BCE

BCE Q3 2020 Results Conference Call

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made by BCE's President and Chief Executive Officer and Executive Vice-President and Chief Financial Officer during BCE's Q3 2020 Results Conference Call, as reflected in this transcript, are forward-looking statements. These forward-looking statements include, without limitation, statements relating to the potential impacts on our business, financial condition, liquidity and financial results of the COVID-19 pandemic, our expected continued momentum in the fourth quarter of 2020 and in subsequent quarters, the expected moderation in BCE's free cash flow in the fourth quarter of 2020 given expected increases in capital expenditures and sales activity, BCE's net debt leverage ratio, BCE's significant liquidity and financial flexibility to drive capital investments and dividend payments, our network deployment and capital investment plans, BCE's business outlook, objectives, plans and strategic priorities, and other statements that are not historical facts. Forward-looking statements are typically identified by the words assumption, goal, guidance, objective, outlook, project, strategy, target and other similar expressions or future or conditional verbs such as aim, anticipate, believe, could, expect, intend, may, plan, seek, should, strive and will. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws and of the United States Private Securities Litigation Reform Act of 1995.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans and strategic priorities may not be achieved. These statements are not guarantees of future performance or events, and we caution you against relying on any of these forward-looking statements. The forward-looking statements contained in this transcript describe our expectations as of November 5, 2020 and, accordingly, are subject to change after such date. Except as may be required by applicable securities laws, we do not undertake any obligation to update or revise any forward-looking statements contained in this transcript, whether as a result of new information, future events or otherwise. Except as otherwise indicated by BCE, forward-looking statements do not reflect the potential impact of any special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after November 5, 2020. The financial impact of these transactions and special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business. Forward-looking statements were made during BCE's Q3 2020 Results Conference Call for the purpose of assisting investors and others in understanding our objectives, strategic priorities and business outlook, and in obtaining a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Material Assumptions
The forward-looking statements set out in this transcript are based on certain assumptions including, without limitation, the following assumptions. Due to uncertainties relating to the severity and duration of the COVID-19 pandemic, including the current resurgence and possible future resurgences in the number of COVID-19 cases, and various potential outcomes, we are not able at this time to estimate the impacts of the COVID-19 pandemic on our business or future financial results and related assumptions. Accordingly, the assumptions outlined below and in other sections of this transcript and, consequently, the forward-looking statements based on such assumptions, may turn out to be inaccurate.

- *Our liquidity from our cash and cash equivalents balance, the remaining capacity under our committed credit facilities, our cash flows from operations, continued access to the public capital, bank credit and commercial paper markets based on investment-grade credit ratings, and continued access to our securitized trade receivables programs, will be sufficient to meet our cash requirements for the foreseeable future*
- *No material financial, operational or competitive consequences of changes in regulations affecting any of our business segments*

Material Risks
Important risk factors that could cause our assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in, or implied by, our forward-looking statements include, without limitation: pandemics, epidemics and other public health risks including, in particular, the COVID-19 pandemic, and the uncertainty of its severity and duration, including resurgences in the number of cases and the re-introduction of emergency measures, and the adverse effects thereof; our inability to access adequate sources of capital and generate sufficient cash flows from operating activities to meet our cash requirements; our failure to maintain operational networks in the context of significant increases in capacity demands; the risk that we may need to make significant capital expenditures in order to provide additional capacity and reduce network congestion, and implement additional sanitation and safety procedures as a result of the COVID-19 pandemic; our inability to drive a positive customer experience; labour disruptions and shortages; our dependence on third-party suppliers, outsourcers and consultants to operate our business; uncertainty as to whether dividends will be declared by BCE's board of directors or whether the dividend on common shares will be increased; pension obligation volatility and increased contributions to post-employment benefit plans; regulatory initiatives, proceedings and decisions, and government consultations, positions, actions and measures that affect us and influence our business; the intensity of competitive activity,

including from new and emerging competitors, coupled with the launch of new products and services; the level of technological substitution and the presence of alternative service providers contributing to the acceleration of disruptions and disintermediation in each of our business segments; the adverse effect of changing viewer habits and the expansion of OTT TV on subscriber and viewer growth and on the advertising market; rising content costs, as an increasing number of domestic and global competitors seek to acquire the same content, and challenges in our ability to acquire or develop key content; the proliferation of content piracy impacting our ability to monetize products and services, as well as creating bandwidth pressure; higher Canadian smartphone penetration and increased device costs could challenge subscriber growth and cost of acquisition and retention; the inability to protect our physical and non-physical assets from events such as information security attacks, fire and natural disasters; the failure to transform our operations, enabling a truly customer-centric service experience, while lowering our cost structure; the failure to continue investment in next-generation capabilities; the complexity in our operations resulting from multiple technology platforms, billing systems, sales channels, marketing databases and a myriad of rate plans, promotions and product offerings; the failure to implement or maintain highly effective IT systems; the failure to generate anticipated benefits from our corporate restructurings, system replacements and upgrades, staff reductions, process redesigns and the integration of business acquisitions; our failure to test, maintain, replace or upgrade our networks, IT systems, equipment and other facilities; in-orbit and other operational risks to which the satellites used to provide our satellite TV services are subject; the failure to attract and retain employees with the appropriate skill sets and to drive their performance in a safe environment; changes to our base of suppliers or outsourcers that we may decide on or be required to implement; the failure of our vendor selection, governance and oversight processes; security and data leakage exposure if security control protocols affecting our suppliers are bypassed; the quality of our products and services and the extent to which they may be subject to manufacturing defects or fail to comply with applicable government regulations and standards; the inability to manage various credit, liquidity and market risks; new or higher taxes due to new tax laws or changes thereto or in the interpretation thereof, and the inability to predict the outcome of government audits; the failure to reduce costs, as well as unexpected increases in costs; the failure to evolve practices to effectively monitor and control fraudulent activities; the unfavourable resolution of legal proceedings and, in particular, class actions; new or unfavourable changes in applicable laws and the failure to proactively address our legal and regulatory obligations; the failure to recognize and adequately respond to climate change concerns or public and governmental expectations on environmental matters; and health concerns about radiofrequency emissions from wireless communication devices and equipment.

