BCE Q2 2024 Results conference call transcription

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CAUTION REGARDING 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 Q2 2024 Results Conference Call, as reflected in this transcript, are forward-looking statements. These statements include, without limitation, statements relating to BCE's financial guidance (including revenue, adjusted EBITDA, capital intensity, adjusted EPS and free cash flow), BCE's 2024 annualized common share dividend, the potential for continued growth in mobile phone net additions due to population expansion and focus on bundling wireless and consumer Internet service, the proposed disposition of Northwestel, the intended use by Bell Canada of the proceeds from the proposed disposition and the extent to which such proceeds are expected to improve BCE's net debt leverage ratio, the expected timing of the opening of 167 Best Buy Express retail stores across Canada, BCE's planned reduction in 2024 capital expenditures, the extent to which the proceeds from asset sales, as well as the generation of positive free cash flow after dividend payments, support BCE's focus to reduce its net debt leverage ratio, the cost savings expected to result from workforce reductions, 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, commitment 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 August 1, 2024 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. We regularly consider potential acquisitions, dispositions, mergers, business combinations, investments, monetizations, joint ventures and other transactions, some of which may be significant. Except as otherwise indicated by BCE, forward-looking statements do not reflect the potential impact of any such transactions or of special items that may be announced or that may occur after August 1, 2024. 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 Q2 2024 Results Conference Call for the purpose of assisting investors and others in understanding certain key elements of our expected financial results, as well as 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. The forward-looking statements made during BCE's Q2 2024 Results Conference Call for periods beyond 2024 assume, unless otherwise indicated, that the economic, market, operational and financial assumptions as well as the material risk factors described in this transcript will remain substantially unchanged during such periods.

Material Assumptions
A number of economic, market, operational and financial assumptions were made by BCE in preparing certain forward-looking statements contained in this transcript, including, but not limited to the following:

Canadian Economic Assumptions
Our forward-looking statements are based on certain assumptions concerning the Canadian economy. In particular, we have assumed:

- *Modest economic growth, given the Bank of Canada's most recent estimated*
growth in Canadian gross domestic product of 1.2% in 2024, representing a decrease from the earlier estimate of 1.5%
- *Easing consumer price index (CPI) inflation as monetary policy works to reduce inflationary pressures*
- *Easing labour market conditions*
- *Growth in consumer spending as lower interest rates ease debt payments*
- *Business investment growth underpinned by easing financial conditions and the overall growth of the economy*
- *Interest rates expected to remain at or near current levels*
- *Population growth resulting from immigration*
- *Canadian dollar expected to remain near current levels. Further movements may be impacted by the degree of strength of the U.S. dollar, interest rates and changes in commodity prices.*

Canadian Market Assumptions
Our forward-looking statements also reflect various Canadian market assumptions. In particular, we have made the following market assumptions:

- *A higher level of wireline and wireless competition in consumer, business and wholesale markets*
- *Higher, but slowing, wireless industry penetration*
- *A shrinking data and voice connectivity market as business customers migrate to lower-priced telecommunications solutions or alternative over-the-top (OTT) competitors*
- *The Canadian traditional broadcast TV and radio advertising market is experiencing a slowdown consistent with trends in the global advertising market, with improvement expected in the medium term, although visibility to the specific timing and pace remains limited*
- *Declines in broadcasting distribution undertaking (BDU) subscribers driven by increasing competition from the continued rollout of subscription video on demand (SVOD) streaming services together with further scaling of OTT aggregators*

Assumptions Concerning our Bell CTS Segment
Our forward-looking statements are also based on the following internal operational assumptions with respect to our Bell CTS segment:

- *Increase our market share of national operators' wireless mobile phone net additions*
- *Increased competitive intensity and promotional activity across all regions and market segments*
- *Ongoing expansion and deployment of 5G and 5G+ wireless networks, offering competitive coverage and quality*
- *Continued diversification of our distribution strategy with a focus on expanding direct-to-consumer (DTC) and online transactions*
- *In the BCE 2023 Annual MD&A, we disclosed our assumption of moderating growth in mobile phone blended ARPU. We are now assuming declining mobile phone blended ARPU, due to a higher-than-anticipated level of competitive pricing pressure which intensified progressively in the first quarter of 2024, that has carried over from the seasonally more intense Q4 2023 selling period.*
- *Continuing business customer adoption of advanced 5G, 5G+ and Internet of Things (IoT) solutions*
- *Improving wireless handset device availability in addition to stable device pricing and margins*
- *Further deployment of direct fibre to more homes and businesses within our wireline footprint, but at a slower pace than during any of 2020 to 2023*
- *Continued growth in retail Internet and IPTV subscribers*
- *Increasing wireless and Internet-based technological substitution*
- *Continued focus on the consumer household and bundled service offers for mobility and Internet customers*
- *Continued large business customer migration to IP-based systems*
- *Ongoing competitive repricing pressures in our business and wholesale markets*
- *Continued competitive intensity in our small and medium-sized business markets as cable operators and other telecommunications competitors continue to intensify their focus on business customers*
- *Traditional high-margin product categories challenged by large global cloud and OTT providers of business voice and data solutions expanding into Canada with on-demand services*
- *Increasing customer adoption of OTT services resulting in downsizing of TV packages*
- *Growing consumption of OTT TV services and on-demand video streaming, as well as the proliferation of devices, such as tablets, that consume large quantities of bandwidth, will require ongoing capital investment*
- *Realization of cost savings related to operating efficiencies enabled by our direct fibre footprint, changes in consumer behaviour and product innovation, digital adoption, product and service enhancements, expanding self-serve capabilities, new call centre and digital investments, other improvements to the customer service experience, management workforce reductions including attrition and retirements, and lower contracted rates from our suppliers*
- *No adverse material financial, operational or competitive consequences of changes in or implementation of regulations affecting our communication and technology services business*

