank you. The next question is from Peter MacDonald from GMP Securities. Please go ahead.

Peter MacDonald, GMP Securities

Thanks, just a couple of questions on the CTV guidance. First, can you give us some of the historical results offline on a quarterly basis so that we can build seasonality into our model, and then maybe give us Q1 as well? Then, on the question itself, the EBITDA I assume is consolidated. Can you tell us what the minority interest position is? On CTV?

Siim Vanaselja, Chief Financial Officer, BCE

Yes. The minority interest,

George Cope, Chief Executive Officer, BCE

There's no CTV in our numbers.

Siim Vanaselja, Chief Financial Officer, BCE

Oh sorry, yeah. Yeah, so we will begin reporting CTV in the second quarter and we'll provide you what the minority interest is at that time.

Peter MacDonald, GMP Securities
Yeah, I'm just trying to figure out in your guidance what did you include for minority interest, just so we can get an idea of those evaluations.

Thane Fotopoulos, Head of Investor Relations, BCE

Hi Greg, it's Thane. If you go to the second to last slide there's an EPS lockdown for the CTV contribution. You'll see the minority interest there, $0.03 of EPS.

Peter MacDonald, GMP Securities

All right, and George referenced acquisitions and integration costs, can you tell me what those will be?

Thane Fotopoulos, Head of Investor Relations, BCE

We'll be reporting those in the second quarter results, once they're all finalized.

Peter MacDonald, GMP Securities

Is that in the?

Thane Fotopoulos, Head of Investor Relations, BCE

The big element of it will be approximately $200 million of benefits tax with CRTC.

Peter MacDonald, GMP Securities

And just one question

George Cope, Chief Executive Officer, BCE

That's on page 22 just so you can see the total number and it includes—we tried to show the benefits, the 200 million there.

Peter MacDonald, GMP Securities

That 200 million is in the total guidance, but not in the CTV section of the guidance that you provided. And George, you said there was a definitional change on COA. Can you tell us what the COA would have been under the old definition?

George Cope, Chief Executive Officer, BCE

I'll turn that over to Siim to take it and Thane to take it with you offline. What we've basically done, just so everyone understands, two of our major competitors moved the residual payments that were paid to distribution channels into retention dollars a number of years ago in their disclosure. We kept those residual payments in our COA and it created I think for the analysts confusion every quarter, so we moved our residual payments into our retention line item to be consistent with the other two competitors to make it a complete apples-to-apples on COA and retention dollars for everyone. Nothing's changed internally, that's why we did it.

Siim Vanaselja, Chief Financial Officer, BCE

Yeah.

George Cope, Chief Executive Officer, BCE

And we'll help you with that offline and give a COA number so you can compare.

Siim Vanaselja, Chief Financial Officer, BCE

We can do it offline.

George Cope, Chief Executive Officer, BCE

Yeah, we'll have to do that offline.

Peter MacDonald, GMP Securities

All right, thank you.

Thane Fotopoulos, Head of Investor Relations, BCE

The numbers have been restated Greg—Oh sorry, Peter.

Peter MacDonald, GMP Securities

Okay, thanks.

George Cope, Chief Executive Officer, BCE

Thanks for the question.

Operator

Thank you. The next question is from Adam Shine from National Bank Financial, please go ahead.

Adam Shine, National Bank Financial

Thanks a lot. Two quick ones. Just following up on Peter's question, I guess in the context of the $0.07 of accretion from CTV, but the bands on the guidance only go up by about $0.05. The context being, that its acquisition and integration costs that caused the differential, correct?

Siim Vanaselja, Chief Financial Officer, BCE

There's interest expense at the BCE level that goes up a bit, and then slightly higher depreciation which I mentioned on the call on Bell assets from a shift mix in depreciable assets to slightly higher depreciation rate, so that offsets on that $0.07 accretion.

Adam Shine, National Bank Financial

Okay, great, thanks for that Siim. And obviously 8.2 times is a great multiple for these CTV assets, we presume that besides top-line gains, ad trends that cause controls on programming spend was a key factor. Can you talk to the key driver of this improved performance in recent months?

George Cope, Chief Executive Officer, BCE

Yeah, I mean the performance has been, as Siim had mentioned, the top-line revenue growth you're seeing the advertising increase, subscription revenue from our specialty, and the cost management that frankly the management team had put in place before the acquisition, to reflect some of the economic challenges that that business would have seen 24 months ago.

Those are some of the drivers, and as we go forward, obviously this isn't a focused synergy transaction, but there are some synergies that we'll be able to execute on as we go forward into 2012. So where as you said we're really pleased with the exit multiple and we're really obviously very pleased as we look forward to not just the financial performance this gives us, but the access it's already given us to we think have significant differentiation in the mobile market and the mobile TV space, and again, we're obviously open for business to sell those services to the people who compete with us in wireless, but are customers for us on the Media side.

Adam Shine, National Bank Financial

Great, I'll leave it there, thanks.

George Cope, Chief Executive Officer, BCE

Thank you.

Operator

Thank you. The next question is from Peter Rhamey from BMO Capital Markets. Please go ahead.

