BCE Fourth Quarter 2020 Results and 2021 Guidance 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 Q4 2020 Results & 2021 Guidance Conference Call, as reflected in this transcript, are forward-looking statements. These statements include, without limitation, statements relating to BCE's financial guidance (including revenues, adjusted EBITDA, capital intensity, adjusted EPS and free cash flow), BCE's 2021 annualized common share dividend and dividend payout ratio, BCE's anticipated capital expenditures and the benefits expected to result therefrom, including its two-year increased capital investment program to accelerate fibre, wireless-to-the-premise (WTTP) and Fifth Generation (5G) footprint expansion, expected revenue and adjusted EBITDA growth in 2021 in all our business segments, expected improvement in average billing per user (ABPU) trajectory in our Bell Wireless segment as the year progresses, expected growth in Internet revenue and market share in 2021, expected stable 2021 margins in our Bell Wireline and Bell Wireless segments, the potential impacts on our business, financial condition, liquidity and financial results of the COVID-19 pandemic, the expectation of 2021 being a transition year towards returning to pre-pandemic financial performance levels, our expected cash pension funding, the expected future level of our net debt leverage ratio, the expectation that BCE's liquidity position and future cash flow will support our accelerated capital spending plan and our common share dividend, 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 February 4, 2021 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 February 4, 2021. 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 Q4 2020 Results & 2021 Guidance 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.

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, which in turn depend on important assumptions about how the COVID-19 pandemic will evolve. Notably, it is assumed that the vaccine rollout proceeds largely as announced by governments and that Canada, other advanced economies and China achieve broad immunity by the end of 2021. In particular, we have assumed:

- *Strong rebound in economic growth after the first quarter of 2021 as the economy recovers from the significant impacts of the COVID-19 pandemic, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of around 4% on average in 2021, following a decline of about 5.5% in 2020*
- *Recovery of consumer confidence and elevated levels of disposable income*
- *Strengthening business investment outside the oil and gas sector as uncertainty recedes*
- *Employment gains expected in 2021, despite ongoing challenges in some sectors*
- *Accelerating trend toward e-commerce*
- *Low immigration levels until international travel and/or health-related restrictions are lifted*
- *Prevailing low interest rates expected to remain at or near current levels for the foreseeable future*
- *Canadian dollar expected to remain at or 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 consistently high 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 traditional telecommunications solutions or alternative over-the-top (OTT) competitors*
- *While the advertising market continues to be adversely impacted by cancelled or delayed advertising campaigns from many sectors due to the economic downturn during the COVID-19 pandemic, we do expect gradual recovery in 2021*
- *Declines in broadcasting distribution undertakings (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 Wireless Segment
Our forward-looking statements are also based on the following internal operational assumptions with respect to our Bell Wireless segment:

- *Maintain our market share of national operators' wireless postpaid net additions*
- *Continued growth of our prepaid subscriber base*
- *Continued adoption of smartphone devices, tablets and data applications, as well as the introduction of more 5G, Fourth Generation long-term evolution (4G LTE) and LTE-Advanced (LTE-A) devices and new data services*
- *Continued deployment of 5G wireless network offering coverage that is competitive with other national operators in centres across Canada, and expansion of LTE-A network coverage to approximately 96% of the Canadian population*
- *Improvement in subscriber acquisition and retention spending, enabled by increasing adoption of installment payment plans*
- *Unfavourable impact on blended ABPU, driven by reduced outbound roaming revenue due to travel restrictions as a result of the COVID-19 pandemic, reduced data overage revenue due to continued adoption of unlimited plans and the impact of a higher prepaid mix in our overall subscriber base*
- *Increased adoption of unlimited data plans and installment payment plans*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireless business*

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

- *Continued growth in retail Internet and IPTV subscribers*
- *Increasing wireless and Internet-based technological substitution*
- *Continued aggressive residential service bundle offers from cable TV competitors in our local wireline areas*
- *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 mid-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*
- *Accelerating customer adoption of OTT services resulting in downsizing of TV packages*
- *Further deployment of direct fibre to more homes and businesses within our wireline footprint and fixed wireless-to-the-premise technology in rural communities*
- *Growing consumption of OTT TV services and on-demand streaming video, 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 management workforce reductions including attrition and retirements, lower contracted rates from our suppliers, operating efficiencies enabled by a growing direct fibre footprint, changes in consumer behaviour and product innovation, new call centre technology that is enabling self-serve capabilities, and other improvements to the customer service experience*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireline 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 revenue is expected to reflect a gradual economic recovery in 2021 combined with subscriber revenue growth and strategic pricing on advertising sales. However, revenue performance is expected to continue to be negatively impacted by the effects of COVID-19 on many sectors of the economy.*
- *Continued escalation of media content costs to secure quality programming, as well as the return of sports and entertainment programming; however, in the short term, savings can still be expected due to production delays, shortened sports seasons, and possible cancellations from the ongoing COVID-19 pandemic*
- *Continued scaling of Crave through broader content offering and user experience improvements*
- *Investment in Noovo news and more French-language originals to better serve our French-language customers with a wider array of content, in the language of their choice, on their preferred platforms*
- *Enhanced market-leading attribution through our Strategic Audience Management tool (SAM)*
- *Ability to successfully acquire and produce highly rated programming and differentiated content*
- *Building and maintaining strategic supply arrangements for content across all screens and platforms*
- *Continued monetization of content rights and Bell Media properties across all platforms*
- *No material financial, operational or competitive consequences of changes in 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 2021:

- *Total post-employment benefit plans cost to be approximately $300 million, based on an estimated accounting discount rate of 2.6%, comprised of an estimated above adjusted EBITDA post-employment benefit plans service cost of approximately $275 million and an estimated below adjusted EBITDA net post-employment benefit plans financing cost of approximately $25 million*
- *Increase in depreciation and amortization expense of approximately $200 million to $250 million compared to 2020*
- *Interest expense and payments of approximately $1,050 million to $1,100 million*
- *An effective tax rate of approximately 27%*
- *NCI of approximately $60 million*
- *Total cash pension and other post-employment benefit plan funding of approximately $350 million to $375 million*
- *Cash income taxes of approximately $800 million to $900 million*
- *Average number of BCE common shares outstanding of approximately 905 million*
- *An annual common share dividend of $3.50 per share*