Assumptions Concerning our Bell Media Segment
Our forward-looking statements are also based on the following internal operational assumptions with respect to our Bell Media segment:

- *Overall digital revenue expected to reflect continued scaling of our Strategic Audience Management (SAM) TV and demand-side platform buying platforms, expansion of Addressable TV, as well as DTC subscriber growth, contributing towards the advancement of our digital-first media strategy*
- *Leveraging of first-party data to improve targeting, advertisement delivery including personalized viewing experience and attribution*

- *Continued escalation of media costs to secure quality content*
- *Continued scaling of Crave through optimized content offering, user experience improvements and expanded distribution*
- *Continued support in original French content with a focus on digital platforms such as Crave, Noovo.ca and iHeartRadio Canada, to better serve our French-language customers through a personalized digital experience*
- *Ability to successfully acquire and produce highly-rated and differentiated content*
- *Building and maintaining strategic supply arrangements for content across all screens and platforms*
- *No adverse material financial, operational or competitive consequences of changes in or implementation of regulations affecting our media business*

Financial Assumptions Concerning BCE
Our forward-looking statements are also based on the following internal financial assumptions with respect to BCE for 2024:

- *An estimated post-employment benefit plans service cost of approximately $215 million*
- *An estimated net return on post-employment benefit plans of approximately $70 million*
- *Depreciation and amortization expense of approximately $5,050 million to $6,000 million*
- *Interest expense of approximately $1,700 million to $1,750 million*
- *Interest paid of approximately $1,750 million to $1,800 million*
- *An average effective tax rate of approximately 25%*
- *Non-controlling interest of approximately $60 million*
- *Contributions to post-employment benefit plans of approximately $55 million*
- *Payments under other post-employment benefit plans of approximately $60 million*
- *Income taxes paid (net of refunds) of approximately $700 million to $800 million*
- *Weighted average number of BCE common shares outstanding of approximately 912 million*
- *An annual common share dividend of $3.99 per share*

Assumptions underlying expected continuing contribution holiday in 2024 in the majority of our pension plans
We have made the following principal assumptions underlying the expected continuing contribution holiday in 2024 in the majority of our pension plans:

- *At the relevant time, our defined benefit (DB) pension plans will remain in funded positions with going concern surpluses and maintain solvency ratios that exceed the minimum legal requirements for a contribution holiday to be taken for applicable DB and defined contribution (DC) components*
- *No significant declines in our DB pension plans' financial position due to declines in investment returns or interest rates*
- *No material experience losses from other events such as through litigation or changes in laws, regulations or actuarial standards*

The foregoing assumptions, although considered reasonable by BCE on August 1, 2024, may prove to be inaccurate. Accordingly, our actual results could differ materially from our expectations as set forth in this transcript.

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, including our 2024 financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our 2024 financial guidance targets, essentially depends on our business performance, which, in turn, is subject to many risks. Accordingly, readers are cautioned that any of the following risks could have a material adverse effect on our forward-looking statements. These risks include, but are not limited to: the negative effect of adverse economic conditions, including a potential recession, elevated inflation, high interest rates and financial and capital market volatility, and the resulting negative impact on business and customer spending and the demand for our products and services; the negative effect of adverse conditions associated with geopolitical events; regulatory initiatives, proceedings and decisions, government consultations and government positions that negatively affect us and influence our business including, without limitation, concerning mandatory access to networks, spectrum auctions, the imposition of consumer-related codes of conduct, approval of acquisitions, broadcast and spectrum licensing, foreign ownership requirements, privacy and cybersecurity obligations and control of copyright piracy; the inability to implement enhanced compliance frameworks and to comply with legal and regulatory obligations; unfavourable resolution of legal proceedings; the intensity of competitive activity and the failure to effectively respond to evolving competitive dynamics; the level of technological substitution and the presence of alternative service providers contributing to disruptions and disintermediation in each of our business segments; changing customer behaviour and the expansion of cloud-based, OTT and other alternative solutions; advertising market pressures from economic conditions, fragmentation and non-traditional/global digital services; rising content costs and challenges in our ability to acquire or develop key content; high