Peter Rhamey, BMO Capital Markets

Great, good morning. Thanks for taking the question. I've got just a one larger, bigger picture question and it has to do with return of capital to shareholders. You've had solid free cash flow in the quarter, you've got CTV closed, it's a better deal than you originally thought from what I hear. How does that change, George, the board's perspective with regards to dividend policy in terms of being opportunistic? I remember you increased the dividend mid-year a couple of years ago and said that was a one-time event. I'm wondering whether there's a view to formalizing that policy like one of your peers did, and second of all, maybe this is more for Siim, is where do you stand with regards to share buy-backs and timing, CTV's coming in better than expected. You've got spectrum auctions coming up, would you be prepared to lever up in order to prepare for spectrum auctions or do you really want to get that leverage down way below the targeted range in view of that spectrum auctions could prove expensive?

George Cope, Chief Executive Officer, BCE

Oh, just to go back and not comment on any of our competitors, sticking to what our strategy is. We have a capital market strategy that we hope couldn't be more transparent for the investment community. The increase in the dividends that we've seen and the good fortune we're in today for our shareholders, to increase our dividend is driven simply through that payout ratio, and if you look back over the last two years, these dividend increases have always come on the support of an increase in our EPS outlook, and so once again we're increasing our outlook, and therefore we will be below the mid-point of our payout ratio and that's why we're seeing the dividend increase. So we do have a very clear capital markets policy.

The timing, which I said even in January, we didn't anticipate. Of course, we didn't anticipate a transaction closing a quarter earlier. The financials, as you can see in CTV are clearly better than we anticipated given what we announced the multiple of the acquisition and what it's come in at, and those are the things we reflected. And I think that's consistent with what we've done the last 2.5 years, it's really been earnings results that have allowed to stay in the ratio. So I think, Peter, look for that to continue.

On the buyback, there's a capital market strategy there. We're going to stay within our debt ratios, and we'll come back at the end of the year to talk about next year and you know our strategy is return capital to shareholders first and foremost through dividends, maintain our debt EBITDA numbers and then use excess cash whether or not it's for tuck-in acquisitions or for buybacks or for pensions, depending on what the requirements are. So, no change.

Peter Rhamey, BMO Capital Markets

Great, thank you very much. Thanks very much.

Operator

Thank you. The next question is from Jeff Fan from Scotia Capital. Please go ahead.

Jeff Fan, Scotia Capital

Thanks, good morning George, good morning Siim. Question on the Bell Media and the wireless content packages that you have set up here. I'm just curious, wondering if any of your other wireless competitors have approached you to get access to some of the mobile content that you've created and just wondering, over time, do you see that being a meaningful contributor to the Media segment's revenue on wireless going forward?

George Cope, Chief Executive Officer, BCE

Yeah, I hope so. I mean the answer's we're open for business and if Kevin were on the line from Bell Media he would tell you he's hoping he enters into arrangements where other people who distribute wireless services will carry the Bell Media packages. At the same time, Bell Mobility is offering this into the marketplace and we're seeing traction and we think it's going to be important. Our model is really straight forward for Bell Media. We think it's a new financial model for the asset. We believe all four screens will be valuable. We believe that the CTV Bell Media asset is the best aggregator of content in Canada and then we'll be planning to distribute those contents to all four screens, but we plan on monetizing each of those screens. So we are selling our content rather than just looking to distribute it on a pay model on the wireless side, similar to what we've seen on other screens, and there's no logic why that wouldn't be the same model and that's the model we're pursuing, so we think over time, this could lend to upside for the Media business, because over time, I am a fundamental believer, especially with LTE, that mobile video is going to be a huge service on a worldwide basis.

Jeff Fan, Scotia Capital

Do you see the structure of these terms being on a pay-per-use? Is it going to be a monthly access to the content? And how do you foresee these—the structure—

George Cope, Chief Executive Officer, BCE

Well from the Bell Mobility side they've taken the packages and we've seen this also somewhere else in Canada, a very intuitive way to do it, where the consumer knows they're paying $5 a month for 10 hours. I don't think they would do it where they don't know what's happening on the data metering, and they won't have a way to assess the usage. So we actually see a third stream of revenue. One's the voice, the second is data usage, and the third is a number of hours of watching video. So that's how the model works we're offering to sell it from Bell Media to the customers of Bell Media in a way that's based pretty similar to what we see in the specialty TV model where there's a fee paid to Bell Media for access to that content from the other wireless carriers.

Jeff Fan, Scotia Capital

Okay thanks.

George Cope, Chief Executive Officer, BCE

Hopefully that's helpful.

Jeff Fan, Scotia Capital

Okay.

Operator

Thank you. The next question is from Bob Bek from CIBC. Please go ahead.

Bob Bek, CIBC

Thanks. Good morning, my question is on Bell TV. George, you talked about the 12,000 net adds in Ontario and Quebec, principally from Fibe. As your rollout continues towards the two million homes, should we look at that as a linear sort of opportunity to add on the Fibe or do you think that some of the marketing and sort of bigger additions will come perhaps back-ended as you have a larger area or footprint to sell to and related to that, obviously very strong flow-through from Fibe customers bringing other products with them. Do you think that 30 percent number can hold or perhaps even improve as you market to a bigger footprint?