We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. We encourage investors to also read BCE's 2020 Third Quarter MD&A dated November 4, 2020 for additional information with respect to certain of these and other assumptions and risks, filed by BCE with the Canadian provincial securities regulatory authorities (available at Sedar.com) and with the U.S. Securities and Exchange Commission (available at SEC.gov). This document is also available at BCE.ca.

The terms “adjusted EBITDA”, “adjusted EBITDA margin”, “adjusted EPS”, “free cash flow”, “net debt” and “net debt leverage ratio” are non-GAAP financial measures and do not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other issuers. Refer to section 8.2, Non-GAAP financial measures and key performance indicators (KPIs), in BCE's 2020 Third Quarter MD&A dated November 4, 2020 for more details.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BCE Q3 2020 Results Conference Call.

I would like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, Mr. Fotopoulos.

Thane Fotopoulos – Vice President – IR

Thank you, Donna, and good morning, everyone. As usual, participating on the call today are Mirko Bibic, BCE's President and CEO, and our CFO, Glen LeBlanc.

Before we begin, I want to draw your attention to our Safe Harbor statement reminding listeners that the slide presentation and remarks made during the call today will include forward-looking information and therefore are subject to risks and uncertainties. Results could differ materially. We disclaim any obligation to update forward-looking statements except as required by law. Please refer to the company's publicly filed documents for more details on assumptions and risks, and as always, our earnings materials are available on the Investor Relations webpage of the BCE website.

With that, Mirko, over to you.

Mirko Bibic – President and CEO

Thank you, Thane, and good morning, everyone.

Our focus in Q3 was all about building momentum back into the business, and although the effects of COVID are still obviously present, I am very pleased with our progress to date as we experienced a notable improvement in our operating performance this quarter due to the success of our broadband strategy, the reopening of retail stores, the step-up in economic activity, the return of live sports programming, and overall disciplined execution in a competitive market. This contributed to stronger financial results across all Bell operating segments in Q3 compared to the previous quarter.

We continue to grow broadband market share and delivered 210,000 total net wireless, retail Internet, and IPTV customer additions in Q3, and consistent with our focus on profitable wireless subscriber growth, we added 128,000 new net postpaid and prepaid customers this quarter, comprised entirely of mobile smartphone subscriptions. We delivered very strong wireline subscriber results with an industry-leading combined 82,000 retail Internet and IPTV net additions.

We also generated over $1 billion of free cash flow this quarter, bringing year-to-date cash generation to more than $3.25 billion, 14% higher than last year. We expect free cash flow to moderate in Q4 as we further step up capital spending and as accounts receivable and inventory levels grow with an increase in sales activity. This contributed to maintaining a very healthy liquidity position of $5.2 billion at the end of Q3, which does not include the approximate $940 million in net cash proceeds received from the recently concluded sale of Bell data centres to Equinix.

Now I will turn it over to Slide 4 of our presentation. Slide 4 provides a quick update on the continued progress we are making on advancing our strategic imperatives.

In Q3, we equipped 140,000 new locations with direct fibre, bringing the coverage level to 56% of our total high-speed broadband footprint. This is enabling more and more Canadians to access the fastest Internet speeds in the market today of 1.5 Gbps and to benefit from the related customer experience enhancements that fibre brings. We remain very enthusiastic about fibre and the resulting significant financial and subscriber growth and the customer experience benefits the strategy delivers.

The broadband footprint advantage that we are building with the fastest fibre Internet and Wireless Home Internet speeds in the market today positions us extremely well in both our consumer and business segments over the long term to grow Internet revenue, which in Q3 grew a strong 10%.

We also announced a further acceleration in our Wireless Home Internet build-out that will approach 50% of our target footprint by the end of the year with the addition of another 80,000 homes in rural Canada. We also now expect to cover more than 350,000 rural homes, up from 300,000 previously, with enhanced 50 megabit download and 10 megabit upload speeds by year end.

These latest announcements build on several other initiatives this year, including the special project that brought Wireless Home Internet to 137,000 more rural locations than expected in response to increased demand during the COVID crisis, our announcement that we would double Internet download speeds from 25 to 50 Mbps, the rollout to 200,000 rural households in Atlantic Canada we recently announced, which will be built out over two years, and our plan to begin deployment in Manitoba next year. These investments are establishing the foundation for our continued success while immediately stepping up for Canadians everywhere across our operating territories in the face of COVID.