Canadian Internet and smartphone penetration; the failure to evolve and transform our networks, systems and operations using next-generation technologies while lowering our cost structure, including the failure to transition from a traditional telecommunications company to a tech services and digital media company and meet customer expectations of product and service experience; the inability to drive a positive customer experience; the inability to protect our physical and non-physical assets from events such as information security attacks, unauthorized access or entry, fire and natural disasters; the failure to implement an effective data governance framework; the failure to attract, develop and retain a diverse and talented team capable of furthering our strategic imperatives and high-tech transformation; the potential deterioration in employee morale and engagement resulting from staff reductions, cost reductions or reorganizations and the de-prioritization of transformation initiatives due to staff reductions, cost reductions or reorganizations; the failure to adequately manage health and safety concerns; labour disruptions and shortages; the risk that we may need to incur significant capital expenditures to provide additional capacity and reduce network congestion; service interruptions or outages due to network failures or slowdowns; events affecting the functionality of, and our ability to protect, test, maintain, replace and upgrade, our networks, information technology (IT) systems, equipment and other facilities; the failure by other telecommunications carriers on which we rely to provide services to complete planned and sufficient testing, maintenance, replacement or upgrade of their networks, equipment and other facilities, which could disrupt our operations including through network or other infrastructure failures; the complexity of our operations and IT systems and the failure to implement or maintain highly effective processes and IT systems; in-orbit and other operational risks to which the satellites used to provide our satellite TV services are subject; the inability to access adequate sources of capital and generate sufficient cash flows from operating activities to meet our cash requirements, fund capital expenditures and provide for planned growth; uncertainty as to whether dividends will be declared or the dividend on common shares will be increased by BCE's board of directors; the failure to reduce costs and adequately assess investment priorities, as well as unexpected increases in costs; the inability to manage various credit, liquidity and market risks; the failure to evolve practices to effectively monitor and control fraudulent activities; 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 impact on our financial statements and estimates from a number of factors; pension obligation volatility and increased contributions to post-employment benefit plans; our dependence on third-party suppliers, outsourcers and consultants to provide an uninterrupted supply of the products and services we need; the failure of our vendor selection, governance and oversight processes, including our management of supplier risk in the areas of security, data governance and responsible procurement; the quality of our products and services and the extent to which they may be subject to defects or fail to comply with applicable government regulations and standards; reputational risks and the inability to meaningfully integrate environmental, social and governance (ESG) considerations into our business strategy and operations; the failure to take appropriate actions to adapt to current and emerging environmental impacts, including climate change; pandemics, epidemics and other health risks, including health concerns about radio frequency emissions from wireless communications devices and equipment; the inability to adequately manage social issues; the failure to develop and implement sufficient corporate governance practices; the adverse impact of various internal and external factors on our ability to achieve our ESG targets including, without limitation, those related to greenhouse gas emissions reduction and diversity, equity, inclusion and belonging; and the completion of the proposed disposition of Northwestel is subject to closing conditions, including the purchaser securing financing, the completion of confirmatory due diligence, and the receipt of the Competition Bureau's approval and, as such, there can be no assurances that the proposed disposition will ultimately be consummated or that it will be consummated on the terms and conditions currently contemplated.

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 2023 Annual MD&A dated March 7, 2024, BCE's 2024 First and Second Quarter MD&As dated May 1, 2024 and July 31, 2024, respectively, and BCE's news release dated August 1, 2024 announcing its financial results for the second quarter of 2024 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 sedarplus.ca) and with the U.S. Securities and Exchange Commission (available at sec.gov). These documents are also available at BCE.ca.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BCE Q2 2024 Results Conference Call. I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, sir.

Thane Fotopoulos – Vice President – IR

Thank you Matthew. Good morning everyone and thank you for joining our call. I'm here as usual with Mirko Bibic, President and CEO of BCE, and our CFO Curtis Millen.

You can find all our Q2 disclosure documents on the Investor Relations page of the BCE.ca website, which we posted earlier this morning.

Before we begin, I would like to draw your attention to our Safe Harbour statement on slide 2 of the analyst presentation, reminding you that today's slide presentation, and remarks made during the call 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 BCE's publicly filed documents for more details on our assumptions and risks.

With that, I'll now turn the call over to Mirko.

Mirko Bibic – President and CEO

Thanks Thane and good morning everyone.

Looking at our overall second quarter operating results, the Bell team managed well and executed with financial discipline against the backdrop of a highly competitive marketplace. We have a clear vision for how we are competing now and into the future, combined with our trademark consistent execution.

While consolidated topline growth continued to be impacted by unnecessarily aggressive promotional pricing/sustained competitive pricing pressures and expected revenue loss from The Source, we remained laser-focused on profitable, margin-accretive subscriber growth and driving costs out of the organization as evidenced by adjusted EBITDA growth of 2% in Q2 and a 1.3-point increase in BCE's margin to 44.9%. Both of these results were higher than forecasted, demonstrating our success in driving efficiencies and reducing costs to offset near-term competitive and economic pressures.

This contributed to $1.1 billion of free cash flow being delivered in Q2, which represents an increase of 8% over last year, and aligns with the expectations we shared with you on our Q1 conference call in May for higher free cash flow generation as we profiled in our quarterly budget at the start of the year.

As for operating results, our CTS segment subscriber metrics continue to be underpinned by our leading broadband fibre network that is consistently recognized by third parties for its best-in-class performance and customer experience, mobile 5G speeds which are being further enhanced with the deployment of 3800 MHz spectrum, as well as increased customer bundling of mobility and Internet services that serves as an important churn management and value-driver tool.

In Wireless, we were arguably the most disciplined in striking the right balance between volume growth and economics in a heightened competitive pricing environment. We managed our promotional offers prudently to deliver a healthy step-up in new subscriber activations that focused on higher-quality, main brand loadings. In fact, Bell has led the charge on more rational pricing behaviour, increasing the rates on a number of Bell Mobility and Virgin Plus plans at the beginning of July while delivering exceptional value to our customers.

Collectively, total mobile phone net additions in Q2 were up 4.4% to 131,043. And with robust Canadian population growth projections and greater focus on bundling wireless and consumer Internet service, we see good runway for continued growth.

Mobile subscriber growth also included connected device net additions of approximately 88,000, that is up 10.5% over the prior year, reflecting continued strong momentum for our 5G and IoT B2B solutions.

In residential wireline, we continue to gain a significant share of new Internet subscriber growth fuelled by our fibre network superior symmetrical speeds and overall customer experience, which drove our highest Q2 consumer retail Internet net additions in 17 years and an 18% increase in households subscribing to mobility and Internet service bundles and that is where we have fibre. Notably, 41% of our new Internet customers are subscribing to a service bundle with wireless, which is helping to drive better subscriber lifetime value and improved retention longer term.

Turning to media. Bell Media continues to transform from a traditional broadcaster to a digital media and content leader. And a prime example of that is the advanced advertising solutions for clients powered by Bell First Party Data, including Bell Analytics, the SAM TV sales tool, Bell DSP, Addressable TV and Crave with ads, which collectively drove a 35% increase in digital ad revenue this quarter.