The foregoing assumptions, although considered reasonable by BCE on February 4, 2021, 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 2021 financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our 2021 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 COVID-19 pandemic and the adverse effects from the emergency measures implemented or to be implemented as a result thereof, as well as other pandemic, epidemic and other health risks; adverse economic and financial market conditions, a declining level of retail and commercial activity, and the resulting negative impact on the demand for, and prices of, our products and services; the intensity of competitive activity including from new and emerging competitors; 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; changing viewer habits and the expansion of OTT TV and other alternative service providers, as well as the fragmentation of, and changes in, the advertising market; rising content costs and challenges in our ability to acquire or develop key content; the proliferation of content piracy; higher Canadian smartphone penetration and reduced or slower immigration flow; regulatory initiatives, proceedings and decisions, government consultations and government positions that affect us and influence our business; 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 transform our operations, enabling a truly customer-centric service experience, while lowering our cost structure; the failure to continue investment in next-generation capabilities in a disciplined and strategic manner; the inability to drive a positive customer experience; the complexity in our operations; the failure to maintain operational networks in the context of significant increases in capacity demands; the risk that we may need to incur significant capital expenditures to provide additional capacity and reduce network congestion; the failure to implement or maintain highly effective IT systems; the failure to generate anticipated benefits from our corporate

restructurings, system replacements and upgrades, process redesigns, staff reductions and the integration of business acquisitions; events affecting the functionality of, and our ability to protect, test, maintain, replace and 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; labour disruptions and shortages; our dependence on third-party suppliers, outsourcers and consultants to provide an uninterrupted supply of the products and services we need to operate our business; 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 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 by BCE's board of directors or whether the dividend on common shares will be increased; the inability to manage various credit, liquidity and market risks; pension obligation volatility and increased contributions to post-employment benefit plans; 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; 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 Safe Harbour Notice Concerning Forward-Looking Statements dated February 4, 2021 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", "dividend payout ratio", "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 the section "Accompanying Notes" in BCE's Supplementary Financial Information – Fourth Quarter 2020 filed on February 4, 2021 for more details.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BCE Q4 2020 Results Conference Call.

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

Thane Fotopoulos – Vice President – IR

Thank you, Valerie, and good morning, everybody. On the call with me today are Mirko Bibic President and CEO, and our CFO Glen LeBlanc.

We definitely have a lot of material to go through this morning, however, before we begin, let me draw your attention to our Safe Harbour statement reminding all 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.

With that, let me turn the call over to Mirko.

Mirko Bibic – President and CEO

Thanks, Thane. Good morning, everyone.

2020 marked Bell's 140th year and it was unlike any other I could have imagined when I began as CEO last January. Our new goal of advancing how Canadian connect with each other in the world unveiled last January could not have been more appropriate in a year that saw extraordinary change and challenges that have dramatically impacted the economy, and of course, how we live and work.

Throughout it all, Bell has been on the front line, delivering the networks that keep Canadians connected, stepping up every day for our customers and communities as we all continue to navigate through the COVID situation.

2021 will be a reset year as we transition towards a return to pre-pandemic levels of financial performance and operating momentum. We can't accurately predict the path and pace of economic recovery, but we know that our business is solid and we expect to see progressive improvement through the year, much as we did after coming out of Q2 2020.

As a result, we remain cautiously optimistic about our business outlook as reflected in our financial guidance targets for 2021.

Our success in 2021 will continue to be anchored to the priorities we set in 2020. They center on increased investment on core network infrastructure that will lay the foundation for future broadband Internet and 5G growth; improving the end-to-end customer experience, the ongoing digital transformation of our operations; and a continued sharp focus on our cost structure.

We will accelerate capital spending in 2021 to forge ahead even more aggressively on our successful broadband strategy, expanding our all-fibre connections, opening up Wireless Home Internet to even more rural communities, and building our wireless 5G network faster.

To that end, I'm very pleased to announce that we are putting in place a capital investment acceleration program totalling $1 billion to $1.2 billion over the next two years. This is the right strategic move at the right time for our customers and our company, allowing us to realize the substantial operational benefits of state-of-the-art fibre and low latency mobile networks sooner. This will put us in an advantageous competitive position, allowing us to keep growing broadband market share and Internet revenue, and to begin monetizing 5G services, all of which yields very attractive EBITDA and cash flow margins.

And, I'm equally pleased to announce this morning that our planned financial performance for 2021 enables us to increase BCE's common share dividend by 5.1 percent for 2021. It's our 13th consecutive year of a 5 percent or higher dividend increase. This represents an emphatic commitment to our dividend growth approach and to our broadband expansion strategy. Because of the accelerated capital investment we're making this year, and ongoing financial impacts during the COVID recovery period, our dividend payout ratio in 2021 will be above our historical free cash flow target range of 65 percent to 75 percent. Our strong liquidity position and substantial ongoing cash generation support the execution of this capital expansion program and our higher common share dividend for 2021.

Let me unpack the capital acceleration program on Slide 4. As I said, we plan to invest an extra $1 billion to $1.2 billion over the next two years, of which approximately $700 million will be spent in 2021 to accelerate fibre, Wireless Home Internet and 5G. This is the right time for investments of this magnitude. First off, the billion dollars in net cash proceeds from the sale of our data centres in October will fund this two-year incremental capital investment. Secondly, because the federal government's capital cost allowance program is in place for another two years, allowing for the accelerate expensing of capital expenditures, every dollar of network investment that we make will drive significant cash tax savings that can be reinvested into the business and support future free cash flow growth.

Normalized for the capital advancement of $700 million in 2021, our consolidated capital intensity ratio is expected to be in the range of 15 percent to 17 percent, consistent with pre-COVID levels.

Thirdly, for the moment we have a stable regulatory environment that makes this type of large scale investment possible. As COVID has shown us over the past year, this is more important than ever. Now isn't the time for policymakers and regulators to move away from encouraging network investments. Now is the time to collaborate and partner with government to connect more and more Canadians, particularly in rural communities.

We're showing that with the right policies in place, we are prepared to make significant investments for the long-term benefit of our customers and the Canadian economy, which will benefit from $2 billion in new activity and 5,300 direct and indirect jobs as a result of this additional investment.

Now is also the right time to make these investments because the strategy is undeniably working. We see it in our results. Essentially, what we're doing is advancing the wireline and wireless network build that we have in our long-range plan. However, by making these investments more quickly, not only do we realize the operational benefits sooner, but we also reduced our future capex requirements supporting future free cash flow growth and dividend increases for BCE shareholders.