I will now turn to wireless. Just last month, Canada's networks were recognized by Open Signal as being the fastest in the world. In fact, the average 4G LTE download speeds were not only faster than the network speeds of the top carriers in the U.S. but also significantly outpaced the second-fastest country in the world, South Korea on their fully fledged 5G network. To put these results into perspective, the global average for download speed experience across all operators analyzed was just above 22 Mbps, while the same speeds for Canada's big three national wireless operators were more than two to three times faster than the global average. This is the clear outcome of supportive facilities-based government and regulatory policies.

Bell's 5G network continues to rapidly expand and is Canada's fastest. We provide download speeds up to 1.7 Gbps. Our footprint will continue to grow into 2021 and beyond as true stand-alone 5G networks are deployed using mid-band 3500 MHz spectrum.

It is still early days and the full benefits of 5G technology will not be realized until more spectrum and new applications become available, but data usage among early 5G device users is twice as high as non-5G subscribers with monthly recurring revenue that is nearly 20% higher.

On customer experience, which is also one of our key strategic imperatives, we are making significant progress with fewer CCTS complaints by Bell customers, improved digital functionality, and self-serve capabilities. Our most recent initiative is Move Valet. This is a new concierge service for customers in Quebec and Ontario who are moving homes to transfer their Bell services seamlessly to their new residence. It is just another example of an initiative that puts customers front and centre.

We also remain keenly focused on making the online and app-based sales experience easier for consumers. Directly as a result of our investments to improve digital functionality, 56% of all customer service transactions were executed online in Q3, up from 50% just last quarter.

Another initiative we are working on to deliver ever better customer experience is Full Self-Install, which we launched in October for homes connected with direct fibre. The important point here is that as we deploy more fibre in our network and as more homes are connected with fibre, we have the ability to offer Full Self-Install to a larger customer base who will only have to connect the modem to a fibre jack and power supply. This will drive a step function improvement in customer satisfaction and deliver cost savings. We are really pleased with the company-wide focus on championing the customer experience.

I am going to turn now to Slide 5 and give you a quick overview of some key operating metrics. We will start first with wireless.

Trends showed good sequential improvement in Q3 with stronger customer activity, including ongoing steady traction for digital channels, continued low churn, and an ABPU decline that is moderating. Store traffic

improved noticeably with the reopening of all our stores and sales activity steadily picked up with each passing week as the level of competitive intensity and number of promotional offers increased.

We added 133,000 new smartphone customers this quarter. Unlike some others in the market, basically our net additions this quarter did not include any mobile connected devices, such as tablets. Here is the bottom line - we are focused on driving service revenue growth through accretive smartphone transactions and despite a more muted back to school period because of COVID, postpaid mobile smartphone additions in Q3 were very good and largely similar to last year. Also supporting our 88,000 total postpaid net additions this quarter was lower customer churn, which improved eight basis points over last year to 1.04%.

In prepaid, we added 41,000 new customers, another very good quarter which we believe led the industry once again.

Blended ABPU decreased 6%. This resulted in notable improvement over Q2 even as lower roaming volumes and data overage contraction from increased customer adoption of unlimited plans remained headwinds. In fact, these two factors accounted for approximately 80% of the ABPU decline this quarter.

Now let me move to Bell Wireline. The need for fast and reliable Internet connectivity, particularly in the current COVID environment, together with lower customer churn drove strong broadband results. We delivered 63,000 Internet net additions - that is 8% higher than last year. We believe this was industry leading in Q3. We also added another 81,000 FTTH subscribers this quarter, bringing the total number of direct fibre customers to more than 1.6 million, up 17% over last year.

In TV, we added 19,000 net new IPTV subscribers supported by our new app-based Virgin TV service and significant customer churn improvement. All in all a pretty solid result given a mature Canadian TV market and some ongoing pandemic-related constraints. We also continue to see strong progress with satellite TV and home phone customer losses which improved 29% and 24% respectively, as Canadians continue to stay and work from home during the pandemic. And certainly, any time the rates of decline slow for these high margin services, that is important to us from a cash flow perspective.

So despite ongoing COVID impacts on customer activity, really it was a strong quarter from an RGU perspective with positive total retail net additions in our wireline footprint of 16,000 - that is an increase of 22,000 over last year. In fact, it is only the second quarter in the past five years where we have achieved positive wireline retail net additions, including NAS and satellite TV.

I will turn now to Bell Media. TV advertising demand picked up in several key categories, especially with the return of live sports and increased spending by advertisers. Radio and out-of-home advertising have been slower to rebound as radio listenership has declined during the pandemic and some key out-of-home advertising places as well, such as restaurants and airports - those have severely impacted by lockdown measures, but we are seeing momentum return to outdoor categories such as street furniture and billboards.

On the subscriber front, TSN and RDS have remained largely stable, particularly with live sports coming back in Q3, as have subscribers across all Bell Media TV properties since the COVID situation began. TSN remains the number one ranked sports channel for the latest broadcast year that just ended on August 31, and year-to-date RDS viewership has outpaced our largest French language competitor by 32%.

On Crave, it continued to deliver with strong direct-to-consumer growth and 3% year-over-year increase in total subscribers for Crave. Overall, these subscriber results speak to the quality and depth of our programming which is, frankly, second to none in the marketplace.