Investments to sustain this strategic shift to digital are continuing. We announced a number of new partnerships and additions to our ad offerings at our Upfront presentation in June. These included a new self-serve buying platform for advertisers looking to reach local audiences; strategic sales partnerships with TikTok's premium advertising product, Pulse Premiere, as well as Dotdash Meredith, the largest digital and print publisher in the U.S.; and expanded distributions for our 10 new FAST channels launched in April.

Our momentum also continues to build in the Business Enterprise space as our expanding capabilities in cloudification, security and managed automation have led to increasing customer wins and the expansion of existing relationships, all of which drove strong business solutions services revenue growth of 22% this quarter. Building on this growth strategy, we recently acquired leading technical services companies Stratejm and CloudKettle. These acquisitions complement our acquisition of FX Innovation last year by immediately strengthening Bell's cybersecurity and Salesforce workflow automation know-how for enterprises and enriching the range of capabilities available to manage customers' public and hybrid cloud environments with the world's leading cloud providers. We can now deliver customer solutions across the two leading platform software companies — ServiceNow and Salesforce, in addition to our new advanced managed security solution.

Regarding ServiceNow, we recently entered into an expanded partnership with them to accelerate Bell's digital transformation and importantly the digital transformation of our enterprise customers.

ServiceNow's applications will streamline several areas of our business, including Network, IT and Customer and Field Service operations, resulting in a more efficient experience for technicians leveraging AI-driven insights to automate scheduling, improve customer service and reduce drive time. Also, to enhance customer support with powerful automation capabilities to streamline case handling and drive faster service deliveries using solutions that ensure customers get the services they want and require in a matter of hours or days.

While these investments and partnerships in technology and automation will enable us to unlock even greater operating efficiencies going forward, we are already benefitting from advanced AI and machine learning capabilities to improve the Bell customer experience and, importantly, take costs out of our business which contributed to $20 million in labour cost savings across our Customer operations.

Here are some examples of how our AI leadership is setting us apart.

We pioneered a self-serve "Virtual Repair Tool" for technical troubleshooting of internet and TV issues and that eliminated call wait times and technician visits.

We launched the first Google AI-powered infobot in Canada, offering instant answers to customer questions and directing them to self-service options and links.

Our implementation of the full Google call center AI platform is a world first for a contact center of this scale. The virtual assistant we have implemented first for Lucky Mobile chat and now for our Bell and Virgin brands has resulted in over 1.1 million virtual assistant interactions year to date across the three brands.

We have also implemented AI powered agent support models that leverage real-time transcription which analyse calls on a call center through our Speech AI solutions and that enables us to identify cross-sell opportunities where appropriate.

We also use AI enabled Dynamic Call Routing to pair incoming customer calls with the agents that have the right skill set to optimize that customer's experience. And we are also using Generative AI for call quality assurance, monitoring aspects like time on hold and manager escalations and to automatically generate retention offers in real-time all of which is designed to vastly improve the customer experience, drive operating efficiencies, lower churn and generate customer lifetime value.

Against the backdrop of these accelerating investments, we entered into a transaction to sell Northwestel to a consortium of Indigenous communities for up to $1 billion in cash. This was a unique opportunity that emerged to surface good value for a standalone BCE asset at a fair valuation, and to use those proceeds to proactively manage our balance sheet and pay down debt.

And consistent with our strategy to reduce focus on non-core businesses, we took the next step in a transition of 167 The Source stores to Best Buy Express with the opening of our first store in June. That marks the beginning of a phased rollout of all stores expected to open by the end of this year. All remaining 107 The Source stores are now closed and in no longer in operation.

Turning to slide 5. We added 131,043 new net mobile phone subscribers in Q2, up 4.4% from last year. This was a function of a 14.4% increase in gross activations, which outpaced peers who have already reported by a wide margin, and a second consecutive quarter of deceleration in the year-over-year rate of churn increase.

Now the churn rate remains elevated, and clearly not at a level that I'm satisfied with, it is down sequentially from Q1 both in absolute terms and in the magnitude of increase when compared to the prior year.

Although postpaid net additions of 78,500 were down versus Q2'23 of last year, on what was a relatively strong prior year, importantly and deliberately, the vast majority of our new customers continue to be on our main premium brand, which is fundamental to our operating strategy. This result reflects our focus on better quality, profitable and margin-accretive subscriber acquisition. We plan to continue with this consistent and disciplined approach of balancing subscriber growth and financial performance (rather than buying loads) as we progress through the balance of 2024 and beyond.

Prepaid net additions were up meaningfully over last year, growing to 52,543, as we benefitted from the launch of no name mobile and Lucky Mobile marketing initiatives. This represents our best quarterly prepaid result in almost 2 years. Having led the market in prepaid growth this quarter, it shows that we've made massive strides in breaking into the Canadian newcomer market in a relatively short period of time.

To close off on wireless, ARPU was down 1.9% year over year. This result does not come as a surprise given that we've been facing the lowest pricing environment in the history of wireless in Canada for much of the past year. However, we did see an improvement in June. Although encouraging, given the current dynamic pricing environment that's in flux as we enter the back-to-school period, it is still too early to make a call on the direction of ARPU for the balance of this year.

Over to Wireline.

With 23,841 new retail Internet net additions, we delivered our second best Q2 result since 2007 after Q2'23, which was an exceptional year.

Moreover, where we have fibre, our bundle sales continue to grow. In Q2 alone, new customers subscribing to mobility and Internet service bundles increased 23% compared to last year, and now comprise 48% of our total residential households.

Another solid quarter for our Bell-branded IPTV service, which added 3% more new net subscribers than Q2'23. However, gross activations on our Fibe TV App streaming service were down considerably this quarter, due to a $5 rate increase in May for new subscribers, resulting in a 12,800 year-over-year decrease in total IPTV net additions.

Lastly, turning to media.