There is no longer any debate about the power and value of fibre. Once deployed, we begin to see the favourable impact on both subscriber and financial growth, as well as on the overall customer experience. Internet penetration grows much faster as we deploy fibre and Wireless Home Internet. We can gain anywhere from 5 to 25 percentage points of penetration in the first 12 months of deploying a market, which has driven steady market share growth and Internet revenue acceleration over time. In fact, our Internet subscriber base has increased 33 percent since the start of our fibre build of 2010, and annual Internet revenue growth has tripled from 3 percent to 9 percent in 2020.

Churn is also lower when customers are on a better network. This is key because retention is such an important factor in the customer lifetime value equation. On average, the churn rate for fibre and Wireless Home Internet subscribers is 30 to 35 basis points lower than those on an FTTN or ATM network. This extends the duration of the customer relationship with Bell by approximately two years, leading to an improvement in the overall lifetime value of a direct fibre and Wireless Home Internet customer by approximately 50 percent and 35 percent, respectively.

And of course, our cost to serve a fibre customer is lower. Annual service and support costs per customer are approximately 40 percent lower on a direct fibre lines versus copper. Over time, as a greater proportion of our footprint is fibre-ized, we will see even more meaningful change in our overall cost structure.

Let me turn to Slide 5 of our presentation.

The accelerated network buildout plan, the one that we have in store for 2021, it gives us 850,000 to 900,000 more homes and businesses across our wireline footprint that are equipped with either direct fibre or fixed wireless technology. This represents an incremental increase of up to 400,000 new locations covered with broadband service than would have been deployed in 2021 without the capital advancement.

At the end of this year, more than 62 percent of our planned broadband buildout program will be completed, representing up to 6.9 million total combined fibre and Wireless Home Internet locations. This is up from approximately 6 million homes and businesses at the end of 2020.

For Wireless, our accelerated capital plan will double the reach of our national 5G network to 50 percent. I'm also very pleased to announce that Nokia and Ericsson have been selected as the suppliers for our standalone 5G smart core.

Our fibre and 5G investments are working symbiotically to drive Bell's continued leadership in next-generation communications technology, paving the way for future service innovation. With a wireline infrastructure that includes high-speed fibre already deployed to more than 92 percent of our cell sites, over 2,700 central offices that are available for mobile edge computing in a 5G world, a wireline footprint encompassing 76 percent of Canadian households, and the broadest retail and B2B distribution in the country, no one is structurally better positioned than Bell for true wireless/wireline convergence in the most capital efficient manner possible and to capitalize on the revenue growth opportunities that await.

I feel very positive about the power of our business and our ability to execute in 2021, and energized by the accelerated capital program.

As always, we'll continue to stay true to our long-term strategy and continue to focus on strengths, which include a vertically integrated business, the best networks, distribution breadth, a deep customer base, a powerful brand, a growing dividend and the very best people.

I'm going to turn now to Slide 6 for some operational highlights.

In every successive quarter since the pandemic began, we've seen quarter-over-quarter improvement across all our segments. Despite the challenges of COVID, we delivered 96 percent of 2019's EBITDA and maintained our consolidated margins stable at 42 percent. We generated over $3.3 billion of free cash flow. The ability of BCE to generate this magnitude of free cash flow even during times of extreme uncertainty and economic difficulty is remarkable. We are well on our way to returning to where we were pre-COVID and our results for both Q4 and full year 2020 represent further proof of the continued momentum we're generating from the lows of Q2.

Our consistently strong operational execution was in evidence once again in Q4 as we delivered 147,000 total new net Wireless, retail Internet, and IPTV customers. We also grew broadband Internet market share faster than any of our peers this past year, with a leading 149,000 retail Internet net additions, up 10 percent over 2019.

The broadband footprint advantage that we are building positions us extremely well in both our consumer and business segments over the long-term to grow Internet revenue, which increased a strong 12 percent in Q4. As for our mobile 5G network, it's now operational in over 150 centres, covering nearly a quarter of the Canadian population.

On the customer experience front, we've made real progress over the past year and received recognition for the quality of our network and services. Bell's 4G and 5G networks were certified as Canada's fastest by PC Mag in this most recently annual study of network performance. Virgin Mobile also topped every wireless carrier in Canada from a J.D. Power ranking perspective as number one in overall customer services in the eyes of consumers for 2020, while its MyAccount app was named the best telecom mobile app of the year.

We boosted our Wireless Home Internet download speeds for more than 350,000 rural homes, bringing enhanced 50 megabit download and 10 megabit upload speeds to Canada's underserved communities that are two times faster than before.

Our strategic focus on customer experience was also reflected in the latest report from the CCTS which showed a 35 percent drop in the number of complaints by Bell customers. Again, the best performance among national carriers for a fifth consecutive year.

We've also made it even easier for customers in Quebec and Ontario to transfer their residential services when they move with our new Move Valet concierge service. This is just one example of initiatives that the customer is front and centre.

Lastly, the strides we're making in digital transformation are evident. Directly because of investments to improve online functionality and the app based sales experience for consumers, 54 percent of all customers service transactions now are executed online.

Let's turn to Slide 7 for an overview of some key operating metrics for Q4. I'm going to start with Wireless.

Despite reduced retail store traffic and transaction volumes due to the second wave of COVID, we experienced sequential improvement in postpaid net additions; low churn, which improved 17 basis points over last year to 1.11 percent; and an ABPU decline that continued to moderate. We added 93,000 total new net postpaid subscribers this quarter. Of this total, 87,000 were mobile phone customers, 27 percent higher than last year. It's an impressive result that speaks to our focus on driving service revenue and EBITDA growth through accretive smartphone transactions. This disciplined approach to subscriber growth was also reflected in our promotional offers where handset subsidies were on average 14 percent lower than they were in the previous year.

In prepaid, because of lower overall market activity from reduced immigration and fewer visitors to Canada during the pandemic, combined with greater competitive intensity and discount mobile market, we incurred a net loss of 12,000 customers this quarter. Nevertheless, prepaid service revenue was up an impressive 14 percent on the back of strong growth over the past year led by Lucky Mobile which generates higher than average industry ABPU.

A couple of notable developments on the retail distribution front that are worthy of mention. We recently renewed our exclusive national distribution agreement with Dollarama for all Bell prepaid products. Giant Tiger, a new distribution channel for us, began carrying Lucky Mobile in its more than 250 locations across Canada late last year. And we renewed our contract with PC Mobile, a partnership that has been in place since 2005. So, great prepaid growth potential ahead.

To finish up on Wireless, our blended ABPU decreased 3.9 percent. This result is a notable improvement over the 6 percent decline we saw in Q3 despite persistent headwinds from lower COVID-induced roaming volume and reduced data overage from ongoing customer adoption of unlimited plans. In fact, normalizing for these impacts, ABPU growth was slightly positive in the quarter.