A couple of other items in the quarter that I wanted to mention. To coincide with the fall season of new TV programming, Bell Media launched a new all-in-one digital video streaming platform for CTV content, essentially all live and on-demand service. Now viewers can access all live and on demand CTV content at no additional cost directly from CTV.ca and the CTV app on mobile and smart TVs or other connected devices. This single hub offers advertisers a compelling way to reach our digital audiences, and an easy way for viewers to watch our content. It is 100% ad-supported and it was built using the same technology that powers Crave.

At the end of August, Bell Media rebranded our newly acquired French language conventional TV network, V - the new brand is Noovo. Our goal is to make Noovo a broader and fully integrated conventional TV destination with multiple points of contact for video content. We are already seeing results from that strategy with significant gains in prime-time viewership and ad sales this fall season, and that is expected to continue this broadcast year.

I am going to turn it over to Glen in just a moment, but before I do, I want to emphasize the following. Q3 was all about building momentum back into the business and delivering the consistent results we said we would deliver. Despite COVID, we continue to push forward with the deployment of high-speed broadband fibre, Wireless Home Internet in Canada's underserved rural communities, and mobile 5G technology.

We are keeping our eyes fixed firmly on the long term. At the same time, we are maintaining operational excellence in the short term to steer us through the pandemic recovery period and to generate even greater momentum with each successive quarter. We are competitively well positioned to succeed with significant liquidity and the financial flexibility to drive both our national investment strategy and BCE's common share dividend, which we just announced this morning for Q4.

On that, let me turn it over to Glen.

Glen LeBlanc – Executive Vice President and CFO

Thank you, Mirko, and good morning, everyone.

With the easing of COVID restrictions beginning in the latter stages of Q2, consumer and commercial activity gradually picked up, gaining steady momentum throughout the summer. Despite the continued effects of COVID, all Bell operating segments delivered better performance trajectories with improved year-over-year revenue and EBITDA declines in Q3 that contributed to strong ongoing free cash flow generation.

Consolidated revenue was down 2.6% year-over-year, which translated into a 4.4% decline in adjusted EBITDA. We estimate that the total incremental COVID-related costs in the quarter to have been approximately $40 million, down from $85 million last quarter. Excluding these direct COVID-related costs, our consolidated EBITDA margin was stable year-over-year.

Net earnings for Q3 were down 19.7%. This was a result of lower year-over-year EBITDA and a non-cash net mark-to-market equity derivative loss resulting from the decrease in BCE's share price this quarter compared to a gain last year.

We invested over $1 billion in capex in Q3. This represents a notable step-up in spending from last quarter, reflecting both the seasonal increase in construction activity during the summer months and the resumption of usual business operations following a slower pace of spending during the initial stages of COVID, when certain projects could not be executed. We expect capital expenditures to ramp up further in Q4.

Despite softer year-over-year earnings, we generated over $1 billion of free cash flow this quarter, even with lower EBITDA flow-through and higher cash taxes, which were expected.

Let's turn over to Slide 8. Q3 marked the return to positive revenue growth for Bell Wireless as the year-over-year decline in service revenue improved sequentially and product sales rebounded with the pick-up in retail sales activity. Service revenue was down 4.3% year-over-year, the result of COVID-related impacts primarily from an approximate 70% decline in roaming due to global travel restrictions as well as lower data overage driven by customer rate plan optimization and ongoing adoption of unlimited plans. On a year-over-year basis, lower roaming volumes and data overage accounted for more than the entire decline in service revenues this quarter and are expected to remain headwinds for the foreseeable future.

Product revenue was up 11.9% year-over-year, benefiting from a mix shift away from tablets to higher value devices, as well as stronger year-over-year consumer electronic sales at The Source driven by the increased

online shopping during the pandemic. Consistent with the year-over-year loss of high margin roaming and overage revenue, EBITDA was down 4.4% in Q3, a significant improvement from the 9% decline we reported last quarter.

Let's flip over to Slide 9. Total revenue was down 0.8% versus last year, a slight improvement over the previous quarter which speaks to the resiliency of our wireline operations and the strong demand for our leading connectivity service in the current COVID environment. Residential wireline growth in Q3 was positive. This result was driven by a strong 10% year-over-year increase in Internet revenue combined with an improved rate of voice decline, as fewer customers disconnected home phone services during the pandemic.

In business wireline, while our results this quarter reflected slower customer spending on business service solutions and data equipment, which declined 5% and 10% respectively in the quarter, overall performance continued to hold up well despite COVID and although small business in certain industries have been hit really hard, closure and bankruptcies have been better so far than we feared.

Wireline EBITDA decreased 1.6%. This represents a notable sequential quarterly improvement as operating costs were stable year over year despite the COVID-related cost impacts I referenced earlier, which included a modest increase in our bad debt expense provision to reflect the increased risk environment particularly in the SME segment.

Let's flip over to Slide 10. A much better quarter for Bell Media as advertising demand has improved across all media platforms with the resumption of live sports programming and the gradual reopening of the economy. This resulted in a smaller year-over-year revenue decline of 16% compared to 31% last quarter. Advertising revenue decreased 22% in Q3, a significant recovery from the 51% decline we saw in Q2, with the biggest improvements coming in TV, most notably sports, entertainment and news.