Total advertising revenue was up on the strength of digital and live sports. Although this result represents our second consecutive quarter of growth, the ad market improvement is expected to be uneven for the balance of this year. Digital and direct-to-consumer continued to grow strongly, helping to offset the secular pressures from traditional media platforms. Digital revenues were up 23% over last year and now comprise 41% of Media revenue compared to 33% last year.

Driving this performance was Crave, which grew direct streaming subscribers by 21% in Q2 on the back of market-leading content, as well as strong growth in usage of our programmatic ad marketplace, including our SAM TV advertising tool, which increased sales revenue by 43% this quarter.

TSN and RDS direct-to-consumer streaming subscribers more than doubled over last year on the back of Euro Cup soccer and record-breaking audiences for the COPA America tournament.

For the current broadcast season to date, CTV remains Canada's most watched network for a 23rd consecutive year.

On the French-language side, Bell Media led all competitors in the entertainment and pay specialty market, and Noovo was the conventional TV network with the largest growth in full-day audiences, increasing 8% over Q2 of last year.

In summary, our performance for Q2 reflects the team's consistent execution in a highly competitive and evolving marketplace with financial results that demonstrated a prudent balancing of subscriber growth with profitability, and a continued sharp focus on cost efficiency and effectiveness.

I'll now turn the call over to Curtis who will provide more details on our Q2 financial results.

Curtis Millen – Executive Vice President and CFO

Thank you Mirko and good morning everyone.

As you can see on slide 7, our consolidated financial results for Q2 demonstrate the Bell team's consistent and responsible execution in an intensely competitive marketplace.

We returned to positive service revenue growth in Q2 following declines in the two previous quarters. This is the direct result of our successful fibre strategy, our ability to attract premium wireless subscribers and drive greater cross-sell penetration of Mobility and Internet households, our expanded business tech services capabilities, and continued strong digital media growth.

Total revenue was down 1%. This can be attributed to an 8.7% decrease in low-margin wireless and wireline product sales, which included the loss of revenue from The Source store closures.

Adjusted EBITDA grew 2%, delivering a notable margin improvement of 1.3 points on the back of a 3.3% reduction in operating costs.

Net earnings were up 52% in Q2. While helped by EBITDA, the increase was due mainly to a large non-cash loss recorded in Q2 2023 on BCE's share of an obligation to repurchase at fair value the minority interest in a joint venture equity investment at fair value.

Nothing notable on adjusted EPS. Consistent with our 2024 guidance assumptions for interest and depreciation expense, it was down 1¢ compared to last year.

As for free cash flow, it grew 8% this quarter, benefitting from the flow-through of higher EBITDA and lower capex. In. In line with our plan to reduce capital spending investment by at least $500 million in 2024, as we move past the peak of our fibre rollout, capex was down $329 million in Q2. This brought year-to-date capex savings to $413 million. So, well on track to achieve our planned reduction for the year.

Turning to Bell CTS financial results on slide 8.

The topline story here is all about low-margin product revenue, which was down $66 million in Q2, accounting for 93% of the 1.3% decline in total revenue.

The decrease was the result of lower mobile phone sales as 70% of new customer activations in Q2 were BYOD subscribers; The Source store closures that I referenced earlier; and reduced wireline telecom equipment sales as levels normalized following an exceptional year in 2023 due to the global supply chain recovery. Importantly, the EBITDA impact was negligible as these product revenues are very low margin.

Internet revenue was up approximately 3%, while wireless service revenue grew by 1.2%. Although both are solid results, they continued to be impacted by overly aggressive rate plan pricing and bundle discounting, reflecting a more intense competitive market environment compared to last year. This, together with ongoing legacy erosion, moderated service revenue growth this quarter.

We also continued to see good business solutions strength, a key growth vector going forward, where revenue grew 22% over last year. This was driven by higher sales of cloud-based computing, managed automation and security services, as well as our acquisition of FX Innovation that we lapped in June.

However, the financial highlight of the quarter was EBITDA, which strengthened over Q1, growing by 2% to yield a strong margin of 46.9%. That's a 150 point increase over last year, and the direct result of our focus on cost management, as evidenced by a 4.1% reduction in Q2 operating costs and margin-accretive subscriber growth.

Over to Bell Media on slide 9.

Good overall financial performance in Q2. In fact, this marks Bell Media's first quarter of revenue and EBITDA growth in two years. A positive result under the circumstances, which is a testament to the team's strong execution, our diversified asset mix, premium content and success of our digital-first media strategy.

Total Q2 revenue was up approximately 1%. This result was driven by a 1.9% increase in advertising revenue on the back of our strong TV sports specialty performance, continued robust digital advertising growth and the acquisition of OUTFRONT Media that was completed in June.

The F1 Canadian Grand Prix and higher international sales of Bell Media programming also contributed to higher revenue this quarter.

The media team also did a great job managing costs, which is a recurrent theme, which increased only marginally despite higher TV programming costs, as much of this pressure was effectively offset by cost-saving initiatives. This, together with the benefit of higher revenue, enabled us to deliver EBITDA growth of nearly 2% this quarter.

Turning to the balance sheet on slide 10.

We ended Q2 with $5 billion of available liquidity, which includes the proceeds of a $1.5 billion public debt issuance we completed in May.

Our debt maturity schedule is also prudently structured with an average term to maturity of approximately 13 years and an after-tax cost of debt below prevailing interest rates at 3.2%. This, together with no outstanding refinancing requirements for the balance of the year, maturities in 2025 totaling $2.1 billion that have already been largely pre-funded, easing interest rates and a sizeable pension solvency surplus, we remain in a good financial position.