Let's turn to Bell Wireline.

We saw another strong RGU quarter in Wireline. We added 45,000 new Internet customers, 25 percent higher than last year, reflecting broad based growth across all brands. We added another 73,000 fibre customers this quarter, bringing the total number to close to 1.7 million, and that's 1.7 million direct fibre customers; that's up 17 percent over last year.

On the TV side of things, very pleased with 21,000 IPTV net additions, and that's essentially unchanged versus last year despite the impacts of COVID.

Q4 was also the first full quarter that Virgin TV was available in the market and early results are quite promising, both from a customer demand and ARPU generation perspective.

Satellite net customer losses improved for a fifth consecutive quarter, actually down 5 percent year-over-year. And we continued to see improvement in home phone customer losses, down 7.5 percent this quarter.

On Bell Media, advertiser demand picked up in Q4 with the start of the new fall TV season and more live major league sports programming, and that drove a meaningful sequential quarterly improvement in TV ad spending. In fact, total TV advertising in Q4 was down only 2 percent, so that's down 2 percent compared to last year.

Crave also continued to deliver with strong direct-to-consumer growth as total subscribers increased 8 percent over last year and we're now at 2.8 million.

As for TSN and RDS, they were the top English and French language sports channels in Q4, and both are having a very strong start to 2021, particularly with World Junior Hockey and NFL playoffs.

Lastly, we continue to see great results from our Quebec media strategy with significant gains in primetime viewership for our conventional French language TV network Noovo, which led all peers with a 6 percent increase in the audience levels this quarter.

To summarize and before turning it over to Glen, great operational execution delivered by the team, not just in Q4 but throughout the year, with consistent, steady improvement that is building momentum back into the business and that sets us up nicely as we enter into 2021.

Over to you now, Glen.

Glen LeBlanc – Executive Vice President and CFO

Thank you, Mirko, and good morning, everyone. I'm going to begin on Slide 9.

Despite the ongoing COVID impacts, the year-over-year decrease in Q4 service revenue and EBITDA continued to improve sequentially. Adjusted EBITDA was down 3.2 percent, however, we maintained our consolidated margins essentially stable at 39.4 percent even with $10 million of COVID related expenses absorbed in the quarter.

Net earnings were up 29 percent in year-over-year. As a result, Q4 of last year reflected higher net mark-to-market losses on our equity derivatives and hedge contracts and a media asset impairment charge.

As we signalled on our results conference in November, capex ramped up considerably in this quarter, increasing to nearly $1.5 billion. This was a planned increase reflecting greater network construction activity following a slower pace of spending earlier in the year because of the pandemic, as well as continued investments to enhance our digital capabilities.

As for free cash flow, it was down $782 million in Q4. This result was expected given this quarter's increased capital spending, higher cash taxes due to the timing of installment payments, and a reduction in working capital driven mainly by the growth in accounts receivable that reflected a higher volume of Wireless installment sales and the timing of supplier payments.

Turning to Bell Wireless on Slide 10, although the return of COVID restrictions affected transaction volume in the quarter, our Wireless financials improved sequentially. Product revenue remained relatively stable year-over-year, declining only 0.7 percent, reflecting a mix shift away from tablets to smartphones. As expected, roaming and data overages remained a headwind to service revenues, which declined 2.5 percent this quarter compared to 4.3 in Q3. And if you normalize for the COVID impacts, service revenue growth was in fact positive, increasing by approximately 1 percent in Q4. As a result of the better service revenue trajectory and disciplined device discounting, the year-over-year decline in EBITDA also continued to moderate, improving to 3 percent from the 4.4 percent we experienced in the previous quarter.

Let's turn to Slide 11 now and Bell Wireline.

Revenue was down 1.3 percent which drove a 2.7 year-over-year decline in EBITDA. Notwithstanding COVID, we faced tough year-over-year financial comps this quarter as last year we benefited from a number of non-recurring items, including the federal election, and bulk sales of international wholesale long distance minutes. If you normalize for these items, Q4 represented the Bell Wireline best quarterly revenue performance in 2020, while the year-over-year decline in EBITDA was similar to that of Q3.

Clear highlight of the quarter was residential wireline where revenues increased a strong 1.5 percent, representing our best performance in two years.

In Business Wireline, while this quarter's results continued to reflect soft customer demand and spending on business service solutions and data equipment given the current economic environment, overall results have held up reasonably well.

Let's turn to Slide 12 on Bell Media.

Another quarter of improvement with revenue down 10 percent year-over-year. This result reflected increased advertising demand as Mirko described earlier, and continued strong Crave subscriber growth.

Bell Media EBITDA was down 7.8 percent this quarter. The sequential improvement was even more pronounced than for revenue due to 11 percent reduction in operating costs which encompass lower sports broadcast rights due to the postponement of new major league seasons, as well as TV production shutdown and delays.

While that does it for my overview of quarterly results, I'll turn now to our financial outlook for 2021, starting with Revenue and EBITDA on Slide 14.

We are targeting revenue and adjusted EBITDA growth of 2 percent to 5 percent, which should yield a relatively stable year-over-year consolidated margin. These growth ranges reflect a recovery back to within 2019 financial performance levels and are wider than we typically provide in order to absorb additional COVID turbulence that may arise during the year.

Underpinning this outlook is positive top line and EBITDA growth from all Bell segments. We expect a strong financial contribution from Bell Wireless in 2021 where an ongoing focus on higher quality smartphone subscriber loadings and disciplined device discounting will drive a healthy year-over-year improvement in operating profitability.

We also anticipate an improving ABPU trajectory with a partial recovery in roaming volumes expected in the latter part of 2021, as well as a deceleration in the rate of data overage decline.

Our Wireline financial growth profile is also expected to strengthen progressively as the year unfolds. The broadband footprint advantage that we are building positions us extremely well in both our consumer and business segments, as we continue growing Internet market share and revenue faster than our competitors.

We will continue to focus on winning the home by delivering the fastest broadband speeds as well as the best Wi-Fi and TV experience to drive higher Internet and TV net customer additions.

In Business Wireline, we anticipate improving year-over-year rates of revenue and EBITDA decline on the back of higher customer spending as the economy rebounds and an ongoing focus on cost reduction.

As for Bell Media, we see good TV advertising momentum going into 2021, especially as we lap COVID impacts beginning towards the end of Q1. We also expect to benefit from contract renewals with TV distributors and continued Crave growth. However, higher costs for sports rights and the resumption of a full broadcast schedule, and the premium content for our Crave streaming platforms will moderate Bell Media's EBITDA growth in 2021.