Operating costs were down 14% over last year, driven in large part by the lower cost of revenue because of TV production shutdowns and delays, as well as the elimination of discretionary spending. This contributed to a sequential improvement in EBITDA, which declined 21% year-over-year.

Adjusted EPS on Slide 11 provides our usual walk down of the key components of adjusted EPS, which was $0.79 per share in Q3, down $0.12 versus last year. Lower EBITDA drove three quarters of this decline while the remaining amount could be attributed to a combined impact of higher depreciation expense due to the growth of our capital asset base and lower year-over-year tax adjustments.

Over on Slide 12 on free cash flow, as I mentioned earlier, we generated over a billion of free cash flow in the quarter, down 11.5% over last year. As Mirko said, this brought year-to-date cash generation to more than $3.25 billion or 14% higher than last year, a very strong result that was achieved despite a significant COVID-driven decline in EBITDA and without cutting back on critical capital investments.

This quarter's results also reflected an expected increase in cash taxes due to the deferral of corporate income tax installment payments from the first half of the year into the second half, as well as higher interest paid due mainly to the timing of debt service payments on our MTN debentures.

Working capital improvement we enjoyed in Q3 can be attributed to the timing of supplier payments but will largely reverse out next quarter. This together with the build-up in new wireless handset inventory ahead of the busy holiday selling period, growth in accounts receivable as sales activity picks up further, and accelerated capital spending will result in free cash flow drag in the coming quarter.

Over on Slide 13, maintaining our financial strength and flexibility is our key priority. BCE's liquidity position remains very strong at $5.2 billion in available cash at the end of September. Additionally, our balance sheet is well structured with long term maturities and low interest rates on our outstanding debt. Our debt leverage ratio also remains manageable at 2.9 times adjusted EBITDA with no expected improvements in the foreseeable future given the number of wireless spectrum auctions on the horizon.

We also recently strengthened our liquidity position by raising an additional $750 million of seven-year bonds at an effective yield of only 1.65%. Proceeds of this MTN issue were used to early redeem higher cost public debenture debt. More importantly, we have no near-term financing requirements as our next material public debt maturity does not occur until Q4 of 2022.

Lastly, Bell Canada's defined benefit pension plan continues to remain fully funded despite the unfavourable impact of lower discount rates. This speaks volumes to the success of the actions we have taken over the many years to secure the financial position of all of our plans.

That does it for my formal remarks on the quarter. I would like to turn it back over to Thane and the Operator to begin questions.

Thane Fotopoulos – Vice President – IR

Great, thanks, Glen. Before we start the Q&A, in an effort to make the call as efficient as possible, as always, please limit yourself to one question and one brief follow-up, if you must, so we can get to everybody in the queue in the time we have left. Thanks for your cooperation in advance.

Donna, we are ready to begin with our first question.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift your handset before making your selection. If you have a question, please press star 1 on your device's keypad. If you wish to cancel the 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.

The first question is from Jeffrey Fan from Scotiabank. Please go ahead.

Jeffrey Fan – Scotiabank – Analyst

Hi, good morning, everyone. I will start with wireless. Wondering if you guys can help characterize the wireless competitive environment that you saw during the back-to-school period and maybe a little bit of a prediction or outlook going into the holidays and into 2021. I guess the reason for the question is we have seen a lot more winback promos, lower rate plans. Wondering if that is just because of the reopening that we saw with a smaller pool of subscribers, is Shaw Mobile in the west triggering some reactions, is it competitors trying to make up lost ground? Just wondering if you can share some thoughts there, thanks.

Mirko Bibic – President and CEO

Thanks, Jeff, it is Mirko here. Yes, on pricing and promotions, the spirit of your question, I am not entirely surprised by what we saw in Q3, especially after the close to absolute lockdown in Q2. I would say from our perspective, we did not tend to lead promotional activity and I think that is pretty obvious. I mean, you can go back to even June when we launched our 5G network and our attempt to implement an additional charge for 5G connectivity that reflects the real value we are delivering with a premium 5G network. That is evolving, but we did try that. You can even see some of the early price adjustments we made in early October, again trying to better reflect the value we are delivering overall with unlimited plans on premium networks. There is a lot of other examples, but ultimately it is an incredibly competitive market.

I would say from the Bell perspective, here is the approach we take and here is what customers and shareholders are going to get from us. Number one, we will always be competitive. Two, and I emphasized this in my opening comments, we are focused on high quality smartphone loadings because that is what drives service revenue growth, and you can see the very positive results of that strategy in our Q3 numbers. What we are doing is we are de-emphasizing tablets. We are going to let others chase that segment. We will obviously play in the tablet segment when it is accretive, but otherwise our focus is squarely on high quality loading.

Then back to your question on some of the promotional intensity, we have got to take a step back a little bit. With the move to installment plans, what was the vision? Part of the vision is to deliver ultimate transparency for the customer - you pay for your rate plan, you pay for your handset. There is a variety of handsets, you pick the one that delivers the features you want at the price that you want to pay. When you have that total transparency in that sense and you are offering all kinds of handsets, I just do not understand why we would continue as an industry to continue engaging in deep discounting of handsets like we used to.

We put a lot of effort into building the IT systems around installments. We all put a lot of effort into changing the way we sell, not naïve. I have said all along since installments were launched that there would be periods of time of the year where there would continue to be intense promotional activity, but I am personally a little bit disappointed in the pace of subsidy reduction. I think we can do a whole lot better, but hey, there was the total lockdown in Q2.