We made a final payment of $414 million in Q2 for 3800 MHz spectrum that we won in auction late last year. This led to a slight increase in our leverage ratio from Q1 to 3.7 times adjusted EBITDA
.
We are mindful of our elevated debt position, and we remain highly focused on reducing our leverage ratio over time. This will be achieved through positive free cash flow generation after dividend payments and using the proceeds from asset sales, such as Northwestel, to pay down debt. In fact, the announced $1 billion Northwestel transaction is expected to improve our leverage ratio by up to approximately 5 basis points.

To wrap up on slide 11.

You can see from our performance in the first half of 2024 that we are effectively navigating a dynamic competitive and economic environment to achieve financial results largely in line with our expectations. Going forward, we will continue to execute in the same consistent and disciplined manner, focusing on cost efficiencies and balanced growth.

Accordingly, we remain confident in our ability to deliver on all of our financial guidance targets for 2024.

I'll now hand the call back to Thane and the operator to begin Q&A.

QUESTION AND ANSWER SESSION

Thane Fotopoulos – Vice President – IR

Thanks Curtis. Before we start, to keep the call as efficient as possible, please limit yourselves to one question and a brief follow-up if you must, so that we can get to as many in the queue as possible with the time we have left. With that, Matthew, we are ready to take our first question.

Operator

Thank you. The first question is from Maher Yaghi from Scotiabank. Please go ahead.

Maher Yaghi – Scotiabank – Analyst

Great. Thank you for taking my question. Good morning, everyone. So, I wanted to ask you--I won't ask you about Wireless. I'll ask you about Wireline, actually. So, we are seeing significant promotional and retention activities in the market with, you know, some--like lifetime price locks guarantees by Videotron, which is--you know, the Canadian market hasn't seen before, but also aggressive signing promotions by Bell with prices as low as $55 for 1.5 gigs. You know, we are waiting for the decision by the CRTC, but I would say the market is quite competitive, but that's just me. We'll see what they have in mind. But my question on this topic is the following. When first, you know, when BCE first embarked on its fibre to the home deployment, I remember quite clearly, you know, quite--like ten years ago, the expectation was that broadband ARPU was going to be in the $90 to $100 range, and now we're sitting at $55 to $60 range. Are we still beeing positive NPVs on fibre to the home? When you look at your models and you look at the pricing currently in the marketplace, what's your view on that investment and its potential positive return for shareholders? Thank you

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Mirko Bibic – President and CEO

Thank you, Maher. It's--for the question, look, fibre continues to be the growth engine of Bell on the Wireline side. And frankly, if you look at the communication segments pretty much everywhere, the area of growth in Wireline is actually fibre, so still quite positive on the fibre strategy. Obviously, it remains the bedrock of our wireline strategy and the investments were much-needed, critical, and will serve us well for years and years to come. I'm quite pleased with our Internet performance over time, but including Q2 of this year, it was our second best Q2 since 2007 after last year, which was a standout quarter a year ago. So, I already said that in my opening remarks. We're seeing very good, very good bundling success. And that's adding to, you know, the lifetime value of customers, Maher. Now, there is room for ARPU growth. In some markets though, I say--we've seen promotional intensity stabilize as bill credits lowered. You're giving an example of a particular offer that's, you know, maybe in market in particular areas. But they're really catered to higher value customers, which remains part of our overall strategy.

Look, we're in an intense pricing environment in Wireless and Wireline, and everybody knows this, but we're going to continue to focus on generating, you know, lifetime value for customers who choose the very best and who want premium product, and that's Bell Fibe. And we're doing a very good job standing out in the marketplace. I would say, though, and the answer to your question, as you see, we're going to adjust to circumstances as they arise, right? Whether it's pricing, environment, macroeconomic pressures, you know, regulatory pressures, we're just going to adjust. And you've seen a major adjustment over the last 12 months in terms of the pace of our fibre build as we get closer and closer to reaching our near-term buildout targets. And we'll continue to adjust very quickly in the face of pressures. And that's how Bell operates.

Maher Yaghi – Scotiabank – Analyst

Thank you.

Operator

Thank you. Our next question is from Stephanie Price from CIBC World Markets. Please go ahead.

Stephanie Price – CIBC World Markets – Analyst

Good morning. I was hoping to understand more around the opportunities with ServiceNow, and AI, and automation. Are these initiatives, kind of, included in your original cost savings initiatives or should we think about them as additive? And if so, how do we think about the magnitude and timing around automation and digitization?

Mirko Bibic – President and CEO

Thanks for the question. So, on ServiceNow, we are kind of embedding ServiceNow into our own environment in order to increase efficiency both in how we operate and of course driving costs out of the business. But I'm particularly energized in terms of that partnership with our ability to go to market in conjunction with ServiceNow and to serve our enterprise customers in their own digital transformation journeys. And that's across cloud security and managed automation and integrating ServiceNow into the environments of our customers. And you know, co-creating with ServiceNow so that we can jointly go to market. So that's where for me it's equally positive. Initiative is on the go to market side including, kind of, embedding it into our own environment. So, that's going to continue to drive costs out of our business combined with more robotic process automation and more use of AI, Stephanie. You know, I gave a list of examples in my opening remarks of how we're going to use AI to improve the customer experience, attract more customers, and importantly, drive costs out of the business. And I share the $20 million figure. So, I can't give you a precise figure as to how we're going to continue or the quantum of cost efficiencies quarter by quarter that are going to come from deploying AI and ServiceNow, but we're going to continue to do that in the business and you can count on us to do it.

Curtis Millen – Executive Vice President and CFO

And Stephanie, the only thing I'll add, just the second part of your question, you know, we've been looking at those types of opportunities for years. And we do see the results day in, day out. These are part of them. But to answer the other part of your question, we would look at this as incremental to the workforce restructuring benefits that we talked about in February. And just on that, we do remain on track in terms of hitting those targets. We continue to see a way through to $150 to $200 million of in your savings. As you can appreciate, it's a pretty big workforce restructuring, so it will continue to scale throughout the year, but we see those as two different opportunities.