Let's turn now to Slide 15.

Despite a decline in discount rates in 2020, and supported by a strong 14 percent return on plan assets, the solvency ratio of Bell Canada DB plan, the largest of the BCE pension plans, was 102 percent at year-end. Given this strong valuation position, regular cash funding for 2021 remains unchanged year-over-year at $350 million to $375 million.

With respect to total pension expense on the P&L, that is expected to moderately lower in 2021 at $300 million due to the favourable impact of a lower discount rate on our below EBITDA pension financing costs.

Let's move over to Slide 16 on Tax Outlook.

The statutory tax rate for 2021 remains unchanged at 27 percent. Our effective tax rate for accounting purposes is also projected to be around 27 percent, reflecting minimal tax adjustments this year compared to the $0.09 per share in 2020.

We also expect cash taxes to remain relatively stable year-over-year at $800 million to $900 million as the tax savings enabled by the federal government's accelerated CCA program will be largely offset by other higher income taxes.

Over to Slide 17.

Slide 17 summarizes our adjusted EPS outlook for 2021, which we project to be $3.05 to $3.20 per share, or 1 percent to 6 percent higher year-over-year. This reflects a strong underlying contribution from operations driven by positive EBITDA growth across all three Bell segments.

Depreciation expense is expected to be $200 million to $250 million higher year-over-year, due to our accelerated capital investment program that will be putting more capital assets into service sooner.

And as I just mentioned, the higher income tax expense also will also moderate adjusted EPS growth this year. Excluding the tax adjustments, adjusted EPS is projected to grow 3 percent to 9 percent in 2021.

Let's turn to Slide 18.

As a result of the strong EBITDA growth, we expect to generate $2.85 billion to $3.2 billion of free cash flow in 2021. This is substantial given approximately $400 million in additional capital spending that we are absorbing, as well as working capital pressure from the growth in accounts receivable due to increasing sales activity as we continue to recover from COVID, which includes a higher expected volume of Wireless installment plan transactions.

BCE's consolidated capital intensity ratio for 2021 is projected to be in the range of 18 percent to 20 percent, but as Mirko quantified, this includes around $700 million that we're targeting in 2021 as part of our two-year capital expansion program.

Normalizing for this capital advancement, our capital intensity ratio in 2021 decreases to 15 percent to 17 percent; free cash flow growth improves in the range of 6 percent to 16 percent; and the payout ratio falls within 80 percent to 90 percent.

I would also like to point out that our definition of free cash flow includes all elements of working capital, while some others do not.

Now that the Canadian wireless industry has shifted to installment plans, the receivable base on our balance sheet is growing rapidly. If you normalize for the financing of EIP receivables, which over the course of two years will flatten out, our dividend payout in 2021 normalized for both the incremental capital spend I just mentioned and device financing falls below 80 percent.

A few brief comments on our balance sheet and cash resources on Slide 19. We have access to $3.8 billion of liquidity as we enter 2021, and a capital structure that is aligned with our investment grade ratings. Our debt leverage ratio remains manageable at 2.9 times adjusted EBITDA and is expected to increase in 2021 as a result of anticipated wireless spectrum purchases at the auction later this year and the accelerated capital spend.

Our balance sheet is well structured with an average term to maturity on our long-term debt of less than 12 years and a historically low after-tax cost of debt of just 3 percent. More importantly, we have no near-term refinancing requirements as our next material public debt maturity does not occur until Q4 of 2022. And in addition to all of our major DB plans being fully funded, our close to $1 billion on annual U.S. dollar spending has been economically hedged well into 2022, effectively insulating any free cash flow exposure until that time.

To conclude, on Slide 20, as we said, 2021 is a recovery year. It is about maintaining operational momentum as we transition towards a return to pre-COVID levels of financial performance. While the path of the pandemic and the pace of economic recovery are expected to remain uneven, potentially constraining revenue and earnings growth in parts of our business in the near term, the industry fundamentals are sound. Our competitive position remains strong and the Bell team's ability to execute is proven.

On that, I'll turn the call back over to Thane and the Operator to begin the question and answer period.

Thane Fotopoulos – Vice President – IR

Thanks, Glen. Given the volume of information we covered this morning, I'm sensitive to the time we have left. Please limit yourselves to one question and a brief follow-up if you must. Thanks for your cooperation.

Valerie, we're ready to take our first question.

QUESTION AND ANSWER SESSION

Operator

Thank you, Mr. Fotopoulos. Please press star, one at this time if you have a question.

Our first question is from Jeffrey Fan with Scotiabank. Please go ahead.

Jeffrey Fan – Scotiabank – Analyst

Hi, good morning, everybody. Lots to talk about, I guess, around the investment plans for 2021 and 2022. My question is if you look beyond this accelerated plan, after the two years, do we get back to the capex intensity around that 15 percent to 17 percent CI, the level where you would be at without these accelerated plans? Or do we need to think about kind of additional sources to help fund further expansion, like what you're getting from the data centre?

My quick follow-up, again with the investment plan, is these are very strong statements and plans supporting network investment, but we do have a couple of regulatory decisions coming plus spectrum auctions. How could those events—and maybe they won't—impact your investment plans for the next couple of years? Thanks.

Mirko Bibic – President and CEO

Thanks, Jeff. Look, briefly, what we're doing here with the $1 billion to $1.2 billion over two years is advancing capital that we otherwise would have spent over a longer period of time, right? If you think about our broadband footprint program, we've got—we want to cover roughly 10 million households in our operating footprint with fibre or Wireless Home Internet, and we are 60 percent of the way there. That means there's 40 percent to go. That 10 million is the denominator, so by forging ahead more quickly than means on the back end of the journey there's a lot more flexibility for us in terms of capex, in terms of the technologies we might want to deploy over time.

So, the short answer to your question with that preamble is, yes, expect us to get back to normal capital intensity ratios.

On the data centres, we did get that billion dollars in proceeds last year. There is no better place to deploy that capital than in our footprint expansion strategy because—and I'm not going to repeat what I said in my opening comments. The strategy is clearly working, so for shareholders, this is the best place to put that billion dollars.

On the regulatory, look, I mean it's still significant issues. We have the wholesale Internet rates decision pending and the MVNO decision pending. I think we've got some very good signals from the federal government last year, particularly in August when that decision came out, the Order in Council came out regarding the wholesale Internet rates and Minister Bains at the time had said that he was concerned that the rates the CRTC had put in place would undermine investment in high quality networks, particularly in rural, and that we need policies that encourage investments. I think that's a pretty important signal.