You asked about Black Friday and the holiday season, and that remains to be seen. We are in the midst of a second wave, Jeff; but on the other hand, you have got the iPhone that is just launched, our digital functionalities are so much better than they were, so we will be ready. However Black Friday turns out and however the holiday season turns out in terms of sales activity, we are ready to capitalize.

Jeffrey Fan – Scotiabank – Analyst

Just a quick follow-up on your comment about high quality loading. It is nice to see you disclose 130,000, it looks like phone additions or smartphone additions. Is this a number that you expect to systematically report in your reporting to exclude the tablets?

Then just a quick clarification - your Wireless Home Internet additions, are those in your wireless additions or are those in your wireline Internet additions?

Mirko Bibic – President and CEO

On the last one, the Wireless Home Internet are in the Internet numbers. Glen, over to you on the tablets versus smartphone loadings.

Glen LeBlanc – Executive Vice President and CFO

Good morning, Jeff. Yes, look – it is a logical approach, especially as we shift increasingly to 5G and our focus, as Mirko said, is on high value subscriber loadings. I think it makes a lot of sense to look at this reporting, and I know one of our competitors has switched to this reporting and I am seriously considering giving this—making a reporting change for next year, so stay tuned. But it makes a lot of sense, it is a logical approach, Jeff.

Jeffrey Fan – Scotiabank – Analyst

Okay, thanks a lot.

Operator

Thank you. The next question is from Drew McReynolds from RBC Capital Markets. Please go ahead.

Drew McReynolds – RBC Capital Markets – Analyst

Thanks very much, good morning.

Mirko, you are clearly seeing the success of an expanded FTTH footprint and you are keeping your foot on the gas here this year and really seeing some pretty good momentum, and that is whether it is RGUs or the 10% increase in Internet revenues. I know you are not going to give guidance for 2021 or beyond, but thematically, just your updated thoughts on accelerating that FTTH deployment, as everyone is pretty eyes wide open of the momentum that I think the telcos are gaining on the cablecos with it.

Just secondly, quickly on Bell Media, I would like to get your updated thoughts on what was tabled or will be tabled as proposed amendments to the Broadcasting Act, and just your initial thoughts on the impact there for Bell Media. Thank you.

Mirko Bibic – President and CEO

Thanks, Drew. Okay, first on broadband, I will reiterate what I also said in my—at the end of my opening comments, we have got our eyes fixed firmly on the long-term future, and the long future is underpinned by our six strategic imperatives. One of the key ones is building the best networks. We do not veer from the strategy, and we can see, as you have pointed out, Drew, that it is having a positive impact on our financials for the Wireline segment and clearly on operating metrics, so it is significant.

I want as much fibre as possible in urban and suburban markets, and frankly, I want to connect as many underserved homes in rural areas as we possibly can as fast as possible. I am not going give forward looking guidance, as you said, but when you look ahead and right now, and I hope it continues, we have a favourable regulatory environment with positive signals, having recently been said by the federal government that facilities-based competition matters and investment in facilities matters. So when you put that all together, I think there is clearly a case to be made for accelerating the pace of rollout. I certainly want to do it. It is why in 2020, when COVID first hit us at the beginning of the year, we said we are not scaling back on these strategic investments, we have to continue, so not going to give guidance for 2021, but it is going to continue to be a very important point of emphasis for us.

On the regulatory side with the announcement on Tuesday, I would say that I have to—a kind of tip of the hat to Minister Guilbeault for putting forward the amendment that they did on Tuesday, I think it was. Two really important points there, and they are points of principle but they are really important. One is we do—the recognition that there needs to be a level playing field in Canadian broadcasting as between our domestic players large and small and the Internet, global Internet giants - very, very important principle. We have been asking for the recognition of regulatory symmetry and a level playing field for a long time, so that is really important.

The second one that I want to highlight is the recognition of the importance of local news that is going to be built into the Broadcasting Act, also very important, so those are two real positive steps. Again, tip of the hat to the government for that.

However, what is really going to matter is how all this—how these important principles are going to be implemented because that is where the rubber hits the road, and that remains to be seen, like what will the policy directions from the government look like to the CRTC, and how will the CRTC generally apply these principles is going to matter.

Another thing that is really going to matter is we do not have time. We have got to move fast in implementing those principles. If we are still here debating how the principles are going to be implemented in two years, it will—that would be a shame. But good start.

A couple other things that I would like to see that were not reflected on Tuesday is we need to get going on sales tax imposition on the streaming services that are non-Canadian. We just need to get going on that. I cannot understand why we are still talking about this. The second point is piracy - I think there needs to be a recognition that we need to stop piracy. I cannot believe that in late 2020, that would continue to be a controversial issue, but look, we are still working on it.

I will stop there.

Drew McReynolds – RBC Capital Markets – Analyst

Okay, thank you, Mirko.

Operator

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

Vince Valentini – TD Securities – Analyst

Thank you very much. If I could try a clarification and then a question.

To clarify, you said 20% higher monthly recurring revenue for your 5G customers. Not many carriers are reporting that they are getting much of a price lift. Can you just clarify, is that—does that mean an existing customer moves from 4G to 5G and suddenly starts paying you 20% more, or is there a little self selection in there that the people moving to 5G on average were paying more than the average base on 4G, so it is really just higher value, higher usage customers moving to 5G initially is what drives that math?