Stephanie Price – CIBC World Markets – Analyst

Great. Thank you very much.

Operator

Thank you. Our next question is from Sebastiano Petti from J.P. Morgan. Please go ahead.

Sebastiano Petti – J.P. Morgan – Analyst

Thank you. Just a quick follow-up there, Curtis, on the $150 to $200 million of cost savings, can you maybe tell us where we're at in terms of, you know, the run rate exiting the second quarter? And I think, you know, how should we anticipate that perhaps tracking and phasing over the balance of the year would be helpful. And then I think we talked about--to Mirko, I guess or, you know, to Curtis as well, in terms of just thinking about, you know, prepaid and the new to Canada market, you know, strong results there. Part of that obviously driven by, you know, the no name mobile lucky initiatives you talked about, but this has been building for some time. Can you help us think about, you know, how you're--how the team is evaluating maybe the prepaid versus postpaid mix, given the emphasis and the focus on premium loadings on the Bell brand? Should we--should we think about--above and beyond perhaps some of your initiatives with no name mobile and Lucky? Do you--and the new to Canada market continue to be robust, should we think about maybe a higher mix towards the prepaid loadings over the, you know, over the coming quarters and, you know, maybe over the next, you know, or the foreseeable future rather as a way to perhaps combat, you know, flanker brand competition? Just maybe your thoughts on that would be great. Thanks, guys.

Curtis Millen – Executive Vice President and CFO

Hi, Sebastiano. Thanks for the question. I'll answer the first question you had and then hand it over to Mirko. So, we don't--we're not going to report that information on a quarterly basis. But I would say as we reiterate our confidence in capturing those savings in year, that we expect and continue to expect to reach our run rate benefit by the end of Q4. So, it will continue to ramp up through the year, and we'll hit our in-year target, and we'll be at full run rate by end of the calendar year.

Mirko Bibic – President and CEO

Thanks, Curtis. So, I'm glad you asked the question on prepaid because, you know, I would, it allows me to, kind of, emphasize that the very strong growth you see in prepaid actually is in my mind very well aligned with the premium loading strategy actually. So, if you think through how we're trying to segment customers, we need to better align base pricing with in-market pricing or better align in-market pricing with base pricing. Number one. We need to better align the pricing differential between bring your own device and contract pricing and, you know, on--at the same time, we need to differentiate between prepaid and value-based postpaid plans. And we did a much better job in Q2, making prepaid the true entry point for those looking to enter wireless in--at the lower price point. And that includes a portion of newcomers and other customers. And then what you do is you work on migrating your prepaid customers, those who are seeking an entry price point, you seek to migrate them up to postpaid plans. So, if you do that properly, what you're going to do is you're going to attract, you know, a bigger portion of those newcomers in Canada or those newcomers into the segment to into the prepaid rather than into postpaid, which was a problem on how we were pricing as an industry, let's say, a year ago.

And so, I think what we did there is we saw, you know, as we better align that pricing and as we better segmented customers, we saw a very strong growth in premium postpaid loadings and strong growth in prepaid, particularly adept at attracting newcomers to Canada in that segment. So, the success you see there is completely aligned, premium postpaid, better growth on newcomers, which is a, you know, a category that continues to grow. And that's because we did a better job at differentiating the pricing across the various brands.

Sebastiano Petti – J.P. Morgan – Analyst

Thank you.

Operator

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

David Barden – BofA Securities – Analyst

Hey, guys. Thank you for taking the questions. Good morning. I guess my first question would be, Mirko, at the--you know, at the very beginning of the year, there was a hope that we might see decelerating ARPU growth. Last quarter, there was a change in expectations that we would maybe see declining ARPU for the year. Your comments just now seem maybe to express some cautious optimism that the second half is yet to be written. Could you maybe map out for us, you know, the good case and bad case scenarios and how you see those unfolding in the back part of the year for Bell Canada in the wireless ARPU front? And then the follow up, you know, could you share with us any traction that you think Bell Canada has achieved through your decisions to cut capex, cut employment, in response to some of the regulatory decisions that have been made? Do you think that that's borne any fruit or may bear fruit to--you know, yet? Thank you.

Mirko Bibic – President and CEO

Thank you. Well, I'd say, kind of, in Wireless and on pricing, we are facing the most intense competitive pressure in the history of our industry in Canada. I said that in--in my opening--in my opening comments, but we, you know, I won't repeat, you know, the lengthy answer I gave to Sebastiano, but I'll say that, you know, I'll add to that that we did take steps in early July to reset pricing to what we feel is more sustainable while continuing--and this is really important, while continuing to deliver exceptional value to our customers. So, too early to call what that--what that might bring for the balance of the year. But we did take those steps in early July, and it's in keeping with that kind of customer segmentation strategy that I described a few minutes ago.

On the second part of your question, David, you know, our views on the overall environment are very well known, so I won't--I won't repeat them. What I will say though is we're going to continue to focus on our strategy, which is--I hope is crystal clear, which is to continue to capitalize on our fibre momentum, it's the product of choice for customers, continue to focus on the premium loadings in Wireless, continue to focus on mobility and internet bundles. We're going to use our advantage, our lead in AI to continue to improve the customer experience and lower costs. And look, maybe a little bit more pertinent to your direct question, we're focused on investments in our core business and in growth segments. So, whether or not that's, things like the acquisition of OUTFRONT, our ServiceNow partnership, the acquisitions of Stratejm, the shift from The Source to Best Buy, no name mobile, those are very important investments in growth areas. And so, those are the elements of the strategy.

David Barden – BofA Securities – Analyst

Thanks, Mirko.

Mirko Bibic – President and CEO

Thank you.