I think in 2020 we've all experienced it's pretty tangible now the importance of these networks. We can't risk making more investments.

So, I'm forging ahead with this bold investment program—it's bold. It's the biggest one in our history—because I have confidence that policymakers and regulators right now are going to appreciate the importance of a stable regulatory environment. If the decisions come out and they are materially negative, then of course, it's our job as a management team to stare that down and adjust as required.

Glen LeBlanc – Executive Vice President and CFO

The only thing I'll add to that, Jeff, is on your question regarding spectrum. The capital investment decision we made today to fund the additional $1 million to $1.2 million was funded by the data centre divestiture and it plays no role in our intention around participation in spectrum auctions.

Jeffrey Fan – Scotiabank – Analyst

Thank you both.

Thane Fotopoulos – Vice President – IR

Thanks, Jeff.

Operator

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

Vince Valentini – TD Securities – Analyst

Thanks very much. A couple on the same topic. Glen, your slide shows $700 million of extra capex for this accelerated program in 2021. I just want to make sure. I didn't see that anywhere else so I want to make sure I'm clear on that. Of the $1 billion to $1.2 billion, most of it is actually 2021 and there would only be between $300 million and $500 million left in 2022. Call that a clarification, Thane.

A bigger question would be, in terms of the fibre-to-the-home incremental spending, can you give us any colour on geographies here. I mean, I know Toronto and Montreal are largely done. Does this mean a bit of an accelerated rollout into the 905 areas and then maybe some of the smaller cities you cover? Thanks.

Mirko Bibic – President and CEO

Glen, I'll kick it off and you can fill in.

Vince, just think about the billions of the—the $1 billion to $1.2 billion like this. Roughly two-thirds in 2021, one-third in 2022. Roughly two-thirds in Wireline, one-third in Wireless. I would say that would be a kind of high level benchmarks for you.

On fibre, it's going to be pretty much across our operating footprint. We're going to get the job done and finished in Montreal. Toronto is largely done. Montreal is well on its way, but we're going to finish that. Winnipeg, which we announced, Hamilton, we're going to kind of extend in the suburban areas. On Wireless Home Internet as well, it's going to be continuing in Atlantic, continuing in Quebec, launching Wireless Home Internet in Manitoba, and of course, continuing the pace in Ontario in rural areas.

Thane Fotopoulos – Vice President – IR

Glen, I think there was a clarification you wanted to…

Glen LeBlanc – Executive Vice President and CFO

Yes. Just to clarify, Vince—and good morning. I'd get you to turn to Slide 4 of our deck and you'll notice that the $1.0 billion to $1.2 billion as we state there and as Mirko said, about a third, 60 percent, 70 percent is our intention. You are correct in approximately your number of $700 million, but that's over baseline as we note in the footnote. So, baseline normalized capital spending, not the higher spending level that you've seen in 2020. That's the clarity.

Vince Valentini – TD Securities – Analyst

Makes sense. Thank you.

Thane Fotopoulos – Vice President – IR

Thank you, Vince.

Operator

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

David Barden – BofA Securities – Analyst

Hey guys, thanks so much for taking the question. I guess my question is related to the guidance, Glen. A lot of companies are highlighting the kind of transformation on the cost structure around digital channel adoption, remote work, etc., and how the revenue leverage might lead to higher margin, and you also called out I think a 14 percent reduction in handset subsidies in the quarter and it looks like in your expectations on a go forward basis that there's going to be lower subsidies, so could you talk about why we aren't going to see better margin improvement over the course of 2021 versus 2020? Thanks.

Glen LeBlanc – Executive Vice President and CFO

Good morning, David. Well, first of all, many organizations, whether it be in our industry or any industry, have chosen not to provide guidance due to the tumultuous environment we're operating in. We have decided today to demonstrate the confidence we have looking forward that we believe the guidance we show here today gives us a range that we can absolutely accomplish, and it includes all of the things you alluded to. Yes, we're going to see digital transformation and ideally continuing to focus on adding high value wireless subscribers, continue to focus on reduction on handset subsidies, but all of that is factored into the guidance we provide here today.

I think the challenge we face is that we're not through this pandemic yet and we continue to see challenges in retail and curfews remaining in many places in our market. So, I think the guidance we provide here today speaks to a healthy outlook and healthy performance we have—expectations we have for 2021, but they include all of that. We are striving towards higher margin, but, frankly, roaming is going to take time to recover and you know that's an extraordinarily high margin revenue, and it's going to be the back half of 2021 before. I'll leave it at that unless Mirko wants to add anything.

Mirko Bibic – President and CEO

No, thanks.

David Barden – BofA Securities – Analyst

Thanks guys.

Thane Fotopoulos – Vice President – IR

Thank you.

Operator

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

Drew McReynolds – RBC Capital Markets – Analyst

Thanks very much, good morning. Maybe Mirko or Glen, just to elaborate a little bit longer term, when you talk about fibre-izing the cost structure, and Glen, you just alluded to wanting to kind of push margin over that medium and long term. Perhaps just update us on how you see a lot of that cost structure, fibre-izing the cost structure unfolding through that medium term and is there any updated timing on an ability to decommission copper?

As a follow-up, I guess, Mirko, let's start with you on a lot of kind of news flow on satellite broadband continues to come into the narrative of global telecom. With this increased investment, what are your latest thoughts on where that type of competitor kind of fits within the Canadian landscape? Thank you.

Mirko Bibic – President and CEO

Thanks, Drew. Yes, we're always very mindful of the competitive dynamics in the industry and that's what we do every day, adjusting to shift in technology and the marketplace and pricing, etc. It's no different with potential satellite launches, but I feel pretty good with regard to where we stand. We had our million-household footprint plan for Wireless Home Internet; we're pretty much half-way there now. We're accelerating even more, so we've got kind of the early lead in terms of product availability.

Our speeds are 50/10 now, 50 megabit download and 10 megabit upload. Those are very fast speeds and it's a robust service that we offer year-over-year and the customer is going to get those speeds.

Not to be underestimated ever is when you subscribe to Wireless Home Internet with Bell, you get a Bell technician who drives to your place, installs it for you, and if there's a problem there's somebody to call and we'll come and fix it. That's not the case with some of the early versions of LEO that we've seen out in the marketplace, and that's not evident, a guy climbing up on your roof and installing the equipment, and then if something goes wrong, what do you do? And continued focus on customer experience.

So, I feel really good about the competitive positioning of that product and it's only going to get better as we get more 3.5 GHz spectrum and are able to transform that service into 5G.