The question, I will leave it with you for after the clarification, Internet revenue up 10%, very impressive, but your subscribers are up 4% year-over-year, so it implies something going on with either the mix of your Internet base or net pricing gains perhaps. Can you try to break that down a little bit for us? Is it something to do with the movement to FTTH or fixed wireless access, or is it actually just pricing increases net over the past year? Thanks.

Mirko Bibic – President and CEO

Vince, on the first one on 5G and Wireless, it is an MRC issue - you know, monthly recurring charges are driving that growth that you are seeing with the 5G customer base. On Internet, it is a function of a number of things: the COVID effect in terms of promotional intensity, really pricing reflecting the value that we are delivering to customers with fibre networks, it is customers choosing higher plans with higher speeds given the working from home and staying at home more. That is why you are seeing that impact on Wireline side, Vince.

Vince Valentini – TD Securities – Analyst

Thank you.

Operator

Thank you. The next question is from David Barden from BofA Securities. Please go ahead.

David Barden – BofA Securities – Analyst

Hey guys, thanks for taking the question. I guess my question is relating to the ABPU situation. Could you elaborate a little bit on how much or what percentage are you through the overage headwind on the business, and then at the same time from an overage standpoint, you said it was down 70% year-over-year, at what rate is that improving and when do you think that these two kind of headwinds start to abate? Thanks.

Mirko Bibic – President and CEO

I will start and then, Glen, you can pick up. I will start just first with a comment on the overage decline.

The decline improved in Q3 compared to Q2, and again I am a bit of a broken record on this one - since unlimited plans were launched, our focus is to continue to do what I consider to be a very good job managing that decline. We do not try to force migrate customers, as you know. We obviously have unlimited plans and

they are being chosen by customers, but it is the customers' choice. Frankly, it is not optimal financially to force migrate customers, so we are not going to do it. It is all about good subscriber base management, and that is going to continue.

Yes, overage decline continues to be a headwind and we continue to manage it, and the rate of decline actually improved in Q3 over Q2.

I will stop there and then Glen, you can fill in the blanks.

Glen LeBlanc – Executive Vice President and CFO

Thanks, Mirko. I will add a little more colour.

As Mirko said, we did have a 3% improvement in sequential quarters, albeit we continue to be down year-over-year. But if you look at the fact of the decline year-over-year, 80% of the decline year-over-year is driven by the roaming and data overage revenue that we have spoken about. The other 20% is mainly driven by higher prepaid mix.

If I peel the onion a little further, as I mentioned in my previous remarks, roaming revenue is still down virtually 70%, and to put that in absolute terms, we were down about $60 million in Q2 and we are down $58 million in Q3, so virtually no change. Mirko just said it and I have said it a few times - unfortunately we believe that global travel restrictions are likely to remain in place for some time, and I do not see a complete rebound in global or domestic roaming to occur in the coming quarters, so I think for the foreseeable future this remains a challenge.

Thank you, David.

David Barden – BofA Securities – Analyst

Thanks guys.

Operator

Thank you. Your next question is from Richard Choe from J.P. Morgan. Please go ahead.

Richard Choe – J.P. Morgan – Analyst

Hi. Just wanted to get an update on your transition to unlimited and what do you expect going into the holiday season with the transition there. Are you still looking for a measured pace or is this an opportunity to kind of maybe do a higher uptake rate on unlimited plans?

Mirko Bibic – President and CEO

Yes, like in response to David, we are continuing to manage the overage decline and the pace of that decline, and we are not going to force migrate customers, but unlimited plans are here to stay. They are delivering significant value to customers and customers are going to be choosing those plans, so that is going to continue. But we are going to manage that decline, just like we have since the beginning, since mid-summer 2019.

Richard Choe – J.P. Morgan – Analyst

As a follow-up, in terms of promotions for the fourth quarter, should we expect RGUs to be down year-over-year in Wireless or is that something that you do not plan on being too aggressive about?

Mirko Bibic – President and CEO

We are going to be competitive at all times and we will see how intense promotional activity is going to be for Black Friday and the holiday season. But like I also mentioned in response to my question to Jeff, we are going to be competitive, we are going to focus on high quality smartphone loadings. I think we all need to do a better job in the industry at keeping a check on subsidies, particularly as we have disaggregated the handset cost from the rate plan.

Richard Choe – J.P. Morgan – Analyst

Great, thank you.

Operator

Thank you. The next question is from Aravinda Galappatthige from Canaccord Genuity. Please go ahead.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning. Thanks for taking my questions. First on the Enterprise side and, I guess, B2B generally, thanks for the colour on how Q3 was trending. Any sign of movement as we step into Q4 and look beyond that, do you expect it to be maybe a period of flatness or maybe even further declines before a recovery in 2021?

Then as a follow-up, with respect to the comments on free cash flow for Q4 and for the full year, I was wondering if you can just talk to the tailwind that you expect to receive from lower handset costs when you look at it from a full year basis. I will leave it there, thank you.

Mirko Bibic – President and CEO

Okay, so I will answer the first one; Glen, you will take the second one.