Operator

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

Vince Valentini – TD Securities – Analyst

Hi. Thanks very much. First, can I just clarify the 70% BYOD, Curtis? Would that be on total activations or just postpaid? And then just a follow-up question on a different topic. A couple of your peers use dividend sort of DRIP discount programs to help alleviate the increase in their debt as they pay their dividends. I'm wondering is that not something that BCE has considered? It seems to be a very eloquent way to match the interest of equity shareholders plus credit rating agencies and bondholders.

Curtis Millen – Executive Vice President and CFO

Yeah. Hi, Vince. Thanks for the questions. On the first one, just the clarification. The 70% BYOD is on postpaid and--

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Mirko Bibic – President and CEO

Gross.

Curtis Millen – Executive Vice President and CFO

Gross. Yeah, postpaid gross. And in terms of the discounted grip. So, you know, we've certainly considered it. It's not in our plan at this point. We believe we have a path to getting our payout ratio below 100%, driving free cash flow through all of the levers that Mirko and I have mentioned. Obviously, going forward, it is a tactic that we would have, but it's not in the cards right now.

Vince Valentini – TD Securities – Analyst

Thank you.

Operator

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

Simon Flannery – Morgan Stanley – Analyst

Great. Thank you very much. So, thank you for the data on convergence and bundles, very interesting. A number of the U.S. companies and also Rogers are looking at fixed wireless to help provide essentially a national bundle. How are you thinking about whether how you address maybe areas where you don't have fibre, either in footprint or out of footprint with either a fixed wireless or a resale type bundle?

Mirko Bibic – President and CEO

Our strategy remains, you know, primarily focused on generating growth through our fibre superiority. And that's where the focus is. You know, in other areas, we have the ability to combine TV products and with--or content rather than with wireless. But, you know, in the--in 75% of the country where we have network overlap between fixed and wireless, really the emphasis is fibre. And we're seeing, as you mentioned, we're seeing very good results on bundling wireless and Internet in fibre territory.

Simon Flannery – Morgan Stanley – Analyst

Great. Thank you.

Operator

Thank you. Before we take our next question, we would just like to remind you that if you're on the phone and wish to ask a question, please press *1. With that, our next question is from Jerome Dubreuil from Desjardins Securities. Please go ahead. ahead.

Jérôme Dubreuil – Desjardins Securities – Analyst

Hey. Hey, good morning. Thanks for taking my questions. The first one, you know, you--it seems like we're transitioning a bit higher percentage of subscriber base on Wireless towards prepaid. If you can discuss what's the margin--dollar margin profile on prepaid versus postpaid. Are we're talking about something that--that is similar across both type of services? And the second question is on capital allocation. On Wireless again, you know, where you have a government that makes it more difficult to earn returns on required wireless investments. We've talked a lot about the opex side of the equation, but what about wireless capex? You know, it's excluding the new generation, the new spectrum onboarding. How do you see wireless capex evolving directionally in the future versus what it has been in the last decade or so? Thanks.

Mirko Bibic – President and CEO

Well, on the capex question, whether or not it's wireless or wireline, overall, you're going to--I mean, you've already seen a step down in our capex year over year. And we're going to continue to, you know, lower the overall capex spend. So next year it'll be lower than this year. And, you know, I think we can run this company at a capital intensity below 15%, which is a level where Bell operated historically for a long time. And I think we can do that while continuing to invest in the key strategic areas. And that's not the long term. I'm talking about the short to medium-term there. I'll leave it at that on capex.

Curtis Millen – Executive Vice President and CFO

And then on your first question. So, ultimately, we manage EBITDA margins on a consolidated basis and we don't provide repaid-only reporting. I'd say ultimately, we manage, as you've seen in our results, quarter after quarter, we manage costs diligently whether it's prepaid or postpaid. And we're looking to lower our cost to serve while providing the same great service to customers again, whether they're prepaid customers or postpaid customers.

Jérôme Dubreuil – Desjardins Securities – Analyst

Thank you.

Operator

Thank you. Our next question is from Batya Levy from UBS. Please go ahead.

Batya Levi – UBS – Analyst

Thank you. On the revenue guidance, you're tracking below your guidance so far. I think it's mostly due to lower margin equipment revenues, but what are some drivers to get back to growth in the back of--in the second half of the year? And also, if you could remind us the revenue and EBITDA contribution from OUTFRONT Media, that would be helpful. Thank you.

Curtis Millen – Executive Vice President and CFO

Yeah. Hi Batya. Thanks for the question. So, as we said in our prepared remarks, we are reconfirming all of our guidance targets for 2024. I won't go through the laundry list of our revenue-generating tactics, but what I would remind everyone that the majority of the revenue declines here have been driven by a decrease in very low-margin product sales, which is consistent with our strategy of not chasing low-value subscriber loadings.

Batya Levi – UBS – Analyst

And on OUTFRONT Media?

Curtis Millen – Executive Vice President and CFO

Yeah. OUTFRONT Media closed midway through June. So, the contribution on revenue is single digits. I mean it's an immaterial number given the timeline of when that transaction closed.

Batya Levi – UBS – Analyst

Okay. Thank you.

Operator

Thank you. There are no further questions registered at this time. I would now like to turn the meeting over to Mr. Fotopoulos.

Thane Fotopoulos – Vice President – IR

Okay, great. Thank you, Matthew, and thanks again to everybody who participated on the call this morning. I'll give you back your 15 minutes so you can enjoy the nice summer day. As usual, the IR team will be available throughout the day for any follow-ups and clarifications on that. Have a good day, everybody.

Thank you.

Mirko Bibic – President and CEO Thanks, everyone.

Operator

Thank you. The conference is now ended. Please disconnect your lines at this time and we thank you for your participation.