On the cost structure, on fibre-ization, it's—tried to unpack it in my opening remarks, Drew. The churn benefits are clearly there. The top line benefits are there. The churn benefits are there. Fewer truck rolls with fibre, fewer calls. I mean, there's a whole lot of goodness. And as we push fibre out even more, those cost benefits are going to be particularly significant, and then not to mention—I mean we've talked about it already, but just to reiterate the capex flexibility we're going to have in the outer years of our expansion program.

I mean, the cost side is clearly there in the medium to longer term, and it's there right now. I'll turn back to Glen's answer a little bit earlier on. We're managing costs very tightly. The fibre-ization and the WHI, the Wireless Home Internet expansion strategy is a part of that. Controlling handset costs and subsidies is part of that. Of course, always looking at our total costs of labour is part of that. The digital acceleration is a part of that cost control as well.

And, margins are going to increase as broadband expansion continues. Yes.

Drew McReynolds – RBC Capital Markets – Analyst

Thank you.

Operator

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

Sebastiano Petti – J.P. Morgan – Analyst

Hi. Thanks for taking the question. I was just wondering if you could unpack perhaps the fibre buildout. I think you talked about 5 percent to 25 percent penetration within the first 12 months of new vintages or new expansions, but just looking at the 1.7 percent over your current fibre pass implies penetration of about 30 percent, so I'm not sure if I'm getting that incorrect. But just thinking about the opportunities for additional penetration gains within your existing footprint about and beyond the new kind of home builds and that acceleration. Are you—if you could perhaps comment on the level of competition within both the fibre markets as well as some of your traditional broadband non-fibre markets as well. Thank you.

Mirko Bibic – President and CEO

Okay. If you take—let's start with Wireless Home Internet. When we enter a market, it's a market—these are markets where we either have not had any service at all to offer to customers or it's been very low speed DSL, so where we've either had no service, or frankly, service not competitive enough. Penetration gains in those markets can be very high.

In fibre markets, it's a combination of building in areas where we had DSL, which is not—in this stage in 2021, isn't competitive with alternative services. Gigabit Fibe is the most competitive Internet service in the country, so when we enter a DSL market with fibre speeds of 1 to 1.5 Gigabits per second, it's an extremely competitive product and that explains the growth in penetration.

In FTTN markets, what we're talking about here is we may have a customer, we move that customer from FTTN over to FTTH, there's a lot of goodness there too in terms of increased ARPU for that same customer, and then lower costs of service. Across the board, it just leads to growth.

As a percentage of retail Internet, the 1.7 million subscribers that I referred to is actually 50 percent penetration, not 30 percent.

Glen LeBlanc – Executive Vice President and CFO

Sebastiano, it goes without saying—I've said it many, many times before—wherever we construct fibre-to-the-home, we take a disproportionate share of net additions, and that ultimately is going to lead to us having a significant increase in our existing Internet market share and that just bodes well for the future and speaks volumes to why we want to accelerate the investment today. Fibre works and the debate is over, of the value that it brings to our customers and to our shareholders.

Thane Fotopoulos – Vice President – IR

Thank you.

Sebastiano Petti – J.P. Morgan – Analyst

Thank you.

Operator

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

Batya Levi – UBS – Analyst

Great, thank you. Can you provide maybe some more colour on wireless trends since the beginning of the year? Have the volumes slowed more given the extended lockdowns, and if there is any change in competitive intensity? And one just quick follow-up. Your comments about relatively stable margins for the year, does that hold true for both segments? Assuming maybe roaming comes back in the back half of the year, for both Wireline and Wireless?

Mirko Bibic – President and CEO

Okay. I'll take the first one, Glen, and then over to you for the second one.

On the lockdowns and the new lockdowns that hit us in November/December and are continuing today, clearly they've had an impact on the volume of transactions. That is certainly the case. There is a lot of churn benefit, just in terms of our improved customer service and just the nature of buying patterns given the lockdowns, so there's been a benefit there as well. Our approach is the following, though.

We are focusing on high quality loading. So, I mean, you see it in the results. While the transaction volumes may be down, the fact that we're focusing on high quality loading is actually providing a lot of goodness in terms of service revenue growth, or if you want, kind of the improvement in the service revenue decline and lag. As I mentioned at the beginning, if you normalize for the overage impacts and the roaming impacts, our ABPU would have actually been positive.

If we take the approach that we're always going to be competitive, we're going to be very disciplined on discounting and on promotions, again, while being competitive, and responding in a competitive marketplace, but we're going to focus on those high-quality smartphone loadings. We're going to de-emphasize tablets and other connected devices except where they are accretive, and it's paying off and you see it in the Q4 results.

Glen?

Glen LeBlanc – Executive Vice President and CFO

Thanks, Mirko. I'll tackle the question on margins.

The short answer is yes. We believe we will have stable margins in both our Wireline and Wireless business heading into 2021 here.

The cost discipline actions we're taking will protect our margins. What I can't predict is the pace of recovery on high-margin things like roaming. Obviously like everyone on this call, I am optimistic and hopeful that coming through the back half of 2021 we're going to see the vaccine taking hold and allowing Canadians to travel once again, and should that happen, obviously those roaming revenues are extremely high margin.

But our focus in the meantime will be ensuring that the cost—that we take the necessary cost actions to protect and ensure stable margins in both of those lines you alluded to.

Thanks for your question.

Batya Levi – UBS – Analyst

Thank you.

Operator

Thank you. Our next question is from Tim Casey with BMO Capital Markets. Please go ahead.

Tim Casey – BMO Capital Markets – Analyst

A couple for me. Could you—I guess, Glen for you. How should we think about media for the year? I know you gave some comments on the guide but just how are you thinking about the pace in media. You did mention the costs are going to go up. Just wondering if you can provide any more color there.

Second, for you, Mirko. Could you talk a little bit about competitive intensity regionally? If there's any differences between the important Ontario, Quebec markets on the wireless intensity—competitive intensity side. Thanks.

Glen LeBlanc – Executive Vice President and CFO

I'll jump in first as Mirko thinks about the second part, Tim. As I said in my opening remarks, I expect all of our business units to provide positive contribution to both revenue and EBITDA in 2021.

Media is part of that. I expect it to return to positive. What I said is that it could be moderated and will most likely be moderated because if the year plays out the way we envision, we will return to all live major sports returning which will increase programming costs. We expect to see an increase in advertising revenue as people start moving around. You think about our out of home business. That's been so heavily impacted as there's people not moving through airports and downtown, foot and car traffic is down, so much, billboard advertising is down. I expect all of that to recover, but I also expect programming costs to increase.