On looking ahead to Q4, just generally or whether it is in the Enterprise segment, I will start with a couple of comments. I am expecting continued momentum in Q4, but whether we see the same pace of sequential improvement Q4 compared to Q3 as we did Q3 compared to Q2 remains to be seen, because we are—I mean, it is just the environment we are in, right? We are clearly in the midst of a second wave across the country and winter months are soon upon us, so it is hard to predict what the future holds. I have already made a couple comments about Black Friday and the holiday season – it is hard to know what is going to happen, particularly compared to prior years.

But be that as it may, I think our competitiveness is not in question. We have the best networks, we have the best products and services, and we have consistent execution, so the pace of improvement in Q4 is going to be a function of the COVID impacts on the economy generally and those impacts will be industry-wide.

Now you mentioned Enterprise and the Enterprise segment. That continues to be—I mean, my comments around that are very similar to my Q2 commentary. In Q2, we had a bump in connectivity in the Enterprise segment - I mean, that is slow but it has been consistent. The connectivity has been consistent. Some projects - you know, professional services, managed services projects have been delayed. That is what I also said in Q2,

but I am really pleased with the performance in Wireline generally, and that includes being pleased with our performance in the Enterprise segment.

We do serve the largest Canadian corporations, the largest—you know, the most stable Canadian corporations, so that is also—our stability is also a function of the stability of our Enterprise customer base.

Glen?

Glen LeBlanc – Executive Vice President and CFO

Thanks, Mirko. Yes, free cash flow and the comments I made earlier on the headwinds that we are facing with free cash flow in the coming quarter. We expect it to be an aggressive quarter on sales, so obviously that is going to impact A/R.

Now, just a reminder, our free cash flow includes everything, and what I mean by that is it includes working capital, so as we ramp up on purchases of inventory, it is going to have a negative effect on free cash flow. As we see sales accelerate and therefore an increase in A/R, it is going to have an impact.

I also mentioned that I expect a ramp-up in capital expenditures as we are very, very focused on our network builds, our network deployment, so I see that as being a drag on cash flow.

Income tax payments, we enjoyed a deferral on many of the tax payments that the government offered relief, a deferral relief, and those are all starting to boomerang as we look in the second half of the year to be catching up on those.

As far as handsets go, you mentioned lower handsets. With the new devices launching, the cost of the handset is actually higher, so from a free cash flow drag, as I said, it is many, many items. It is the cost of the handset, it is the sales activity, increase in inventory, capex and tax, but all of it very, very manageable and I see no worries. The focus remains on liquidity, as I said.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Thank you.

Operator

Thank you. The next question is from Simon Flannery from Morgan Stanley. Please go ahead.

Simon Flannery – Morgan Stanley – Analyst

Great, thank you. Just following up on the balance sheet, if I could, you have talked about refinancing, taking lower rates, terming out your maturities. How are you now thinking about your overall leverage targets over the medium term? You have obviously just monetized you data centres, but the spectrum auction is coming up next year. I think in the past, you have talked 2 to 2.5 times - you are a little bit above that right now. What is the right way to think about longer term goals in this environment?

Glen LeBlanc – Executive Vice President and CFO

Morning, Simon. As I said in my opening remarks that I did not—I do not see a material change in our leverage for the foreseeable future. We do have multiple spectrum auctions in front of us, absolutely paramount that we participate, and as you know we will participate, incredibly important spectrum coming available. We did just

divest of the data centre and that certainly gives us additional cash to invest in the business, including investment in spectrum. I do not see a material change.

The public policy of 2.5 times, we are above that, have been for some time. It is very hard to see an aggressive repayment of debt in the interest rate environment that is at an all-time low So I think a prudent, responsible approach to our balance sheet is to stay generally in the leverage vicinity we are now, with respecting the current credit rating that we have, so in other words not taking actions that jeopardize that, but I am not in a rush to reduce it either.

I think the most important thing for us is to have the liquidity and the balance sheet strength to ensure that these spectrum auctions are very successful for BCE.

Simon Flannery – Morgan Stanley – Analyst

Great, and just a quick follow-up on the iPhone cycle. We have seen some U.S. carriers talk about a good start to the iPhone sales process, and there is some talk about maybe a super cycle that people have been holding onto their handsets for longer than normal. How are you thinking, irrespective of the competitive environment, but just is there a pent-up demand to get a new phone here, and we might see a bigger than normal cycle over the next six months?

Mirko Bibic – President and CEO

It is hard to tell. So far, so good on 5G and on iPhone, and I think Black Friday and the holiday season will be more indicative and we will see what that brings.

Then as we look into next year and we have got the 3500 MHz spectrum and we are into true 5G, I think there is going to be a pick-up in activity at that point in time and then we will have new applications and services being delivered to consumers. But so far, so good.

We are used to this. We have been through these cycles before - 2G to 3G to 4G, etc., but we like where we sit today both in terms of the competiveness of our networks, how 5G is doing so far, and iPhone sales have been just fine.

Simon Flannery – Morgan Stanley – Analyst

Thank you.

Operator

Thank you. There are no further questions at this time. Back over to you, Mr. Fotopoulos.

Thane Fotopoulos – Vice President – IR

Great, thanks, Donna. Thank you again to everybody for their participation on the call this morning. As always, I am available for follow-up questions and clarifications throughout the day.

With that, have a great day and take care of yourselves and stay safe. Thank you.