George Cope, Chief Executive Officer, BCE

Well we think the, you know the three products in the household will be really important for us, it's where we've always had a hole in our portfolio in the core urban markets. We believe and certainly we see that we have to give credit in the West to the execution we're seeing on IPTV and to what we're seeing in the U.S., and as the footprint gets more ubiquitous, you obviously see some penetration increases because of the marketing reason. One of our goals we talked about is we planned to have all of the area code 416 completed this year so we can market Fibe TV to all of 416, and that's an intuitive marketing announcement that the customer knows exactly where they live and if you're in 416 you'd have it. So over time I think our execution and ubiquitous footprint will make the marketing of this product, and the evidence, I think is in front of us in the U.S. and in Western Canada.

Bob Bek, CIBC

Thanks very much.

Thane Fotopoulos, Head of Investor Relations, BCE

Ok Donna, we'll take our last two questions, and may I please ask that you keep these last two questions short given the time.

George Cope, Chief Executive Officer, BCE

Yeah we apologize. We've got the annual meeting in a few minutes.

Operator

Thank you. The next question is from Dvai Ghose from Canaccord Genuity. Please go ahead.

Dvai Ghose, Canaccord Genuity

Yeah, thanks very much for taking my question. George it's great to see the sixth dividend increase since you became CEO in 2008, but your point to this dividend increase reflecting CTV, you've increased your EPS guidance by a little less than 2 percent, your dividend by 5, you're at about a 70 percent payout ratio now on your guidance was about 50 to 55, so it appears like Telus and Rogers who have much greater wireless exposure. You've also got a really unusually low tax rate this year again, you're very early when it comes to IPTV dilution, and you have to issue about a billion of stock to Woodbridge, so I'm just wondering if you're thinking this dividend payout ratio is a little high compared to your peers, and if so, if you can give an explanation as to why?

Siim Vanaselja, Chief Financial Officer, BCE

Dvai, it's Siim. So we're very, very comfortable with where the dividend payout ratios stand. Obviously, we would not increase the dividend without having complete comfort on that. The reality is that with the acquisition of CTV and the $0.07 of accretion that that brings, it still maintains our payout ratio below the midpoint of our payout guidance, and if we were to achieve the higher end of our Adjusted EPS guidance, there's the possibility that our dividend payout could fall below its policy range. In terms of the free cash flow coverage on our dividend, it's one of the highest in North America at over 160 percent, so we've always said that if there's a risk that our payout is going to fall below the range, that we would take action to increase the dividend and maintain it within the payout range. The shares that you mentioned being issued to Woodbridge have been issued. Those are 21 million shares and they've been taken into consideration in this dividend increase.

Dvai Ghose, Canaccord Genuity

Okay, that makes sense. As a quick factual follow-up, Siim, do the wholesale gains help your business lines this quarter, the shutting down of Rogers Call-Net business?

Siim Vanaselja, Chief Financial Officer, BCE

Yes, there's a modest pick up that we get from that.

Dvai Ghose, Canaccord Genuity

Can you qualify it or no?

Siim Vanaselja, Chief Financial Officer, BCE

I can't, it's included in our residential and wholesale results.

Dvai Ghose, Canaccord Genuity

Right. Okay, thank you.

Thane Fotopoulos, Head of Investor Relations, BCE

Okay, last question.

Operator

Thank you. The last question is from Vince Valentini from TD Securities. Please go ahead.

Vince Valentini, TD Securities

Yeah, thanks very much. Long-distance revenues barely declined this quarter, and actually the last two quarters in a row you've seen a sequential increase. Just wondering, is this a new trend or are long-distance revenues going to start growing again somehow or is there something unusual in those numbers, and I can ask one last follow-up, any reason why you haven't done an LTE network sharing detail with Telus yet, is it just a matter of time?

George Cope, Chief Executive Officer, BCE

On the first question, no, we don't forecast an increase in LD revenue. We continue to, we think, through the packaging in our residential business through all the bundling work and very, very careful re-price management see some of those benefits we continue to see on the business side, business is more active internationally so we are seeing some benefits in win-backs and traffic and what have you, and on the wholesale side, doing more and more work globally compared to what we used to do all helping us on the LD side, but no, Vince, I think you were being tongue-in-cheek, we don't expect to see LD revenue grow, but obviously it's important when it doesn't decline for all the reasons you're commenting on. And LTE, this morning our announcement is we're launching an LTE market, but I have really no comment on your question today.

Vince Valentini, TD Securities

Okay.

Thane Fotopoulos, Head of Investor Relations, BCE

Okay, very good. So on that, thank you very much for joining us this morning. I'll be available as usual throughout the day for questions, but only following our Annual General Meeting. Thank you very much and have a great day.

George Cope, Chief Executive Officer, BCE

Thanks everyone for taking the time, we appreciate you taking the time out of your schedules.

Operator

Thank you. The Conference has now ended. Please disconnect your lines at this time, and thank you for your participation.