It will be a positive contribution to EBITDA. It's one of our most volatile business units when you think about how this pandemic affects it. I also want to remind you it represents 8 percent of our EBITDA.

Feeling confident it will return positive and we'll be a contributor to the overall guidance that we've provided today.

Mirko Bibic – President and CEO

Thanks, Glen. Thanks for the question, Tim. You've heard me say quarter after quarter that as an industry, we really do need to keep a check on escalating—what were escalating subsidies, particularly as I mentioned before. When you separate the rate plan from handset costs and you kind of offer handsets that catered all affordability levels, there's really no reason to be subsidizing handsets to the same levels as in the past. That's one aspect of it.

Correspond either that or just general promotional intensity, it does ebb and flow depending on the time of year. I'd say the good news is that progress was made in Q4. Handset discounting improved 14 percent year-over-year. We saw product margins that were positive and improving year-over-year, again. That's a focus or a by-product of our focus on higher quality smartphone loads.

Queue the holiday season, I think was encouraging in terms of the level of promotional intensity, generally. We did see it get pretty hot at times on the flanker brands in particular, so that had an impact on the prepaid segment, as I mentioned earlier. I think all in all we're good progress on that front. Generally less intense year-over-year, less intense than Q3 2020, the exception being the flanker brands.

I think we're kind of headed in the right direction at starting to properly monetize the massive investments we're making in wireless. Particularly with the kind of spike in investment we're all going to make in our 5G networks in spectrum. We didn't need to monetize that. In a way that's really reflective of the tremendous value provide to consumers, while at the same time, we are being very mindful of affordability, because prices are going down. Can even see the latest in a StatsCan launched a digital portal and you can see that wireless prices have decreased quite significantly from 2019 to 2020 and we all know that the important segments that they've also decreased in 2020. Particularly the segment that the Canadian Government asked us to reduce prices in.

I think we're doing a good job. The discipline seems to be there. We're certainly intent on monetizing the investment and we are going to deliver on the commitment to the government in offering just generally more value at the right prices to customers. Thanks. Next question.

Tim Casey – BMO Capital Markets – Analyst

Thank you.

Operator

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

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning. A couple of quick clarifications. Number one, perhaps for Glen. You talked about the service revenue growth of 1 percent, excluding the COVID impact compared to the 2.5 percent decline reported. Are you able to give us a little bit of a breakdown in terms of roaming overage and other—in particular given the fact that really Rogers is going to talk about a more significant other impact? I wanted to make sure that, is Bell seeing that sort of hit in terms of activation fees, etc.

Then as a follow-up on the handset costs, you referred to a 40 percent decline. Do you expect with the EIP rolling out, do you expect to see sort of a more—perhaps even a more material gain on that front as you step into 2021. Thanks.

Glen LeBlanc – Executive Vice President and CFO

On service revenues I'll give you a little bit of insight. What we've experienced in roaming has been extremely consistent since Q2. I told you in Q2 that the implications to the pandemic resulted in almost a 70 percent reduction in roaming. In that quarter it was around $60 million I reported. That same dollar value, roughly identical, continued through Q3 and into Q4. That is the biggest driver on what's challenging service revenues. I say challenging service revenues but I will take a victory lap that we're very pleased with the performance that we had on service revenues in the quarter compared to our peers.

Short answer, no I don't have anything to unpack on other because there isn't another. As Mirko said in his opening remarks, we continue to manage the data overage declines that's happening. It's something that we've done a very good job. You've heard us speak about historically managing that. The trend continues. It is declining as overage and people move to unlimited plans, but our focus is ensuring that that's a managed approach and it's not a race to the bottom. I don't recall the second part of the question.

Aravinda Galappatthige – Canaccord Genuity – Analyst

It's with respect to the subsidies you talked about, handset discounts have fallen 14 percent.

Glen LeBlanc – Executive Vice President and CFO

Look, we're extremely pleased with the handset discounting that we're seeing. The move to installment is accomplishing exactly what we had hoped it would. At times I think there is lack of discipline in the market and we hope that cleans up. But we think about what the installment program does. It gives customers the choice. They can migrate to the handset that best meets their needs and they can finance it over a term that allows it to be affordable.

What it allows the industry to do is be more cost conscious on how expensive these handsets are becoming and manage the discount and the back pocket offers that go with them.

Early signs are encouraging and I expect and hope it will continue. It's a big part of our strategy on managing margins. We will focus on it and try to bring the discipline to that.

Thane Fotopoulos – Vice President – IR

We have time for one more quick question.

Operator

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

Simon Flannery – Morgan Stanley – Analyst

Good morning. Thanks for taking the question. Glen, a quick one for you. Could you just talk about how you're thinking medium term about the payout ratio and the leverage target? Obviously nice to see the dividend increase here, but given the capex guide, it sounds like on the auction and maybe beyond, the 3.5 GHz leverage is going to—you're probably not going to be generating substantial free cash after dividends until maybe 2023 and beyond.

How should we think about what are you comfortable going to, say the low threes for a little while and then try to get it back to current levels in the three-to-five-year view? Is that the right way to think about it?

Glen LeBlanc – Executive Vice President and CFO

Yes, I think so, Simon. As I unpacked for you today, first of all we're in unprecedented times. No one ever envisioned we would find ourselves in a global pandemic of this nature. So to expect us to force our organization in a short timeframe back into a historical targeted payout ratio would be detrimental and damage the business. When we know long-term, this industry is sustainable and we will return to historical earning levels.

Right now, we decided in a low interest rate environment, the best thing we could do is to use the proceeds of the data centres to invest in the network. By investing in the network, we know that's going to bring growth in Internet and TV subscribers. That growth is going to bring growth to future cash flow. That future cash flow is going to manage the payout ratio and the ability to fund dividends go forward.

So, look. In the short term, yes we're outside of the payout ratio, done eyes wide open. We know that. In the medium term, as you alluded to post 2022, when this investment is behind us - let's all hope the pandemic is behind us - we will return to more normalized levels.

In the case of leverage. Yes, we're above our stated objectives for leverage, but again, an extraordinary low interest rate environment, we think the leverage is manageable and the free cash flow generation of this Company, in the medium to long-term, will absolutely allow us to manage leverage. It's the right thing to do, at the right time.

Thane Fotopoulos, Vice President, Investor Relations

Thank you everybody for your participation this morning. I am available throughout the day for any follow-up questions and clarification. Have a great rest of the day. Take care and stay safe.

Operator

Thank you everyone. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.
